ERNEST BOREL
1856

Annual Report 2015

Ernest Borel Holdings Limited

(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1856

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Corporate Information

DIRECTORS

Executive directors

Mr. Su Da *(Chairman)*
Mr. Wong Pong Chun James
Ms. Liu Libing

Non-executive directors

Mr. Chan Kwan Pak Gilbert
Mr. Pan Di

Independent Non-executive directors

Mr. Lo Chi Chiu
Mr. Cheung Kam Min Mickey
Dr. Yau Bun

COMPANY SECRETARY

Mr. Lau Fan Yu

AUDIT COMMITTEE

Mr. Lo Chi Chiu *(Chairman)*
Dr. Yau Bun
Mr. Cheung Kam Min Mickey

REMUNERATION COMMITTEE

Mr. Lo Chi Chiu *(Chairman)*
Mr. Wong Pong Chun James
Dr. Yau Bun
Mr. Cheung Kam Min Mickey

NOMINATION COMMITTEE

Mr. Su Da *(Chairman)*
Dr. Yau Bun
Mr. Lo Chi Chiu
Mr. Cheung Kam Min Mickey

AUTHORISED REPRESENTATIVES

Mr. Wong Pong Chun James
Mr. Lau Fan Yu

COMPANY'S WEBSITE

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPLIANCE ADVISER

Messis Capital Limited

PRINCIPAL BANKER

Hang Seng Bank Limited

LEGAL ADVISERS

As to Hong Kong law
Orrick, Herrington & Sutcliffe

Financial Highlights

The issued shares (the "**Shares**") of Ernest Borel Holdings Limited (the "**Company**" or "**Ernest Borel**") were initially listed on the main board of The Stock Exchange of Hong Kong Limited on 11 July 2014 (the "**Listing Date**").

FINANCIAL AND OPERATION HIGHLIGHTS

- Turnover for the financial year ended 31 December 2015 ("**FY2015**") decreased from HK$602.6 million to HK$414.3 million when compared with last year ("**FY2014**").
- Gross margin for FY2015 decreased from 60.9% to 57.5%. Gross profit for FY2015 decreased from HK$366.7 million to HK$238.2 million.
- Loss after tax for FY2015 was HK$11.9 million (FY2014: Profit of HK$58.8 million), mainly due to (i) decrease in turnover of approximately 31.2% from HK$602.6 million for FY2014 to HK$414.3 million for FY2015, and (ii) foreign exchange loss of approximately HK$13.9 million mainly arising from the depreciation of the Renminbi against Hong Kong dollars.
- Loss per share was HK3.43 cents for FY2015 (FY2014: earnings per share of HK18.82 cents).
- The board of directors of the Company has resolved not to recommend any payment of a final dividend for FY2015 (FY2014: HK8 cents per share).

Chairman's Statement

Dear Shareholders:

On behalf of the board of directors (the "**Board**") of Ernest Borel Holdings Limited ("**Ernest Borel**" or the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively "**the Group**") for the year ended 31 December 2015 (the "**Year**").

In 2015, fluctuating global economies presented multiple challenges to Ernest Borel. As the economic growth in the People's Republic of China (the "**PRC**") was disappointing, the PRC and Hong Kong retail markets were also affected, which led to more cautious consumer spending. During the year, the PRC government adjusted the exchange rate of the Renminbi in order to stimulate the domestic economy, inevitably exerting considerable pressure on the Group's businesses.

Despite the difficult operating environment, Ernest Borel continued to enhance its competitiveness during the Year. The design and portfolio of products were optimized according to market sentiment and consumer spending habits, allowing the Group to penetrate into mid-to-high end segments and maintain its market share. The Group also implemented an effective resources utilisation plan to manage and control logistics and inventory, resulting in reduced costs. The Group also deployed a cost effectiveness control system to monitor the major stages of production, allowing its to maintain high operating efficiency and reduce inventory costs so as to stabilize its business.

We altered our operating strategy during the Year and devoted our efforts to expand consumer online retail channels. In light of the rapid development of e-commerce in the PRC, the Group established its official online flagship watch store in 2015. The store provides consumers with online sales services and enhances Ernest Borel's brand awareness and recognition through e-marketing. We are also looking to collaborate with other e-commerce platforms to develop more diversified and convenient shopping channels. By doing so, our products will be more accessible to different types of customers and the brand image of Ernest Borel will also be strengthened with greater market share.

Chairman's Statement

We anticipate that the economy will continue to face downward pressure in 2016. Nevertheless, we believe that we shall continue to seize opportunities under the outstanding leadership and vision of Ernest Borel's management team, coupled with its solid business foundations and prudent development strategies. The Group is well aware of the importance of enhancing profit margins and profitability. As such, we shall continue to utilize our well-honed watch-making skills to develop new models to attract different mid-to-high end customers, promoting the Group's business development. The Group will also further reinforce its sales network in the PRC, focusing on brand building in first-tier cities and gradually establishing points of sale in second to fourth-tier cities. The Group will continue to collaborate closely with retailers and distributors in such cities and formulate marketing and promotion plans according to the specific needs of certain markets.

The Group will also set its sights on markets worldwide and establish points of sale in advantageous locations in Europe, America and Asia to increase its market share in the regions. The management is fully prepared to tackle future challenges. We shall leverage the core advantages of Ernest Borel to implement robust development plans which are expected to help the Group to achieve sustainable growth. We shall formulate our development blueprint in a prudently optimistic manner, and grasp future opportunities arising from economic recovery.

Last but not least, on behalf of the Board and the management, I would like to express my heartfelt gratitude to the entire staff for their contributions to the Group during the Year. I would also like to thank our business partners, shareholders, investors and customers for their continuous support. With our distinctive competitive advantages and rich operational experience in the premium watch industry, we shall bolster Ernest Borel's leading position in the watch market, thereby generating stable and promising returns for our shareholders in the future.

Mr. Su Da
Chairman and Executive Director
30 March 2016

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Su Da (蘇大), aged 51, was appointed as a Director on 6 April 2012 and re-designated as an executive Director and chairman of the Board and the nomination committee of the Board (the "**Nomination Committee**") on 24 June 2014. In addition, Mr. Su is a director of Ernest Borel Investment Limited ("**EB Investment**"), Ernest Borel (Hong Kong) Limited ("**EB (HK)**") and Ernest Borel (Far East) Company Limited ("**EB (Far East)**"), all of them are wholly-owned subsidiaries of the Company. Mr. Su has over 32 years of experience in the watch industry and is primarily responsible for the strategic sales, marketing planning and overall business development of our brand. From 1993 to 2002, Mr. Su was the managing director of EB (Far East) and was primarily engaged in the distribution of our watches in the PRC and had assisted the Group in developing sales channels and devising marketing strategies for our brand in the PRC market. From December 2002 to December 2005, he was the managing director of 廣州市時亨寶百貨公司 (Guangzhou Shihengbao Department Store Co., Ltd*) ("**Guangzhou Shihengbao**") responsible for development and implementing business development strategies and overseeing the overall administrative and business activities. Since 1 January 2003, he has been the chief executive officer of EB (Far East) and is primarily responsible for overlooking the business operation, strategic planning, estimating productivity and profitability of business arrangements and establishing company goals in the south Asia Pacific area. Since 2012, Mr. Su has been the vice-president of the management committee for watch enterprises of the China Business Enterprise Management Association (中國商業企業管理協會) and a member of Hong Kong General Chamber of Commerce (香港總商會). Mr. Su received his college diploma in e-commerce from South China Normal University (華南師範大學) in August 2006.

Mr. Wong Pong Chun James (黃邦俊), aged 57, was appointed as a Director on 16 September 1993 and re-designated as an executive Director and a member of the remuneration committee of the Board (the "**Remuneration Committee**") on 24 June 2014. In addition, Mr. Wong is a director of EB Investment, EB (HK) and EB (Far East). Mr. Wong has over 22 years of experience in the general management of the Group's operations. Mr. Wong is an executive director of Truly International Holdings Limited, which is a company listed on the main board of the Stock Exchange (stock code: 732) where he has been primarily responsible for the operations, internal controls and risk management, investors' relationship and external affairs. Mr. Wong received a doctor's degree of dental medicine from the Centro Escolar University, Philippines in May 1983.

Ms. Liu Libing (劉麗冰), aged 47, was appointed as a Director on 18 June 2012 and re-designated as an executive Director on 24 June 2014. In addition, she is the general manager and a director of 依波路(廣州)貿易有限公司 (Ernest Borel (Guangzhou) Trading Co., Ltd.*) ("**EB (GZ)**"), a principal wholly-owned subsidiary of the Company. Ms. Liu has over 14 years of experience in the watch industry and is primarily responsible for the financial affairs, administrative and human resource management of the PRC market. From December 2002 to December 2011, she worked as the human resource manager of Guangzhou Shihengbao and was responsible for human resource management and overall financial affairs. Since January 2012, she has been the general manager of the Group's PRC operations under EB (GZ) and is responsible for the implementing and executing administrative plans and human resource allocation, incentive and remuneration plans for the Group's operation in the PRC.

* *For identification purpose only*

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTORS

Mr. Chan Kwan Pak Gilbert (陳君珀), aged 39, was appointed as a Director on 19 June 2012 and re-designated as a non-executive Director on 24 June 2014. Mr. Chan has been the director of GB Autos Ltd. since May 2006, the director of Golden Gate Group Int'l Ltd. since March 2010 and the director of Harvest Finance Ltd. and Harvest Securities Ltd. since November 2011. Mr. Chan received his bachelor's degree of Engineering in Mechanical Engineering Technology from Kingston University, United Kingdom in July 2001. Mr. Chan is the son of Mr. Chan Kin Sun, a substantial shareholder of the Company.

Mr. Pan Di (潘迪), aged 34, was appointed as a Director on 31 December 2013 and re-designated as a non-executive Director on 24 June 2014. From 2007 to 2010, he worked as an attorney assistant and trainee solicitor with the securities department of King & Wood in Shanghai, PRC. Since 2010, Mr. Pan has worked at Greenwoods Private Equity Funds (景林股權投資基金) and currently holds the position of a managing director with primary focus in investments in consumer and telecommunications, media and technology industries. Mr. Pan received his bachelor's degree in law from Fudan University (復旦大學) in the PRC in July 2004. Mr. Pan is an attorney admitted to practise law in the PRC.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Chi Chiu (盧志超), aged 42, was appointed as an independent non-executive Director on 24 June 2014. Mr. Lo is also the chairman of our audit committee of the Board (the "**Audit Committee**") and Remuneration Committee, and a member of our Nomination Committee. Mr. Lo has over 16 years of accounting experience in international accounting firms and various corporations.

From August 1995 to October 1997, Mr. Lo worked as a staff accountant in the audit department of Ernst & Young. From December 1997 to June 2001, Mr. Lo worked as a senior associate and later, as a manager, in the business advisory services department at PricewaterhouseCoopers Ltd. From July 2001 to July 2002, Mr. Lo worked as financial controller for Technicon Engineering Limited. From July 2002 to November 2002, Mr. Lo worked as financial controller for Zhejiang Xinfu Biochemical Co., Ltd* (浙江鑫富生化股份有限公司). From December 2002 to June 2003, Mr. Lo worked as financial controller for Shenzhen Glory Medical Co., Ltd* (深圳市尚榮醫療股份有限公司). From June 2004 to August 2006, Mr. Lo worked at Integrated Distribution Services Group Management Limited, a subsidiary of Integrated Distribution Services Group Limited, a company that was listed on the main board of the Stock Exchange (stock code: 2387) but was subsequently acquired by Li & Fung Limited by way of privatisation. The last position held by Mr. Lo at Integrated Distribution Services Group Management Limited was as a finance manager. From August 2006 to November 2010, Mr. Lo was the chief financial officer at Haitian International Holdings Limited ("**Haitian**") (stock code: 1882), a company listed on the main board of the Stock Exchange. Between November 2010 and January 2011, Mr. Lo was the company secretary and chief financial officer of Truly International Holdings Limited (stock code: 732), a company listed on the Stock Exchange. From February 2011 to August 2011, Mr. Lo was the chief financial officer for VPower Holdings Limited. Mr. Lo rejoined Haitian in September 2011 and has been their chief financial officer to present, mainly responsible for handling investor relations, finance and treasury functions, and internal and external financial reporting.

Mr. Lo obtained a bachelor 's degree in business administration from the University of Hong Kong in 1995. Mr. Lo is also a member of the Hong Kong Institute of Certified Public Accountants.

* *For identification purpose only*

Biographical Details of Directors and Senior Management

Mr. Cheung Kam Min Mickey (張錦緜), aged 45, was appointed as an independent non-executive Director on 24 June 2014. Mr. Cheung is also a member of our Audit Committee, Remuneration Committee and Nomination Committee. From January 1998 to October 2000, Mr. Cheung worked as an assistant solicitor at various law firms, including Yeung & Co., Norman M.K. (楊敏健律師行), Wong & Fok (黃霍律師行) and Ong & Chung (王東昇、鍾金榮律師事務所). From October 2000 to October 2003, he worked as a partner at Wong & Co., T.H. (黃德慶廖瑞彪律師事務所) (formerly known as T.H. Wong & Co. (黃德慶律師事務所)). He worked as a partner at Fung & Liu (廖壁欣律師事務所) and Victor Chiu Tsang & Partners (趙曾律師事務所) from December 2003 to November 2004 and December 2003 to July 2005, respectively. He has been the founding partner of K.M. Cheng & Co., Solicitors, (張錦緜律師事務所) since January 2005. Mr. Cheung obtained a bachelor 's degree in business administration from the University of Hong Kong in 1993. He further completed a Common Professional Examination in 1994 and Postgraduate Certificate in Laws in 1995. Mr. Cheung was admitted as a solicitor to the High Court of Hong Kong in December 1997. Mr. Cheung is currently a practising solicitor of the High Court of Hong Kong.

Dr. Yau Bun (邱斌), aged 51, was appointed as an independent non-executive Director of the Company and a member of each of the Remuneration Committee , Nomination Committee and Audit Committee of the Company with effect from 10 November 2014. Dr. Yau is the chief executive officer of Objective Solutions Limited (達成系統有限公司) (formerly known as Objective Management Consulting (達成專業顧問)) since September 1989. He is actively involved in enterprise resource planning system, particularly in the application of such system in the jewelry industry.

Dr. Yau graduated from the University of South Australia with a Doctoral Degree in Business Administration in September 2003, received his masters degree in business administration from University of Leicester in July 1993, and obtained a post-graduate diploma in marketing from the Chartered Institute of Marketing in December 1999.

SENIOR MANAGEMENT

Mr. Renaud de Retz, aged 42, is the chief executive officer of Ernest Borel S.A. ("**EB (Switzerland)**"). Mr. Retz has over 18 years of experience in the watch industry and is primarily responsible for the overall management of EB (Switzerland). From 1998 to 1999, he worked as a sales manager at Longines, The Swatch Group (France). From 2000 to 2001, he worked for La Société, Jaeger-LeCoultre, France S.A. and was mainly responsible for strategic marketing. From 2001 to 2003, he worked as an international project manager for La Société, LVMH Watches & Jewellry. From 2004 to 2009, Mr. Retz co-founded and served as managing director at Hautlence S.A., a company principally engaged in the design and production of watches in Switzerland. In 2010, he co-founded Reglisse Jewellry, a company principally engaged in the design and production of jewelry in Switzerland, and was primarily responsible for the development of international sales network and brand image. Mr. Retz obtained a master's degree in marketing and international strategy from European Business School in March 1997.

Mr. Jean-François Bodard, aged 43, is the production director of EB (Switzerland). Mr. Bodard has over 9 years of experience in the watch industry and is primarily responsible for the management of our watch makers as well as the technical and quality control of our products. From March 2006 to August 2011, he worked as a watch making operator and head of movement assemblage workshop at Société des Montres Paul Picot S.A. From August 2011 to December 2011, he worked as the head watchmaker for Vincent Bérard S.A. in Switzerland. Mr. Bodard received his watchmaker certificate in Switzerland awarded by The Centre for Continuing Education in Watchmaking in March 2006.

Biographical Details of Directors and Senior Management

Mr. Lau Fan Yu (劉範儒), aged 48, is the company secretary and the group financial controller of our 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 23 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. From 1992 to 2005, Mr. Lau has worked in various positions at Growth-Link Trade Services Company, Limited, a company primarily engaged in the trading of footwear and related materials, with the last position as general manager, operation responsible for all finance and operation affairs. From 2006 to 2011, he worked as the finance director at Right Management, Greater China, a company primarily engaged in the provision of human resources consultancy services.

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.

Ms. Chu Yuen Ling Teresa (朱婉玲), aged 38, is the marketing communications director of EB (Far East). Ms. Chu has over 16 years of experience in the field of media, advertising and public relations and is primarily responsible for the overall corporate communications, advertising, public relations, design management of the Group. From March 2003 to November 2004 she worked as the assistant marketing manager and marketing manager at South China Media. From November 2004 to July 2006, she worked as the marketing manager at Sing Tao Management Services Limited. Ms. Chu received her bachelor's degree of arts in marketing from the Hong Kong Polytechnic University in November 2000. She further completed her master's degree of corporate communications from the Chinese University of Hong Kong in December 2005.

Ms. Song Yi (宋怡), aged 40 is the operations director of EB (Far East). Ms. Song has over 17 years of experience in the watch industry and is primarily responsible for the overall operational management of EB (Far East). From November 1999 to June 2004, she worked as a secretary to deputy general manager in Time City International Co., Ltd. From February 2005 to June 2010, she worked in various positions at Solomon Watch & Jewellery Co., Ltd (which is a wholly owned subsidiary of Peace Mark Group and acquired by Chow Tai Fook Group since October 2008) as logistics manager, as deputy general manager of Peace Mark (Shanghai) Commercial Co., Ltd, and watch department manager of Chow Tai Fook Watch for its China watch retail operations and management headquarter in Chow Tai Fook Jewellery Co., Ltd.

Ms. Song received her bachelor's degree in business administration from Fudan University (復旦大學) in the PRC in July 2002.

Mr. Wong Fung (王烽), aged 34, is the sales and marketing director of EB (Far East). Mr. Wong is primarily responsible for the sales and marketing management of Hong Kong, Macau and south east Asia area for EB (Far East). From August 2006 to August 2013, he worked for The Swatch Group (Hong Kong) Limited, with the last position as sales and marketing manager of Balmain division. Mr. Wong received a bachelor's degree of engineering from The Chinese University of Hong Kong in July 2004.

Mr. Xu Xuexin (徐學新), aged 47, is the sales director of eastern China area of EB (GZ). Mr. Xu is primarily responsible for the overall marketing and sales management of eastern China area for EB (GZ). From April 1996 to August 2003, Mr. Xu worked as a manager at Seiko China. Mr. Xu received his bachelor's degree in economics and politics majoring in investment economics from the Shanghai University of Finance and Economics (上海財經大學) in the PRC in July 1991.

COMPANY SECRETARY

Mr. Lau Fan Yu (劉範儒). Please refer to the sub-section headed "Senior Management" above for Mr. Lau's biography.

Management Discussion and Analysis

BUSINESS REVIEW

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning nearly 160 years. Throughout the course of its history and across its operations, the Group has upheld the principles of producing high precision "Swiss-made" products and implemented stringent quality controls. Under its own brand "Ernest Borel", the Group 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**", and for the purpose of this annual report, excludes the Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region ("**Macau**") and Taiwan), Hong Kong, Macau and Southeast Asia. As at 31 December 2015, the Group has a total of 1,026 points of sale ("**POS**").

In 2015, the global economies fluctuated and consumer sentiment has been affected by the continuous slowdown in the economic growth of PRC. Hence, the Group has operated amidst a difficult economic environment. Due to the sluggish overall economy and the weakened consumer sentiment, as well as the continuous slowdown of the retail market, the volume of orders placed by watch retailers and authorised distributors declined, thereby putting pressure on the Group's overall sales. Due to the above reasons, Ernest Borel recorded a revenue of HK$414.3 million (2014: HK$602.6 million), representing a year-on-year decrease of approximately 31.2%, and gross profit and gross profit margins declined to HK$238.2 million (2014: HK$366.7 million) and 57.5% (2014: 60.9%) respectively. During the year under review, the Group recorded a foreign exchange loss of approximately HK$13.9 million, mainly attributable to the depreciation of Renminbi against Hong Kong dollar. Consequently, loss attributable to owners of the Company amounted to HK$11.9 million.

The PRC Market

The PRC remains as the core market of the Group. As a result of the slowdown in economic growth, segment revenue of the PRC market dropped by 30.7% to HK$312.0 million (2014: HK$450.0 million). In view of the challenging economic and marketing environment, the Group has adopted counter measures and expanded its watch product mix by stepping up efforts to develop and launch a number of mid-range and mid-range-to-high-end watches.

As at 31 December 2015, the Group had 817 POS operated by more than 180 watch retailers across 23 provinces, autonomous regions and municipalities in the PRC (2014: 852 POS) in the PRC market.

Hong Kong, Macau and Southeast Asia Markets

In the second half of 2015, the less favourable PRC economic environment as well as the fluctuations in the PRC and Hong Kong stock markets spurred more cautious consumer spending. Meanwhile, as revenue in the luxury goods retail industry in Hong Kong and Macau is partially derived from the middle-class visitors from the PRC, the visitors numbers as well as visitations to Hong Kong under the Individual Visit Scheme have declined, hence revenue of the Hong Kong and Macau business for the year ended 31 December 2015 decreased by 38.5% to HK$70.3 million (2014: HK$114.4 million).

FINANCIAL REVIEW

Revenue and segment information

Our revenue decreased by HK$188.3 million, or approximately 31.2% from HK$602.6 million for FY2014 to HK$414.3 million for FY2015. The decrease in revenue of mechanical watches and quartz watches was mainly due to slow-down in the economic growth in the PRC, weakened consumer sentiment and reduced volume of orders placed by watch retailers and authorised distributors.

Performance by major products

	2015 HKD'000	2014 HKD'000	Changes HKD'000	%
Mechanical watches	**300,355**	427,028	(126,673)	(29.7)
Quartz watches	**112,406**	174,408	(62,002)	(35.6)
Total	**412,761**	601,436	(188,675)	(31.4)

Mechanical watches

Revenue from sales of mechanical watches decreased by approximately 29.7% from HK$427.0 million for FY2014 to HK$300.4 million for FY2015.

Quartz watches

Revenue from sales of quartz watches decreased by approximately 35.6% from HK$174.4 million for FY2014 to HK$112.4 million for FY2015.

Performance by geographical locations

	2015 HKD'000	2014 HKD'000	Changes HKD'000	%
PRC Market	**311,958**	449,986	(138,028)	(30.7)
Hong Kong, Macau and Southeast Asia Markets	**94,601**	141,858	(47,257)	(33.3)
Other Markets mainly in United States and Europe	**7,756**	10,780	(3,024)	(28.1)
Total	**414,315**	602,624	(188,309)	(31.2)

Management Discussion and Analysis

The PRC market

The PRC continues to be our major market, representing approximately 75.3% of our revenue for FY2015. Sales in this region showed a decrease of approximately 30.7% from HK$450.0 million for FY2014 to HK$312.0 million for FY2015 due to slowdown in economic growth.

Hong Kong, Macau and Southeast Asia markets

Hong Kong, Macau and Southeast Asia markets accounted for approximately 22.8% of our total revenue for FY2015. Sales in these markets decreased by approximately 33.3% from HK$141.9 million for FY2014 to HK$94.6 million for FY2015. The decrease was mainly attributable to the decline in number of tourists and further deterioration of the retail market in Hong Kong.

Other markets

Revenue from other markets, namely markets in the United States and Europe recorded a decrease from HK$10.8 million FY2014 to HK$7.8 million for FY2015.

Cost of Sales

Cost of sales decreased by approximately 25.3% from approximately HK$235.9 million for FY2014 to approximately HK$176.1 million for FY2015. The main reason which led to the decrease was a decrease in sales quantities in 2015.

Gross profit

Our gross profit decreased by HK$128.5 million or approximately 35.0% from HK$366.7 million for FY2014 to HK$238.2 million for FY2015, while the gross profit margin decreased to approximately 57.5% for FY2015 from approximately 60.9% for FY2014. The decrease in gross profit and gross profit margin was primarily due to a decrease of HK$188.3 million in our revenue, or approximately 31.2% from HK$602.6 million for FY2014 to HK$414.3 million for FY2015.

Other gains and losses

We recorded other losses of HK$13.2 million for FY2015 as compared to other losses of HK$9.1 million for FY2014. This was primarily due to the exchange net loss of HK$13.9 million mainly arising from depreciation of the RMB against the Hong Kong dollar despite fair value gain on derivative financial instruments of HK$2.6 million.

Distribution costs

Our selling and distribution costs decreased by HK$24.9 million or approximately 13.3% from HK$186.9 million for FY2014 to HK$162.0 million for FY2015, representing approximately 39.1% of our total revenue for 2015 (2014: approximately 31.0%). The decrease was primarily attributable to (i) a decrease in advertising and marketing expenses from HK$88.6 million for FY2014 to HK$68.8 million for FY2015 as we reduced the scale of our marketing and advertising activities, and (ii) a decrease in commission to retailer expenses from HK$9.1 million for FY2014 to HK$6.2 million for FY2015 due to decrease in revenue in 2015.

Administrative expenses

Our administrative expenses increased to HK$66.5 million for FY2015 from HK$65.9 million for FY2014, representing an increase of HK$0.6 million or approximately 0.9%. The increase in administrative expenses was primarily due to an increase in professional fee from HK$5.1 million for FY2014 to HK$9.5 million for FY2015 and an increase in other general office and utilities expenses from HK$11.3 million for FY2014 to HK$12.1 million for FY2015, which was partially offset by a decrease in staff salaries from HK$29.5 million for FY2014 to HK$25.1 million for FY2015.

Listing expenses

No listing expenses were incurred for FY2015 (FY2014: HK$22.0 million).

Management Discussion and Analysis

Our listing expenses decreased from HK$22.0 million for FY2014 to HK$Nil for FY2015. This decrease was primarily due to no professional fees being incurred during 2015 in relation to the global offering of the Shares as the Company had already been listed on the main board of the Stock Exchange on 11 July 2014.

Finance costs

Our finance costs decreased slightly by HK$0.5 million or approximately 10.0% from HK$5.0 million for FY2014 to HK$4.5 million for FY2015.

Taxation

Our income tax decreased from HK$20.2 million for FY2014 to HK$5.2 million for FY2015, representing an decrease of HK$15.0 million or approximately 74.3%. This decrease was primarily attributable to decrease in profit before tax from HK$79.1 million for FY2014 to loss of HK$6.8 million for FY2015.

Loss for the year attributable to owners of our Company

The decrease in gross profit by HK$128.5 million was mainly due to decrease in revenue by 31.2% and foreign exchange loss of HK$13.9 million mainly as a result of the depreciation in Renminbi during the year. Our net loss for FY2015 was HK$11.9 million (FY2014: profit of HK$58.8 million).

Inventory

Inventory was approximately HK$556.2 million as at 31 December 2015, representing an increase of HK$58.2 million, or around 11.7%, from HK$498.0 million as at 31 December 2014.

The increase in inventory was mainly attributable to three main reasons. Firstly, an increase in watch movement reserves for contingency purposes in the event that one of our watch suppliers decided to withhold the supply of mechanical movements to third parties. Secondly, we had an increased number of work-in-progress and finished goods as we added new models during 2015 to better cater to the tastes and preference of our end customers in different markets which warranted a correspondingly increase of stocks. Lastly, average inventories turnover days are longer for premium branded watches as compared to branded watches to end customers because premium brands rarely offer discounts for the purpose of maintaining their brand images.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK$156.9 million and approximately HK$127.9 million as at 31 December 2014 and 2015 respectively. Such decrease in trade and other receivables was attributable to a decrease in revenue in 2015 and other tax recoverable in the current year.

The Group's trade and other payables decreased from approximately HK$67.2 million as at 31 December 2014 to approximately HK$38.3 million as at 31 December 2015 resulting primarily from a decrease in purchases of watch components in 2015.

Liquidity, financial resources and capital structure

As at 31 December 2015, we had non-pledged cash and bank balances of HK$62.3 million (2014: HK$141.3 million). Based on the borrowings of HK$164.1 million (2014: HK$128.7 million) and shareholders' equity of HK$641.4 million (2014: HK$682.5 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 25.6% (2014: approximately 18.9%).

As at 31 December 2015, part of our borrowing amounting to HK$46.6 million was repayable over one year and the remaining balance amounting to HK$117.5 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 of our trade receivables, other receivables and deposits, bank balances, other payables and accrued expenses, and 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$3.8 million (2014: HK$6.0 million); and

(b) charges over deposits placed for a life insurance policy with a carrying amount of HK$17.0 million (2014: HK$9.5 million).

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during FY2015.

Future plans for material investments and capital assets

There was no definite future plan for material investments and acquisition of material capital assets as at 31 December 2015.

Contingent liabilities

The group did not have any contingent liabilities as at 31 December 2015 (2014: Nil).

Employees and Remuneration Policies

As at 31 December 2015, the Group had a total of 320 full-time employees, representing a decrease of 1.8% compared to 326 employees as at 31 December 2014. Total staff costs for 2015 decreased to approximately HK$77.3 million from approximately HK$82.0 million for 2014, mainly due to decrease in equity-settled share-based payment from HK$3.6 million in 2014 to HK$1.5 million in 2015, and a decrease in salaries and other benefits from HK$73.4 million in 2014 to HK$70.1 million in 2015.

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 employee performance. Yearly performance appraisals are conducted to ensure that the employees receive feedback on their performance. Our Company has adopted a pre-IPO share option scheme and a share option scheme (the "**Share Option Scheme**") on 24 June 2014 for the purpose of providing incentives and rewards to eligible directors and employees of the Group, which became effective on the Listing Date. No option has been granted under the Share Option Scheme during FY2015.

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 commitment

As at 31 December 2015, there were capital commitments in the amount of HK$1.1 million which represented the balance payment in relation to the acquisition of a parcel of land in Switzerland for our new production facility (2014: HK$1.2 million).

Prospects

Looking ahead to 2016, in light of the continuous uncertain economic environment, the Group expects operation in the overall retail market and specifically the premium watch market segment to remain challenging. However, given the economic stimulus measures to be launched by the PRC government and the sound fundamentals of the overall retail industry in the PRC, the Group is still prudently optimistic about the prospects of the PRC premium watch market.

Despite the challenges in the operating environment, Ernest Borel will continue to focus on the PRC market and actively reinforce its position in the country's premium watch market while enhancing its brand image around the world. The Group will constantly strive to boost its competitiveness and adjust the product design as well as enhance the product mix based on the market sentiment and consumers' spending patterns. These strategic directions are aimed at penetrating the mid-range-to-high-end consumer segment to meet the different preferences of a wide swath of customers so as to drive stable business development and gradually expand the Group's market share. The Group will also mainly focus its efforts on brand building in the first-tier cities while gradually expanding its distribution network in the second-to fourth-tier cities.

Moreover, the Group will implement a series of cost-control strategies, including implementation of an effective resources utilisation plan, manage and control the logistics and inventory to cut costs, maintain high operating efficiency and reduce inventory costs. Furthermore, the Group will expand its online retail channels for consumer products, conduct brand promotion through online marketing and continue the sale of our products throughout the official flagship watch store on an online shopping platform, we will also embark on activities to enhance and increase brand awareness. At the same time, the Group will continue to work with other e-commerce platforms to provide more diverse and convenient shopping channels and increase the brand penetration to different customers. We will also explore the Asian markets by carefully identifying favourable locations for establishing points of sales in all countries in southeast Asia to enlarge our market footprint in Asia.

The Group will proactively address the market dynamics and adopt appropriate measures with the aim to improve overall operating efficiency and maintain market competitiveness, and to realise potential when the market conditions improves.

USE OF PROCEEDS FROM THE IPO

The ordinary shares of the Company were listed on the Main Board of the Stock Exchange on 11 July 2014 with net proceeds from the global offering of the Company of approximately HK$173.4 million (after deducting underwriting fees and related expenses).

The use of the net proceeds from the global offering as at 31 December 2015 was approximately as follows:

Use for	Percentage of net proceeds	Amount of net proceeds (in HK$ million)	Amount utilised (in HK$ million)	Amount remaining (in HK$ million)
Marketing and promotional activities of our brand and watches	35%	60.7	(60.7)	–
Expanding and enhancing our distribution network	35%	60.7	(60.7)	–
Capital expenditures on ongoing expansion of our production capacity	20%	34.7	(0.4)	34.3
Providing funding for working capital and other general corporate purposes	10%	17.3	(17.3)	–
Total	**100%**	**173.4**	**(139.1)**	**34.3**

On 1 April 2016, the Board resolved to change the proposed use of the net proceeds from the global offering of the Company by reallocating the remaining net proceeds originally intended for capital expenditures on ongoing expansion of our production capacity to (i) marketing and promotional activities of our brand and watches; and (ii) to expand and enhance our distribution network. Details of the original allocation of the net proceeds, the revised allocation of the net proceeds, and the utilisation of the net proceeds as at the date of this annual report are summarised below:

Uses	Original allocation HK$ million	Revised allocation HK$ million	Utilisation as at the date of this annual report HK$ million	Remaining balance after revised allocation HK$ million
Marketing and promotional activities of our brand and watches	60.7	78.0	60.7	17.3
Expanding and enhancing our distribution network	60.7	77.7	60.7	17.0
Capital expenditures on ongoing expansion of our production capacity	34.7	0.4	0.4	–
Providing funding for working capital and other general corporate purposes	17.3	17.3	17.3	–
	173.4	173.4	139.1	34.3

Save for the aforesaid changes, there has been no other change in the use of the net proceeds. For further information, please refer to the announcement of the Company dated 1 April 2016.

Corporate Governance Report

Good corporate governance is conducive to enhancing overall performance and accountability and is essential in modern corporate administration. The board of directors of the Company (the "**Directors**" and the "**Board**") continuously observes the principles of good corporate governance in the interests of shareholders of the Company (the "**Shareholders**") and devotes considerable effort to identifying and formalizing best practice.

Code provision A.6.7 of the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" and the "**Listing Rules**", respectively) provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Pan Di, a non-executive Director, and Mr. Cheung Kam Min Mickey, an independent non-executive Director, were unable to attend the Company's annual general meeting held on 12 June 2015 due to other business engagements.

The Company has applied the principles and code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules. Save as disclosed above, the Board is of the view that the Company has complied with all code provisions as set out in the Corporate Governance Code for the year ended 31 December 2015.

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

Board Composition

During the Year and the period thereafter up to the date of this annual report, the Board comprised three executive Directors, two non-executive Directors (the "**NEDs**") and three independent non-executive Directors (the "**INEDs**"):

Executive Directors

Mr. Su Da *(Chairman)*
Mr. Wong Pong Chun James
Ms. Liu Libing

NEDs

Mr. Chan Kwan Pak Gilbert
Mr. Pan Di

INEDs

Mr. Lo Chi Chiu
Mr. Cheung Kam Min Mickey
Dr. Yau Bun

The Board takes overall responsibility to oversee all major matters of the Company and its subsidiaries (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 Company.

The day-to-day management, administration and operation of the Group are delegated to Mr. Wong Pong Chun James, an executive Director and the senior management of the Company. The delegated functions and work tasks are periodically reviewed. Approvals have to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers for and on behalf of the Group.

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

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.

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

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

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

	Attending expert briefings/seminars/ conferences relevant to the business, corporate governance or directors' duties
Executive Directors	
Mr. Su Da	✓
Mr. Wong Pong Chun James	✓
Ms. Liu Libing	✓
NEDs	
Mr. Chan Kwan Pak Gilbert	✓
Mr. Pan Di	✓
INEDs	
Mr. Lo Chi Chiu	✓
Mr. Cheung Kam Min Mickey	✓
Dr. Yau Bun	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and chief executive officer are separate and are not performed by the same individual as this ensures better checks and balances and hence better corporate governance. Mr. Su Da holds the position of the Chairman, who is primarily responsible for the overall strategies, planning and business development of the Group. Currently, the Company does not have the position of chief executive officer and the Board considers that Mr. Wong Pong Chun James, an executive Director who is responsible for operations, internal controls, risk management, investors' relations and external affairs, has been carrying out similar roles as a chief executive officer.

INDEPENDENCE OF INEDS

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. INEDs provide independent advice on the Group's business strategy, results and management so that all interests of 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. Lo Chi Chiu, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rules 3.10(1) and (2) and 3.10A of the Listing Rules.

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

BOARD DIVERSITY POLICY

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

MEETINGS

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

	No. of attendance/No. of meetings				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Executive Directors					
Mr. Su Da	4/4	2/2	N/A	1/1	1/1
Mr. Wong Pong Chun James	4/4	2/2	1/1	N/A	1/1
Ms. Liu Libing	4/4	N/A	N/A	N/A	1/1
Non-executive Directors					
Mr. Chan Kwan Pak Gilbert	4/4	N/A	N/A	N/A	1/1
Mr. Pan Di	4/4	N/A	N/A	N/A	0/1
Independent Non-executive Directors					
Mr. Lo Chi Chiu	4/4	2/2	1/1	1/1	1/1
Mr. Cheung Kam Min Mickey	4/4	2/2	1/1	1/1	0/1
Dr. Yau Bun	4/4	2/2	1/1	1/1	1/1

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.

COMPANY SECRETARY

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for a specific term of three years with effect from the Listing Date, 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 a letter of appointment with the Company for an initial term of three years.

All the Directors, including the INEDs are subject to retirement by rotation and re-election at an annual general meeting of the Company (the "**AGM**") at least once every three years in accordance with the Company's articles of Association (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. For more details of the service contract of each of the Directors, please refer to the section headed "Report of the Directors" of this annual report.

BOARD COMMITTEES

The Board has established (i) the Audit Committee, (ii) the Remuneration Committee; and (iii) the Nomination 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. Lo Chi Chiu, Mr. Cheung Kam Min Mickey and Dr. Yau Bun, all of whom are INEDs. Mr. Lo Chi Chiu, who has appropriate professional qualifications and experience in accounting matters, 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 2014 and unaudited interim results for the six months ended 30 June 2015, met with the external auditors to discuss such annual and interim results without the Company's management being present, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure had been made;

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

- recommended the appointment of the external auditors; and

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

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 four members, namely Mr. Lo Chi Chiu, Mr. Cheung Kam Min Mickey and Dr. Yau Bun (all being INEDs) and Mr. Wong Pong Chun James (an executive Director). Mr. Lo Chi Chiu is the chairman of the Remuneration Committee.

During the Year, the Remuneration Committee held one meeting and mainly performed following duties:

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

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

(iii) Nomination Committee

The Company established the Nomination Committee on 24 June 2014 with written terms of reference. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for Directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. The Nomination Committee will also give consideration to the Board Diversity Policy when identifying suitably qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy so as to develop and review measurable objectives for implementing the Board Diversity Policy and to monitor the progress on achieving these objectives. The Nomination Committee currently consists of four members, namely Mr. Su Da, an executive Director and Mr. Cheung Kam Min Mickey, Dr. Yau Bun and Mr. Lo Chi Chiu, all being INEDs. Mr. Su Da is the chairman of the Nomination Committee.

During the Year, the Nomination Committee held one meeting and mainly performed the following duties:

- reviewed the annual confirmation of independence submitted by the INEDs and assessed their independence; and

- reviewed the structure, size and composition of the Board during the Year.

CORPORATE GOVERNANCE FUNCTIONS

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

CONSTITUTIONAL DOCUMENTS

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

Pursuant to Rule 13.90 of the Listing Rules, the Company has posted its memorandum and articles of association on the respective websites of the Stock Exchange and the Company.

FINANCIAL REPORTING AND INTERNAL CONTROL

Financial reporting

The Board, supported by the group financial controller 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 Deloitte Touche Tohmatsu ("**Deloitte**"), the Company's external auditors in Hong Kong, on the financial statements are set out in the "Independent Auditors' Report" in this annual report.

Internal Controls

The Board is responsible for ensuring the reliability and effectiveness of the Group's internal control systems on, among other things, financial, operational and compliance controls. The Board and the Audit Committee have reviewed the effectiveness of the Group's internal control systems on all major operations of the Group during the Year.

The Audit Committee, with the assistance of an independent internal control consultancy firm, has reported internal control fact findings to the Board and no major issues but areas for improvement have been identified. All of the recommendations from the Audit Committee will be properly followed up by the Group to ensure that they are implemented within a reasonable period of time. The Board and the Audit Committee considered that the key areas of the Group's internal control systems, including the adequacy of resources, qualifications and experience of the accounting and financial reporting staff, are reasonably implemented and the Group has fully complied with the code provisions of the Corporate Governance Code regarding internal control systems in general for the Year.

INDEPENDENT AUDITOR

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

	HK$'000
Audit services	1,100
Non-audit services	
Interim review	200
Tax services	55

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

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 (presently at suites 1101–3 and 1112–14, 11th Floor, Tower 6, The Gateway, Harbour City, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong) or by email to the Company Secretary (presently 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.

Report of the Directors

The Directors of the Company 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 pages 4 to 5 and pages 10 to 16 of this Annual Report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

(i) Macroeconomic environment

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

(ii) Foreign exchange risk

Most of our expenses and costs are denominated in Swiss Franc ("**CHF**") and Hong Kong dollars, while approximately 75.3% and 22.8% of our revenue was denominated in Renminbi ("**RMB**") and Hong Kong dollars during the year ended 31 December 2015, respectively. Any significant fluctuations in the exchange rates between CHF and Hong Kong dollars or RMB may materially and adversely affect our results of operations. Any future exchange rate volatility relating to CHF may give rise to uncertainties in the value of net assets, net profit margin and dividends. For the year ended 31 December 2015, the net foreign exchange loss amounted to HK$13.9 million (2014: HK$6.8 million)

To reduce our exposure to foreign exchange fluctuations of CHF against Hong Kong dollars, our functional currency, we entered into certain foreign-exchange contracts to buy CHF and sell Hong Kong dollars at specified exchange rates on specified future dates. We recognised fair value gains on derivative financial instruments of HK$2.6 million as at 31 December 2015 (2014: loss HK$1.8 million). We cannot assure such transactions will be risk-free, and any loss resulting from such transactions may materially and adversely affect our financial condition and results of operations. Although we have entered into certain foreign currency forward contracts to hedge against part of our exposure to foreign currency risk, we cannot predict the impact of future exchange rate fluctuations on our results of operations nor is there any assurance that we shall not incur any net foreign currency losses in the future.

KEY RELATIONSHIPS

(i) Employees

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

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

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

(ii) Suppliers

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

(iii) Retailers and distributors

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

PERMITTED INDEMNITIES

Pursuant to the Company's articles of association (the "Articles"), 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 building an environmental-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.

Report of the Directors

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 Suites 1101-3 & 1112-14, 11th Floor, Tower 6, The Gateway, Harbour City, 9 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

The Company acts as an investment company. The principal activities of the Company's subsidiaries are design, manufacture, market and sell Swissmade mechanical and quartz premium watches for men and women.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2015 are set out in note 34 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 17.4% (2014: 19.5%) and 41.8% (2014: 46.4%), respectively, of the Group's total revenue for the Year.

The aggregate purchases from the Group's largest and five largest suppliers accounted for 43.8% (2014: 37.6%) and 75.0% (2014: 74.1%), 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 ended 31 December 2015 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 37 to 39 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 10 to 16 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 2015 and for the past four financial years are set out on page 100 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

Report of the Directors

RESERVES

Details of movements in reserves of the Company and the Group are set out on page 40 of the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2015, the Company's reserves available for distribution to the Shareholders amounted to HK$210,465,000 (2014: HK$239,368,000).

Under the Companies Law of the Cayman Islands, the share premium account of the Company in the amount of HK182,099,000 (2014: HK$182,099,000) may be applied for paying 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.

DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the Year (2014: HK8.0 cents per share).

CHARITABLE DONATIONS

The Group did not make any charitable donation during the Year (2014: HK$1,000,000).

USE OF THE PROCEEDS FROM INITIAL PUBLIC OFFERING

The Company's shares were listed on the main board of the Stock Exchange on 11 July 2014 (the "Listing Date") with a total of 66,000,000 offer Shares with net proceeds from the global offering of the Company of approximately HK$173.4 million (after deducting underwriting fees and related expenses).

Details of the use of net proceeds as at 31 December 2015 and the charge in use of proceeds as resolved by the Board on 1 April 2016 are set out in page 16 of this annual report. The Group held the unutilized net proceeds in short-term deposits with licensed institutions in Hong Kong.

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Company and its subsidiaries as at 31 December 2015 are set out in note 22 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 25 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the Year.

DIRECTORS

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

Name	Position
Mr. Su Da (蘇大)	Executive Director and chairman of the Board
Mr. Wong Pong Chun James (黃邦俊)	Executive Director
Ms. Liu Libing (劉麗冰)	Executive Director
Mr. Chan Kwan Pak Gilbert (陳君珀)	NED
Mr. Pan Di (潘迪)	NED
Mr. Lo Chi Chiu (盧志超)	INED
Mr. Cheung Kam Min Mickey (張錦緜)	INED
Dr. Yau Bun (邱斌)	INED

Pursuant to article 84 of the Company's articles of association, Mr. Chan Kwan Pak Gilbert, Mr. Pan Di and Mr. Lo Chi Chiu will retire by rotation and Mr. Cheung Kam Min Mickey will voluntary retire at the forthcoming annual general meeting (the "**AGM**") and, being eligible, offer themselves for re-election.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 6 to 9 of this annual report.

SERVICE CONTRACTS OF DIRECTORS

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing on 11 July 2014, which may be terminated by either party upon a three-month prior written notice. Each of the NEDs and the INEDs has entered into an appointment letter with the Company for an initial term of three years commencing on 11 July 2014, which may be terminated by either party upon a three-month prior written notice. The service contracts/ appointment letters are automatically renewed upon expiration.

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

MANAGEMENT CONTRACTS

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

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

As at 31 December 2015, the interests or short positions of the Directors and the chief executive in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**") which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which whey 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 for Securities Transactions of Directors of Listed Issuers (the "**Model Code**"), are as follows:

Long Positions in the Company's Shares

Name of Directors/ Chief Executive	Capacity/ Nature of interest	Number of Shares held	Approximate Percentage of interest in the total issued Shares
Mr. Su Da	Beneficial owner	1,201,103(1)	0.35%(2)
	Interest in controlled corporation(3)	71,960,000	20.71%(2)
Mr. Wong Pong Chun James	Beneficial owner	339,507(4)	0.10%(2)
Ms. Liu Libing	Beneficial owner	610,662(4)	0.18%(2)

(1) Out of 1,201,103 Shares, 1,101,103 Share represented options granted under the Pre-IPO Share Option Scheme.

(2) Calculated based on the number of issued Shares as at 31 December 2015 (i.e. 347,437,000 shares).

(3) Force Field Limited ("**Force Field**") is owned as to 100% by Mr. Su Da and controlled by Mr. Su Da. Mr. Su Da is therefore deemed to be interested in the Shares held by Force Field.

(4) Represented options granted under the Pre-IPO Share Option Scheme.

Saved as disclosed above, as at 31 December 2015, 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 2015, 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 of Shareholders	Capacity/Nature of interest	Number of Shares interested	Approximate percentage of interest in the total issued Shares[2]
Mr. Lam Wai Wah	Beneficial owner	99,755,000	28.71%
Force Field[1]	Beneficial owner	71,960,000	20.71%
Surplus Union Investments Limited	Beneficial owner	37,935,000	10.92%
Mr. Chan Kin Sun[3]	Interest in controlled corporation	37,935,000	10.92%
Dragon Cloud Holdings Limited[4]	Beneficial owner	33,720,000	9.71%
Greenwoods Bloom Fund, L.P.[4]	Interest in controlled corporation	33,720,000	9.71%
Greenwoods Bloom Ltd.[5]	Interest in controlled corporation	33,720,000	9.71%
Skyeast Global Limited[5]	Interest in controlled corporation	33,720,000	9.71%
Ms. Tang Hua[5]	Interest in controlled corporation	33,720,000	9.71%

(1) Force Field is owned as to 100% by Mr. Su Da. Mr. Su Da is therefore deemed to be interested in the Shares held by Force Field.

(2) Calculated based on the number of issued Shares as at 31 December 2015 (i.e. 347,437,000 Shares).

(3) Surplus Union Investments Limited is wholly-owned and controlled by Mr. Chan Kin Sun. Mr. Chan Kin Sun is therefore deemed to be interested in the shares held by Surplus Union Investments Limited.

(4) Dragon Cloud Holdings Limited is owned as to 87.26% by Greenwoods Bloom Fund, L.P. and 12.74% by Ms. Tang Hua.

(5) Greenwoods Bloom Ltd. is the general partner of Greenwoods Bloom Fund, L.P. Greenwoods Bloom Ltd. is wholly-owned by Ms. Tang Hua. Greenwoods Bloom Fund, L.P. is then owned as to 47% by Skyeast Global Limited and controlled by Skyeast Global Limited. Skyeast Global Limited is wholly-owned by Ms. Tang Hua. Each of Greenwoods Bloom Fund, L.P., Greenwoods Bloom Ltd., Skyeast Global Limited and Ms. Tang Hua is therefore deemed to be interested in the Shares held by Dragon Cloud Holdings Limited.

Save as disclosed above, as at 31 December 2015, 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.

PRE-IPO SHARE OPTION SCHEME

The Pre-IPO Share Option Scheme was conditionally adopted by our Company on 24 June 2014 and became effective upon the Listing Date for the purpose of aiding us in recruiting and retaining key employees, directors or consultants of outstanding ability and to reward such employees, directors or consultants to exert their best efforts on behalf of the Company through the granting of options. The principal terms of the Pre-IPO Share Option Scheme were summarised in note 32 to the consolidated financial statements.

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

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

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

(ii) the tranche 1 options were vested on 11 July 2014. Such options are exercisable from 11 July 2014 to 11 July 2016, (collectively, the "**Tranche 1 Option**"); and

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

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

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

Details of the change of the Tranche 1 Options and Tranche 2 Option granted under the Pre-IPO Share Option Scheme as at 31 December 2015 are as follows:

Grantee	Tranche	Exercise price per Share	Balance as at 1 January 2015	Exercised during the Year	Lapsed during the Year	Balance as at 31 December 2015
Director						
Su Da	1	HK$2.40	440,441	–	–	440,441
	2	HK$3.00	660,662	–	–	660,662
Wong Pong Chun James	1	HK$2.40	137,638	–	–	137,638
	2	HK$3.00	201,869	–	–	201,869
Liu Libing	1	HK$2.40	214,265	–	–	214,265
	2	HK$3.00	396,397	–	–	396,397
Sub-total			2,051,272	–	–	2,051,272
Other employees	1	HK$2.40	1,089,335	–	–	1,089,335
	2	HK$3.00	2,609,617	–	–	2,609,617
Total			5,750,224	–	–	5,750,224

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

The total number of Shares available for issue under the Pre-IPO Share Option Scheme is 5,750,224 Shares, representing approximately 1.66% of the Company's issued Shares as at the date of this annual report. Further details of the Pre-IPO Share Option Scheme are set out in note 32 to the consolidated financial statements.

SHARE OPTION SCHEME

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

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

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

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

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.0 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: An INED or a substantial shareholder (within the meaning of the Listing Rules) of the Company is subject to a much lower percentage.

(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 report, no share options were granted, exercised or cancelled or lapsed under the Share Option Scheme.

CONNECTED TRANSACTION

The Company has not entered into any connected transactions (within the meaning of the Listing Rules) during the Year .

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the ordinary course of business by the Group during the Year are set out in note 33 to the consolidated financial statements.

COMPLIANCE WITH NON-COMPETE UNDERTAKING

Each of Mr. Lam Wai Wah and Mr. Su Da (substantial shareholders (within the meaning of the Listing Rules) of the Company) has confirmed to the Company that he has complied with the non-compete undertaking given by them to the Company on 24 June 2014. The INEDs have reviewed the status of compliance and enforcement of the non-compete undertaking and confirmed that all the undertakings thereunder have been complied with throughout 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 2015 and up to and including the date of this annual report.

DIRECTORS' AND SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Director or a shareholder had a material interest, whether directly or indirectly, and subsisted at 31 December 2015 or at any time during the Year.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

EMOLUMENT POLICY

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

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

The Group has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraphs headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" above and note 32 to the consolidated financial statements.

None of the Directors waived any emoluments during the Year.

RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the municipal and provincial government authorities in the People's Republic of China (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 21 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the "Pre-IPO Share Option Scheme" and "Share Option Scheme" described above, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2015.

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 2015.

SIGNIFICANT LEGAL PROCEEDINGS

The Company was 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 Company during the Year.

CORPORATE GOVERNANCE REPORT

Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 17 to 24 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events after the reporting period of the Group.

REVIEW BY AUDIT COMMITTEE

The Audit Committee comprises all the three INEDs, namely Mr. Lo Chi Chiu, Mr. Cheung Kam Min Mickey and Dr. Yau Bun with Mr. Lo Chi Chiu serving as the chairman. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters including the review of the Group's consolidated annual results and annual report for the Year.

INDEPENDENT AUDITOR

The consolidated financial statements for the Year have been audited by Deloitte Touche Tohmatsu, who shall retire and, being eligible, offer themselves for re-appointment. Having been approved by the Board upon the Audit Committee's recommendation, a resolution for the re-appointment of Deloitte Touche Tohmatsu as independent auditors of the Group and to authorise the Directors to fix their remuneration will be proposed at the AGM.

By order of the Board
Ernest Borel Holdings Limited
Su Da
Chairman

Hong Kong, 30 March 2016

Independent Auditor's Report

Deloitte.
德勤

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

We have audited the consolidated financial statements of Ernest Borel Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 37 to 99, which comprise the consolidated statement of financial position at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY 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 applicable 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the applicable disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 March 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2015

	NOTES	2015 HK$'000	2014 HK$'000
Revenue	5	**414,315**	602,624
Cost of sales		**(176,121)**	(235,908)
Gross profit		**238,194**	366,716
Other gains and losses	6	**(13,184)**	(9,102)
Other income	7	**1,216**	1,285
Distribution expenses		**(161,985)**	(186,920)
Administrative expenses		**(66,452)**	(65,903)
Listing expenses		**–**	(22,012)
Finance costs	8	**(4,542)**	(5,017)
(Loss) profit before tax	9	**(6,753)**	79,047
Income tax expense	10	**(5,163)**	(20,236)
(Loss) profit for the year attributable to owners of the Company		**(11,916)**	58,811
Other comprehensive expense, net of tax			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit scheme		**(1,352)**	(453)
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,545)**	(19,764)
Other comprehensive expense for the year		**(2,897)**	(20,217)
Total comprehensive (expense) income for the year		**(14,813)**	38,594
(LOSS) EARNINGS PER SHARE	13		
— Basic (Hong Kong cents)		**(3.43)**	18.82
— Diluted (Hong Kong cents)		**(3.43)**	18.76

Consolidated Statement of Financial Position

At 31 December 2015

	NOTES	2015 HK$'000	2014 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**76,398**	81,440
Deposits placed for life insurance policies	15	**17,023**	9,461
Deferred tax assets	24	**8,277**	9,119
		101,698	100,020
CURRENT ASSETS			
Inventories	16	**556,196**	498,027
Derivative financial instruments	23	**769**	–
Trade and other receivables	17	**127,885**	156,847
Amounts due from related parties	18	**143**	63
Tax recoverable		**8,607**	–
Pledged bank deposits	19	**3,832**	6,019
Bank balances and cash	19	**62,325**	141,285
		759,757	802,241
CURRENT LIABILITIES			
Trade and other payables	20	**38,341**	67,229
Derivative financial instruments	23	**–**	705
Tax payable		**9**	9,669
Bank borrowings	22	**164,089**	128,652
		202,439	206,255
NET CURRENT ASSETS		**557,318**	595,986
TOTAL ASSETS LESS CURRENT LIABILITIES		**659,016**	696,006
NON-CURRENT LIABILITIES			
Deferred tax liabilities	24	**11,521**	9,634
Pension obligation	21	**6,091**	3,877
		17,612	13,511
NET ASSETS		**641,404**	682,495

Consolidated Statement of Financial Position

At 31 December 2015

	NOTES	2015 HK$'000	2014 HK$'000
CAPITAL AND RESERVES			
Share capital	25	**3,474**	3,474
Reserves		**637,930**	679,021
TOTAL EQUITY		**641,404**	682,495

The consolidated financial statements on pages 37 to 99 were approved by the Board of Directors on 30 March 2016 and are signed on its behalf by:

Su Da
DIRECTOR

Wong Pong Chun, James
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Share capital HK$'000 *(note 25)*	Share premium HK$'000	Other reserve HK$'000 *(note i)*	Share options reserve HK$'000	Actuarial gain and loss reserve HK$'000	General reserve HK$'000 *(note ii)*	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2014	10	–	15,500	–	(2,356)	853	21,046	420,051	455,104
Profit for the year	–	–	–	–	–	–	–	58,811	58,811
Other comprehensive expense for the year	–	–	–	–	(453)	–	(19,764)	–	(20,217)
Total comprehensive (expense) income for the year	–	–	–	–	(453)	–	(19,764)	58,811	38,594
Issue of shares	660	197,340	–	–	–	–	–	–	198,000
Expenses incurred in connection with the issue of shares	–	(13,886)	–	–	–	–	–	–	(13,886)
Issue of shares by capitalisation of share premium account *(note 25)*	2,800	(2,800)	–	–	–	–	–	–	–
Recognition of equity-settled share-based payments	–	–	–	3,634	–	–	–	–	3,634
Issue of shares upon exercise of share options	4	1,445	–	(400)	–	–	–	–	1,049
Lapse of share options	–	–	–	(1)	–	–	–	1	–
Transfer	–	–	–	–	–	694	–	(694)	–
At 31 December 2014	**3,474**	**182,099**	**15,500**	**3,233**	**(2,809)**	**1,547**	**1,282**	**478,169**	**682,495**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(11,916)**	**(11,916)**
Other comprehensive expense for the year	**–**	**–**	**–**	**–**	**(1,352)**	**–**	**(1,545)**	**–**	**(2,897)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**(1,352)**	**–**	**(1,545)**	**(11,916)**	**(14,813)**
Recognition of equity-settled share-based payments	**–**	**–**	**–**	**1,517**	**–**	**–**	**–**	**–**	**1,517**
Dividends recognised as distribution *(note 12)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(27,795)**	**(27,795)**
At 31 December 2015	**3,474**	**182,099**	**15,500**	**4,750**	**(4,161)**	**1,547**	**(263)**	**438,458**	**641,404**

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

Notes:

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	2015 HK$'000	2014 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(6,753)**	79,047
Adjustments for:		
Allowance for inventories	**3,622**	–
Allowance for doubtful debt	**1,625**	243
Depreciation of property, plant and equipment	**39,703**	40,389
Finance costs	**4,542**	5,017
Interest income	**(669)**	(517)
Loss on disposal of property, plant and equipment	**260**	274
Provision for defined benefit scheme	**1,456**	1,345
Change in fair value of derivative financial instruments	**(2,598)**	1,811
Recognition of equity-settled share-based payments	**1,517**	3,634
Operating cash flows before movements in working capital	**42,705**	131,243
Increase in inventories	**(70,353)**	(90,868)
Decrease in trade and other receivables	**21,779**	1,034
(Decrease) increase in trade and other payables	**(7,903)**	2,791
Contribution to defined benefit scheme	**(865)**	(699)
Change in derivative financial instruments	**1,124**	(1,106)
Cash (used in) generated from operations	**(13,513)**	42,395
Hong Kong Profits Tax paid	**(11,223)**	(12,558)
Switzerland income tax paid	**(8,825)**	(6,773)
PRC Enterprise Income Tax paid	**(413)**	(4,050)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(33,974)**	19,014
INVESTING ACTIVITIES		
Additions of property, plant and equipment	**(42,815)**	(55,366)
Deposit paid for a life insurance policy	**(7,141)**	(2,223)
Advance to related parties	**(80)**	(22)
Pledged bank deposits withdrawn (placed)	**2,187**	(5,003)
Interest received	**151**	145
Proceeds from disposal of property, plant and equipment	**1**	4
Repayment from shareholders	**–**	10
NET CASH USED IN INVESTING ACTIVITIES	**(47,697)**	(62,455)

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	2015 HK$'000	2014 HK$'000
FINANCING ACTIVITIES		
New bank loans raised	**181,480**	146,423
Repayment of bank loans	**(146,043)**	(189,089)
Dividend paid	**(27,795)**	(15,000)
Interest paid	**(4,542)**	(5,017)
Proceeds from issue of shares	**–**	198,000
Proceeds from issue of shares upon exercise of share options	**–**	1,049
Expenses paid in connection with issue of shares	**–**	(13,886)
NET CASH FROM FINANCING ACTIVITIES	**3,100**	122,480
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(78,571)**	79,039
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**141,285**	60,907
Effect of foreign exchange rate changes	**(389)**	1,339
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**62,325**	141,285

Notes to the Consolidated Financial Statements

For the year ended 31 December 2015

1. GENERAL

The Company was incorporated in the Cayman Islands under the Companies Law of Cayman Islands as non-resident company with limited liability on 18 January 1991 and re-registered as an exempted company with limited liability on 14 April 2014 under the Companies Law. The Company is a public limited company with its shares listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 11 July 2014.

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

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 34.

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

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

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

Amendments to IAS 19	Defined Benefits Plans: Employee Contribution
Amendments to IFRS	Annual Improvement to IFRSs 2010–2012 Cycle
Amendments to IFRS	Annual Improvement to IFRSs 2011–2013 Cycle

The application of the above amendments to IFRSs in the current year have no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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

New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[1]
IFRS 16	Leases[2]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[3]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[3]
Amendments to IAS 1	Disclosure Initiative[3]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2015 Cycle[3]
Amendments to IAS 7	Disclosure Initiative[5]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[5]

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after a date to be determined
5 Effective for annual periods on or after 1 January 2017

IFRS 9 "Financial Instruments"

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

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

Based on the Group's existing business model and financial instruments as at 31 December 2015, the application of IFRS 9 in the future may result in early recognition of credit losses based on expected loss model in relation to the Group's financial assets measured at amortised costs. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

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

IFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

The directors of the Company anticipate that the application of the other new and revised IFRSs will have no material impact on the results and financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The provision of the new Hong Kong Companies Ordinance (Cap 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new CO. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The principal accounting policies are as follows:

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.

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

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

Revenue recognition

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

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition *(Continued)*

Rendering of services

Maintenance service income is recognised when services are provided.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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.

Leasing

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

The Group as lessee

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

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

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

Retirement benefit costs

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

For defined benefit retirement scheme, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset. Defined benefit costs are categorised as follows:

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

The Group presents the first two components of defined benefits cost in the profit or loss in the line item of employee benefits expenses. Curtailment gains and losses are accounted for as past service costs.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 32 to the Group's consolidated financial statements.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

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

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 difference 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Property, plant and equipment

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

Freehold land is not depreciated.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets

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

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. 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.

Inventories

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

Provision

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

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

Equity instruments

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

Financial liabilities

Financial liabilities (including trade and other payables and bank borrowings) are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Derivative financial instruments

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

Derecognition

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Estimated allowance of trade and other receivables

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the year in which such estimate has been changed. The carrying amount of trade and other receivables as at 31 December 2015 amounting to HK$127,885,000 (2014: HK$156,847,000).

Estimated allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of slow-moving stock and obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. The carrying amount of inventories as at 31 December 2015 amounting to HK$556,196,000 (2014: HK$498,027,000).

5. REVENUE AND SEGMENT INFORMATION

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

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue from major products

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

	2015 HK$'000	2014 HK$'000
Mechanical watches	**300,355**	427,028
Quartz watches	**112,406**	174,408
Others	**1,554**	1,188
	414,315	602,624

Geographical information

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

	Revenue from external customers	
	2015 HK$'000	2014 HK$'000
PRC	**311,958**	449,986
Hong Kong and Macau	**70,304**	114,388
Southeast Asia	**24,297**	27,470
Others	**7,756**	10,780
	414,315	602,624

	Non-current assets	
	2015 HK$'000	2014 HK$'000
PRC	**35,357**	35,899
Hong Kong	**6,717**	7,658
Switzerland	**34,324**	37,883
	76,398	81,440

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Information about major customers

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

	2015 HK$'000	2014 HK$'000
Customer A	**72,074**	117,639
Customer B	**42,235**	75,729

6. OTHER GAINS AND LOSSES

	2015 HK$'000	2014 HK$'000
Allowance for doubtful debts	**(1,625)**	(243)
Fair value gain (loss) on derivative financial instruments	**2,598**	(1,811)
Exchange loss, net	**(13,897)**	(6,774)
Loss on disposal of property, plant and equipment	**(260)**	(274)
	(13,184)	(9,102)

7. OTHER INCOME

	2015 HK$'000	2014 HK$'000
Interest income on life insurance contract	**518**	372
Bank interest income	**151**	145
Maintenance services income	**158**	147
Sundry income	**389**	585
Government subsidy	**–**	36
	1,216	1,285

8. FINANCE COSTS

	2015 HK$'000	2014 HK$'000
Interest on bank borrowings	**4,542**	5,017

9. (LOSS) PROFIT BEFORE TAX

	2015 HK$'000	2014 HK$'000
(Loss) profit before tax has been arrived at after charging:		
Auditors' remuneration	**3,869**	3,441
Allowance for inventories	**3,622**	–
Cost of inventories recognised as expenses	**152,932**	195,170
Depreciation of property, plant and equipment	**39,703**	40,389
Directors' emoluments *(note 11)*	**5,096**	6,113
Other staff costs		
— salaries and other benefits	**65,614**	68,199
— equity-settled share-based payment	**1,024**	2,371
— retirement benefits scheme contributions	**5,605**	5,325
Total staff costs	**77,339**	82,008
Operating lease rental in respect of rented premises	**27,278**	27,399

10. INCOME TAX EXPENSE

	2015 HK$'000	2014 HK$'000
Current tax:		
Hong Kong Profits Tax *(note i)*	–	8,191
Switzerland income tax *(note ii)*	1,758	6,084
PRC Enterprise Income Tax *(note iii)*	–	2,740
	1,758	17,015
Under(over)provision in prior years:		
PRC Enterprise Income Tax	253	–
Hong Kong Profits Tax	–	(521)
Deferred tax charge *(note 24)*	3,152	3,742
Income tax expense for the year	5,163	20,236

Notes:

(i) Hong Kong

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

(ii) Switzerland

Switzerland income tax is calculated at certain tax rates on the assessable income for both years. Under the relevant Tax Laws in Switzerland, the Group's subsidiary incorporated in Switzerland was subjected to Direct Federal Tax ("**DFT**") of 8.5% (2014: 8.5%) and Cantonal Communal Tax ("**CCT**") calculated at 16.55% (2014: 8.97%).

Swiss Federal withholding tax is levied at a rate of 35% on the distribution of the profit of the company incorporated in Switzerland for both years.

(iii) PRC

Under the laws of PRC on Enterprise Income Tax (The "**EIT Law**") and Implementation Regulation of EIT Law, the tax rate of PRC subsidiary is 25%.

10. INCOME TAX EXPENSE *(Continued)*

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

	2015 HK$'000	2014 HK$'000
(Loss) profit before tax	(6,753)	79,047
Tax at the average income tax rate of 13.28% (2014: 16.68%)	(897)	13,186
Tax effect of income not taxable for tax purposes	(63)	(129)
Tax effect of expenses not deductible for tax purposes	849	5,334
Tax effect of tax losses not recognised	4,033	–
Tax effect of temporary difference not recognised	1,010	–
Under(over) provision of profits tax in prior years	253	(521)
Change in tax rate	–	2,344
Others	(22)	22
Income tax expense for the year	5,163	20,236

Note: The average income tax rate for the year ended 31 December 2015 and 2014 represents the weighted average tax rate of the operations in different jurisdictions on the relative amounts of assessable profits and the relevant statutory rates.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Directors and Chief Executive

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

	Fee HK$'000	Salaries and other benefits HK$'000	Performance related bonus HK$'000 *(note ii)*	Retirement benefits scheme contributions HK$'000	Equity-settled share-based payments HK$'000 *(note iii)*	Total emoluments HK$'000
For the year ended 31 December 2015						
Executive directors						
Mr. Su Da *(note i)*	–	2,240	187	18	259	2,704
Ms. Liu Libing	811	147	68	44	155	1,225
Mr. Wong Pong Chun, James	–	618	52	18	79	767
Non-executive directors						
Mr. Chan Kwan Pik, Gilbert	50	–	–	–	–	50
Mr. Pan Di	50	–	–	–	–	50
Independent Non-executive directors *(note iv)*						
Mr. Lo Chi Chiu	100	–	–	–	–	100
Mr. Cheung Kam Min, Mickey	100	–	–	–	–	100
Dr. Yau Bun	100	–	–	–	–	100
	1,211	3,005	307	80	493	5,096

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Directors and Chief Executive *(Continued)*

	Fee HK$'000	Salaries and other benefits HK$'000	Performance related bonus HK$'000 *(note ii)*	Retirement benefits scheme contributions HK$'000	Equity-settled share-based payments HK$'000 *(note iii)*	Total emoluments HK$'000
For the year ended 31 December 2014						
Executive directors						
Mr. Su Da *(note i)*	–	2,256	549	17	661	3,483
Ms. Liu Libing	780	151	195	29	397	1,552
Mr. Wong Pong Chun, James	–	600	50	17	205	872
Non-executive directors						
Mr. Chan Kwan Pik, Gilbert	24	–	–	–	–	24
Mr. Pan Di	24	–	–	–	–	24
Independent Non-executive directors *(note iv)*						
Mr. Lo Chi Chiu	47	–	–	–	–	47
Mr. Cheung Kam Min, Mickey	47	–	–	–	–	47
Dr. Yau Bun	14	–	–	–	–	14
Mr. Zhang Huaqiao *(note v)*	50	–	–	–	–	50
	986	3,007	794	63	1,263	6,113

Notes:

i. Mr. Su Da is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

ii. The performance related bonus is recommended by the remuneration committee of the Company and is approved by the Board of Directors with reference to the Group's operating results, individual performance and comparable market statistics.

iii. During the year ended 31 December 2014, certain directors were granted share options, in respective of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 32 to the Group's consolidated financial statements.

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

v. Mr. Zhang Huaqiao resigned as an independent non-executive directors of the Company on 10 November 2014.

11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Employees

The five highest paid employees of the Group during the year included two (2014: two) directors of the Company, details of whose emoluments are set out in the disclosures above. Details of the remuneration for the year of the remaining highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2015 HK$'000	2014 HK$'000
Salary and other benefits	**3,809**	3,968
Equity-settled share-based payments	**183**	205
Retirement benefits scheme contributions	**193**	–
	4,185	4,173

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:

	2015 Number of employees	2014 Number of employees
HK$1,000,001 to HK$1,500,000	**2**	2
HK$1,500,001 to HK$2,000,000	**1**	1

During the year ended 31 December 2014, certain non-director and non-chief executive highest paid employees were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 32 to the Group's consolidated financial statements.

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

12. DIVIDEND

	2015 HK$'000	2014 HK$'000
Dividend recognised as distribution:		
– 2014 Final, paid — HK8 cents per share	**27,795**	–

No dividend was paid or proposed for ordinary shareholders of the Company during 2015, nor has any dividend been proposed since the end of the reporting period.

13. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	2015 HK$'000	2014 HK$'000
(Loss) earnings		
(Loss) earnings of the Company for the purposes of basic and diluted (loss) earnings per share ((loss) profit for the year attributable to owners of the Company)	**(11,916)**	58,811

	2015 '000	2014 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share on the assumption that subdivision of shares and capitalisation issue have been effective on 1 January 2013 *(note i)*	**347,437**	312,554
Effect of dilutive potential ordinary shares on share options *(note ii)*	**–**	887
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**347,437**	313,441

Notes:

(i) The number of ordinary shares for the purpose of basic (loss) earnings per share for both years has taken into account the 281,000,000 ordinary shares in issue which have been retrospectively adjusted to reflect the share subdivision on 24 June 2014 and capitalisation issue on 11 July 2014 as disclosed in note 25.

(ii) The computation of diluted loss per share for the year ended 31 December 2015 does not assume the exercise of the Company's share options because the exercise price of the share options was higher than the average market price for the year ended 31 December 2015.

For the year ended 31 December 2014, diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

(iii) There were no potential ordinary shares outstanding during the year ended 31 December 2015 and as at 31 December 2015.

14. PROPERTY, PLANT AND EQUIPMENT

	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 2014	36,704	7,777	144,743	5,173	1,111	195,508
Additions	4,468	3,657	38,665	323	323	47,436
Disposals	–	(1,744)	(6,833)	(54)	–	(8,631)
Exchange realignment	(4,072)	(409)	(1,137)	(460)	(18)	(6,096)
At 31 December 2014	**37,100**	**9,281**	**175,438**	**4,982**	**1,416**	**228,217**
Additions	**384**	**1,255**	**33,250**	**–**	**–**	**34,889**
Disposals	**–**	**(1,414)**	**(41,211)**	**–**	**–**	**(42,625)**
Exchange realignment	**(52)**	**(4)**	**(73)**	**(5)**	**(40)**	**(174)**
At 31 December 2015	**37,432**	**9,118**	**167,404**	**4,977**	**1,376**	**220,307**
DEPRECIATION						
At 1 January 2014	5,820	3,563	103,680	2,836	607	116,506
Provided for the year	1,175	1,445	37,038	531	200	40,389
Eliminated on disposals	–	(1,617)	(6,703)	(33)	–	(8,353)
Exchange realignment	(679)	(142)	(643)	(295)	(6)	(1,765)
At 31 December 2014	**6,316**	**3,249**	**133,372**	**3,039**	**801**	**146,777**
Provided for the year	**1,126**	**1,667**	**36,229**	**454**	**227**	**39,703**
Eliminated on disposals	**–**	**(1,154)**	**(41,210)**	**–**	**–**	**(42,364)**
Exchange realignment	**(40)**	**(12)**	**(118)**	**(12)**	**(25)**	**(207)**
At 31 December 2015	**7,402**	**3,750**	**128,273**	**3,481**	**1,003**	**143,909**
CARRYING VALUES						
At 31 December 2015	**30,030**	**5,368**	**39,131**	**1,496**	**373**	**76,398**
At 31 December 2014	30,784	6,032	42,066	1,943	615	81,440

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

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

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

No depreciation is provided on freehold land.

15. DEPOSITS PLACED FOR LIFE INSURANCE POLICIES

In prior years, the Group entered into two life insurance policies with an insurance company to insure an executive director ("**Policy A**" and "**Policy B**"). In May 2015, the Group entered into another two life insurance policies with two insurance companies to insure the same executive director ("**Policy C**" and "**Policy D**").

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

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

15. DEPOSITS PLACED FOR LIFE INSURANCE POLICIES *(Continued)*

Particulars of the policies are as follows:

Policy	Insured sum	Upfront payment	Guaranteed interest rates First year	 Second year and onward
Policy A	USD1,380,000 (equivalent to HK$10,764,000)	USD828,000 (equivalent to HK$6,458,000)	4.4% per annum	3% per annum
Policy B	USD1,118,000 (equivalent to HK$8,674,000)	USD304,000 (equivalent to HK$2,357,000)	4.2% per annum	2% per annum
Policy C	USD1,333,020 (equivalent to HK$10,371,000)	USD408,005 (equivalent to HK$3,174,000)	4.0% per annum	2% per annum
Policy D	USD2,000,000 (equivalent to HK$15,560,000)	USD630,826 (equivalent to HK$4,908,000)	4.0% per annum	2% per annum

The carrying amount of the life insurance policies as at 31 December 2015 and 31 December 2014 approximates the Cash Value of the insurance policies and the expected life of the policies remained unchanged from the initial recognition. The entire balance of the life insurance policies is denominated in United States Dollar ("**USD**"), being a currency other than the functional currency of the relevant group entity.

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

16. INVENTORIES

	2015 **HK$'000**	2014 HK$'000
Raw materials	**269,239**	219,270
Work-in-progress	**121,310**	115,740
Finished goods	**165,647**	163,017
	556,196	498,027

17. TRADE AND OTHER RECEIVABLES

	2015 HK$'000	2014 HK$'000
Trade receivables	**107,109**	123,348
Less: allowance for doubtful debts	**(2,837)**	(1,259)
	104,272	122,089
Other receivables	**1,413**	3,338
Other tax recoverable	**3,019**	10,840
Prepayment	**13,301**	13,839
Deposits	**5,880**	6,741
	23,613	34,758
	127,885	156,847

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

	2015 HK$'000	2014 HK$'000
0–90 days	**87,985**	110,438
91–180 days	**8,660**	10,997
181–270 days	**3,133**	654
Over 270 days	**4,494**	–
	104,272	122,089

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

At 31 December 2015, included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$53,129,000 (2014: HK$40,500,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience.

17. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2015 HK$'000	2014 HK$'000
Overdue for		
Within 90 days	**41,523**	38,900
91 to 180 days	**6,710**	946
Over 180 days	**4,896**	654
	53,129	40,500

Movement in the allowance for doubtful debts

	2015 HK$'000	2014 HK$'000
Balance at beginning of the year	**1,259**	1,151
Impairment losses recognised	**1,625**	243
Exchange realignment	**(47)**	(135)
Balance at end of the year	**2,837**	1,259

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

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$2,837,000 (2014: HK$1,259,000) at 31 December 2015. The Group does not hold any collateral over these balances.

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

17. TRADE AND OTHER RECEIVABLES *(Continued)*

Age of impaired trade receivables

	2015 HK$'000	2014 HK$'000
Overdue for		
91 to 180 days	**56**	226
More than 180 days	**2,781**	1,033
	2,837	1,259

18. AMOUNTS DUE FROM RELATED PARTIES

The amounts due from related parties are unsecured, interest-free and repayable on demand. No collateral is held over these balances by the Group. Certain directors of the Company are also directors and shareholders of the related companies.

Details of the amounts due from related parties are as follows:

	2015 HK$'000	2014 HK$'000
Amounts due from related parties — non-trade nature		
Truly Semiconductors Limited	**–**	22
Mr. Su Ran	**143**	41
	143	63

19. PLEDGED BANK DEPOSITS, BANK BALANCES AND CASH

Pledged bank deposits included in current assets carried interest in the range of 0.05% to 0.25% (2014: 0.05% to 0.19%) per annum at 31 December 2015. These bank deposits are pledged to secure the short term banking facilities granted to the Group.

Bank balances carried market interest rate in the range of 0.01% to 0.3% (2014: 0.01% to 0.35%) per annum at 31 December 2015.

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:

	2015 HK$'000	2014 HK$'000
Denominated in USD	80	276
Denominated in RMB	10,441	2,660
Denominated in CHF	42	5,879

20. TRADE AND OTHER PAYABLES

	2015 HK$'000	2014 HK$'000
Trade payables	19,353	39,424
Other payable	8,339	9,165
Accruals	10,649	18,640
	38,341	67,229

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

	2015 HK$'000	2014 HK$'000
1–30 days	7,072	30,908
31–60 days	8,479	3,562
Over 60 days	3,802	4,954
	19,353	39,424

20. TRADE AND OTHER PAYABLES *(Continued)*

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:

	2015 HK$'000	2014 HK$'000
Denominated in USD	353	479

21. 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 their 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

In Switzerland, the company contributes to a mandatory post-employment defined benefit plan, funded by contribution of 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.

21. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

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

The valuations of the plan assets and the present value of the defined benefit obligations were estimated by the directors with reference to the valuation carried out at 31 December 2015 and 2014 by an independent qualified professional actuary not connected to the Group. The present value of the defined benefit obligations and the related current service cost were measured using the projected unit credit method.

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

	2015	2014
Price inflation	**0.50%**	1.00%
Discount rate	**0.95%**	1.00%
Long term rate of return on plan assets	**1.40%**	1.50%
Expected rate of salary increase	**0.50%**	1.50%
Average longevity at retirement age for current pensioners and employees	**49.8**	50.8

The actuarial valuation showed that the market value of plan assets was HK$10,641,000 (2014: HK$7,149,000) at 31 December 2015 and that the actuarial value of these assets represented 64% (2014: 65%) of the benefits that had accrued to members. The shortfall of HK$6,091,000 (2014: HK$3,877,000) is to be cleared over the estimated remaining service period of 9.6 years (2014: 9.6 years).

21. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

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

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

	2015 HK$'000	2014 HK$'000
Service costs:		
Current service cost	**1,543**	861
Past service cost	**(126)**	460
Net interest expense	**39**	24
Components of defined benefit cost recognised in profit or loss	**1,456**	1,345
Remeasurement on the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest expense)	**(2,095)**	(1,746)
Actuarial losses arising from experience adjustments	**4,030**	771
Actuarial (gains) losses arising from changes in financial assumptions	**(245)**	1,723
Deferred tax credit arising on remeasurement of the net defined benefit liability *(note 24)*	**(338)**	(295)
Components of defined benefit cost recognised in other comprehensive income	**1,352**	453
Total	**2,808**	1,798

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

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

21. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

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

	2015 HK$'000	2014 HK$'000
Present value of defined benefit obligations	16,732	11,026
Fair value of plan assets	(10,641)	(7,149)
Net liability arising from defined benefit obligations	6,091	3,877

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

	2015 HK$'000	2014 HK$'000
Opening defined benefit obligations	11,026	7,392
Current service cost	1,543	861
Past service cost	(126)	460
Interest cost	113	143
Remeasurement losses (gains):		
Actuarial losses arising from experience adjustments	4,030	771
Actuarial (gains) losses arising from changes in financial assumptions	(245)	1,723
Benefits paid	(645)	(2,022)
Contribution paid by plan participants	1,212	2,793
Exchange differences on foreign plans	(176)	(1,095)
Closing defined benefit obligations	16,732	11,026

21. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

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

	2015 HK$'000	2014 HK$'000
Opening fair value of plan assets	7,149	4,567
Interest income	74	119
Remeasurement gain:		
Return on plan assets (excluding amounts included in net interest expense)	2,095	1,746
Contributions from employers	865	699
Benefits paid	(645)	(2,022)
Contributions paid by plan participants	1,212	2,793
Exchange differences on foreign plans	(109)	(753)
Closing fair value of plan assets	10,641	7,149

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

	2015 HK$'000	2014 HK$'000
Fixed interest, cash and cash equivalents and time deposits	7,521	5,513
Real estate	1,490	863
Mortgages and other claims	781	456
Others	849	317
	10,641	7,149

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

21. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

Significant actuarial assumptions for the determination of the defined obligation 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 obligation would decrease by HK$603,000 (increase by HK$713,000).

- If the expected salary growth increases (decreases) by 0.5%, the defined benefit obligation would increase by HK$67,000 (decrease by HK$79,000).

- If the life expectancy increases (decreases) by 1 year, the defined benefit obligation would increase by HK$97,000 (decrease by HK$97,000).

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.

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 on a current salary base. Additional liabilities stemming from past service due to salary increases (back-service liabilities) are paid immediately to the Defined Benefit Scheme. Apart from paying the costs of the entitlements, the Group's subsidiary is not liable to pay additional contributions in case the Defined Benefit Scheme does not hold sufficient assets. In that case, the Defined Benefit Scheme would take other measures to restore its solvency, such as a reduction of the entitlements of the plan members.

The average duration of the benefit obligation at 31 December 2015 is 21.6 years (2014: 20 years).

The Group expects to make a contribution of HK$861,000 to the defined benefit plan during the next financial year ending 31 December 2016.

22. BANK BORROWINGS

	2015 HK$'000	2014 HK$'000
Bank loan	**108,416**	100,610
Import trade loans	**55,673**	28,042
	164,089	128,652
Carrying amount repayable on demand and within one year	**117,494**	101,352
Carrying amount of bank borrowings that are not repayable within one year from the end of the reporting period but contain a repayment on demand clause	**46,595**	27,300
Amounts due within one year shown under current liabilities	**164,089**	128,652
Analysed as:		
Secured	**159,289**	119,052
Unsecured	**4,800**	9,600
	164,089	128,652

	2015 HK$'000	2014 HK$'000
The borrowings repayable based on scheduled repayment dates set out in the loan agreement, are as follows:		
Within one year	**117,494**	101,352
More than one year, but not exceeding two years	**39,788**	24,900
More than two years, but not exceeding five years	**6,163**	2,400
More than five years	**644**	–
	164,089	128,652

All the Group's borrowings are variable-rate borrowings which carry interest at Hong Kong Interbank Offered Rate ("**HIBOR**") or London Interbank Offered Rate ("**LIBOR**") plus certain basis points. Interest is repriced every six months and the range of effective interest rates is ranging from 2.20% to 3.23% (2014: 2.72% to 3.22%) per annum.

Details of assets that have been pledged as collateral to secure borrowings are set out in note 31.

23. DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended 31 December 2015, fair value gain of approximately HK$2,598,000 (2014: loss of approximately HK$1,811,000) was recognised directly in profit or loss.

The details of outstanding foreign exchange forward contracts to which the Group is committed are as follows:

Notional amount	Maturity	Exchange rates
31 December 2015		
Buy CHF500,000	**15 January 2016**	**CHF1: HK$7.7695**
Buy CHF500,000	**29 January 2016**	**CHF1: HK$7.7710**
Buy CHF500,000	**16 February 2016**	**CHF1: HK$7.6800**
Buy CHF500,000	**29 February 2016**	**CHF1: HK$7.6750**
Buy CHF500,000	**15 March 2016**	**CHF1: HK$7.6606**
Buy CHF500,000	**31 March 2016**	**CHF1: HK$7.6681**
Buy CHF500,000	**15 April 2016**	**CHF1: HK$7.6741**
Buy CHF500,000	**29 April 2016**	**CHF1: HK$7.6801**
Buy CHF500,000	**17 May 2016**	**CHF1: HK$7.6876**
Buy CHF500,000	**31 May 2016**	**CHF1: HK$7.6936**
31 December 2014		
Buy CHF750,000	15 January 2015	CHF1: HK$8.0110
Buy CHF750,000	30 January 2015	CHF1: HK$8.0190
Buy CHF750,000	13 February 2015	CHF1: HK$8.0240
Buy CHF750,000	27 February 2015	CHF1: HK$8.0295
Buy CHF750,000	10 March 2015	CHF1: HK$7.9290
Buy CHF750,000	16 March 2015	CHF1: HK$7.9330
Buy CHF500,000	31 March 2015	CHF1: HK$7.9370

24. 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	Unrealised profit HK$'000	Others HK$'000 *(note)*	Total HK$'000
At 1 January 2014	(1,739)	418	9,467	(5,970)	2,176
Credit (charged) to profit or loss *(note 10)*	233	130	(1,058)	(703)	(1,398)
Credit to equity *(note 21)*	–	295	–	–	295
Effect of change in tax rate charged to profit or loss *(note 10)*	(176)	–	–	(2,168)	(2,344)
Exchange realignment	52	(67)	–	771	756
At 31 December 2014	**(1,630)**	**776**	**8,409**	**(8,070)**	**(515)**
Credit (charged) to profit or loss *(note 10)*	**1,095**	**119**	**(132)**	**(4,234)**	**(3,152)**
Credit to equity *(note 21)*	**–**	**338**	**–**	**–**	**338**
Exchange realignment	**3**	**(13)**	**–**	**95**	**85**
At 31 December 2015	**(532)**	**1,220**	**8,277**	**(12,209)**	**(3,244)**

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:

	2015 HK$'000	2014 HK$'000
Deferred tax assets	**8,277**	9,119
Deferred tax liabilities	**(11,521)**	(9,634)
	(3,244)	(515)

The deductible temporary differences had been recognised as deferred tax asset as it is probable that taxable profits will be available against which temporary difference can be utilised.

24. DEFERRED TAXATION *(Continued)*

At the end of the reporting period, the Group has unutilised tax losses of HK$20,624,000 (2014: nil) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$7,414,000 that will expire in 2020. Other losses may be carried forward indefinitely.

At the end of the reporting period, the Group has deductible temporary difference of HK$4,899,000 (2014: nil). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised for the year ended 31 December 2015 was HK$141,620,000 (2014: HK$167,515,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

25. SHARE CAPITAL

	Number of ordinary shares '000	Par value HK$	Share capital HK$'000
Authorised:			
Balance at 1 January 2014	6,500	1.00	6,500
Shares subdivision *(note i)*	643,500	0.01	–
Increase in authorised share capital *(note i)*	9,350,000	0.01	93,500
Balance at 31 December 2014 and 31 December 2015	10,000,000	0.01	100,000
Issued and fully paid:			
Balance at 1 January 2014	10	1.00	10
Shares subdivision *(note i)*	990	0.01	–
Issued of shares by capitalisation of share premium account *(note ii)*	280,000	0.01	2,800
Issue of shares on global offering *(note iii)*	66,000	0.01	660
Exercise of Pre-IPO share option	437	0.01	4
Balance at 31 December 2014 and 31 December 2015	347,437	0.01	3,474

25. SHARE CAPITAL *(Continued)*

Notes:

(i) Pursuant to the shareholders' resolution passed on 24 June 2014, every share of HK$1 each in the issued and unissued share capital of the Company was subdivided into 100 shares of HK$0.01 each and the authorised share capital of the Company was increased from HK$6,500,000 divided into 6,500,000 shares of HK$1 each to HK$100,000,000 divided into 10,000,000,000 of HK$0.01 each by the creation of 9,350,000,000 shares of HK$0.01 each.

(ii) Simultaneous with the listing of the shares of the Company on the Stock Exchange on 11 July 2014, 280,000,000 ordinary shares of HK$0.01 per share, each were issued at par to the shareholders whose names were on the register of members of the Company as at the close of business on 24 June 2014 for capitalisation of HK$2,800,000 standing to the credit of the share premium account of the Company.

(iii) The Company's shares were listed on the Stock Exchange on 11 July 2014. The Company allotted and issued the total of 66,000,000 new ordinary shares of HK$0.01 each to the public at a price of HK$3.0 per share pursuant to the initial public offering by way of a sum of HK$198,000,000.

Details of the exercise of Pre-IPO share option scheme are set out in note 32.

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

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

	2015 HK$'000	2014 HK$'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**13,271**	11,438
Amount due from a subsidiary	**109,176**	79,997
	122,447	91,435
CURRENT ASSETS		
Other receivables	**271**	290
Amounts due from subsidiaries	**77,000**	76,000
Bank balances and cash	**14,366**	75,597
	91,637	151,887
CURRENT LIABILITIES		
Other payable	**144**	479
Amount due to a subsidiary	**1**	1
	145	480
NET CURRENT ASSETS	**91,492**	151,407
TOTAL ASSETS LESS CURRENT LIABILITIES	**213,939**	242,842
CAPITAL AND RESERVES		
Share capital	**3,474**	3,474
Reserves *(note)*	**210,465**	239,368
TOTAL EQUITY	**213,939**	242,842

26. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(Continued)*

Note:

	Share premium HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2014	–	–	–	–
Profit and total comprehensive income for the year	–	–	54,035	54,035
Issue of shares	197,340	–	–	197,340
Expenses incurred in connection with the issue of shares	(13,886)	–	–	(13,886)
Issue of shares by capitalisation of share premium account	(2,800)	–	–	(2,800)
Recognition of equity-settled share-based payments	–	3,634	–	3,634
Issue of shares upon exercise of share options	1,445	(400)	–	1,045
Lapse of share options	–	(1)	1	–
At 31 December 2014	182,099	3,233	54,036	239,368
Loss and total comprehensive expense for the year	**–**	**–**	**(2,625)**	**(2,625)**
Recognition of equity-settled share-based payments	**–**	**1,517**	**–**	**1,517**
Dividend recognised as distribution *(note 12)*	**–**	**–**	**(27,795)**	**(27,795)**
At 31 December 2015	**182,099**	**4,750**	**23,616**	**210,465**

27. 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 the bank borrowings disclosed in note 22, net of cash and cash equivalents, and equity comprising issued share capital and reserves.

The directors of the Group reviews 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.

28. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2015 HK$'000	2014 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**189,008**	282,255
Fair value through profit or loss		
Derivative financial instruments	**769**	–
Financial liabilities		
Amortised cost	**188,293**	174,187
Fair value through profit or loss		
Derivative financial instruments	**–**	705

(b) Financial risk management objectives and policies

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

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk

(i) Foreign currency risk

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

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

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

	Liabilities		Assets	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
Third parties				
RMB	**–**	–	**10,441**	2,660
USD	**6,802**	2,131	**17,104**	9,737
CHF	**–**	–	**42**	5,879
Intra-group balances				
RMB	**–**	–	**182,450**	205,855
CHF	**–**	–	**84,354**	17,071

Sensitivity analysis

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

The following table indicates the approximate change in the Group's loss for the year in response to 5% (2014: 2%) and 10% (2014: 10%) increase or decrease in the functional currency of each group entity against RMB and CHF respectively to which the Group has significant exposure at the end of reporting period. A negative number below indicates an increase in loss (2014: decrease in post-tax profit) where the functional currency of the relevant group entity strengthens 5% (2014: 2%) against RMB and 10% (2014: 10%) against CHF. For a 5% (2014: 2%) weakening of the functional currency of the relevant group entity against RMB and 10% (2014: 10%) against CHF, there would be an equal and opposite impact on the loss (2014: post-tax profit).

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Foreign currency risk (Continued)

Sensitivity analysis *(Continued)*

A sensitivity rate of 5% (2014: 2%) on RMB and 10% (2014: 10%) on CHF represents management's assessment of the reasonably possible change in foreign currency exchange rates.

	RMB impact		CHF impact	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
Increase in loss (2014: decrease in post-tax profit)	**(436)**	(44)	**(3)**	(491)

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

The following table indicates the approximate change in the Group's loss for the year in response to 5% (2014: 2%) and 10% (2014: 10%) increase or decrease in the functional currency of each group entity against RMB and CHF respectively to which the Group has significant exposure at the end of the reporting period. A negative number below indicates an increase in loss (2014: decrease in post-tax profit) where the functional currency of the relevant group entity strengthens 5% (2014: 2%) against RMB and 10% (2014: 10%) against CHF. For a 5% (2014: 2%) weakening of the functional currency of the relevant group entity against RMB and 10% (2014: 10%) against CHF, there would be an equal and opposite impact on the loss (2014: post-tax profit).

A sensitivity rate of 5% (2014: 2%) on RMB and 10% (2014: 10%) on CHF represents management's assessment of the reasonably possible change in foreign currency exchange rates.

	RMB impact		CHF impact	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loss (2014: post-tax profit)	**(7,617)**	(3,438)	**(7,044)**	(1,425)

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.

For the foreign exchange forward contracts at 31 December 2015, the sensitivity analysis has been estimated based on the contracts outstanding at the end of reporting period. When the relevant market forward exchange rate of CHF against HK$, the functional currency of the group entity holding the foreign exchange forward contracts, strengthens/weakens by 5% (2014: 5%), the potential effect on loss for the year will decrease/increase by approximately HK$3,236,000 (2014: post-tax profit will increase/decrease by approximately HK$3,272,000).

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances and variable-rate bank borrowings. (see notes 19 and 22 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and LIBOR arising from the Group's Hong Kong dollar denominated borrowings. The management considers the exposure to interest rate risk in relation to bank balances is insignificant due to the low interest rate. 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.

Sensitivity analysis
The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period existed for the whole year. A 100 basis point (2014: 100 basis point) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis point (2014: 100 basis point) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2015 would increase/decrease by HK$1,370,000 (2014: post-tax profit would decrease/increase by HK$1,074,000).

Credit risk

As at 31 December 2015, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

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

With respect to credit risk arising from amounts due from related companies, the management considered that the exposure to credit risk arising from defaults of these parties is limited as the counterparties have sufficient net assets and funds to repay their debts and the Company is not expected to result in any financial loss for amounts due from these parties.

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

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

For the year ended 31 December 2015, the Group has concentration of credit risk as 49.91% (2014: 47.17%) of the total trade receivables due from the Group's five largest trade customers. The directors of the Company consider that the customers are of good qualities because the counterparties have good reputation and no default payment history. An analysis of the amounts due from two of the five largest customers at the end of the reporting period is as follows:

	% of total trade receivables	
	2015	2014
Customer A	**23%**	20%
Customer B	**9%**	14%

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

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.

28. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

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	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2015					
Non-derivative financial liabilities					
Trade and other payables	**–**	**11,923**	**12,281**	**24,204**	**24,204**
Variable interest rate bank borrowings *(Note)*	**3.00**	**164,089**	**–**	**164,089**	**164,089**
		176,012	**12,281**	**188,293**	**188,293**
At 31 December 2014					
Non-derivative financial liabilities					
Trade and other payables	–	42,102	3,433	45,535	45,535
Variable interest rate bank borrowings *(Note)*	2.95	128,652	–	128,652	128,652
		170,754	3,433	174,187	174,187

Note: Bank loans with a repayment on demand clause are included in the repayable on demand or less than 3 months' time band in the above maturity analysis. At 31 December 2015, the aggregate undiscounted principal amounts of these bank loans amounted to HK$164,089,000 (2014: HK$128,652,000). 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$169,795,000 (2014: HK$132,917,000).

28. 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 2015	**36,984**	**84,877**	**41,068**	**6,201**	**665**	**169,795**	**164,089**
At 31 December 2014	31,220	73,509	25,717	2,471	–	132,917	128,652

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Repayable on demand or less than 3 months HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Derivatives — gross settlement			
At 31 December 2015			
— inflow	**39,239**	**39,239**	**39,239**
— outflow	**(38,470)**	**(38,470)**	**(38,470)**
	769	**769**	**769**
At 31 December 2014			
— inflow	39,223	39,223	39,223
— outflow	(39,928)	(39,928)	(39,928)
	(705)	(705)	(705)

Derivative financial instruments which can be exercised at any time before the maturity date are included in the repayable on demand or less than 3 months time bond in the above liquidity analysis.

28. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial liability	Fair value as at 31 December 2014 HK$'000	Fair value as at 31 December 2015 HK$'000	Fair value hierarchy	Valuation techniques and key inputs
Foreign exchange forward contracts *(note 23)*	(705)	**769**	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

There were no transfers between Level 1 to Level 3 in the year.

Except the above financial liabilities that are measured at fair value, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values at the end of reporting period.

29. OPERATING LEASE COMMITMENTS

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

	2015 HK$'000	2014 HK$'000
Within one year	**22,016**	23,180
In the second to fifth years inclusive	**15,268**	18,065
	37,284	41,245

29. OPERATING LEASE COMMITMENTS *(Continued)*

Included in the above is future lease payments with related party of HK$952,000 (2014: HK$82,000) and the Group has commitments for future minimum lease payments for premises under non-cancellable operating leases which fall due as follows:

	2015 HK$'000	2014 HK$'000
Within one year	**423**	82
In the second to fifth years inclusive	**529**	–
	952	82

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.

30. CAPITAL COMMITMENT

	2015 HK$'000	2014 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**1,073**	1,157

31. PLEDGE OF ASSETS

The Group's bank borrowings are secured by:

	2015 HK$'000	2014 HK$'000
Fixed charges over time deposits	**3,832**	6,019
Fixed charges over deposits placed for life insurance policies	**17,023**	9,461
Floating charge over trade receivables	**–**	8,551

32. SHARE-BASED PAYMENT TRANSACTIONS

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

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

At 31 December 2015, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 5,750,224 shares (2014: 5,750,224 shares), representing 1.66% (2014: 1.66%) of the shares of the Company in issue at that date. Without prior approval from the Company's shareholder, (i) the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time; (ii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time; and (iii) options in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million may not be granted to substantial shareholders or independent non-executive directors.

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

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

Tranche	Date of grant	Vesting period	Exercisable period	Exercise price per share HK$	Fair value at grant date HK$
1	24.6.2014	24.6.2014–11.7.2014	11.7.2014–11.7.2016	2.40	0.9159
2	24.6.2014	24.6.2014–11.7.2015	11.7.2015–11.7.2017	3.00	0.7822

No share option was granted during the year ended 31 December 2015.

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

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

Type of participant	Tranche	Exercise price HK$	Outstanding at 1 January 2014	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31 December 2014 and 31 December 2015
Director	1	2.40	–	842,344	(50,000)	–	792,344
	2	3.00	–	1,258,928	–	–	1,258,928
			–	2,101,272	(50,000)	–	2,051,272
Employee	1	2.40	–	1,477,315	(387,000)	(980)	1,089,335
	2	3.00	–	3,242,752	–	(633,135)	2,609,617
			–	4,720,067	(387,000)	(634,115)	3,698,952
			–	6,821,339	(437,000)	(634,115)	5,750,224

	2014	**2015**
Exercisable at the end of the year	1,881,679	**5,750,224**

During the year ended 31 December 2015, there is no exercise of share option.

The following share options granted under the Scheme were exercised during the year ended 31 December 2014:

	Number exercised	Exercise date	Share price at exercise date
Tranche 1	387,000	15 October 2014	HK$4.68
Tranche 1	50,000	31 October 2014	HK$5.00
	437,000		

During the year ended 31 December 2015, based on the directors' best estimate, there is no change to the variables and assumptions used in computing the fair value of the share options at grant date.

The Group recognised the total expense of approximately HK$1,517,000 (2014: HK$3,634,000) for the year ended 31 December 2015 in relation to share options granted by the Company.

33. RELATED PARTY TRANSACTIONS

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

Name of related party	Relationship	Nature of transaction	2015 HK$'000	2014 HK$'000
Su Ran	Brother of one of the directors/ senior management	Rental expense	**391**	241
Truly Semiconductors Limited	Entity controlled by one of the directors	Sales	**119**	22

(ii) Amounts due from related parties is disclosed in the consolidated statement of financial position and in note 18.

(iii) Certain shareholders, directors and related parties of the Group have provided guarantees to banks amounting to HK$4,800,000 (2014: HK$36,000,000) in aggregate as at 31 December 2015 to secure certain banking facilities granted to the Group.

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

34. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ registration/ operation	Nominal value of issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company 2015	2014	Principal activities
Boillat Les Bois S.A. *(note)*	Switzerland	CHF100,000	**100%**	–	Development, manufacturing and marketing of watches
Ernest Borel S.A.	Switzerland	CHF100,000	**100%**	100%	Manufacturing and trading of watches
Ernest Borel (Far East) Company Limited	Hong Kong	HK$20,000	**100%**	100%	Assembling and sales of watches
Ernest Borel (Guangzhou) Trading Co., Ltd. (依波路（廣州）貿易有限公司)	PRC	RMB20,000,000	**100%**	100%	Distribution and sales of watches
Ernest Borel (Hong Kong) Limited	Hong Kong	HK$1,000	**100%**	100%	Investment holding
Ernest Borel Investment Limited	British Virgin Islands	USD100	**100%**	100%	Investment holding

Note: The subsidiary was set up during the year ended 31 December 2015.

Five-Year Financial Summary

A summary of the published results and assets, liabilities and total equity of the Group as at 31 December 2015 and for the last four financial years, as extracted from the Group's audited financial statements, is set out below:

Results	For the year ended 31 December				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**414,315**	602,624	604,013	550,880	489,089
(Loss) profit before taxation	**(6,753)**	79,047	110,743	127,347	173,183
Income tax expense	**(5,163)**	(20,236)	(17,722)	(27,873)	(31,626)
(Loss) profit for the year	**(11,916)**	58,811	93,021	99,474	141,557
(Loss) earnings per share					
Basic (HK cents)	**(3)**	19	33	35	50

Assets and Liabilities	As at 31 December				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**861,455**	902,261	745,070	641,777	477,404
Total liabilities	**(220,051)**	(219,766)	(289,966)	(257,699)	(130,411)
Total equity	**641,404**	682,495	455,104	384,078	346,993