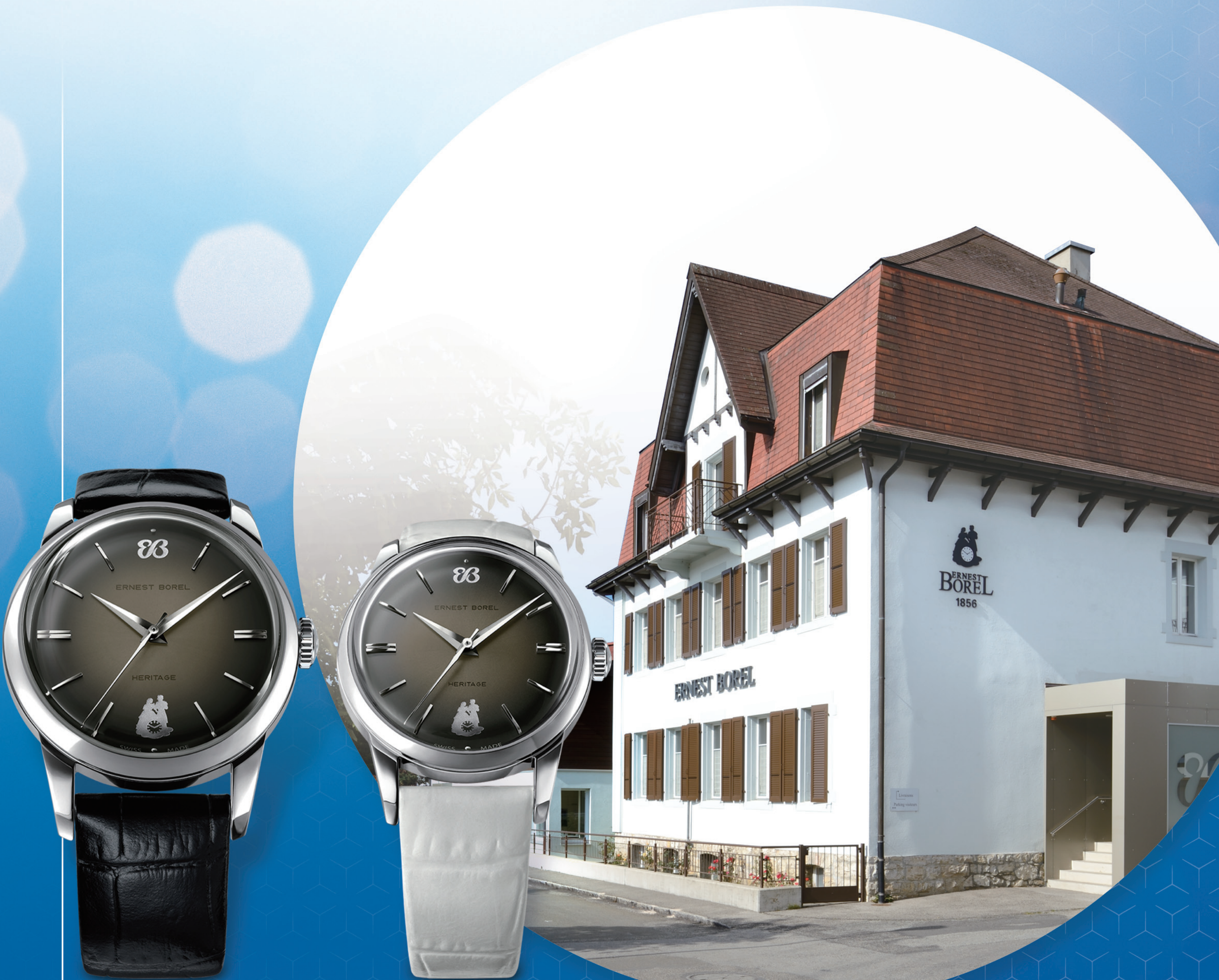
ERNEST BOREL
1856

ERNEST BOREL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

STOCK CODE : 1856



2018 ANNUAL REPORT

CONTENTS

2	Corporate Information
3	Financial Highlights
4	Chairman's Statement
6	Biographical Details of Directors and Senior Management
9	Management Discussion and Analysis
14	Corporate Governance Report
27	Environmental, Social and Governance Report
34	Report of the Directors
45	Independent Auditor's Report
49	Consolidated Statement of Profit or Loss and Other Comprehensive Income
50	Consolidated Statement of Financial Position
52	Consolidated Statement of Changes in Equity
53	Consolidated Statement of Cash Flows
55	Notes to the Consolidated Financial Statements
124	Five-Year Financial Summary

CORPORATE INFORMATION

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

DIRECTORS

Executive Directors

Mr. Shang Jianguang *(Chairman of the Board)*
(appointed on 12 October 2018)
Mr. Teguh Halim *(Vice Chairman of the Board)*
(appointed on 12 October 2018)
Mr. Xiong Wei
Ms. Lam Lai *(appointed on 12 October 2018)*

Non-executive Director

Mr. Xiong Ying *(appointed on 31 October 2018)*

Independent Non-executive Directors

Mr. Lui Wai Ming
Mr. To Chun Kei
Ms. Chan Lai Wa

COMPANY SECRETARY

Mr. Lau Fan Yu

AUDIT COMMITTEE

Mr. Lui Wai Ming *(Chairman)*
Mr. To Chun Kei
Ms. Chan Lai Wa

REMUNERATION COMMITTEE

Mr. Lui Wai Ming *(Chairman)*
Mr. Teguh Halim *(appointed on 12 October 2018)*
Mr. Xiong Wei
Mr. To Chun Kei
Ms. Chan Lai Wa

NOMINATION COMMITTEE

Mr. Shang Jianguang *(Chairman) (appointed on 12 October 2018)*
Mr. Xiong Wei
Mr. Lui Wai Ming
Mr. To Chun Kei
Ms. Chan Lai Wa

EXECUTIVE COMMITTEE

Mr. Shang Jianguang *(Chairman) (appointed on 12 October 2018)*
Mr. Teguh Halim *(appointed on 12 October 2018)*
Mr. Xiong Wei
Ms. Lam Lai *(appointed on 12 October 2018)*

INVESTMENT COMMITTEE

Mr. Shang Jianguang *(Chairman) (appointed on 12 October 2018)*
Mr. Teguh Halim *(appointed on 12 October 2018)*
Mr. Xiong Wei
Ms. Lam Lai *(appointed on 12 October 2018)*

AUTHORISED REPRESENTATIVES

Ms. Lam Lai *(appointed on 12 October 2018)*
Mr. Lau Fan Yu

COMPANY'S WEBSITE

www.ernestborel.ch

REGISTERED OFFICE

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

HEAD OFFICE IN SWITZERLAND

8, rue des Perrières
2340 Le Noirmont
Switzerland

OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

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

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

INDEPENDENT AUDITOR

BDO Limited
Certified Public Accountants
(appointed on 31 October 2018)

PRINCIPAL BANKER

Hang Seng Bank Limited

LEGAL ADVISERS

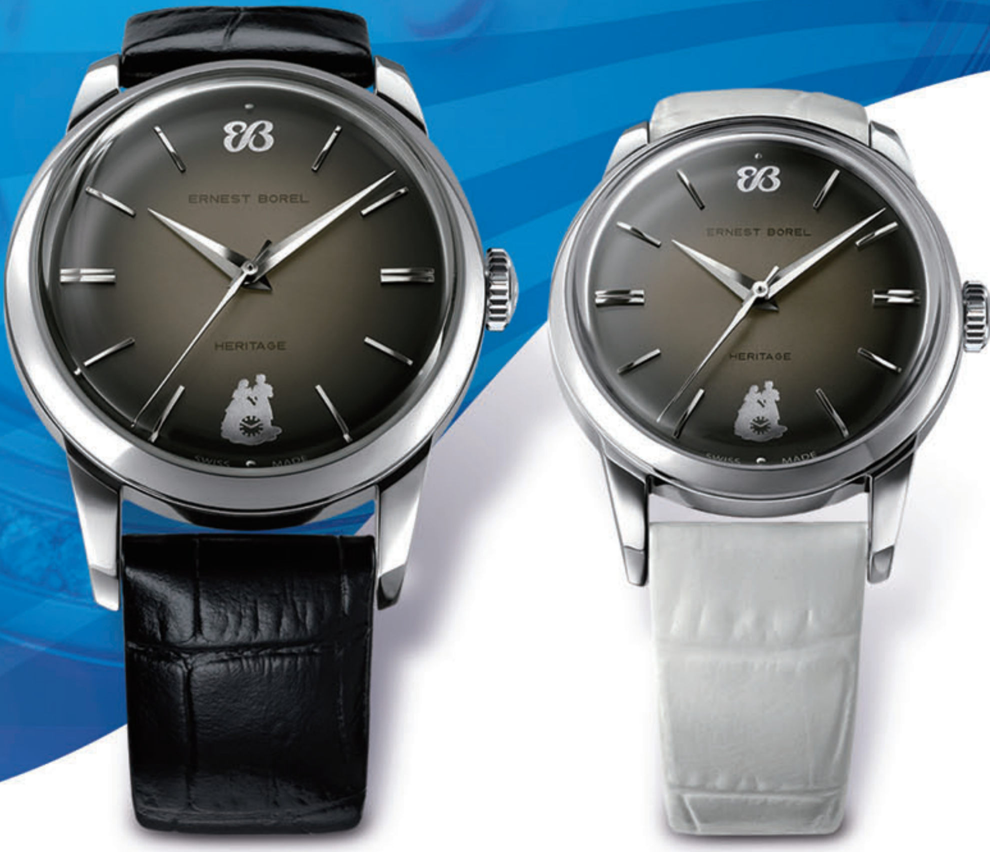
As to Hong Kong law
JunHe Law Offices

FINANCIAL HIGHLIGHTS

- Turnover for the financial year ended 31 December 2018 ("**FY2018**") decreased from HK$227.2 million to HK$171.8 million when compared with last year ("**FY2017**").
- Gross margin for FY2018 increased from 21.2% to 44.2%. Gross profit for FY2018 increased from HK$48.1 million to HK$75.9 million.
- Loss after tax for FY2018 was HK$97.7 million (FY2017: HK$197.3 million), a decrease of 50.5%.
- Loss per share was HK28.11 cents for FY2018 (FY2017: HK56.78 cents).
- The Board has resolved not to recommend any payment of a final dividend for FY2018 (FY2017: Nil).

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

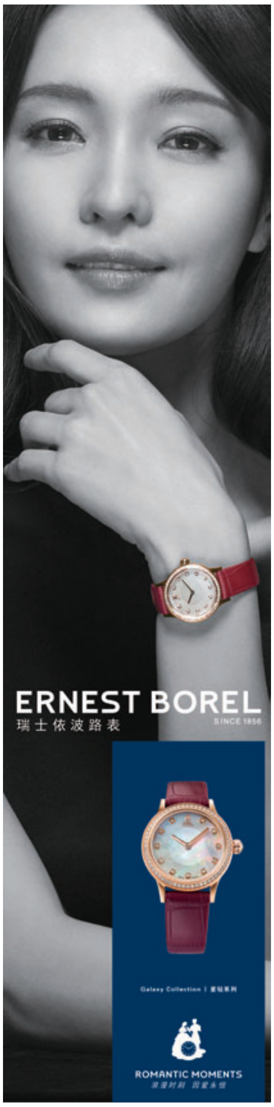
CHAIRMAN'S STATEMENT

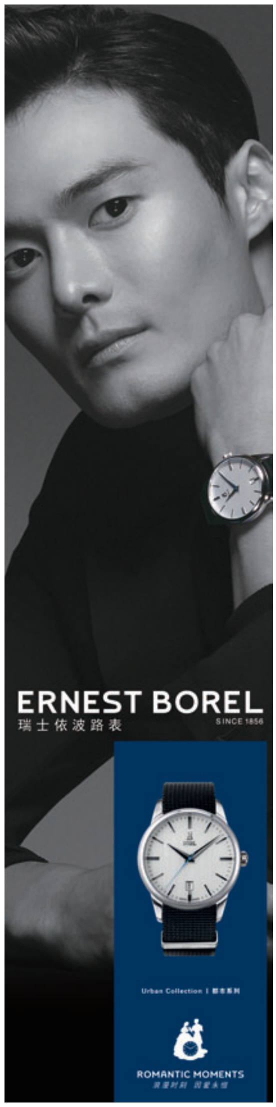


Dear Shareholders,

On behalf of the board of directors (the "**Board**") of Ernest Borel Holdings Limited ("**Ernest Borel**", the "**Company**" or "**We**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2018.

In 2018, the global economy and market environment were full of challenges. The trade war is still affecting the global economy, while numerous adverse factors have led to the cautious consuming attitude of clients. The Company continues to employ appropriate strategies and enhance its product design ability. Closely monitoring the operation cost and implementing effective resource utilization plans in the "Swiss-made" watch industry, the Company embraced the challenges brought by the severe market environment with a prudential attitude.





In September 2018, Citychamp Watch & Jewellery Group Limited ("**Citychamp**") acquired the Company's shares through its wholly-owned subsidiary and eventually became a controlling shareholder of the Company. With the experience of Citychamp in operating the watch business and the massive support from its Group, the Company believes that we can create synergy in future, which may strengthen the Company's distribution channels in the People's Republic of China (the "**PRC**") and around the world, fostering the long-term overall development of the Company.

Meanwhile, in September 2018, the Company also organized a grand new product collection launching event in Guangzhou, PRC, where it promoted "Ernest Borel" as an "affordable luxury" possessing an energetic, youthful and international image to consumers with a whole-new brand image, special booth design and two new brand ambassadors. During the event, the three brand new product lines, being the romantic series, feminine series and casual series, developed according to our brand and market position by internationally well-known Swiss watch designers, were highly praised.

Look ahead to 2019, the Company will maintain a prudential and positive attitude while observing the economic environment, closely monitor the operation costs in relation to the sales, distribution and administrative expenses of the Group, and employ marketing strategies and launch new products that fit the market to cope with the ever-changing market environment. Meanwhile, the Company has been identifying different investment opportunities to enlarge our profit base in the hope that we can bring valuable and sustainable returns to the shareholders. Last but not least, I would like to express my gratitude towards every shareholder and client for their trust and confidence in the Company.

Mr. Shang Jianguang
Chairman
29 March 2019

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Shang Jianguang (商建光), aged 67, was appointed as an Executive Director and Chairman of the Board of the Company on 12 October 2018. He was also appointed as a member and chairman of the Nomination Committee and member of the Executive Committee and Investment Committee of the Company on 12 October 2018. On 21 December 2018, Mr. Shang was appointed as the chairman of the Executive Committee and Investment Committee. Currently, Mr. Shang is the executive director and chief executive officer of Citychamp Watch & Jewellery Group Limited ("**Citychamp**"), a company listed on the main board of The Stock Exchange Hong Kong Limited (the "**Stock Exchange**") (stock code: 256), which, as at the date of this annual report, holds 64.08% equity interest in the Company through VGB Limited ("**VGB Limited**"), a wholly-owned subsidiary of Citychamp and a direct controlling shareholder of the Company. Mr. Shang joined the board of Citychamp in November 2004. He is a member of the remuneration committee and the nomination committee of Citychamp and the general manager of Zhuhai Rossini Watch Industry Limited, a subsidiary of Citychamp. Mr. Shang is also appointed as director of various subsidiaries of Citychamp, including Bendura Bank AG. Mr. Shang, graduated in Fuzhou University majoring in Chemistry, is a qualified senior engineer in the Mainland China.

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

Mr. Teguh Halim, aged 37, was appointed as an Executive Director and Vice Chairman of the Board of the Company on 12 October 2018. He was also appointed as a member of the Remuneration Committee, Executive Committee and Investment Committee of the Company on 12 October 2018. Mr. Halim is a director of VGB Limited. Currently, Mr. Halim is an executive director of Citychamp. He joined Citychamp in October 2008 and has been appointed as an executive director of Citychamp since 23 January 2018. Before being appointed as an executive director of Citychamp, he was a vice president of Citychamp. Mr. Halim is also the chairman of the European executive committee of the Citychamp group and director of several subsidiaries of Citychamp engaged in watch business. He has extensive experience in the watch manufacturing and distribution industry and business management. Mr. Halim graduated from Ohio State University as bachelor of science in business administration majoring in accounting.

Ms. Lam Lai (林黎), aged 40, was appointed as an Executive Director and Authorized Representative of the Company on 12 October 2018. She was also appointed as a member of the Executive Committee and Investment Committee of the Company on 12 October 2018. Ms. Lam joined Citychamp in 2008 as investment manager and has been redesignated as CEO assistant mainly responsible for merger and acquisition as well as business development. Ms. Lam leads overseas investments and the merger and acquisition projects of Citychamp. She is also appointed as director of various subsidiaries of Citychamp, including Bendura Bank AG and VGB Limited. Ms. Lam is currently a representative for Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong). Ms. Lam graduated from University of Western Sydney in 2001 with a bachelor degree of business majoring in marketing.

Mr. Xiong Wei (熊威), aged 56, was appointed as an Executive Director and a member of each of the Remuneration Committee and Nomination Committee of the Company with effect from 4 October 2016. Besides, Mr. Xiong was appointed as a member of Executive Committee and Investment Committee of the Company on 29 March 2017. Mr. Xiong graduated from Shanxi University with a bachelor degree in Art in 1986, majoring in professional English. He worked in PICC Property and Casualty Company Limited from 1986 to 2001. He was the chairman and legal representative of Beijing Dongfang Yinfeng Property Development Limited* (北京東方銀豐房地產開發有限公司) from 2001 to 2006. Since 2004, he was and still is the chairman of Prime Route Investment Limited (安理投資有限公司), a substantial shareholder of the Company holding approximately 10.92% of the issued share capital of the Company since 3 October 2016.

* *For identification purpose only*

NON-EXECUTIVE DIRECTOR

Mr. Xiong Ying (熊鷹), aged 46, was appointed as an Non-executive Director of the Company on 31 October 2018. Mr. Xiong graduated from the Department of International Finance & Trade at Shenzhen University in 1995 and worked in the property insurance project department of Shenzhen Pacific Insurance Company Limited* (深圳太平洋保險公司) from 1995 to 2000. Mr. Xiong obtained a degree of master of business administration from Peking University in 2002. After that, Mr. Xiong worked in the securities investment department at Beijing Gehua Cable Co., Ltd.* (北京歌華有線股份有限公司) from 2003 to 2005. Since 2006, Mr. Xiong has been a director of Beijing P&C Investment Limited* (北京共和同創投資有限公司).

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lui Wai Ming (雷偉銘), aged 48, was appointed as an Independent Non-executive Director of the Company and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 27 October 2017. On 22 December 2017, Mr. Lui was appointed as the chairman of the Audit Committee and Remuneration Committee.

Mr. Lui holds an Executive Master Degree in Business Administration from Cheung Kong Graduate School of Business in the People's Republic of China. Mr. Lui is a fellow member of the Association of Chartered Certified Accountants, a fellow member of Hong Kong Institute of Certified Public Accountants and a fellow member of Hong Kong Institute of Directors. Mr. Lui has extensive experience in auditing, accounting, investment, financial and corporate management for over 20 years. Mr. Lui is currently an Independent Non-executive Director of Tansh Global Food Group Ltd, a company listed on the main board of the Stock Exchange (stock code: 3666). He was an Executive Director of Hosa International Limited, a company listed on the main board of the Stock Exchange (stock code: 2200) from 1 April 2016 to 31 July 2018, an Independent Non-executive Director of Tai Shing International (Holdings) Limited, a company listed on the GEM of the Stock Exchange (stock code: 8103) from 22 May 2014 to 29 January 2016 and Golden Shield Holdings (Industrial) Limited, a company listed on the main board of the Stock Exchange (stock code: 2123) from 12 January 2015 to 11 May 2015, during the period he focused on investigation into the outstanding audit issues and the legal proceedings, and the company is currently under liquidation. In addition, Mr. Lui was the chief financial officer of Ta Yang Holdings Limited, a company listed on the main board of the Stock Exchange (stock code: 1991) from 1 August 2018 to 31 March 2019.

Mr. To Chun Kei (杜振基), aged 52, was appointed as an Independent Non-executive Director of the Company and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 4 October 2016. Mr. To graduated from the University of Western Sydney with a bachelor degree in Business Administration in 1999 and received a master degree in Professional Accounting from the Hong Kong Polytechnic University in 2009. Mr. To is also a fellow member of the Hong Kong Institute of Certified Public Accountants. From 2004 to 2011, he was an Independent Non-executive Director , chairman of the audit committee and remuneration committee of China Development Bank International Investment Limited, the shares of which are listed on the main board of the Stock Exchange (stock code: 1062).

Ms. Chan Lai Wa (陳麗華), aged 54, was appointed as an Independent Non-executive Director of the Company and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 22 December 2017. Ms. Chan obtained an economic management professional qualification in the PRC in June 1998 and is currently the owner and director of an accounting and taxation consultancy firm in Hong Kong.

* *For identification purpose only*

SENIOR MANAGEMENT

Mr. Tao Li (陶立), aged 66, was appointed as the Chief Executive officer ("**CEO**") on 12 October 2018. Mr. Tao joined the Company in January 2018 and was the general manager of the Company and the vice-president of Ernest Borel S.A., a wholly-owned subsidiary of the Company. Mr. Tao was the vice president of Citychamp from January 2005 to November 2014 in charge of the watch manufacturing and distribution of EBOHR brand owned by Citychamp and the Executive Director of Citychamp from November 2014 to January 2018 in charge of European watch brands acquired by Citychamp. Mr. Tao was the Managing Director of EBOHR Luxuries International Limited from February 1991 to November 2014, a company acquired by Citychamp in 2004. Mr. Tao graduated from Beijing Foreign Trade Institute (currently known as China Foreign Economy and Trade University) majoring in Foreign Trade English. He is also a senior economist in Mainland China. He has over 30 years of experience in respect of business administration, international trading, brands building and marketing.

COMPANY SECRETARY

Mr. Lau Fan Yu (劉範儒), aged 51, is the Company Secretary and the Chief Financial Officer of the Company. Mr. Lau was admitted as a fellow of the Association of Chartered Certified Accountants in October 2004. He has also been a certified accountant of the Hong Kong Institute of Certified Public Accountants since January 2000. Mr. Lau has over 24 years of experience in the field of finance and accounting and is primarily responsible for management of the overall financial and accounting affairs of our Group since February 2012.

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

CHANGE OF INFORMATION RELATING TO DIRECTORS

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

Name of Director	Details of change
Mr. Shang Jianguang	During the Year, Mr. Shang was appointed as the chairman of the Executive Committee and Investment Committee.
Mr. Lui Wai Ming	From 1 August 2018 to 31 March 2019, Mr. Lui was appointed as the chief financial officer of Ta Yang Holdings Limited, a company listed on the main board of the Stock Exchange (stock code: 1991). During the Year, Mr. Lui became a fellow member of Hong Kong Institute of Certified Public Accountants and a fellow member of Hong Kong Institute of Directors. Mr. Lui has ceased to be the executive director of Hosa International Limited, a company listed on the main board of the Stock Exchange (stock code: 2200).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning over 163 years. Throughout the course of its history and across its operations, the Group has upheld the principles of producing high precision "Swiss-made" products and implemented stringent quality controls. Under its own brand "Ernest Borel", the Group is engaged in the design, production, marketing and sale of mechanical and quartz premium watches. As one of the oldest Swiss premium watchmakers, Ernest Borel has adopted the "dancing couple" as its icon, which embodies "romance and elegance". Together with its distinctive market position, Ernest Borel has gained leadership among brands of watches for couples in Switzerland. The extensive distribution network of the Group covers retail markets in the People's Republic of China (the "**PRC**"), (excludes the Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region ("**Macau**") and Taiwan), Hong Kong, Macau and Southeast Asia. As at 31 December 2018, the Group has more than 770 points of sale ("**POS**").

Ernest Borel recorded a revenue of HK$171.8 million (2017: HK$227.2 million), representing a year-on-year decrease of approximately 24.4%, and gross profit and gross profit margins increased to HK$75.9 million (2017: HK$48.1 million) and 44.2% (2017: 21.2%), respectively. Consequently, loss attributable to equity holders amounted to HK$97.7 million in FY2018.

The PRC Market

The PRC remains the core market of the Group. As at 31 December 2018, the Group had around 620 POS in the country. Revenue from the PRC segment decreased from HK$193.4 million for FY2017 to HK$149.6 million for FY2018, accounting for approximately 87.1% of total revenue.

Hong Kong, Macau and Southeast Asia Markets

As at 31 December 2018, the Group had around 130 POS in Hong Kong, Macau and Southeast Asia markets. Sales in these markets decreased by approximately 26.4% from HK$28.7 million for FY2017 to HK$21.1 million for FY2018, accounting for approximately 12.3% of total revenue.

FINANCIAL REVIEW

Revenue and segment information

Our revenue decreased by HK$55.4 million, or approximately 24.4% from HK$227.2 million for FY2017 to HK$171.8 million for FY2018.

Performance by geographical locations

	2018	2017	Changes	
	HK$'000	*HK$'000*	HK$'000	%
PRC market	**149,623**	193,401	(43,778)	(22.6)
Hong Kong, Macau and Southeast Asia markets	**21,107**	28,684	(7,577)	(26.4)
Other markets mainly in the United States and Europe	**1,076**	5,120	(4,044)	(79.0)
Total	**171,806**	227,205	(55,399)	(24.4)

The PRC market

The PRC continues to be our major market, representing approximately 87.1% of our total revenue for FY2018. Sales in this region showed a decrease of approximately 22.6% from HK$193.4 million for FY2017 to HK$149.6 million for FY2018.

Hong Kong, Macau and Southeast Asia markets

Hong Kong, Macau and Southeast Asia markets accounted for approximately 12.3% of our total revenue for FY2018. Sales in these markets decreased by approximately 26.4% from HK$28.7 million for FY2017 to HK$21.1 million for FY2018.

Other markets

Revenue from other markets, namely markets in the United States and Europe recorded a decrease from HK$5.1 million FY2017 to HK$1.1 million for FY2018.

Cost of sales

Cost of sales decreased by approximately 46.5% from approximately HK$179.1 million for FY2017 to approximately HK$95.9 million for FY2018. The decrease was mainly attributable to decrease in provision for allowance of inventories.

Gross profit

Our gross profit increased by HK$27.8 million or approximately 57.8% from HK$48.1 million for FY2017 to HK$75.9 million for FY2018, while the gross profit margin increased to approximately 44.2% for FY2018 from approximately 21.2% for FY2017. The increase in gross profit margin was primarily due to decrease in provision for allowance of inventories by approximately HK$50.9 million.

Other gains and losses

Other losses decreased by HK$11.9 million or approximately 46.1% to HK$13.9 million for FY2018 from HK$25.8 million for FY2017. This was primarily due to decrease in impairment loss of trade and other receivables by HK$17.3 million, decrease in loss of inventory by HK$18.8 million and decrease in claims by HK$4.3 million which was partially offset by increase in loss on early redemption of the convertible bonds by HK$1 million and increase in foreign exchange loss by approximately HK$27.0 million mainly arising from depreciation of the RMB and CHF against the Hong Kong dollars.

Distribution expenses

Our selling and distribution expenses decreased by HK$47.9 million or approximately 40.7% from HK$117.6 million for FY2017 to HK$69.7 million for FY2018, representing approximately 40.6% of our total revenue for 2018 (2017: approximately 51.8%).

Administrative expenses

Our administrative expenses increased slightly to HK$61.7 million for FY2018 from HK$61.1 million for FY2017, representing an increase of HK$0.6 million or approximately 1.0%.

Finance costs

Our finance costs decreased slightly by HK$0.5 million or approximately 1.8% from HK$27.7 million for FY2017 to HK$27.2 million for FY2018.

Loss for the year attributable to owners of our Company

Our net loss for FY2018 decreased from HK$197.3 million for FY2017 to HK$97.7 million for FY2018, a decrease of 50.5%.

Inventory

Inventory amounted to approximately HK$366.1 million as at 31 December 2018, representing a decrease of HK$36.1 million, or around 9.0%, from HK$402.2 million as at 31 December 2017. Such decrease in inventory was attributable to consumption during the year.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK$81.6 million and approximately HK$62.4 million as at 31 December 2017 and 2018 respectively. Such decrease in trade and other receivables was attributable to a decrease in revenue for FY2018.

The Group's trade and other payables showed a slight increase from approximately HK$39.2 million as at 31 December 2017 to approximately HK$41.0 million as at 31 December 2018.

Liquidity, financial resources and capital structure

As at 31 December 2018, we had non-pledged cash and bank balances of HK$28.9 million (2017: HK$56.2 million). Based on the borrowings of HK$223.1 million (2017: HK$241.6 million) and shareholders' equity of HK$224.6 million (2017: HK$317.6 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 99.3% (2017: approximately 76.1%).

As at 31 December 2018, all of our borrowing amounting to HK$223.1 million was repayable within one year.

Foreign exchange exposure

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

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

Charge on assets

Our outstanding bank borrowings were secured by:

(a) charges over our time deposits with a carrying amount of HK$1.0 million (2017: HK$1.0 million); and

(b) charges over deposits placed for a life insurance policies with a carrying amount of HK$17.2 million (2017: HK$17.4 million).

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during FY2018.

Future plan for material investment and capital assets

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

Significant investments held

During FY2018, no significant investments were held by the Group.

Contingent liabilities/Pending litigation

As at the close of business on 31 December 2018, the Group had the following litigation:

(a) According to the Court Order* (民事判決書) granted by the Guangzhou Tianhe District Court* (廣州市天河區法院) on 26 December 2018, the Group need to compensate RMB2,356,212 to a former employee. The Group refused to accept the judgment and has applied to the court for appeal. However, full provision for the claim has been made in the consolidated financial statements for the year ended 31 December 2017.

Save as disclosed above, the Group did not have any other material contingent liabilities as at the close of business on 31 December 2018.

* *For identification purpose only*

Change of controlling shareholder of the Company and unconditional mandatory cash offers

On 18 September 2018, Citychamp became the controlling shareholder of the Company and indirectly owned 202,275,000 shares of the Company, representing 58.22% of the issued share capital of the Company, immediately upon the completion of the acquisition of such shares of the Company by VGB Limited (the "**Offeror**"), a wholly-owned subsidiary of Citychamp.

Accordingly, CCB International Capital Limited, on behalf of the Offeror, made unconditional mandatory cash offers (the "**Offers**") to acquire all of the issued shares of the Company not already owned and/or agreed to be acquired by it and/or parties acting in concert with it and acquire all the outstanding convertible bonds of the Company in accordance with the Codes on Takeovers and Mergers and Share Buy-backs.

As at the date of this annual report, Citychamp indirectly owns 222,634,485 shares of the Company, representing approximately 64.08% of the issued share capital of the Company. The Company is an indirect non-wholly owned subsidiary of Citychamp.

Details of, among others, the change of controlling shareholder of the Company and the Offers were set out in the composite offer and response document jointly issued by Offeror and the Company dated 5 October 2018 and the joint announcement issued by Offeror and the Company dated 26 October 2018.

Public Float

Following the close of the Offers on 26 October 2018, 22,861,000 Shares were held by the public (within the meanings of the Rules Governing the Listing of Securities on The Stock Exchange (the "**Listing Rules**"), representing approximately 6.6% of the total number of issued Shares. Accordingly, less than 25% of the issued Shares (being the minimum prescribed percentage applicable to the Company) were held by the public and the Company did not satisfy the minimum public float requirement as set out under Rule 8.08(1)(a) of the Listing Rules. Trading in Shares on the Stock Exchange had been suspended since 29 October 2018 at the request of the Company. An application was made by the Company to the Stock Exchange for a temporary waiver from the strict compliance with Rules 8.08(1)(a) of the Listing Rules. On 7 November 2018, the Stock Exchange had granted the waiver to the Company for a period from 26 October 2018 (i.e. closing date of the Offers) to 25 January 2019 (the "**Waiver**").

On 21 January 2019, the public float of the Company has risen to 8.2% of the issued share capital of the Company after completion of the sale of 5,500,000 Shares to an independent third party. The Offeror also entered into conditional agreements (the "**Conditional Agreements**") with two independent third parties in relation to the sale of an aggregate of 33,006,515 Shares, representing approximately 9.5% of the issued share capital of the Company. An application was made by the Company to the Stock Exchange for an extension of the Waiver. On 28 January 2019, the Stock Exchange had granted the Company an extension of the Waiver until 15 March 2019.

On 15 March 2019, the Company was informed by the Offeror that, the Conditional Agreements had been completed. In addition, on 11 March 2019, the Offeror entered into a placing agreement (the "**Placing Agreement**") with a placing agent to place down an aggregate of 25,500,000 Shares, representing approximately 7.3% of the issued share capital of the Company, to independent third parties on a fully underwritten basis. The Company had been informed by the Offeror that, on 14 March 2019, the Placing Agreement had been completed. Immediately upon the completion of the Placing Agreement, the Offeror held 222,634,485 Shares (representing approximately 64.08% of the issued share capital of the Company) and public shareholders held 86,867,515 Shares (representing approximately 25.00% of issued share capital of the Company), which fulfilled the minimum public float requirement according to the Rule 8.08 of the Listing Rules.

Details of public float of the Company were set out in the joint announcement issued by the offeror and the Company dated 26 October 2018, and announcements issued by the Company dated 8 November 2018, 25 January 2019, 28 January 2019 and 15 March 2019.

EVENTS AFTER THE REPORTING PERIOD

There are no material events undertaken by the Group after the reporting period.

Employees and remuneration policies

As at 31 December 2018, the Group had a total of 231 full-time employees, representing a decrease of 15.4% compared to 273 employees as at 31 December 2017. Total staff costs for FY2018 increased to approximately HK$67.9 million from approximately HK$59.4 million for FY2017.

All of our full-time employees are paid a fixed salary and may be granted other allowances, based on their positions. Members of the sales staff are also eligible for commissions based on their ability to meet sales targets. In addition, year-end bonuses may also be awarded to the employees at our discretion and based on employees' performance. Yearly performance appraisals are conducted to ensure that the employees receive feedback on their performance. Our Company has adopted a share option scheme (the "**Share Option Scheme**") on 24 June 2014 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 FY2018.

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

Capital commitments

There was no capital commitments as at 31 December 2018. (2017: HK$26.1 million).

PROSPECTS

As always, the Group endeavours to enhance the reputation of "Ernest Borel" brand by implementing effective marketing tactics and organizing various brand enhancement activities. During the year under review, the Group has completely revamped to a brand-new image in the market with the endorsement by two new brand ambassadors, with a view to promoting "Ernest Borel" as a "affordable luxury" possessing an energetic, youthful and international image to consumers. In the future, the Group will continue to hold roadshows in different regions, place outdoor advertisements, engage internet celebrities to advertise our products and display all kinds of digital and electronic advertisements, so as to increase our brand popularity and market share.

During the year under review, the Group has facilitated collaboration with world-renowned Swiss watch designers to enhance our capability in product design, and re-interpret the "Ernest Borel" brand while inheriting the "romance" element of our brand. We have developed three new product lines that fit our brand and market position, including romantic series, feminine series and casual series. The Group believes that all "Swiss-made" watch series for men, women and couples can meet the diverse preferences of our target mid-range-to-high-end customers and the millennials.

During the year under review, the production lines in the Switzerland plant have undergone a comprehensive upgrade and reform. While carrying forward with the expertise and know-how in the craftsmanship of "Swiss-made" watches, the Group will continue to maintain a high level of quality for watches with the "Ernest Borel" brand.

Looking forward to 2019, in light of the prevailing challenges from global economy and the PRC market environment, the Group remains cautiously optimistic and positive to closely control its operation costs, including sales, distribution and administrative expenses, and the industry environment of "Swiss-made" watches, as well as implement effective resource utilization plan. Meanwhile, the Group will continue to deploy appropriate marketing strategies externally while strengthening our product design capability to cope with the ever-changing market environment and challenges. Lastly, the Group has been exploring various investment opportunities to diversify and broaden its profit base in anticipation to bring valuable and sustainable returns to our shareholders in the future.

CORPORATE GOVERNANCE REPORT

Good corporate governance is conducive to enhancing overall performance and accountability and is essential in modern corporate administration. During the year ended 31 December 2018 (the "**Year**"), the Company has adopted, for corporate governance purposes, the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The board of directors of the Company (the "**Directors**" and the "**Board**") will continue to observe the principles of good corporate governance in the interests of shareholders of the Company (the "**Shareholders**") and devote considerable effort to identifying and formalizing best practice.

CODE PROVISION A.2.1

Pursuant to the Code provision A.2.1 of the Corporate Governance Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company deviated from this code provision as Mr. Sit Yau Chiu ("**Mr. Sit**") was the Chairman and CEO of the Company concurrently until his resignation on 12 October 2018. Having considered that (a) the holding of the positions of the chairman and chief executive officer by Mr. Sit provided the Group with efficient and effective business planning and execution; and (b) the INEDs provided independent opinion on issues to be considered by the Board, the Board believes that for the period between 1 January 2018 and 12 October 2018, the balance of power and authority was adequately ensured by the composition of the Board.

In light of the change of controlling shareholder of the Company, on 12 October 2018, Mr. Shang Jianguang ("**Mr. Shang**") was appointed as the Executive Director and the Chairman of the Board and Mr. Tao Li ("**Mr. Tao**") was appointed as the CEO of the Company to take charge of the supervision of the execution of the policies determined by the Board. Following such appointment on 12 October 2018, the Company is in compliance with the requirement under Code provision A.2.1 of the Corporate Governance Code.

CODE PROVISION A.6.7

Pursuant to the Code provision A.6.7 of the Corporate Governance Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Ms. Lou Liuqing ("**Ms. Lou**"), the Non-executive Director, and Ms. Chan Lai Wa, the Independent Non-executive Director, were unable to attend the Company's extraordinary general meeting held on 17 April 2018 due to other business engagements. Ms. Lou was also unable to attend the Company's annual general meeting held on 1 June 2018 due to other business engagements.

CODE PROVISION E.1.2

Pursuant to the Code provision E.1.2 of the Corporate Governance Code, the chairman of the board should attend the annual general meeting. He should also invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting. Mr. Sit, the then Chairman of the Board, did not attend the annual general meeting of the Company held on 1 June 2018 due to other business engagements.

Save as disclosed above, the Board is of the view that the Company has complied with all code provisions as set out in the Corporate Governance Code for the year ended 31 December 2018.

BOARD OF DIRECTORS

Responsibilities of the Board

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems. The Directors have to make decisions objectively in the interests of the Group. The decision making power on day-to-day operation of the Group has been delegated to the management team, which is led by a team of senior management with substantial experience and expertise in the Group's business.

Board Composition

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

Executive Directors

Mr. Shang Jianguang *(Chairman of the Board) (appointed on 12 October 2018)*
Mr. Teguh Halim *(Vice Chairman of the Board) (appointed on 12 October 2018)*
Mr. Xiong Wei
Ms. Lam Lai *(appointed on 12 October 2018)*
Mr. Sit Yau Chiu *(resigned as the Chairman of the Board and CEO on 12 October 2018, resigned as the Executive Director on 31 October 2018)*

NEDs

Mr. Xiong Ying *(appointed on 31 October 2018)*
Ms. Lou Liuqing *(resigned on 31 October 2018)*
Mr. Chan Kwan Pak Gilbert *(resigned on 10 April 2018)*

INEDs

Mr. Lui Wai Ming
Mr. To Chun Kei
Ms. Chan Lai Wa

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

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

DIRECTORS AND OFFICERS LIABILITY INSURANCE

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

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

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

	Attending expert briefings/ seminars/ conferences relevant to the business, corporate governance or directors' duties
Executive Directors	
Mr. Shang Jianguang *(Chairman of the Board) (appointed on 12 October 2018)*	✓
Mr. Teguh Halim *(Vice Chairman of the Board) (appointed on 12 October 2018)*	✓
Mr. Xiong Wei	✓
Ms. Lam Lai *(appointed on 12 October 2018)*	✓
Mr. Sit Yau Chiu *(resigned as the Chairman of the Board and CEO 12 October 2018, resigned as the Executive Director on 31 October 2018)*	
NEDs	
Mr. Xiong Ying *(appointed on 31 October 2018)*	✓
Ms. Lou Liuqing *(resigned on 31 October 2018)*	✓
Mr. Chan Kwan Pak Gilbert *(resigned on 10 April 2018)*	✓
INEDs	
Mr. Lui Wai Ming	✓
Mr. To Chun Kei	✓
Ms. Chan Lai Wa	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the Code provision A.2.1, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The Company deviated from this code provision as Mr. Sit was the chairman of the Board and the CEO of the Company who was primarily responsible for the overall strategies, planning and business development of the Group until his resignation on 12 October 2018. On 12 October 2018, Mr. Shang was appointed as the Chairman of the Board and Mr. Tao was appointed as the CEO of the Company.

Following such appointment, the Company is in compliance with the requirement under Code provision A.2.1, the Chairman chairs the Board meetings and briefs the Board members on the issues discussed at the Board meetings. The Chairman also ensures that the Board members work together with the management with the capability and authority to engage management in constructive views on various matters, including strategic issues and business planning processes. The CEO takes charge of the supervision of the execution of the policies determined by the Board.

INDEPENDENCE OF INEDs

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

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

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

DIVIDEND POLICY

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

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

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

(b) the Group's future earnings;

(c) the Group's capital requirements;

(d) the Group's working capital requirements;

(e) the general financial conditions of the Group;

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

(g) contractual restrictions on payment of dividends;

(h) the general economic and industrial conditions; and

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

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

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 Meeting	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	Investment Committee	Extraordinary General Meeting	Annual General Meeting
Executive Directors								
Mr. Shang Jianguang *(Note 1)*	1/12	N/A	N/A	0/3	0/3	0/0	N/A	N/A
Mr. Teguh Halim *(Note 2)*	3/12	N/A	1/3	N/A	0/3	0/0	N/A	N/A
Mr. Xiong Wei	8/12	N/A	1/3	1/3	3/3	0/0	0/1	1/1
Ms. Lam Lai *(Note 3)*	3/12	N/A	N/A	N/A	0/3	0/0	N/A	N/A
Mr. Sit Yau Chiu *(Note 4)*	1/12	N/A	1/3	1/3	3/3	0/0	0/1	0/1
Non-executive Directors								
Mr. Xiong Xing *(Note 5)*	1/12	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ms. Lou Liuqing *(Note 6)*	0/12	N/A	N/A	N/A	N/A	N/A	0/1	0/1
Mr. Chan Kwan Pak Gilbert *(Note 7)*	0/12	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Independent Non-executive Directors								
Mr. Lui Wai Ming	10/12	4/4	3/3	3/3	N/A	N/A	1/1	1/1
Mr. To Chun Kei	9/12	4/4	3/3	3/3	N/A	N/A	1/1	1/1
Ms. Chan Lai Wa	8/12	4/4	3/3	3/3	N/A	N/A	0/1	1/1

Notes:

1. Appointed as an Executive Director and the Chairman of the Board, a member and chairman of the Nomination Committee and a member of the Executive Committee and Investment Committee on 12 October 2018. Further appointed as the chairman of the Executive Committee and Investment Committee on 21 December 2018.

2. Appointed as an Executive Director and the Vice Chairman of the Board, a member of the Remuneration Committee, Executive Committee and Investment Committee on 12 October 2018.

3. Appointed as an Executive Director, a member of the Executive Committee and Investment Committee on 12 October 2018.

4. Resigned as the chairman of the Board, the chairman of the Nomination Committee and a member of Nomination Committee, Remuneration Committee, Executive Committee and Investment Committee on 12 October 2018; further resigned as an Executive Director on 31 October 2018.

5. Appointed as a Non-executive Director on 31 October 2018.

6. Resigned as a Non-executive Director on 31 October 2018.

7. Resigned as a Non-executive Director on 10 April 2018.

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

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

BOARD 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.

BOARD COMMITTEES

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

(i) Audit Committee

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

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

- reviewed the Group's audited annual results for the year ended 31 December 2017 and unaudited interim results for the six months ended 30 June 2018, met with the external auditors to discuss annual results and internal control issues without the Company's management being present, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure had been made;

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

- recommended the appointment of the external auditors;

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

- considered the appointment of BDO Limited ("**BDO**") as auditor to fill the vacancy left by the resignation of Crowe (HK) CPA Limited, formerly known as Crowe Horwath (HK) Limited ("**Crowe**") during the Year, and made recommendation to the Board.

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

(ii) Remuneration Committee

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

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

- reviewed the Group's remuneration policy and the remuneration package of the Executive Directors and senior management for the Year; and
- considered and made recommendation to the Board on the remuneration packages for the directors newly appointed/re-designated during the Year.

Further particulars regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to Appendix 16 to the Listing Rules are set out in note 12 to the consolidated financial statements.

(iii) Nomination Committee

The Company established the Nomination Committee on 24 June 2014 with written terms of reference. The primary duties of the Nomination Committee are to review the structure, size and composition of the Board on a regular basis and to recommend to the Board the suitable candidates for Directors after consideration of the nominees' independence and quality in order to ensure the fairness and transparency of all nominations. The Nomination Committee will also take into consideration the Board Diversity Policy when identifying suitable and qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy so as to develop and review measurable objectives for implementing the Board Diversity Policy and to monitor the progress on achieving these objectives.

The Board approved and and adopted a nomination policy (the "**Board Nomination Policy**") on 21 December 2018 in order to set out the approach to guide the nomination committee of the Company in relation to the selection and recommendation of candidates for directorship.

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

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

(a) reputation for character and integrity;

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

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

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

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

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

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

The Nomination Committee currently consists of five members, namely Mr. Shang Jianguang and Mr. Xiong Wei (both of them are Executive Directors) and Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa (all being INEDs). Mr. Shang Jianguang is the chairman of the Nomination Committee.

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

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

(iv) Executive Committee

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

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

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

(v) Investment Committee

The Company established the Investment Committee on 29 March 2017 with written terms of reference. It is responsible for evaluating investment projects proposed by the Company and making recommendations to the Board on such investment projects. Meetings of the Investment Committee shall be held at least once a year. The Investment Committee currently consists of four members, namely Mr. Shang Jianguang, Mr. Teguh Halim, Mr. Xiong Wei and Ms. Lam Lai (all of them are Executive Directors).

During the Year, no Investment Committee meeting was held.

CORPORATE GOVERNANCE FUNCTIONS

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

CONSTITUTIONAL DOCUMENTS

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

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

FINANCIAL REPORTING, RISK MANAGEMENT AND INTERNAL CONTROLS

Financial reporting

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

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

Risk Management and Internal Controls

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

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

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

INDEPENDENT AUDITOR

The Company has re-appointed Crowe as the independent auditor in Hong Kong during the Year. However, on 30 October 2018, Crowe resigned as the Company's independent auditor, and BDO has been appointed as the new auditor of the Company with effect from 31 October 2018. The independent auditor refrained from engaging in non-audit services except for specific approved items, such as review of interim results of the Group. The Audit Committee reviews the independent auditor's statutory audit scope and non-audit services and approves its fees. For the Year, the total fee paid/payable in respect of audit and non-audit services provided by the Company's former and existing independent auditors are set out below:

	HK$'000
Audit services	730
Non-audit services	169

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

DIRECTOR'S SECURITIES TRANSACTIONS

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

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

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

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

SHAREHOLDERS' RIGHTS

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

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

Procedures by which enquiries may be put to the Board

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. ABOUT THIS REPORT

Ernest Borel Holdings Limited (hereinafter referred to as "**We**", "**Ernest Borel**", the "**Company**") and its subsidiaries (collectively the "**Group**") recognizes the importance of its impact on the society and environmental and relationships with its key stakeholders to its long-term growth and sustainable business development.

As part of the manufacturing and retail industry, the Group recognizes our responsibilities in mainstreaming sustainability in our production and throughout our operations.

As a responsible producer, we continue to emphasize the importance of product responsibility — how to ensure the quality of our products, and to protect the rights of our consumers. We have set up clear policies to monitor and control the quality of our products, as well as to protect the intellectual properties of the Group and others, so as to uphold excellence in our product quality.

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

This is the third environmental, social & governance ("**ESG**") Report (the "**Report**") that we have worked on. While we are pleased with our accomplishments last year and this year in ESG, we recognize that there are still some aspects that we can work on and improve. Hence, we are committed to continuous improvements in our ESG performance and will keep on exploring ways to innovate and achieve our objectives.

1.1 Reporting period

This report which covers the material ESG issues faced by the Group for the period from 1 January 2018 to 31 December 2018.

1.2 Reporting Framework

This report was prepared according to the ESG Reporting Guide under appendix 27 of the Main Board Listing Rules issued by The Stock Exchange. The Company has fully complied with the "comply or explain" provisions as set out in the ESG Reporting Guide.

1.3 Reporting Scope

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

1.4 Stakeholder Engagement

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

1.5 Materiality Assessment

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

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

1.6 Stakeholder's Feedback

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

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

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

A. ENVIRONMENTAL

2. Protecting our Environment

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

2.1 Greenhouse Gas Emissions

In view of the challenges due to climate change, the Group is committed to paying efforts in reducing our carbon emissions in our daily operations. To understand the Group's environmental performance, we have conducted a carbon quantification on our energy and resource usage. The use of stationary fuel, vehicle fuel and electricity are identified as the major sources of the Group's greenhouse gas emissions. During the reporting period, the Group has emitted a total of 139.81 tCO_2e of greenhouse gas, with an intensity of 0.61 tCO_2e per employee.

Greenhouse Gas		Emission	Unit
Scope 1	Stationary fuel	15.99	tCO_2e
	Vehicle fuel	11.89	tCO_2e
Scope 2	Electricity	111.93	tCO_2e
Total		139.81	tCO_2e
Intensity		0.61	tCO_2e per employee

In response to the quantification results, we will act accordingly by improving our environmental policies and will continue to explore opportunities to cut down our carbon footprints.

2.2 Resource Management

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

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

Type of Resources	Consumption	Unit
Electricity	185,069	kWh
Intensity	801.16	kWh per employee
Vehicle fuel	10,574.48	L
Intensity	45.78	L per employee
Stationary fuel	5,014	L
Intensity	21.71	L per employee
Water	652.16	m^3
Intensity	2.82	m^3 per employee
Paper	1,980.68	kg
Intensity	8.57	kg per employee

Type of Packaging Materials	Consumption	Unit
Carton box, Plastic and Other	60.95	tonnes
Intensity	0.26	tonnes per employee

2.3 Green Office

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

2.4 Waste Management

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

B. SOCIAL

3. Caring Employer

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

3.1 Employment Practices

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

3.2 Equal Opportunity and Diversity

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

3.3 Safe and Healthy Workplace

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

Apart from potential safety issues at workplace, we recognize the possibility of hazards caused by external factors, including potential fire outbreaks at office buildings. Hence, to prepare and ensure that our staff is aware of the potential danger and familiar with the emergency plans, we also asked our employees to attend and participate in fire drill in their respective workplace. Through these measures, we hope to minimize the occupational safety and health risks faced by our employees.

3.4 Training and Continuous Development

In today's competitive market and increasingly volatile economy, continuous innovation and improvement are essential for companies to stay competitive and gain success in the market. We strongly believe that the continuous growth and development of our employees, will enable the Company to grow and develop as well. Therefore, as part of our Human Resources Management Policy, we are committed to providing training and opportunities for our staff, so that they can grow with us. We also encourage staff to receive external training programmes and offer subsidies to support their continuous professional development. During the reporting period, we have organized different team building activities for our staff.

3.5 Ethical Conduct

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

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

Our "Whistle-blower Policy" is implemented to encourage our staff to report potential infringements. The identity of the whistle blower is fully protected and remains confidential throughout the investigation. The Company is committed to handling any reported cases swiftly and fairly.

4. Product Responsibility

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

All of our watches are entitled to the branding of "Swiss-made" according to the corresponding Swiss Federal Law, i.e. the movement of our watches is Swiss-made, and the watches assembled and the final quality check conducted in Switzerland. Hence, all of our watches are required to be produced under strict production standards with the utmost care and diligence.

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

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

4.1 Supply Chain Management

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

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

4.2 Intellectual Property

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

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

4.3 Advertising, Labelling and Data Privacy

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

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

4.4 Maintaining High Product Quality

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

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

5. Community

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

Looking ahead, the Group will encourage employees to actively participate in various community activities and increase communication with the public. Through participating in volunteering activities, the Group will bring more positive effects to the development of the community with its own growth.

REPORT OF THE DIRECTORS

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

BUSINESS REVIEW

A review on the business of the Group during the Year and a discussion on the Group's future business development are set out in the Chairman's Statement and Management Discussion and Analysis on page 4 and pages 9 to 13 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

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

(i) Macroeconomic environment

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

(ii) Foreign exchange risk

Most of our expenses and costs are denominated in Swiss Franc ("**CHF**") and Hong Kong dollars, while approximately 87.1% and 12.3% of our revenue was denominated in Renminbi ("**RMB**") and Hong Kong dollars during the year ended 31 December 2018, 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 2018, the net foreign exchange loss amounted to HK$10.9 million (2017: gain HK$16.1 million).

KEY RELATIONSHIPS

(i) Employees

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

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

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

(ii) Suppliers

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

(iii) Retailers and distributors

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

PERMITTED INDEMNITIES

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

ENVIRONMENTAL POLICIES

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

INCORPORATION AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL ACTIVITIES

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

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2018 are set out in note 38 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the aggregate sales to the Group's largest and five largest customers accounted for 9.0% (2017: 6.3%) and 26.3% (2017: 25.1%), respectively, of the Group's total revenue for the Year.

The aggregate purchases from the Group's largest and five largest suppliers accounted for 27.8% (2017: 22.4%) and 65.9% (2017: 62.1%), 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 and the state of the Company's and the Group's affairs as at that date are set out in the consolidated financial statements on pages 49 to 51 of this annual report.

A discussion and analysis of the Group's performance during the Year and the material factors underlying its results and financial position are set out in the Management Discussion and Analysis on pages 9 to 13 of this annual report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group as at 31 December 2018 and for the past four financial years are set out on page 124 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group for the Year are set out in note 15 to the consolidated financial statements.

RESERVES

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

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2018, the Company's reserves available for distribution to the Shareholders amounted to HK$131,366,000 (2017: HK$169,276,000).

Under the Companies Law of the Cayman Islands, the share premium account of the Company in the amount of HK$182,099,000 (2017: HK$182,099,000) may be applied for payment of distributions or dividends to the Shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for FY2018 (2017: Nil).

CHARITABLE DONATIONS

The Group did not make any charitable donation during the Year (2017: Nil).

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Company and its subsidiaries as at 31 December 2018 are set out in note 24 to the consolidated financial statements.

SHARE CAPITAL

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

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2018, the Company did not redeem any of its shares listed and traded on The Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such shares.

TAX RELIEF AND EXEMPTION

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

DIRECTORS

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

Name	**Position**
Shang Jianguang	Executive Director and Chairman of the Board *(appointed on 12 October 2018)*
Teguh Halim	Executive Director and Vice Chairman of the Board *(appointed on 12 October 2018)*
Xiong Wei	Executive Director
Lam Lai	Executive Director *(appointed on 12 October 2018)*
Sit Yau Chiu	Executive Director *(resigned on 31 October 2018)*
Xiong Ying	Non-executive Director *(appointed on 31 October 2018)*
Lou Liuqing	Non-executive Director *(resigned on 31 October 2018)*
Chan Kwan Pak Gilbert	Non-executive Director *(resigned on 10 April 2018)*
Lui Wai Ming	Independent Non-executive Director
To Chun Kei	Independent Non-executive Director
Chan Lai Wa	Independent Non-executive Director

Pursuant to article 83(3) of the Articles of Association, Mr. Shang Jianguang, Mr. Teguh Halim and Ms. Lam Lai , who were appointed by the Board as the Executive Directors on 12 October 2018; and Mr. Xiong Ying, who was appointed by the Board as a Non-executive Director on 31 October 2018, shall hold the office until the AGM, being the first general meeting after their appointments, and shall retire and subject to re-election at the AGM.

Pursuant to article 84 of the Articles of Association, one-third of the Directors shall retire from office by rotation, and accordingly, Mr. Lui Wai Ming and Mr. To Chun Kei shall retire from office by rotation at the AGM. Mr. Lui and Mr. To, being eligible, will offer themselves for re-election at the AGM.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and senior management of the Company are set out on pages 6 to 8 of this annual report.

SERVICE CONTRACTS OF DIRECTORS

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

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the remuneration of the Directors and five individuals with the highest emoluments of the Company are set out in note 12 to the consolidated financial statements.

MANAGEMENT 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 2018, the interests or short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**") which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be recorded in the register referred to therein or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

Long Positions in the Company's Shares or shares in associated corporation of the Company

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

Name of Chief Executive	Name of corporation	Capacity/Nature of interest	Number of Shared held	Approximate Percentage of interest in the total issued Shares in the associated corporation
Mr. Tao Li	Citychamp	Beneficial owner/Personal Interest	5,000,000	0.11%

Notes:

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

2. Calculated based on the number of issued Shares as at 31 December 2018 (i.e. 347,437,000 shares).

Saved as disclosed above, as at 31 December 2018, 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 2018, the persons or corporations (not being a Director or Chief Executive of the Company) who or which had an interest or short position in the Shares and underlying Shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Long Position in the Company's Shares

Name	Capacity	Number of Shares	Approximate % of total number of issued Shares[5]
VGB Limited[1]	Beneficial owner	286,641,000	82.50%
Citychamp[1]	Interest in controlled corporation	286,641,000	82.50%
Sincere View International Limited[1]	Interest in controlled corporation	286,641,000	82.50%
Full Day Limited[1]	Interest in controlled corporation	286,641,000	82.50%
Hon Kwok Lung[2,3]	Interest in controlled corporation	286,641,000	82.50%
Lam Suk Ying[2,3]	Interest in controlled corporation	286,641,000	82.50%
Prime Route[4]	Beneficial owner	37,935,000	10.92%

Notes:

1. 286,641,000 shares in the issued share capital of the Company were directly held by VGB Limited. VGB Limited is wholly owned and controlled by Citychamp. Citychamp was the controlled corporation of each of Sincere View International Limited ("**Sincere View**") and Full Day Limited ("**Full Day**"). Accordingly, each of Citychamp, Sincere View and Full Day was deemed to be interested in the shares of the Company held by VGB Limited.

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

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

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

5. Calculated based on the number of issued Shares as at 31 December 2018 (i.e. 347,437,000 shares).

Save as disclosed above, as at 31 December 2018, the Directors were not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

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

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

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

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

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

(a) the nominal value of a Share;

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

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

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

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

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

CONNECTED TRANSACTION

During the year, there were no connected transactions which are required to be disclosed under the Listing Rules. To the best of the Director's knowledge, information and belief having made all reasonable enquiries, none of the related party transactions as disclosed in note 37 to the consolidated financial statements constitutes a connected transaction under Chapter 14A of the Listing Rules.

CHANGE OF CONTROLLING SHAREHOLDER OF THE COMPANY AND UNCONDITIONAL MANDATORY CASH OFFER

Details of change of controlling shareholder of the Company and unconditional mandatory cash offer are set out in the Management Discussion and Analysis on pages 9 to 13 of this annual report.

PUBLIC FLOAT

Details of public float are set out in the Management Discussion ad Analysis on pages 9 to 13 of this annual report.

RELATED PARTY TRANSACTIONS

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the year ended 31 December 2018 and up to and including the date of this annual report.

DIRECTORS' AND SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

EMOLUMENT POLICY

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

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

The Group has adopted one share option schemes to motivate and reward its Directors and eligible employees. Details of the scheme is set out in the paragraphs headed "Share Option Scheme" above and note 35 to the consolidated financial statements.

None of the Directors waived any emoluments during the Year.

RETIREMENT SCHEMES

The Group participates in defined contribution retirement benefit schemes organized by the municipal and provincial government authorities in the PRC for the Group's eligible employees in the PRC, and operates a Mandatory Provident Fund scheme for the employees in Hong Kong and contributes to a mandatory post-employment defined benefit plan ("**Defined benefit scheme**") for the employees in Switzerland. Particulars of these retirement plans are set out in note 23 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the "Share Option Scheme" described above, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2018.

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 2018.

SIGNIFICANT LEGAL PROCEEDINGS

The Group and the Company were not engaged in any other litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Group and the Company during the Year and at 31 December 2018.

CORPORATE GOVERNANCE REPORT

Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 14 to 26 of this annual report.

REVIEW BY AUDIT COMMITTEE

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

INDEPENDENT AUDITORS

Following the resignation of Crowe as auditors of the Company on 30 October 2018, BDO was appointed as new auditors of the Company with effect from 31 October 2018 to fill the casual vacancy, and to hold office until the conclusion of the next annual general meeting of the Company.

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by BDO while the consolidated financial statements for the three preceding years ended 31 December 2015, 2016 and 2017 were audited by Crowe and Deloitte Touche Tohmatsu.

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

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

Hong Kong, 29 March 2019

INDEPENDENT AUDITOR'S REPORT

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

香港干諾道中111號
永安中心25樓

TO THE MEMBERS OF ERNEST BOREL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Ernest Borel Holdings Limited (the" **Company**") and its subsidiaries (together the "**Group**") set out on pages 49 to 123, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Provision for inventories

Refer to note 18 to the consolidated financial statements and the accounting policies on note 4(m). As at 31 December 2018, the Group has inventories with the carrying amount of HK$366,118,000, which represented a substantial portion of the Group's total assets.

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

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

How the matter was addressed in our audit

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

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

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

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

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

OTHER MATTERS

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on 28 March 2018.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' 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 disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

BDO Limited
Certified Public Accountants

Lui Chi Kin
Practising Certificate Number P06162
Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	6	**171,806**	227,205
Cost of sales		**(95,874)**	(179,099)
Gross profit		**75,932**	48,106
Other gains and losses, net	7	**(13,893)**	(25,789)
Other income	8	**250**	859
Distribution expenses		**(69,743)**	(117,587)
Administrative expenses		**(61,674)**	(61,122)
Finance costs	9	**(27,218)**	(27,651)
Loss before tax	10	**(96,346)**	(183,184)
Income tax expense	11	**(1,320)**	(14,099)
Loss for the year attributable to owners of the Company		**(97,666)**	(197,283)
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Remeasurement of net defined benefit obligations	23	**2,510**	396
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**1,388**	6,912
Other comprehensive income for the year		**3,898**	7,308
Total comprehensive income for the year attributable to owners of the Company		**(93,768)**	(189,975)
LOSS PER SHARE	14		
— Basic and diluted (Hong Kong cents)		**(28.11)**	(56.78)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	15	**37,944**	44,216
Life insurance policies	16	**17,226**	17,405
Deposit paid for proposed acquisition of a subsidiary	17	**–**	25,000
		55,170	86,621
CURRENT ASSETS			
Inventories	18	**366,118**	402,224
Trade and other receivables	19	**62,356**	81,569
Pledged bank deposits	20	**1,039**	1,026
Bank balances and cash	20	**28,946**	56,177
		458,459	540,996
CURRENT LIABILITIES			
Trade and other payables	21	**40,968**	39,241
Tax payable		**2,352**	2,333
Amount due to a related company	22	**25,141**	–
Amount due to a fellow subsidiary	22	**11,443**	–
Amount due to ultimate holding company	22	**176,446**	–
Bank borrowings	24	**10,048**	11,591
Notes payable	25	**–**	140,000
		266,398	193,165
NET CURRENT ASSETS		**192,061**	347,831
TOTAL ASSETS LESS CURRENT LIABILITIES		**247,231**	434,452

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	27	**20,468**	21,921
Pension obligations	23	**2,137**	4,973
Liability component of convertible bond	26	**–**	89,972
		22,605	116,866
NET ASSETS		**224,626**	317,586
EQUITY			
Equity attributable to owners of the Company			
Share capital	28	**3,474**	3,474
Reserves		**221,152**	314,112
TOTAL EQUITY		**224,626**	317,586

The consolidated financial statements on pages 49 to 123 were approved and authorised for issue by the board of directors on 29 March 2019 and are signed on its behalf by:

Shang Jianguang	**Teguh Halim**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital HK$'000	Share premium HK$'000	Other reserve HK$'000 (Note (i))	Share options reserve HK$'000	Convertible bond equity reserve HK$'000	Actuarial gain and loss reserve HK$'000	General reserve HK$'000 (Note (ii))	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2017	3,474	182,099	15,500	2,451	–	(2,721)	1,547	(5,026)	295,746	493,070
Loss for the year	–	–	–	–	–	–	–	–	(197,283)	(197,283)
Other comprehensive income for the year	–	–	–	–	–	396	–	6,912	–	7,308
Total comprehensive income for the year	–	–	–	–	–	396	–	6,912	(197,283)	(189,975)
Lapse of share option	–	–	–	(2,451)	–	–	–	–	2,451	–
Recognition of equity component of convertible bond *(note 26)*	–	–	–	–	16,288	–	–	–	–	16,288
Deferred tax liability on recognition of equity component of convertible bond *(note 27)*	–	–	–	–	(1,797)	–	–	–	–	(1,797)
Balance at 31 December 2017 and 1 January 2018	**3,474**	**182,099**	**15,500**	**–**	**14,491**	**(2,325)**	**1,547**	**1,886**	**100,914**	**317,586**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(97,666)**	**(97,666)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**2,510**	**–**	**1,388**	**–**	**3,898**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**2,510**	**–**	**1,388**	**(97,666)**	**(93,768)**
Settlement of the equity component of convertible bond upon early redemption	**–**	**–**	**–**	**–**	**(989)**	**–**	**–**	**–**	**–**	**(989)**
Release of deferred tax liability upon early redemption of convertible bond *(note 27)*	**–**	**–**	**–**	**–**	**1,797**	**–**	**–**	**–**	**–**	**1,797**
Transfer upon derecognition of convertible bond *(note 26)*	**–**	**–**	**–**	**–**	**(15,299)**	**–**	**–**	**–**	**15,299**	**–**
Balance at 31 December 2018	**3,474**	**182,099**	**15,500**	**–**	**–**	**185**	**1,547**	**3,274**	**18,547**	**224,626**

Notes:

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Loss before tax		**(96,346)**	(183,184)
Adjustments for:			
(Reversal of)/provision for inventories		**(997)**	49,849
Impairment loss of trade and other receivables		**1,445**	18,788
Depreciation of property, plant and equipment		**13,740**	34,451
Loss of inventories		**–**	18,785
Finance costs		**27,218**	27,651
Interest income		**(65)**	(704)
Loss/(gain) on written off/disposal of property, plant and equipment		**388**	(30)
Provision for defined benefit obligations		**902**	1,040
Fair value loss on life insurance policies		**179**	–
Fair value loss on redemption of convertible bond		**978**	–
Operating loss before working capital changes		**(52,558)**	(33,354)
Changes in working capital:			
Decrease in inventories		**37,103**	34,112
Decrease/(increase) in trade and other receivables		**17,768**	(27,027)
Increase/(decrease) in trade and other payables		**1,727**	(11,042)
Contribution to defined benefit obligations		**(576)**	(569)
Cash generated from/(used in) operations		**3,464**	(37,880)
Hong Kong Profits Tax refunded		**–**	8,211
Switzerland income tax (paid)/refunded		**(1,469)**	1,694
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES		**1,995**	(27,975)
INVESTING ACTIVITIES			
Additions to property, plant and equipment		**(8,213)**	(6,219)
Pledged bank deposits placed		**(1,039)**	(1,026)
Pledged bank deposits withdrawn		**1,026**	1,022
Repayment from a related party		**–**	50
Proceeds from disposal of property, plant and equipment		**–**	39
Interest received		**65**	59
Deposit paid for proposed acquisition of a subsidiary		**–**	(25,000)
Refund of deposit paid for proposed acquisition of a subsidiary		**25,000**	–
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES		**16,839**	(31,075)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	**2018** **HK$'000**	2017 HK$'000
FINANCING ACTIVITIES	*36*		
Repayment of bank borrowings		**(20,933)**	(70,031)
Interest paid		**(17,403)**	(16,676)
New bank borrowing raised		**19,390**	24,376
Proceeds from issuance of new notes payable		**–**	100,000
Proceeds from issuance of convertible bond		**–**	100,000
Costs of issuing convertible bond paid		**–**	(1,500)
Redemption of convertible bond		**(100,000)**	–
Repayment of notes payable		**(140,000)**	(40,000)
Loan from a related company		**25,000**	–
Loan from a fellow subsidiary		**11,837**	–
Loan from ultimate holding company		**174,900**	–
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES		**(47,209)**	96,169
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(28,375)**	37,119
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		**56,177**	18,272
Effect of foreign exchange rate changes		**1,144**	786
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, represented by bank balances and cash		**28,946**	56,177

1. GENERAL

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

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

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

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

(a) Adoption of new or revised IFRSs — effective 1 January 2018

In the current year, the Group has applied the following new or revised International Financial Reporting Standards issued by the International Accounting Standards Board ("**IASB**") which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2018:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Revenue from Contracts with Customers (Clarifications to IFRS 15)
IFRIC-Interpretation 22	Foreign Currency Transactions and Advance Considerations

Except for the impact of IFRS 9 and IFRS 15 which have been disclosed as below, the adoption of the above new standards, interpretation and amendments to standards did not have any significant financial impact on these consolidated financial statements.

A. IFRS 9 Financial Instruments ("IFRS 9")

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of IFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group.

(i) Classification and measurement of financial instruments

IFRS 9 basically retains the existing requirements in IAS 39 for the classification and measurements of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of IFRS 9 has no material impact on the Group's accounting policies related to financial liabilities. The impact of IFRS 9 on the Group's classification and measurement of financial assets is set out below.

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

(a) Adoption of new or revised IFRSs — effective 1 January 2018 *(Continued)*

A. IFRS 9 Financial Instruments ("IFRS 9") *(Continued)*

(i) Classification and measurement of financial instruments (Continued)

Under IFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with IFRS 15), an entity shall, at initial recognition, measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. A financial asset is classified as: (i) financial asset at amortised cost; (ii) financial asset at fair value through other comprehensive income ("**FVOCI**"); or (iii) financial asset at fair value through profit or loss ("**FVPL**"). The classification of financial assets under IFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "**SPPI criterion**").

A financial asset is measured at amortised cost if both of the following conditions are met and it has not been designated as at FVPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if both of the following conditions are met and it has not been designated as at FVPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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

(a) Adoption of new or revised IFRSs — effective 1 January 2018 *(Continued)*

A. IFRS 9 Financial Instruments ("IFRS 9") *(Continued)*

(i) Classification and measurement of financial instruments (Continued)

The following accounting policies would be applied to the Group's financial assets as follows:

Financial assets at FVPL	Financial assets at FVPL are subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Financial assets at amortised costs	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

(a) The Group's insurance contracts of HK$17,405,000 were previously classified as deposits placed for life insurance policies and measured at amortised cost under IAS 39. Under IFRS 9, as life insurance policies whose cash flow characteristics fail to meet the SPPI criterion. As a result, life insurance policies have been classified and measured as financial assets at FVPL. As at 1 January 2018, the difference between the carrying amount and the fair value of the life insurance policy is immaterial, no transition adjustment against the opening balance of equity at 1 January 2018 was made.

The following table summarises the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under IAS 39	New classification under IFRS 9
Life insurance policies	Loans and receivables	FVPL
Deposit paid for proposed acquisition of a subsidiary	Loans and receivables	Amortised cost
Trade receivables	Loans and receivables	Amortised cost
Other receivables	Loans and receivables	Amortised cost
Pledged bank deposits	Loans and receivables	Amortised cost
Bank balances and cash	Loans and receivables	Amortised cost

The Group's management has assessed and considered there is no significant changes on the carrying amount of the financial assets classified under IAS 39 and IFRS 9 as at 1 January 2018.

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

(a) Adoption of new or revised IFRSs — effective 1 January 2018 *(Continued)*

A. IFRS 9 Financial Instruments ("IFRS 9") *(Continued)*

(ii) Impairment of financial assets

The adoption of IFRS 9 has changed the Group's impairment model by replacing the IAS 39 "incurred loss model" to the "expected credit losses ("**ECL**") model". IFRS 9 requires the Group to recognise ECL for trade receivables, other receivables, pledged bank deposits and bank balances and cash earlier than IAS 39. Pledged bank deposits and bank balances and cash are subject to ECL model but the impairment is assessed to be immaterial.

Under IFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECL: these are the ECL that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECL: these are ECL that result from all possible default events over the expected life of a financial instrument.

Measurement of ECL

ECL are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

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

For other debt financial assets, the ECL are based on the 12-months ECL. The 12-months ECL is the portion of the lifetime ECL that report from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

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

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

The maximum period considered when estimating ECL is the maximum contractual period over which the Group is exposed to credit risk.

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

(a) Adoption of new or revised IFRSs — effective 1 January 2018 *(Continued)*

A. IFRS 9 Financial Instruments ("IFRS 9") *(Continued)*

(ii) Impairment of financial assets (Continued)

Presentation of ECL

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

(a) Impairment of trade receivables

As mentioned above, the Group applies the IFRS 9 simplified approach to measure ECL which adopts a life time ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

After performing the assessment of expected credit loss on the Group's existing trade receivables, no additional expected credit loss allowance was recognised by the Group as at 1 January 2018 as the Group's management has assessed and considered the effect of ECL is insignificant.

(b) Impairment of other receivables

The Group's other receivables are measured at amortised costs and are considered as low credit risk. After performing the assessment of expected credit loss on the Group's existing other receivables, no expected credit loss allowance was recognised by the Group as at 1 January 2018 as the Group's management has assessed and considered the effect of ECL is insignificant.

(iii) Transition

The Group has applied the transitional provision in IFRS 9 such that IFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECL rules are therefore not reflected in the consolidated statement of financial position as at 31 December 2017, but are recognised in the consolidated statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained profits and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 but rather those of IAS 39.

The following assessment has been made on the basis of the facts and circumstances that existed at the date of initial application of IFRS 9:

- The determination of the business model within which a financial asset is held.

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

(a) Adoption of new or revised IFRSs — effective 1 January 2018 *(Continued)*

B. IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. IFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted IFRS 15 using the cumulative effect transition method. The Group has recognised the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained profits at the date of initial application (that is, 1 January 2018) if any. As a result, the financial information presented for 2017 has not been restated.

IFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The Group's management has assessed the impacts of adopting IFRS 15 on the consolidated financial statements and considered the impact on the Group's revenue recognition is insignificant.

Revenue from sales of goods is recognised at a point in time as when the control of the goods has been transferred to the customers and there is no unfulfilling performance obligation after the acceptance of the goods. Maintenance service fee is recognised at a point in time when the relevant services provided to the customers and there is no unfulfilling performance obligation after the services rendering.

Upon the adoption of IFRS 15, if there is any satisfied performance obligation but where the Group does not have an unconditional right to consideration, the Group should recognised a contract asset. If the Group does not satisfied any performance obligation but the Group has an unconditional right to consideration, the Group should recognised contract liabilities. No contract assets and liabilities is recognised upon transition.

Amendments to IFRS 15 — Revenue from Contracts with Customers (Clarifications to IFRS 15)

The amendments to IFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted IFRS 15 and took up the clarifications in this year.

IFRIC-Interpretation 22 — Foreign Currency Transactions and Advance Consideration

The interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The interpretation specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of this interpretation has no impact on the consolidated financial statements as the Group has not paid or received advance consideration in a foreign currency.

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

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

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

IFRS 16	Leases[1]
Amendments to IAS 1 and IAS 8	Definition of Material[2]
IFRIC-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IFRS 3	Definition of a Business[2]
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to IFRS 3, Business Combinations[1]
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to IAS 12, Income Taxes[1]
Annual Improvements to IFRSs 2015–2017 Cycle	Amendments to IAS 23, Borrowing Costs[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020

IFRS 16 — Leases

IFRS 16, which upon the effective date will supersede IAS 17 Leases and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under IFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, IAS 17.

In respect of the lessor accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$8,441,000. The Group does not expect the adoption of IFRS 16 as compared with the current accounting policy would result in a significant impact on the Group's report but it is expected that certain portion of these lease commitments will be required to be recognised in the consolidated statement of financial position as right-of-use assets and lease liabilities.

This new standard is not expected to be applied until the financial year beginning on or after 1 January 2019.

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

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

Amendments to IAS 1 and IAS 8 — Definition of Material

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

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

IFRIC-Int 23 — Uncertainty over Income Tax Treatments

The interpretation supports the requirements of IAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

Under the interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to IFRS 9 — Prepayment Features with Negative Compensation

The amendments clarify that prepayable financial assets with negative compensation can be measured at amortised cost or at fair value through other comprehensive income ("**FVOCI**") if specified conditions are met — instead of at fair value through profit or loss ("**FVPL**").

Amendments to IAS 19 — Plan Amendment, Curtailment or Settlement

The amendments clarify that (a) on amendment, curtailment or settlement of a defined benefit plan, a company should use updated actuarial assumptions to determine its current service cost and net interest for the period; and (b) the effect of the asset ceiling cost is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income.

Amendments to IFRS 3 — Definition of a Business

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

Annual Improvements to IFRSs 2015–2017 Cycle — Amendments to IFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

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

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

Annual Improvements to IFRSs 2015–2017 Cycle — Amendments to IAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Annual Improvements to IFRSs 2015–2017 Cycle — Amendments to IAS 23, Borrowing Costs

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to IAS 23 which clarifies that a borrowing made specifically to obtain a qualifying asset which remains outstanding after the related qualifying asset is ready for its intended use or sale would become part of the funds an entity borrows generally and therefore included in the general pool.

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

3. BASIS OF PREPARATION

3.1 Statement of compliance

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

3.2 Basis of measurement

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

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

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

3.3 Functional and presentation currency

The consolidated financial statements are presented in Hong Kong Dollars ("**HK$**"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("**HK$'000**") unless otherwise stated and may be different from the functional currency of certain group entities, that is, Renminbi ("**RMB**") and Swiss Franc ("**CHF**"). The Group's management has elected to use HK$ as they believe HK$ is the appropriate presentation currency for the users of Group's consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Revenue

(i) Revenue recognition (accounting policies applied from 1 January 2018)

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

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Revenue *(Continued)*

(ii) Revenue recognition (accounting policies applied until 31 December 2017)

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

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

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

Maintenance service income is recognised when services are provided.

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

(c) 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.

(d) Foreign currencies

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Borrowing costs

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

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

(f) Retirement benefit costs

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

(i) Defined contribution plans

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Retirement benefit costs *(Continued)*

(ii) Defined benefit pension plans

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

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

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

Past service costs are recognised immediately in profit or loss.

(g) Short-term and other long-term employee benefits

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) Contributions from employees or third parties to defined benefit plans

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

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

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

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

(i) 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.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Taxation

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

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

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Property, plant and equipment

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

Depreciation is recognised so as to write off the cost of assets (other than freehold land) less their residual values over their estimated useful lives, using the straight-line method, at the following rates per annum:

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%

Freehold land is not depreciated.

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.

(l) Impairment of non-financial assets

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) 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.

(n) Provision and contingent liabilities

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

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

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

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

(o)A Financial instruments (accounting policies applied from 1 January 2018)

(i) Financial assets

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

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

Debt instruments

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o)A Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

(i) Financial assets *(Continued)*

Debt instruments (Continued)

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

(ii) Impairment of financial assets

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o)A Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

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

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

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

(iii) Financial liabilities

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

Financial liabilities at amortised cost

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

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

(iv) Convertible bond

Convertible bond issued by the Group that contain both the liability and conversion option components are classified separately into their respective items on initial recognition. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is classified as an equity instrument.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o)A Financial instruments (accounting policies applied from 1 January 2018) *(Continued)*

(iv) Convertible bond *(Continued)*

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

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

(v) Effective interest method

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

(vi) Equity instruments

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

(vii) Derecognition

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o)B Financial instruments (accounting policies applied before 1 January 2018)

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

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

Financial assets

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

Effective interest method

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

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, deposit paid for proposed acquisition of a subsidiary, life insurance policies, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment losses (see accounting policy on impairment loss on financial assets below).

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

Impairment of financial assets

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o)B Financial instruments (accounting policies applied before 1 January 2018) *(Continued)*

Impairment of financial assets *(Continued)*

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o)B Financial instruments (accounting policies applied before 1 January 2018) *(Continued)*

Equity instruments

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

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

Derivative financial instruments

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

Derecognition

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

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

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

Convertible bonds

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o)B Financial instruments (accounting policies applied before 1 January 2018) *(Continued)*

Convertible bonds *(Continued)*

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

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

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

(p) Segment reporting

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

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

The segment revenue, results, assets and liabilities are therefore the same as the respective amounts presented in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position.

(q) Share capital and share premium

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Cash and cash equivalents

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

(s) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

Fair value measurement

Certain assets included in the Group's financial statements require measurement at, and/or disclosure of, fair value. The fair value measurement of the Group's financial assets utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

— Level 1: unadjusted quoted prices in active markets for identical assets or liabilities;

— Level 2: observable inputs other than quoted prices included within Level 1; and

— Level 3: unobservable inputs are inputs for which market data are not available.

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures the life insurance policies (note 16) at fair value.

For more detailed information in relation to the fair value measurement of the item above, please refer to the note 16 to the consolidated financial statements.

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

Estimated impairment of non-current assets

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of non-current assets. Where an impairment indication exists, the recoverable amount of the asset is determined. The calculation of the fair value less cost of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. If there is no binding sale agreement or active market for that asset (or asset group), management will make reference to the best information available to reflect the amount that an entity could obtain at the end of the reporting period.

Estimated allowance of trade and other receivables

Accounting estimate before 1 January 2018

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other receivables. The determination of allowance for doubtful debts take into accounts the history of default or delay in payments, settlement records, subsequent settlement and aging analysis of trades receivable.

Accounting estimate from 1 January 2018

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

Estimated provision for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of slow-moving stock and obsolete inventories requires the use of judgement and estimates on the conditions and usefulness of the inventories. Estimation of the net realisable of inventories value takes into account the selling prices, movements, conditions, ageing analysis and subsequent usage of the relevant inventories.

Income taxes and deferred taxation

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

6. 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 revenue of the Group are recognised at point in time.

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

Geographical information

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

	Revenue from external customers	
	2018	2017
	HK$'000	HK$'000
The PRC	**149,623**	193,401
Hong Kong and Macau	**8,539**	10,692
Southeast Asia	**12,568**	17,992
Others	**1,076**	5,120
	171,806	227,205

	Non-current assets	
	2018	2017
	HK$'000	HK$'000
PRC	**5,847**	9,243
Hong Kong	**3,077**	4,648
Switzerland	**29,020**	30,325
	37,944	44,216

Information about major customers

During the year, there is no revenue from customers contributing over 10% of the total sales of the Group (2017: Nil).

7. OTHER GAINS AND LOSSES, NET

	2018 HK$'000	2017 HK$'000
Exchange (loss)/gain, net	**(10,903)**	16,085
(Loss)/gain on written off/disposal of property, plant and equipment	**(388)**	30
Impairment loss of trade and other receivables	**(1,445)**	(18,788)
Fair value loss on redemption of the convertible bond	**(978)**	–
Provision for claims of an ex-director	**–**	(4,331)
Loss of inventories	**–**	(18,785)
Fair value loss on life insurance policies	**(179)**	–
	(13,893)	(25,789)

8. OTHER INCOME

	2018 HK$'000	2017 HK$'000
Interest income on life insurance policies	**–**	645
Bank interest income	**65**	59
Maintenance service income	**86**	119
Sundry income	**99**	36
	250	859

9. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest charged on:		
Bank borrowings	**421**	513
Notes payable *(note 25)*	**8,478**	9,680
Liability component of convertible bond *(note 26)*	**16,565**	17,458
Loan from a related company	**141**	–
Loan from a fellow subsidiary	**67**	–
Loan from ultimate holding company	**1,546**	–
	27,218	27,651

10. LOSS BEFORE TAX

	2018 HK$'000	2017 HK$'000
Loss before tax has been arrived at after charging/(crediting):		
Auditor's remuneration	730	1,260
Impairment loss of trade and other receivables *(note 19)*	1,445	18,788
Cost of inventories recognised as expenses, including:	95,874	179,099
— (Reversal of)/provision for inventories	(997)	49,849
Depreciation of property, plant and equipment *(note 15)*	13,740	34,451
Provision for claims from a distributor	–	1,727
Staff costs (including directors' emoluments):		
— Salaries and other benefits	63,179	54,660
— Retirement benefits scheme contributions	4,676	4,722
Total staff costs	67,855	59,382
Operating lease rental in respect of rented premises	8,244	18,165

Note: Cost of inventories sold includes HK$32,351,000 (2017: HK$33,592,000) relating to staff costs and depreciation expenses, which amount is also included in respective total amounts disclosed separately for each of these types of expenses in note 10 above.

11. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Current tax:		
Hong Kong Profits Tax *(note i)*	**–**	–
Switzerland Income Tax *(note ii)*	**1,488**	257
PRC Enterprise Income Tax *(note iii)*	**–**	–
	1,488	257
Over-provision in prior years:		
Switzerland Income Tax	**–**	(1,915)
Deferred tax charge *(note 27)*	**(168)**	15,757
Income tax expense for the year	**1,320**	14,099

Notes:

(i) Hong Kong

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

(ii) Switzerland

Switzerland Income Tax is calculated at certain tax rates on the assessable income for both years. Under the relevant Tax Laws in Switzerland, the Group's subsidiaries incorporated in Switzerland were subjected to Direct Federal Tax ("**DFT**") of 8.5% (2017: 8.5%) and Cantonal Communal Tax ("**CCT**") calculated at 16.18% (2017: 16.37%).

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

(iii) PRC

Under the laws of PRC on Enterprise Income Tax (The "**EIT Law**") and Implementation Regulation of EIT Law, the tax rate of PRC subsidiary is 25% (2017: 25%). No provision for Enterprise Income Tax has been made for both years as the Group has no assessable profits arising in the PRC.

11. INCOME TAX EXPENSE *(Continued)*

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

	2018 **HK$'000**	2017 HK$'000
Loss before tax	**(96,346)**	(183,184)
Tax at the rates applicable to tax jurisdictions concerned	**(17,386)**	(34,077)
Tax effect of income not taxable for tax purpose	**(232)**	(3,165)
Tax effect of expenses not deductible for tax purpose	**2,251**	4,562
Tax effect of tax losses not recognised	**16,506**	31,052
Tax effect of temporary differences not recognised	**181**	17,642
Over-provision in prior years	**–**	(1,915)
Income tax expense for the year	**1,320**	14,099

12. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS

a. Directors

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

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

12. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

a. Directors *(Continued)*

	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefits scheme contributions HK$'000	Total emoluments HK$'000
For the year ended 31 December 2017				
Executive Directors				
Ms. Liu Libing *(note viii)*	346	282	18	646
Mr. Sit Yau Chiu	–	1,300	18	1,318
Mr. Xiong Wei	–	1,300	18	1,318
Non-executive Directors				
Mr. Chan Kwan Pak, Gilbert	50	–	–	50
Mr. Pan Di *(note ix)*	28	–	–	28
Ms. Lou Liuqing	50	–	–	50
Independent non-executive Directors				
Mr. Lo Chi Chiu *(note x)*	98	–	–	98
Ms. Chan Lai Wa *(note xi)*	3	–	–	3
Mr. Lui Wai Ming *(note xii)*	22	–	–	22
Mr. Choi Tze Kit, Sammy *(note xiii)*	70	–	–	70
Mr. To Chun Kei	120	–	–	120
	787	2,882	54	3,723

Notes:

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

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

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

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

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

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

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

viii. Ms. Liu Libing retired as an executive after the conclusion of the Company's AGM on 26 May 2017.

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

x. Mr. Lo Chi Chiu resigned as an independent non-executive director of the Company with effect from 22 December 2017.

xi. Ms. Chan Lai Wa was appointed as an independent non-executive director of the Company with effect from 22 December 2017.

xii. Mr. Lui Wai Ming was appointed as an independent non-executive director of the Company with effect from 27 October 2017.

xiii. Mr. Choi Tze Kit, Sammy resigned as an independent non-executive director with effect from 1 August 2017.

12. DIRECTORS' EMOLUMENTS AND FIVE HIGHEST PAID INDIVIDUALS *(Continued)*

b. Five highest paid individuals

The five highest paid employees of the Group during the year included one (2017: two) director(s) of the Company, details of whose emoluments are set out in the disclosures above. Details of the remuneration for the year of the remaining four (2017: three) highest paid employees who are neither a director of the Company are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**6,754**	4,876
Retirement benefits scheme contributions	**130**	111
	6,884	4,987

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:

	2018 No. of individuals	2017 No. of individuals
HK$1,000,001–HK$1,500,000	**2**	1
HK$1,500,001–HK$2,000,000	**1**	1
HK$2,000,001–HK$3,000,000	**1**	1

There is no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: nil).

No emolument was paid by the Group to the directors or the four (2017: three) highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2017: nil).

13. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

14. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year ended 31 December 2018 is based on the loss attributable to the owners of the Company of HK$97,666,000 (2017: HK$197,283,000) and on the weighted average number of 347,437,000 (2017: 347,437,000) ordinary shares in issue during the year.

Diluted loss per share amount for the year ended 31 December 2017 were not presented because the impact of the exercise of the convertible bonds was anti-dilutive. Potential ordinary shares are dilutive when and only when their conversion into ordinary shares would increase loss per share attributable to owners of the Company.

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

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land and building outside Hong Kong	Leasehold improvement	Furniture, fixtures and equipment	Machinery	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST						
At 1 January 2017	36,403	9,512	187,293	4,930	940	239,078
Additions	–	92	5,413	–	727	6,232
Disposals	–	–	(27,132)	–	(323)	(27,455)
Exchange realignment	1,781	181	584	214	50	2,810
At 31 December 2017 and 1 January 2018	**38,184**	**9,785**	**166,158**	**5,144**	**1,394**	**220,665**
Additions	**–**	**–**	**7,715**	**498**	**–**	**8,213**
Written off	**–**	**(2,209)**	**(40,934)**	**–**	**–**	**(43,143)**
Exchange realignment	**(293)**	**(28)**	**(301)**	**(37)**	**(34)**	**(693)**
At 31 December 2018	**37,891**	**7,548**	**132,638**	**5,605**	**1,360**	**185,042**
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2017	8,266	4,058	151,214	3,783	793	168,114
Provided for the year	1,261	1,140	31,465	342	243	34,451
Eliminated on disposal	–	–	(27,123)	–	(323)	(27,446)
Exchange realignment	451	112	554	170	43	1,330
At 31 December 2017 and 1 January 2018	**9,978**	**5,310**	**156,110**	**4,295**	**756**	**176,449**
Provided for the year	**1,124**	**1,111**	**10,980**	**307**	**218**	**13,740**
Eliminated on written off	**–**	**(1,959)**	**(40,796)**	**–**	**–**	**(42,755)**
Exchange realignment	**(88)**	**(22)**	**(164)**	**(30)**	**(32)**	**(336)**
At 31 December 2018	**11,014**	**4,440**	**126,130**	**4,572**	**942**	**147,098**
NET BOOK VALUE						
At 31 December 2018	**26,877**	**3,108**	**6,508**	**1,033**	**418**	**37,944**
At 31 December 2017	28,206	4,475	10,048	849	638	44,216

16. LIFE INSURANCE POLICIES

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

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

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

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

As at 31 December 2018 and 2017, all life insurance policies were pledged to a bank to secure general banking facilities granted to the Group.

The deposits placed for life insurance policies were reclassified to financial assets at fair value through profit or loss upon the initial application of IFRS 9 on 1 January 2018 as disclosed in note 2(a)A. The change of fair value loss of HK$179,000 has been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018.

17. DEPOSIT PAID FOR PROPOSED ACQUISITION OF A SUBSIDIARY

On 10 May 2017, the Company entered into a non-legally binding memorandum of understanding ("**MOU**") with Mr. Sit Yau Chiu ("**Mr. Sit**"), the then substantial shareholder and the then executive director of the Company for a proposed acquisition of entire equity interest in Top Win International Trading Limited (the "**Proposed Acquisition**"), a company wholly-owned by Mr. Sit. The total consideration of the Proposed Acquisition was expected to be HK$50,000,000. On 30 November 2017, Swissmount Holdings Limited ("**Swissmount**"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement ("**SPA**") with Mr. Sit, pursuant to which Swissmount conditionally agreed to acquire and Mr. Sit conditionally agreed to sell the entire issued share capital of Top Win International Trading Limited at a consideration of HK$50,000,000. As at 31 December 2017, a deposit of HK$25,000,000 had been paid by the Group to Mr. Sit and included in the non-current assets of the Group. The deposit paid shall be applied to settle part of the consideration for the Proposed Acquisition and the remaining balance of consideration shall be settled upon completion. On 22 March 2018, a supplemental sale and purchase agreement was entered into by Swissmount with Mr. Sit to amend certain terms of the SPA.

The Proposed Acquisition constituted a major and connected transaction under the Listing Rules, which subject to approval by the independent shareholders. The resolution in relation to the Proposed Acquisition was voted down by the independent shareholders at an extraordinary general meeting held on 17 April 2018. As such, the SPA cease to be of any effect on 30 April 2018 (being the long stop date of the SPA) and the Proposed Acquisition was terminated accordingly.

The deposit of HK$25,000,000 has been fully refunded to the Group during the year ended 31 December 2018.

18. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials	182,501	199,803
Work-in-progress	59,481	80,607
Finished goods	124,136	121,814
	366,118	402,224

19. TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables, gross	75,329	92,619
Less: impairment loss allowance	(20,611)	(20,216)
Trade receivables, net	54,718	72,403
Other receivables	901	1,426
Other tax recoverable	1,308	1,847
Prepayments	2,296	2,715
Deposits	3,133	3,178
	7,638	9,166
Total trade and other receivables	62,356	81,569

Included in the trade receivables, amounts of HK$513,000 (2017: Nil) are due from the fellow subsidiaries of the Company.

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

	2018 HK$'000	2017 HK$'000
0–90 days	41,702	42,177
91–180 days	9,932	28,557
181–270 days	1,958	1,068
Over 270 days	1,126	601
	54,718	72,403

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

19. TRADE AND OTHER RECEIVABLES *(Continued)*

Ageing of trade receivables by due date is as follows:

	2018 HK$'000	2017 HK$'000
Neither past due nor impaired	**35,167**	20,295
Overdue for		
Within 90 days	**14,287**	41,670
91–180 days	**3,362**	8,670
Over 180 days	**1,902**	1,768
	19,551	52,108
	54,718	72,403

Movement in the impairment loss allowance for trade receivables

	2018 HK$'000	2017 HK$'000
Balance at beginning of the year	**20,216**	725
Impairment losses allowance recognised	**1,445**	18,788
Exchange realignment	**(1,050)**	703
Balance at the end of the year	**20,611**	20,216

Included in the impairment loss allowance are individually impaired trade receivables with an aggregate credit impaired balance of HK$20,545,000 (2017: HK$20,216,000) which has been fully impaired and expected credit loss allowance of HK$66,000 as at 31 December 2018. The Group does not hold any collateral over these balances. The details ECL assessment is stated in note 31 to the consolidated financial statements.

20. PLEDGED BANK DEPOSITS, BANK BALANCES AND CASH

Pledged bank deposits, included in current assets, carried interest of 2% (2017: 0.75%) per annum at 31 December 2018. The bank deposits are pledged to secure the short term banking facilities granted to the Group.

Bank balances carried market interest rate in the range of 0.01% to 0.3% (2017: 0.01% to 0.3%) per annum at 31 December 2018.

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:

	2018 HK$'000	2017 HK$'000
Denominated in USD	4	83
Denominated in RMB	741	4,568
Denominated in CHF	52	75

Included in cash and bank balances of the Group are the amount of approximately HK$21,653,000 (2017: HK$9,290,000) denominated in RMB which are placed with the banks in the PRC. RMB is not freely convertible into other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB into foreign currencies through the banks authorised to conduct foreign exchange business.

21. TRADE AND OTHER PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	8,098	8,579
Other payables	3,575	6,232
Accruals	28,983	24,430
Contract liabilities arising from sales of goods	312	–
	40,968	39,241

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

	2018 HK$'000	2017 HK$'000
1–30 days	2,747	3,849
31–60 days	4,437	3,835
Over 60 days	914	895
	8,098	8,579

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

21. TRADE AND OTHER PAYABLES *(Continued)*

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

	2018	2017
	HK$'000	HK$'000
Denominated in USD	**214**	356
Denominated in CHF	**1**	26

Included in accruals was an aggregate amount of HK$ Nil (2017: HK$3,215,000) for accrued interests on the notes payable and convertible bond, respectively, at 31 December 2018.

Movement of contract liabilities

	2018
	HK$'000
Balance as at 1 January	**–**
Increase in contract liabilities as receipt in advance from customers	**312**
Balance as at 31 December	**312**

22. AMOUNTS DUE TO A RELATED COMPANY, A FELLOW SUBSIDIARY AND ULTIMATE HOLDING COMPANY

At 31 December 2018, amounts due to a related company, a fellow subsidiary and ultimate holding company were unsecured, interest-free and repayable on demand except for the followings:

— Amount due to a related company of principal amount of HK$25,000,000 was unsecured, interest bearing at 5% per annum and repayable on 28 January 2019. The related company is an associate of the ultimate holding company.

— Amount due to a fellow subsidiary of principal amount of RMB10,000,000 (equivalent to HK$11,386,000) was unsecured, interest bearing at 6% per annum and repayable on 5 December 2019.

— Amount due to ultimate holding company of principal amount of HK$174,900,000 was unsecured, interest bearing at 5% per annum and repayable on 31 December 2019.

23. RETIREMENT BENEFIT SCHEME

Hong Kong

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

People's Republic of China

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

Switzerland

Defined benefit scheme

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

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

Investment risk	The present value of the defined benefit obligations is calculated using a discount rate determined by reference to high quality corporate bond yields; if the return on plan asset is below this rate, it will create a plan deficit. Due to the long-term nature of the plan liabilities, the board of the pension fund may consider it appropriate that a reasonable portion of the plan assets should be invested in equity securities and in real estate to leverage the return generated by the fund.
Interest risk	A decrease in the bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the Plan's debt investments.
Longevity risk	The present value of the defined benefit obligations is calculated by reference to the best estimate of the mortality of Scheme participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.
Salary risk	The present value of the defined benefit obligations is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The valuations of the plan assets and the present value of the defined benefit obligations were estimated by the directors with reference to the actuarial valuation carried out at 31 December 2018 and 2017 by Swiss Life Pension Services AG, an independent qualified professional actuary and a member of the Swiss Associate of Actuaries in Switzerland. The present value of the defined benefit obligations and the related current service cost were measured using the projected unit credit method.

23. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

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

	2018	2017
Price inflation	**0.50%**	0.50%
Discount rate	**1.00%**	0.70%
Long term rate of return on plan assets	**1.40%**	1.40%
Expected rate of salary increase	**0.50%**	0.50%
Average longevity at retirement age for current pensioners and employees	**50.8**	50.3

The actuarial valuation showed that the market value of plan assets was HK$11,568,000 (2017: HK$9,447,000) at 31 December 2018 and that the actuarial value of these assets represented 84% (2017: 66%) of the benefits that had accrued to members. The shortfall of HK$2,137,000 (2017: HK$4,973,000) is to be cleared over the estimated remaining service period of 10.9 years (2017: 10.5 years).

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

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

	2018 HK$'000	2017 HK$'000
Service costs:		
Current service cost	**871**	1,008
Past service cost	**(18)**	–
Net interest expense	**36**	35
Components of defined benefit cost recognised in profit or loss	**889**	1,043
Remeasurement on the net defined benefit obligations:		
Return on plan assets (excluding amounts included in net interest expense)	**(2,272)**	(45)
Actuarial gains arising from experience adjustments	**(866)**	(449)
Deferred tax arising on remeasurement of the net defined benefit liability *(note 27)*	**628**	98
Components of defined benefit income recognised in other comprehensive income	**(2,510)**	(396)
Total	**(1,621)**	647

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

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

23. 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:

	2018 HK$'000	2017 HK$'000
Present value of defined benefit obligations	13,705	14,420
Fair value of plan assets	(11,568)	(9,447)
Net liability arising from defined benefit obligations	2,137	4,973

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

	2018 HK$'000	2017 HK$'000
Opening present value of defined benefit obligations	14,420	13,710
Current service cost	871	1,008
Past service cost	(18)	–
Interest cost	102	100
Remeasurement gains:		
Actuarial gains arising from experience adjustments	(866)	(449)
Benefits paid	(1,894)	(1,240)
Contribution paid by plan participants	1,195	569
Exchange differences on foreign plans	(105)	722
Closing present value of defined benefit obligations	13,705	14,420

23. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

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

	2018 HK$'000	2017 HK$'000
Opening fair value of plan assets	9,447	8,966
Interest income	66	65
Remeasurement gains:		
Return on plan assets (excluding amounts included in net interest expense)	2,272	45
Contributions from employers	576	569
Benefits paid	(1,894)	(1,240)
Contributions paid by plan participants	576	569
Contributions paid by employees	619	–
Exchange differences on foreign plans	(94)	473
Closing fair value of plan assets	11,568	9,447

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

	2018 HK$'000	2017 HK$'000
Fixed interest, cash and cash equivalents and time deposits	7,689	6,279
Real estate	1,894	1,547
Mortgages and other claims	891	728
Others	1,094	893
	11,568	9,447

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

23. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

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

- If the discount rate is 0.5% higher/(lower), the defined benefit obligations would decrease by approximately HK$1,312,000 (2017: HK$1,454,000) (increase by approximately HK$1,579,000 (2017: HK$1,740,000)).

- If the expected salary growth increases/(decreases) by 0.5%, the defined benefit obligations would increase by approximately HK$1,492,000 (2017: HK$168,000) (decrease by approximately HK$1,381,000 (2017: HK$199,000)).

- If the life expectancy increases/(decreases) by 1 year, the defined benefit obligations would increase by approximately HK$1,452,000 (2017:HK$226,000) (decrease by approximately HK$1,417,000 (2017: HK$234,000)).

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

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

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

The average duration of the defined benefit obligation at 31 December 2018 is 22.4 years (2017: 22.1 years).

The Group expects to make a contribution of HK$819,000 to the defined benefit plan during the next financial year ending 31 December 2019.

23. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

The following are the expected contribution by the Group to the defined benefit plan in future years:

	2018 **HK$'000**	2017 HK$'000
Within the next 12 months (next annual reporting period)	**819**	1,079
Between 2 to 5 years	**2,900**	3,079
Between 5 to 10 years	**3,438**	3,547
	7,157	7,705

24. BANK BORROWINGS

	2018 **HK$'000**	2017 HK$'000
Bank loans, secured	**3,866**	3,866
Import trade loans, secured	**6,182**	7,725
	10,048	11,591
The borrowing repayable based on scheduled repayment date set out in the loan agreements, are as follows:		
Within one year	**10,048**	11,591

	2018 **HK$'000**	2017 HK$'000
The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	**10,048**	11,591

24. BANK BORROWINGS *(Continued)*

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

	2018	2017
	HK$'000	HK$'000
Variable-rate borrowings	**10,048**	11,591

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

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

	2018	2017
Effective interest rate:		
Variable-rate borrowings	**3.56% to 4.96%**	3.24% to 3.82%

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

25. NOTES PAYABLE

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

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

25. NOTES PAYABLE *(Continued)*

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

In accordance with the note instrument and a supplemental agreement dated 18 September 2017 both entered into between the Company, Mr. Sit, and the holder of 2016 Note and 2017 Note, the Company is required to maintain a financial indebtedness which, individually does not exceed HK$3,000,000, or in aggregate does not exceed HK$25,000,000. As at 31 December 2017, the bank loans of the Company individually does not exceed HK$3,000,000 and in aggregate amounted to HK$11,591,000.

As at 31 December 2017, the aggregate principal amount of the two notes amounted to HK$140,000,000. At 31 December 2017, all the covenants of the two notes were complied with. The outstanding 2016 Note was fully repaid upon mature and the entire 2017 Note was early redeemed in November 2018.

The movement of the two notes payable for the year ended 31 December 2018 and 2017 are set out below:

	2018 HK$'000	2017 HK$'000
At 1 January	**140,000**	80,000
Proceeds from issuing of 2017 Note	**–**	100,000
Repayment	**(140,000)**	(40,000)
At 31 December	**–**	140,000
Comprising:		
2016 Note	**–**	40,000
2017 Note	**–**	100,000

26. CONVERTIBLE BOND

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

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

26. CONVERTIBLE BOND *(Continued)*

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

	Liability component HK$'000	Equity component HK$'000	Total HK$'000
Fair value at issue date on 11 January 2017	83,464	16,536	100,000
Issuing costs	(1,252)	(248)	(1,500)
Deferred tax liability on recognition of equity component of convertible bonds *(note 27)*	–	(1,797)	(1,797)
Interest amortised and charged to profit or loss *(note 9)*	17,458	–	17,458
Interest paid	(7,479)	–	(7,479)
At 31 December 2017	92,191	14,491	106,682
Less: Amount due within one year *(note)*	(2,219)	N/A	N/A
Amount due after one year	89,972	N/A	N/A

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

Note: The amount represented interest payable which is included in accruals (note 21) for the year ended 31 December 2017.

During the year ended 31 December 2018, the Group redeemed the convertible bonds early at their principal amount of HK$100,000,000 and a fair value loss of approximately HK$978,000 from early redemption has been recognised in the profit or loss (2017: Nil).

27. DEFERRED TAXATION

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

	Accelerated tax depreciation	Defined benefit pension scheme	Convertible bond	Unrealised profit	Others	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	(553)	944	–	8,449	(12,493)	(3,653)
(Charged)/credited to profit or loss *(note 11)*	16	94	–	(8,449)	(7,418)	(15,757)
Debit to equity component of convertible bond *(note 26)*	–	–	(1,797)	–	–	(1,797)
Debit to actuarial gain and loss reserve *(note 23)*	–	(98)	–	–	–	(98)
Exchange realignment	(29)	50	–	–	(637)	(616)
At 31 December 2017 and 1 January 2018	**(566)**	**990**	**(1,797)**	**–**	**(20,548)**	**(21,921)**
Credited to profit or loss *(note 11)*	**48**	**62**	**–**	**–**	**58**	**168**
Release upon early redemption of convertible bond *(note 26)*	**–**	**–**	**1,797**	**–**	**–**	**1,797**
Debit to actuarial gain and loss reserve *(note 23)*	**–**	**(628)**	**–**	**–**	**–**	**(628)**
Exchange realignment	**3**	**(2)**	**–**	**–**	**115**	**116**
At 31 December 2018	**(515)**	**422**	**–**	**–**	**(20,375)**	**(20,468)**

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:

	2018	2017
	HK$'000	HK$'000
Deferred tax assets	**–**	–
Deferred tax liabilities	**(20,468)**	(21,921)
	(20,468)	(21,921)

27. DEFERRED TAXATION *(Continued)*

At the end of the reporting period, the Group has deductible temporary differences of HK$Nil (2017: HK$70,017,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such deductible temporary differences of HK$37,997,000 (2017: HK$43,662,000) which were associated with unrealised profit generated on intra-group transactions as it is uncertain whether future taxable profit will be available against which these deductible temporary difference can be utilised.

At the end of the reporting period, the Group has unutilised tax losses of HK$393,392,000 (2017: HK$293,356,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unutilised tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$52,053,000 (2017: HK$75,032,000) that will expire during the period from 2020 to 2023 (2017: 2020 to 2022). Other losses may be carried forward indefinitely.

The aggregate amount of temporary differences associated with the undistributed earnings of subsidiaries as at year ended 31 December 2018 was HK$160,808,000 (2017: HK$157,133,000). No deferred tax liability has been recognised in respect of these temporary differences because the Group is in a position to control the timing of the reversal of these temporary differences and it is probable that such differences will not reverse in the foreseeable future.

28. CAPITAL AND RESERVES

(i) Share capital

	Number of ordinary shares	Par value	Share capital
	'000	HK$	HK$'000
Authorised:			
Balance at 1 January 2017, 31 December 2017 and 31 December 2018	10,000,000	0.01	100,000
Issued and fully paid:			
Balance at 1 January 2017, 31 December 2017 and 31 December 2018	347,437	0.01	3,474

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

28. CAPITAL AND RESERVES *(Continued)*

(ii) Reserves

The Group

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

The Company

	Share premium HK$'000	Convertible bond equity reserve HK$'000	Share options reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2017	182,099	–	2,451	26,632	211,182
Total comprehensive income for the year	–	–	–	(41,906)	(41,906)
Lapse of share option	–	–	(2,451)	2,451	–
Recognition of equity component of convertible bond *(note 26)*	–	16,288	–	–	16,288
Deferred tax liability on recognition of equity component of convertible bond *(note 26)*	–	(1,797)	–	–	(1,797)
At 31 December 2017	182,099	14,491	–	(12,823)	183,767
Total comprehensive income for the year	**–**	**–**	**–**	**(53,209)**	**(53,209)**
Settlement of the equity component of convertible bond upon early redemption	**–**	**(989)**	**–**	**–**	**(989)**
Release of deferred tax liabilities upon redemption of convertible bond *(note 27)*	**–**	**1,797**	**–**	**–**	**1,797**
Transfer upon derecognition of convertible bond *(note 26)*	**–**	**(15,299)**	**–**	**15,299**	**–**
At 31 December 2018	**182,099**	**–**	**–**	**(50,733)**	**131,366**

29. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

ASSETS AND LIABILITIES	*Note*	**2018 HK$'000**	2017 HK$'000
NON-CURRENT ASSETS			
Investment in a subsidiary	*38*	**32,641**	32,641
Amount due from a subsidiary		**269,359**	292,525
Deposit paid for proposed acquisition of a subsidiary		**–**	25,000
		302,000	350,166
CURRENT ASSETS			
Other receivables		**36**	199
Amounts due from subsidiaries		**37,556**	37,545
Bank balances and cash		**1,129**	36,379
		38,721	74,123
CURRENT LIABILITIES			
Other payable		**4,293**	5,278
Amount due to a subsidiary		**1**	1
Amount due to a related company		**25,141**	–
Amount due to a shareholder		**176,446**	–
		205,881	5,279
NET CURRENT (LIABILITIES)/ASSETS		**(167,160)**	68,844
TOTAL ASSETS LESS CURRENT LIABILITIES		**134,840**	419,010
NON-CURRENT LIABILITIES			
Notes payable		**–**	140,000
Convertible bond		**–**	89,972
Deferred tax liabilities		**–**	1,797
		–	231,769
NET ASSETS		**134,840**	187,241
EQUITY			
Share capital	*28*	**3,474**	3,474
Reserves	*28*	**131,366**	183,767
TOTAL EQUITY		**134,840**	187,241

Approved and authorised for issued by the board of directors on 29 March 2019 and signed on its behalf by:

Shang Jianguang	**Teguh Halim**
Director	*Director*

30. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes bank borrowings, notes payable and convertible bond disclosed in notes 24, 25 and 26 respectively, net of cash and cash equivalents, and equity comprising issued share capital and reserves.

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

31. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 **HK$'000**	2017 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**–**	148,437
Fair value through profit or loss	**17,226**	–
Amortised cost	**85,604**	–
Financial liabilities		
Amortised cost	**231,176**	255,170

31. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies

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

Market risk

(i) Foreign currency risk

The Group undertakes certain transactions denominated in foreign currencies, which expose the Group to foreign currency risk. 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**	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Third parties				
RMB	**2,590**	3,591	**741**	4,972
USD	**282**	4,294	**17,230**	17,488
Intra-group balances				
RMB	**–**	–	**147,219**	179,420
CHF	**66,362**	41,303	**83,427**	77,457

31. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Foreign currency risk (Continued)

Sensitivity analysis

The following table indicates the approximate change in the Group's loss for the year in response to reasonably possible change in the exchange rate of the functional currency of each group entity against USD and RMB. 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 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% (2017: 5%) and 10% (2017: 10%) increase or decrease in the functional currency of each group entity against RMB to which the Group has significant exposure at the end of reporting period. A negative/positive number below indicates an increase/decrease in loss where the functional currency of the relevant group entity strengthens 5% (2017: 5%) against RMB. For a 5% (2017: 5%) weakening of the functional currency of the relevant group entity against RMB, there would be an equal and opposite impact on the loss.

A sensitivity rate of 5% (2017: 5%) on RMB represents management's assessment of the reasonably possible change in foreign currency exchange rates.

	RMB impact	
	2018 Increase/ (decrease) in loss HK$'000	2017 (Decrease)/ increase in loss HK$'000
Increase in foreign exchange rate	**77**	(58)
Decrease in foreign exchange rate	**(77)**	58

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% (2017: 5%) and 10% (2017: 10%) increase or decrease in the functional currency of each group entity against RMB and CHF respectively to which the Group has significant exposure at the end of the reporting period. A negative number below indicates an increase in loss where the functional currency of the relevant group entity strengthens 5% (2017: 5%) against RMB and 10% (2017: 10%) against CHF. For a 5% (2017: 5%) weakening of the functional currency of the relevant group entity against RMB and 10% (2017: 10%) against CHF, there would be an equal and opposite impact on the loss.

31. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Foreign currency risk (Continued)

Sensitivity analysis (Continued)

A sensitivity rate of 5% (2017: 5%) on RMB and 10% (2017: 10%) on CHF represents management's assessment of the reasonably possible change in foreign currency exchange rates.

	RMB impact		CHF impact	
	2018 (Decrease)/ increase in loss HK$'000	2017 (Decrease)/ increase in loss HK$'000	**2018 (Decrease)/ increase in loss HK$'000**	2017 (Decrease)/ increase in loss HK$'000
Increase in foreign exchange rate	**(6,146)**	(7,491)	**(1,425)**	(6,468)
Decrease in foreign exchange rate	**6,146**	7,491	**1,425**	6,468

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

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate other borrowing and notes payable (see notes 24 and 25 for details).

The Group is also exposed to cash flow interest rate risk due to fluctuations in the prevailing market interest rate on bank balances and variable-rate bank borrowings. (see notes 20 and 24 for details). The Group's cash flow interest rate risk mainly concentrates on the fluctuation of HIBOR and LIBOR arising from the Group's Hong Kong dollar denominated borrowings. The management considers the exposure to interest rate risk in relation to bank balances is insignificant due to the present low interest rate situation. The Group currently does not use any derivative contract to hedge its exposure to interest rate risk. However, the management of the Group, will consider hedging significant interest rate exposure should the need arise.

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 (2017: 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 (2017: 100 basis point) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2018 would (decrease)/increase by HK$166,000 (2017: HK$381,000).

31. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

As at 31 December 2018, 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 life insurance policies, trade and other receivables, pledged bank deposits and bank balances.

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

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

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

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

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

The credit risk on 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. No impairment had been provided under 12-month expected credit loss assessment.

For the trade receivables, the Group carries out regular review on these balances and follow-up action on any overdue amounts to minimise exposures to credit risk. The Group measures the lifetime expected credit losses based on the outstanding balances and historical credit loss experience adjusted to reflect the Group's view of current and forecast economic conditions that may affect the ability of the debtors to settle receivables. Amounted to HK$66,000 impairment allowance had been provided under expected credit loss assessment which calculated using simplified approach according to the ageing by past due disclose in note 19.

31. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

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

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

For the other receivables balances mainly comprise of rental deposits. Management considers rental deposits do not have significant credit risk since the deposits are refundable from landlords upon end of lease term or recoverable by the Group through using the leased property. No impairment had been provided under 12-month expected credit loss assessment.

For the year ended 31 December 2018, the Group has concentration of credit risk as 36.6% and 15% (2017: 32.5% and 17%) of the total trade receivables due from the Group's five largest and largest trade customers.

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

31. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk

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

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

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

	Weighted average effective interest rate %	Repayable on demand or less than 3 months HK$'000	3 months to 1 year HK$'000	1 year to 2 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2018						
Non-derivative financial liabilities						
Trade and other payables	–	8,070	28	–	8,098	8,098
Variable interest rate bank borrowings *(note)*	4.26	10,048	–	–	10,048	10,048
Amount due to a related company	5	25,238	–	–	25,238	25,141
Amount due to a fellow subsidiary	6	–	12,081	–	12,081	11,443
Amount due to ultimate holding company	5	–	185,268	–	185,268	176,446
		43,356	197,377	–	240,733	231,176
At 31 December 2017						
Non-derivative financial liabilities						
Trade and other payables	–	8,203	376	–	8,579	8,579
Fixed interest rate other borrowing	–	–	–	–	–	–
Variable interest rate bank borrowings *(note)*	3.05	11,591	–	–	11,591	11,591
Notes payable	8.93	3,082	48,705	106,055	157,842	140,000
Liability component of convertible bond	21.10	4,878	14,906	100,566	120,350	89,972
		27,754	63,987	206,621	298,362	250,142

Note: Bank loans with a repayment on demand clause are included in the repayable on demand or less than 3 months' time band category in the above maturity analysis. At 31 December 2018, the aggregate undiscounted principal amounts of these bank loans amounted to HK$10,048,000 (2017: HK$11,591,000). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such bank loans will be repaid by monthly instalments which will be wholly repayable in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK$10,210,000 (2017: HK$11,688,000).

31. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

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

	Less than 3 months HK$'000	3 months to 1 year HK$'000	1 year to 2 years HK$'000	2 years to 5 years HK$'000	Total Over 5 years HK$'000	Undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2018	**1,682**	**8,528**	**–**	**–**	**–**	**10,210**	**10,048**
At 31 December 2017	5,747	5,941	–	–	–	11,688	11,591

(c) Fair value hierarchy

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

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

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

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

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

There were no transfers between levels during the year.

The fair value of the life insurance policies is determined with reference to the surrender cash value if the Group withdrew from the insurance contracts.

32. OPERATING LEASE COMMITMENTS

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

	2018 HK$'000	2017 HK$'000
Within one year	5,825	7,124
In the second to fifth year inclusive	2,616	7,227
	8,441	14,351

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

33. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of		
— acquisition of property, plant and equipment	–	1,098
— proposed acquisition of a subsidiary	–	25,000
	–	26,098

34. PLEDGE OF ASSETS

The Group's bank borrowings are secured by:

	2018 HK$'000	2017 HK$'000
Fixed charges over:		
Bank deposits	1,039	1,026
Life insurance policies	17,226	17,405
	18,265	18,431

35. SHARE-BASED PAYMENT TRANSACTIONS

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

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

During the year ended 31 December 2017, all the options granted under the Scheme were lapsed. Ad at 31 December 2018 and 2017, there was no share in respect of which options had been granted and remained outstanding under the Scheme. Without prior approval from the Company's shareholder, (i) the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time; (ii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time; and (iii) options in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million may not be granted to substantial shareholders or independent non- executive directors.

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

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

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

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

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

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

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

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

As at 31 December 2018, no option granted under the scheme is outstanding.

36. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of liabilities arising from financing activities

	Bank borrowings HK$'000 (note 24)	Notes payable HK$'000 (note 25)	Liability component of convertible bond HK$'000 (note 26)	Amount due to a related company HK$'000 (note 22)	Amount due to a fellow company HK$'000 (note 22)	Amount due to ultimate holding company HK$'000 (note 22)	Total HK$'000
Balance at 31 December 2018	11,591	140,000	89,972	–	–	–	241,563
Cash flows							
— Repayment/redemption	(20,933)	(140,000)	(100,000)	–	–	–	(260,933)
— Advances/drawdown	19,390	–	–	25,000	11,837	174,900	231,127
— Interest paid	(421)	(8,478)	(8,504)				(17,403)
Non-cash movements							
— Interest expenses	421	8,478	16,565	141	67	1,546	27,218
— Change in convertible bond equity reserve	–	–	989	–	–	–	989
— Fair value loss on redemption	–	–	978	–	–	–	978
— Exchange realignment	–	–	–	–	(461)	–	(461)
Balance at 31 December 2018	10,048	–	–	25,141	11,443	176,446	223,078

	Bank borrowings HK$'000 (note 24)	Notes payable HK$'000 (note 25)	Liability component of convertible bond HK$'000 (note 26)	Total HK$'000
Balance at 31 December 2017	57,246	80,000	–	137,246
Cash flows				
— Proceeds, net of issuing costs	24,376	100,000	82,212	206,588
— Repayment	(70,031)	(40,000)	–	(110,031)
— Interest paid	(513)	(8,684)	(7,479)	(16,676)
Non-cash movements				
— Interest expenses	513	9,680	17,458	27,651
— Unpaid interest included in other payables and accruals (note 21)	–	(996)	(2,219)	(3,215)
Balance at 31 December 2017	11,591	140,000	89,972	241,563

37. RELATED PARTY TRANSACTIONS

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

Name of related party	Relationship	Nature of transaction	2018 HK$'000	2017 HK$'000
Guangdong Juxin Watch Co., Limited (廣東鉅信鐘錶連鎖有限公司)	Fellow subsidiary	Sales of goods	**1,052**	–
Liaoning Hengjia Horologe Co., Limited (遼寧恒嘉鐘錶有限公司)	Fellow subsidiary	Sales of goods	**80**	–
Shenzhen Permanence Commerce Co., Limited (深圳市恒譽嘉時貿易有限公司)	Fellow subsidiary	Sales of goods	**1,054**	–
Zhuhai Rossini Watch Industry Limited (珠海羅西尼表業有限公司)	Fellow subsidiary	Loan interest expenses	**67**	–
Fair Future Industrial Limited	Related company	Loan interest expenses	**141**	–
Citychamp Watch & Jewellery Group Limited	Ultimate holding company	Loan interest expenses	**1,546**	–

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

(iii) As disclosed in note 17 above, the Group and Mr. Sit entered into a memorandum of understanding and a sale and purchase agreement on 10 May 2017 and 30 November 2017, respectively, pursuant to which, the Group conditionally agreed to acquire and Mr. Sit conditionally agreed to sell the entire issued share capital of Top Win International Trading Limited for a consideration of HK$50,000,000 for which the Group paid a deposit of HK$25,000,000 for the year ended 31 December 2017.

During the year, due to certain condition precedent to the completion of the Proposed Acquisition could not be satisfied by 30 April 2018, the Proposed Acquisition has been terminated and the deposit has been returned to the Company during the year. The details were contained in the announcement of the Company on 3 May 2018 and 18 April 2018.

(iv) The details for balances with related parties are disclosed in notes 17 and 22 to the consolidated financial statements.

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

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ registration/ operation	Nominal value of issued and fully paid share capital	Proportion ownership interest held by the Company		Principal activities
			2018	2017	
Boillat Les Bois S.A.	Switzerland	CHF100,000	**100%**	100%	Development, manufacturing and marketing of watches
Ernest Borel S.A.	Switzerland	CHF100,000	**100%**	100%	Manufacturing and sales of watches
Ernest Borel (Far East) Company Limited	Hong Kong	HK$20,000	**100%**	100%	Assembling and sales of watches
Ernest Borel (Guangzhou) Tranding Co., Ltd. (依波路(廣州)貿易有限公司) *(note)*	PRC	RMB20,000,000	**100%**	100%	Distribution and sales of watches
Ernest Borel (Hong Kong) Limited	Hong Kong	HK$1,000	**100%**	100%	Investment holding
Ernest Borel Investment Limited	British Virgin Islands (the "**BVI**")	USD100	**100%**	100%	Investment holding
Swissmount	BVI	USD100	**100%**	100%	Investment holding

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and total equity of the Group as at 31 December 2018 and for the last four financial years, as extracted from the Group's audited financial statements, is set out below. This summary does not form part of the Group's audited consolidated financial statements.

Results	For the year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**171,806**	227,205	248,883	414,315	602,624
(Loss)/profit before tax	**(96,346)**	(183,184)	(142,585)	(6,753)	79,047
Income tax expense	**(1,320)**	(14,099)	(2,426)	(5,163)	(20,236)
(Loss)/profit for the year	**(97,666)**	(197,283)	(145,011)	(11,916)	58,811
(Loss)/earnings per share					
Basic (HK cents)	**(28)**	(57)	(42)	(3)	19

Financial position	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**513,629**	627,617	695,179	861,455	902,261
Total liabilities	**(289,003)**	(310,031)	(202,109)	(220,051)	(219,766)
Total equity	**224,626**	317,586	493,070	641,404	682,495