2016 ANNUAL REPORT

ERNEST BOREL
1856

Ernest Borel Holdings Limited

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

CONTENTS

2 Corporate Information

3 Financial Highlights

4 Chairman's Statement

6 Biographical Details of Directors and Senior Management

9 Management Discussion and Analysis

16 Corporate Governance Report

25 Environmental, Social and Governance Report

31 Report of the Directors

42 Independent Auditor's Report

48 Consolidated Statement of Profit or Loss and Other Comprehensive Income

49 Consolidated Statement of Financial Position

51 Consolidated Statement of Changes in Equity

52 Consolidated Statement of Cash Flows

54 Notes to the Consolidated Financial Statements

110 Five-Year Financial Summary

Corporate Information

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

DIRECTORS

Executive Directors

Mr. Sit Yau Chiu *(Chairman and Chief Executive Officer ("**CEO**")) (appointed on 17 August 2016 and appointed as Chairman on 4 October 2016 and appointed as CEO on 29 March 2017)*
Mr. Xiong Wei *(appointed on 4 October 2016)*
Ms. Liu Libing
Mr. Su Da *(resigned on 29 July 2016)*
Mr. Wong Pong Chun James *(resigned on 4 October 2016)*

Non-executive Directors

Mr. Chan Kwan Pak Gilbert
Mr. Pan Di
Ms. Lou Liuqing *(appointed on 4 October 2016)*

Independent Non-executive Directors

Mr. Lo Chi Chiu
Mr. Choi Tze Kit Sammy *(appointed on 4 October 2016)*
Mr. To Chun Kei *(appointed on 4 October 2016)*
Dr. Yau Bun *(resigned on 4 October 2016)*
Mr. Cheung Kam Min Mickey *(resigned on 4 October 2016)*

COMPANY SECRETARY

Mr. Lau Fan Yu

AUDIT COMMITTEE

Mr. Lo Chi Chiu *(Chairman)*
Mr. Choi Tze Kit Sammy *(appointed on 4 October 2016)*
Mr. To Chun Kei *(appointed on 4 October 2016)*
Dr. Yau Bun *(resigned on 4 October 2016)*
Mr. Cheung Kam Min Mickey *(resigned on 4 October 2016)*

REMUNERATION COMMITTEE

Mr. Lo Chi Chiu *(Chairman)*
Mr. Sit Yau Chiu *(appointed on 4 October 2016)*
Mr. Xiong Wei *(appointed on 4 October 2016)*
Mr. Choi Tze Kit Sammy *(appointed on 4 October 2016)*
Mr. To Chun Kei *(appointed on 4 October 2016)*
Mr. Wong Pong Chun James *(resigned on 4 October 2016)*
Dr. Yau Bun *(resigned on 4 October 2016)*
Mr. Cheung Kam Min Mickey *(resigned on 4 October 2016)*

NOMINATION COMMITTEE

Mr. Sit Yau Chiu *(Chairman) (appointed on 4 October 2016)*
Mr. Xiong Wei *(appointed on 4 October 2016)*
Mr. Lo Chi Chiu
Mr. Choi Tze Kit Sammy *(appointed on 4 October 2016)*
Mr. To Chun Kei *(appointed on 4 October 2016)*
Mr. Su Da *(resigned on 29 July 2016)*
Dr. Yau Bun *(resigned on 4 October 2016)*
Mr. Cheung Kam Min Mickey *(resigned on 4 October 2016)*

AUTHORISED REPRESENTATIVES

Mr. Sit Yau Chiu
Mr. Lau Fan Yu

COMPANY'S WEBSITE

www.ernestborel.ch

REGISTERED OFFICE

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Grand Cayman KY1-1001
Cayman Islands

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Switzerland

OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

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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

Deloitte Touche Tohmatsu
Certified Public Accountants

COMPLIANCE ADVISER

Messis Capital Limited
(retired on 31 March 2016)

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 2016 ("**FY2016**") decreased from HK$414.3 million to HK$248.9 million when compared with last year ("**FY2015**").

Gross margin for FY2016 decreased from 57.5% to 38.9%. Gross profit for FY2016 decreased from HK$238.2 million to HK$96.8 million.

Loss after tax for FY2016 was HK$145.0 million (FY2015: HK$11.9 million), mainly due to (i) decrease in turnover of approximately 39.9% from HK$414.3 million for FY2015 to HK$248.9 million for FY2016, and (ii) foreign exchange loss of approximately HK$10.1 million mainly arising from the depreciation of the Renminbi ("**RMB**") against Hong Kong dollars.

Loss per share was HK41.74 cents for FY2016 (FY2015: HK3.43 cents).

The board of directors of the Company has resolved not to recommend any payment of a final dividend for FY2016 (FY2015: 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

To Shareholders,

On behalf of the board of directors (the "**Board**") of Ernest Borel Holdings Limited ("**Ernest Borel**" or the "**Company**"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "**Group**") for the year ended 31 December 2016 (the "**Year**").

2016 was still a challenging year for the Ernest Borel as the weakening RMB in the People's Republic of China (the "**PRC**") and the premium watches retail market remained weak resulting in more considerable pressure on the Group's business.

Facing to such difficult operating environment, the Group has been endeavoring to enhance its product design capability to meet the needs of the market and mid-to-high-end consumer's consumption habits. During the Year, the Group collaborated with different E-commerce platforms to develop more diversified and convenient shopping channels, coupled with the existing online retail flagship watch store, the Group believes that our products will be more accessible to all target consumers and the "Ernest Borel" brand will also be strengthened with greater market share.

The Group is planning to reinforce the sales network by developing new points of sale in the second to fourth-tier cities in the PRC, Europe and Southeast Asia. The Group will also strengthen the E-retail capability and increase E-retail platform continuously to increase the sales volume.

In the meantime, the Group continued to keep cost-control strategies and an effective resources utilization plan in sales, distribution and administration expenses; manage and control the logistics and inventory to maintain high operating efficiency and reduce inventory costs.

Looking ahead, 2017 is still a challenging year for the premium watches retail market. Nevertheless, the Group confident that we will be able to develop steadily in the challenges by virtue of the solid business foundations over the years and the prudent development strategies. The Group will continue to examine the situation carefully and adjust the Group's development and investment strategies in the effort of diversifying its business, which in turn will enable us to respond to the ever-changing market environment and maximize the interests of the Group and our shareholders as a whole.

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

Mr. Sit Yau Chiu
Chairman
29 March 2017

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Sit Yau Chiu (薛由釗), aged 52, was appointed as an executive Director on 17 August 2016 and appointed as Chairman of the Board, the chairman of Nomination Committee and a member of Remuneration Committee of the Company with effect from 4 October 2016. Mr. Sit was also appointed as a Chief Executive Officer of the Company with effect from 29 March 2017. Mr. Sit has over 31 years of investment and business development experience in different industries such as trading and sale of internationally renowned brands (including the business of duty free shops), catering, information, real estate and chemical engineering industries. Mr. Sit is devoted to expanding the markets of international famous brands covering handbags, leather products and jewellery and he established Top Pride International Limited in Hong Kong in April 1997, Top Win International Trading Limited in June 2001, Ho Hon Brothers Holdings Limited in September 2002, Beijing Ho Hon Brothers Holdings Limited* (北京浩瀚兄弟集團有限公司) and Top One International Holdings Limited in September 2007. Mr. Sit is the chairman of Top One Global Holdings Limited, a substantial shareholder of the Company holding approximately 19.80% of the issued share capital of the Company since 29 July 2016.

Mr. Sit is currently an executive director of Infinity Financial Group (Holdings) Limited, a company listed on main board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (stock code: 1152).

Mr. Xiong Wei (熊威), aged 54, 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. 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.

Ms. Liu Libing (劉麗冰), aged 48, was appointed as a Director on 18 June 2012 and re-designated as an executive Director on 24 June 2014 and re-appointed as an executive Director on 13 June 2015. In addition, she is the general manager and a director of 依波路(廣州)貿易有限公司 (Ernest Borel (Guangzhou) Trading Co., Ltd.*) ("**EB (GZ)**"), a principal wholly-owned subsidiary of the Company. Ms. Liu has over 15 years of experience in the watch industry and is primarily responsible for the financial affairs, administrative and human resource management of the PRC market. From December 2002 to December 2011, she worked as the human resource manager of Guangzhou Shihengbao and was responsible for human resource management and overall financial affairs. Since January 2012, she has been the general manager of the Group's PRC operations under EB (GZ) and is responsible for the implementing and executing administrative plans and human resource allocation, incentive and remuneration plans for the Group's operation in the PRC.

NON-EXECUTIVE DIRECTORS

Mr. Chan Kwan Pak Gilbert (陳君珀), aged 39, was appointed as a Director on 19 June 2012 and re-designated as a non-executive Director on 24 June 2014. From November 2011 to May 2016, Mr. Chan was the director of Harvest Securities Ltd. In addition, Mr. Chan has been the director of GB Autos Ltd. since May 2006, the director of Golden Gate Group Int'l Ltd. since March 2010 and the director of Harvest Finance Ltd. since November 2011. Mr. Chan received his bachelor's degree of Engineering in Mechanical Engineering Technology from Kingston University, United Kingdom in July 2001.

* *For identification purpose only*

Mr. Pan Di (潘迪), aged 35, was appointed as a Director on 31 December 2013 and re-designated as a non-executive Director on 24 June 2014. From 2007 to 2010, he worked as an attorney at law with the securities department of King & Wood in Shanghai, PRC. Since 2010, Mr. Pan has worked at Greenwoods Private Equity Funds (景林股權投資基金) and currently holds the position of a managing director with primary focus in investments in consumer and telecommunications, media and technology industries. Mr. Pan received his bachelor's degree in law from Fudan University (復旦大學) in the PRC in July 2004. Mr. Pan is an attorney admitted to practise law in the PRC.

Ms. Lou Liuqing (樓柳青), aged 60, was appointed as a non-executive Director on 4 October 2016. Ms. Lou graduated from Shanghai Light Industry Bureau Workers' University* (上海市輕工業局職工大學) in 1989, majoring in industrial enterprise management. Ms. Lou has over 30 years of experience in the watches and clocks industry. Ms. Lou was a workshop director in the China Clocks Factory* (中國鐘廠) from 1976 to 1986 and a sales manager of Shanghai Electronic Clocks Factory* (上海電鐘廠) from 1989 to 1996. Ms. Lou was a deputy factory manager of the Second Shanghai Electronic Clocks Factory* (上海電子鐘二廠) from 1996 to 2000. Since 2000, Ms. Lou was and still is a general manager of Shanghai Zhongyao Trading Company Limited* (上海中堯貿易有限公司).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Chi Chiu (盧志超), aged 43, was appointed as an independent non-executive Director on 24 June 2014. Mr. Lo is also the chairman of the Audit Committee and Remuneration Committee of the Company, and a member of the Nomination Committee of the Company. Mr. Lo has over 17 years of accounting experience in international accounting firms and various corporations.

From August 1995 to October 1997, Mr. Lo worked as a staff accountant in the audit department of Ernst & Young. From December 1997 to June 2001, Mr. Lo worked as a senior associate and later, as a manager, in the business advisory services department at PricewaterhouseCoopers Ltd. From July 2001 to July 2002, Mr. Lo worked as financial controller for Technicon Engineering Limited. From July 2002 to November 2002, Mr. Lo worked as financial controller for Zhejiang Xinfu Biochemical Co., Ltd* (浙江鑫富生化股份有限公司). From December 2002 to June 2003, Mr. Lo worked as financial controller for Shenzhen Glory Medical Co., Ltd* (深圳市尚榮醫療股份有限公司). From June 2004 to August 2006, Mr. Lo worked at Integrated Distribution Services Group Management Limited, a subsidiary of Integrated Distribution Services Group Limited, a company that was listed on the main board of the Stock Exchange (stock code: 2387) but was subsequently acquired by Li & Fung Limited by way of privatisation. The last position held by Mr. Lo at Integrated Distribution Services Group Management Limited was as a finance manager. Between November 2010 and January 2011, Mr. Lo was the company secretary and chief financial officer of Truly International Holdings Limited (stock code: 732), a company listed on the Stock Exchange. From February 2011 to August 2011, Mr. Lo was the chief financial officer for VPower Holdings Limited. From August 2006 to November 2010 and from September 2011 to June 2016, Mr. Lo was the chief financial officer at Haitian International Holdings Limited (stock code: 1882), a company listed on the main board of the Stock Exchange. Currently, Mr. Lo work as a freelance consultant.

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

* *For identification purpose only*

Mr. To Chun Kei (杜振基), aged 50, was appointed as an independent non-executive Director of the Company and a member of each of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 4 October 2016. Mr. To graduated from the University of Western Sydney with a bachelor degree in Business Administration in 1999 and received a master degree in Professional Accounting from the Hong Kong Polytechnic University in 2009. Mr. To is also a member of the Hong Kong Institute of Certified Public Accountants. From 2004 to 2011, he was an independent non-executive director, chairman of the audit committee and remuneration committee of China Development Bank International Investment Limited, the shares of which are listed on the Stock Exchange (stock code: 1062).

Mr. Choi Tze Kit Sammy (蔡子傑), 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 4 October 2016. Mr. Choi has over 30 years of experience in finance and auditing. Mr. Choi graduated from the Hong Kong Shue Yan College (presently known as Hong Kong Shue Yan University). He is a fellow member of the Institute of Chartered Accountants in England and Wales, a fellow member of the Association of Chartered Certified Accountants, a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Taxation Institute of Hong Kong and a fellow member of the Hong Kong Institute of Directors. From January 2007 to November 2015, Mr. Choi was an independent non-executive director of Fufeng Group Limited, the share of which are listed on the Stock Exchange (stock code: 546) and from February 2016 to February 2017, he was an independent non-executive director of PanAsialum Holdings Company Limited, the shares of which are listed on the Stock Exchange (stock code: 2078).

COMPANY SECRETARY

Mr. Lau Fan Yu (劉範儒), aged 49, 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.

Management Discussion and Analysis

BUSINESS REVIEW

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning over 160 years. Throughout the course of its history and across its operations, the Group has upheld the principles of producing high precision "Swiss-made" products and implemented stringent quality controls. Under its own brand "Ernest Borel", the Group 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 PRC, and for the purpose of this annual report, excludes the Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region ("**Macau**") and Taiwan), Hong Kong, Macau and Southeast Asia. As at 31 December 2016, the Group has a total of 922 points of sale ("**POS**").

Due to further deterioration of the premium watches retail market in the PRC and Hong Kong in 2016 leading to a decrease in orders placed by watch retailers and authorized distributors, Ernest Borel recorded a revenue of HK$248.9 million (2015: HK$414.3 million), representing a year-on-year decrease of approximately 39.9%, and gross profit and gross profit margins declined to HK$96.8 million (2015: HK$238.2 million) and 38.9% (2015: 57.5%) respectively. During the year under review, the Group recorded a foreign exchange loss of approximately HK$10.1 million, mainly attributable to the depreciation of RMB against Hong Kong dollar. Consequently, loss attributable to equity holders amounted to HK$145.0 million.

The PRC Market

The PRC remains the core market of the Group. As at 31 December 2016, the Group had 765 POSs in the country. Revenue from the PRC segment declined from HK$312.0 million for the year ended 31 December 2015 to HK$193.1 million for the year ended 31 December 2016, accounting for approximately 77.6% of total revenue.

Hong Kong, Macau and Southeast Asia Markets

As at 31 December 2016, the Group had 133 POSs in Hong Kong, Macau and Southeast Asia Markets. Sales in these markets decreased by approximately 48.2% from HK$94.6 million for FY2015 to HK$49.0 million for FY2016, accounting for approximately 19.7% of total revenue.

EVENTS AFTER THE REPORTING PERIOD

On 5 January 2017, the Company has entered into a subscription agreement with a subscriber, Phoenix Green Limited, pursuant to which the Company conditionally agreed to issue the convertible bond in the principal amount of HK$100,000,000.

Assuming full conversion of the bonds at the initial conversion price of HK$2.00, the bonds will be convertible into approximately 50,000,000 shares in aggregate, representing approximately 14.39% of the total issued share capital of the Company as at the date of the agreement and approximately 12.58% of the issued share capital of the Company as enlarged by 50,000,000 conversion shares.

The estimated net proceeds of the issue of the convertible bonds, after deduction of expenses, are approximately HK$97,600,000. The net proceeds are all intended to be used by the Group to fund the day-to-day operations of the business as operated by the Group and to expand its sales network. The issuance of convertible bonds was completed on 11 January 2017. The directors of the Company are in the process of assessing the financial impact on the convertible bonds.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue and segment information

Our revenue decreased by HK$165.4 million, or approximately 39.9% from HK$414.3 million for FY2015 to HK$248.9 million for FY2016. The decrease in revenue of mechanical watches and quartz watches were mainly due to deterioration of the premium watch retail market in the PRC and Hong Kong as compared to FY2015 leading to a decrease in orders placed by watch retailers.

Performance by major products

	2016	2015	Changes	
	HKD'000	HKD'000	HKD'000	%
Mechanical watches	**172,271**	300,355	(128,084)	(42.6)
Quartz watches	**75,005**	112,406	(37,401)	(33.3)
Total	**247,276**	412,761	(165,485)	(40.1)

Mechanical watches

Revenue from sales of mechanical watches decreased by approximately 42.6% from HK$300.4 million for FY2015 to HK$172.3 million for FY2016.

Quartz watches

Revenue from sales of quartz watches decreased by approximately 33.3% from HK$112.4 million for FY2015 to HK$75.0 million for FY2016.

Performance by geographical locations

	2016	2015	Changes	
	HKD'000	HKD'000	HKD'000	%
PRC Market	**193,109**	311,958	(118,849)	(38.1)
Hong Kong, Macau and Southeast Asia Markets	**48,971**	94,601	(45,630)	(48.2)
Other Markets mainly in United States and Europe	**6,803**	7,756	(953)	(12.3)
Total	**248,883**	414,315	(165,432)	(39.9)

The PRC market

The PRC continues to be our major market, representing approximately 77.6% of our revenue for FY2016. Sales in this region showed a decrease of approximately 38.1% from HK$312.0 million for FY2015 to HK$193.1 million for FY2016 due to the deterioration of the premium watch retail market in the PRC as compared to FY2015 leading to a decrease in orders placed by watch retailers.

Hong Kong, Macau and Southeast Asia markets

Hong Kong, Macau and Southeast Asia markets accounted for approximately 19.7% of our total revenue for FY2016. Sales in these markets decreased by approximately 48.2% from HK$94.6 million for FY2015 to HK$49.0 million for FY2016. The decrease was mainly attributable to the decline in number of tourists and the deterioration of the premium watch retail market.

Other markets

Revenue from other markets, namely markets in the United States and Europe recorded a decrease from HK$7.8 million FY2015 to HK$6.8 million for FY2016.

Cost of Sales

Cost of sales decreased by approximately 13.6% from approximately HK$176.1 million for FY2015 to approximately HK$152.1 million for FY2016. The decrease was mainly attributable to the decline in sales quantities in 2016.

Gross profit

Our gross profit decreased by HK$141.4 million or approximately 59.4% from HK$238.2 million for FY2015 to HK$96.8 million for FY2016, while the gross profit margin decreased to approximately 38.9% for FY2016 from approximately 57.5% for FY2015. The decrease in gross profit margin was primarily due to the shift in sales quantities to lower gross profit margin models under the current weakened consumer sentiment, and the inventory provision increased by HK$7.8 million from HK$11.8 million for FY2015 to HK$19.6 million for FY2016.

Other gains and losses

We recorded other losses of HK$14.4 million for FY2016 as compared to HK$13.2 million for FY2015. This was primarily due to the exchange net loss of HK$10.1 million mainly arising from depreciation of the RMB against the Hong Kong dollar, impairment recognized on property, plant and equipment amounting to HK$2.9 million, and loss on disposal of property, plant and equipment from HK$0.3 million for FY2015 to HK$1.7 million for FY2016.

Distribution costs

Our selling and distribution costs decreased by HK$3.3 million or approximately 2.0% from HK$162.0 million for FY2015 to HK$158.7 million for FY2016, representing approximately 63.8% of our total revenue for 2016 (2015: approximately 39.1%). The decrease was primarily attributable to a decrease in advertising and marketing expenses from HK$68.8 million for FY2015 to HK$57.1 million for FY2016 as we reduced the scale of our marketing and advertising activities, which was partially offset by the increase in commission to retailer expenses from HK$6.2 million for FY2015 to HK$9.3 million for FY2016 and the depreciation for display counter from HK$32.4 million for FY2015 to HK$37.9 million for FY2016.

Administrative expenses

Our administrative expenses decreased to HK$59.7 million for FY2016 from HK$66.5 million for FY2015, representing a decrease of HK$6.8 million or approximately 10.2%. The decrease in administrative expenses was primarily due to a decrease in professional fee from HK$9.5 million for FY2015 to HK$4.7 million for FY2016 and a decrease in depreciation from HK$7.3 million for FY2015 to HK$5.9 million for FY2016.

Management Discussion and Analysis

Finance costs

Our finance costs increased by HK$3.2 million or approximately 71.1% from HK$4.5 million for FY2015 to HK$7.7 million for FY2016 as a result of an increase in the interest rate of both bank borrowings and other borrowings for the year ended 31 December 2016.

Taxation

Our income tax decreased from HK$5.2 million for FY2015 to HK$2.4 million for FY2016, representing a decrease of HK$2.8 million or approximately 53.8%. This decrease was primarily attributable to the increase in loss before tax from HK$6.8 million for FY2015 to loss of HK$142.6 million for FY2016.

Loss for the year attributable to owners of our Company

Our net loss for FY2016 increased from 11.9 million for FY2015 to HK$145.0 million for FY2016 was mainly due to decrease in revenue of approximately 39.9% from HK$414.3 million for FY2015 to HK$248.9 million for FY2016, and foreign exchange loss of HK$10.1 million as a result of the depreciation in RMB during the year.

Inventory

Inventory was approximately HK$500.6 million as at 31 December 2016, representing a decrease of HK$55.6 million, or around 10.0%, from HK$556.2 million as at 31 December 2015.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK$127.9 million and approximately HK$71.1 million as at 31 December 2015 and 2016 respectively. Such decrease in trade and other receivables was attributable to a decrease in revenue in 2016.

The Group's trade and other payables increased from approximately HK$38.3 million as at 31 December 2015 to approximately HK$46.8 million as at 31 December 2016 resulting primarily from an increase in other payables due to the increase in display counter expenses that we paid to display counter manufacturers.

Liquidity, financial resources and capital structure

As at 31 December 2016, we had non-pledged cash and bank balances of HK$18.3 million (2015: HK$62.3 million). Based on the borrowings of HK$137.2 million (2015: HK$164.1 million) and shareholders' equity of HK$493.1 million (2015: HK$641.4 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 27.8% (2015: approximately 25.6%).

As at 31 December 2016, part of our borrowing amounting to HK$93.0 million was repayable over one year and the remaining balance amounting to HK$44.2 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, a certain portion of our trade receivables, other receivables and deposits, bank balances, other payables and accrued expenses, and bank borrowings and our intra-group balances was 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 (2015: HK$3.8 million);

(b) charges over deposits placed for a life insurance policy with a carrying amount of HK$17.6 million (2015: HK$17.0 million); and

(c) charges over inventories with a carrying amount of HK$244.5 million (2015: HK$Nil).

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during FY2016.

Future plans for material investments and capital assets

There was no definite future plan for material investments and acquisition of material capital assets as at 31 December 2016.

Contingent liabilities

The Group did not have any contingent liabilities as at 31 December 2016 (2015: Nil).

Employees and Remuneration Policies

As at 31 December 2016, the Group had a total of 273 full-time employees, representing a decrease of 16.3% compared to 326 employees as at 31 December 2015. Total staff costs for 2016 decreased to approximately HK$70.5 million from approximately HK$77.3 million for 2015, mainly due to the decrease in salaries and other benefits from HK$65.6 million in 2015 to HK$60.5 million in 2016.

All of our full-time employees are paid a fixed salary and may be granted other allowances, based on their positions. Members of the sales staff are also eligible for commissions based on their ability to meet sales targets. In addition, year-end bonuses may also be awarded to the employees at our discretion and based on employee performance. Yearly performance appraisals are conducted to ensure that the employees receive feedback on their performance. Our Company has adopted a Pre-IPO share option scheme and a share option scheme (the "**Share Option Scheme**") on 24 June 2014 for the purpose of providing incentives and rewards to eligible directors and employees of the Group, which became effective on the Listing Date. No option has been granted under the Share Option Scheme during FY2016.

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

Capital commitment

As at 31 December 2016, there were capital commitments in the amount of HK$1.0 million which represented the balance payment in relation to the acquisition of a parcel of land in Switzerland for our new production facility (2015: HK$1.1 million).

Management Discussion and Analysis

Prospects

Looking ahead to 2017, the Group expects operation in the overall retail market and the premium watch market segment to remain challenging.

Despite the challenges in the operating environment, the Group is still prudently optimistic and will continue to focus on the PRC market and actively reinforce its position in the country's premium watch market while enhancing its brand image around the world. By virtue of our professional marketing team, the Group aimed at increasing its exposure in the PRC, Europe and Southeast Asia by advertising in different media, engaging celebrities as ambassadors and conducting various and diverse promotional activities, such as more than 120 road shows and the Basel exhibition. The Group will constantly strive to boost its competitiveness by increasing design capabilities in medium-high end watches and devising pricing strategies by taking into account prevailing market price of watches of competitors and the overall economy in the PRC. These strategic directions are aimed at penetrating the mid-range-to-high-end consumer segment to meet the different preferences of customers so as to drive stable business development and gradually expand the Group's market share. The Group maintains more than 900 POSs globally and is planning to develop new POSs in the second-to-fourth-tier cities in the PRC, Europe and Southeast Asia. The Group will strengthen our E-commerce team and increase promotion on all E-commerce platforms to provide more diverse and convenient shopping channels to our customers.

In addition, the Group will keep cost-control strategies and an effective resources utilisation plan constantly in sales and distribution and administration expenses, manage and control the logistics and inventory to maintain high operating efficiency and reduce inventory costs. The Group will keep proactively addressing the market dynamics and adopt appropriate measures with the aim to improve overall operating efficiency and maintain market competitiveness. Moreover, the Group is also exploring other business and investment opportunities to widen the source of income and return.

USE OF PROCEEDS FROM THE IPO

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

As at 31 December 2016, the Company has utilized all HK$173.4 million in the manner set out in the Prospectus and in the Announcement of the Company dated 30 June 2014 and 1 April 2016 respectively as follows:

Use for	Percentage of net proceeds allocated	Amount of net proceeds allocated (in HK$ million)	Amount utilized (in HK$ million)	Amount remaining (in HK$ million)
Marketing and promotional activities of our brand and watches	45.0%	78.0	(78.0)	–
Expanding and enhancing our distribution network	44.8%	77.7	(77.7)	–
Capital expenditures on ongoing expansion of our production capacity	0.2%	0.4	(0.4)	–
Providing funding for working capital and other general corporate purposes	10.0%	17.3	(17.3)	–
	100%	173.4	(173.4)	–

Corporate Governance Report

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

Code provision A.6.7 of the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Pan Di, a non-executive Director, was unable to attend the Company's annual general meeting held on 17 June 2016 due to other business engagements.

The Company has applied the principles and code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules. Save as disclosed above, the Board is of the view that the Company has complied with all code provisions as set out in the Corporate Governance Code for the year ended 31 December 2016 (the "**Year**").

DIRECTOR'S SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

Board Composition

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

Executive Directors

Mr. Sit Yau Chiu *(appointed on 17 August 2016 and appointed as Chairman of the Board on 4 October 2016 and appointed as CEO on 29 March 2017)*
Mr. Xiong Wei *(appointed on 4 October 2016)*
Ms. Liu Libing
Mr. Su Da *(resigned on 29 July 2016)*
Mr. Wong Pong Chun James *(resigned on 4 October 2016)*

NEDs

Mr. Chan Kwan Pak Gilbert
Mr. Pan Di
Ms. Lou Liuqing *(appointed on 4 October 2016)*

INEDs

Mr. Lo Chi Chiu
Mr. Choi Tze Kit Sammy *(appointed on 4 October 2016)*
Mr. To Chun Kei *(appointed on 4 October 2016)*
Dr. Yau Bun *(resigned as on 4 October 2016)*
Mr. Cheung Kam Min Mickey *(resigned on 4 October 2016)*

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 Company.

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

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

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

DIRECTORS' CONTINUOUS TRAINING AND PROFESSIONAL DEVELOPMENT

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

	Attending expert briefings/ seminars/ conferences relevant to the business, corporate governance or directors' duties
Executive Directors	
Mr. Sit Yau Chiu *(appointed on 17 August 2016 and appointed as Chairman of the Board on 4 October 2016 and appointed as CEO on 29 March 2017)*	✓
Mr. Xiong Wei *(appointed on 4 October 2016)*	✓
Ms. Liu Libing	✓
Mr. Su Da *(resigned on 29 July 2016)*	✓
Mr. Wong Pong Chun James *(resigned on 4 October 2016)*	✓
NEDs	
Mr. Chan Kwan Pak Gilbert	✓
Mr. Pan Di	✓
Ms. Lou Liuqing *(appointed on 4 October 2016)*	✓
INEDs	
Mr. Lo Chi Chiu	✓
Mr. Choi Tze Kit Sammy *(appointed on 4 October 2016)*	✓
Mr. To Chun Kei *(appointed on 4 October 2016)*	✓
Dr. Yau Bun *(resigned on 4 October 2016)*	✓
Mr. Cheung Kam Min Mickey *(resigned on 4 October 2016)*	✓

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to the announcement of the Company dated 29 March 2017, the chief executive officer agreement entered into between the Company and Mr. Su Da ("**Mr. Su**") was terminated and accordingly, Mr. Su's employment as the Chief Executive Officer ("**CEO**") was terminated. His last working day was 17 March 2017. The Board also announced that Mr. Sit Yau Chiu ("**Mr. Sit**"), the existing Chairman and the executive Director of the Group has been appointed as the CEO with effect from 29 March 2017.

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

INDEPENDENCE OF INEDS

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

The Board has three INEDs with all of them, namely Mr. Lo Chi Chiu, Mr. Choi Tze Kit Sammy and Mr. To Chun Kei, possessing appropriate professional accounting qualifications and financial management expertise in compliance with the requirements set out in Rules 3.10(1) and (2) and 3.10A of the Listing Rules.

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

BOARD DIVERSITY POLICY

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

MEETINGS

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

	No. of attendance/No. of meetings				
	Board	Audit Committee	Remuneration Committee	Nomination Committee	General Meeting
Executive Directors					
Mr. Sit Yau Chiu *(Note 1)*	7/15	N/A	N/A	N/A	N/A
Mr. Xiong Wei *(Note 2)*	3/15	N/A	N/A	N/A	N/A
Ms. Liu Libing	13/15	N/A	N/A	N/A	1/1
Mr. Su Da *(Note 3)*	6/15	1/4	1/2	1/2	1/1
Mr. Wong Pong Chun James *(Note 4)*	10/15	2/4	2/2	1/2	1/1
Non-executive Directors					
Mr. Chan Kwan Pak Gilbert	8/15	N/A	N/A	N/A	1/1
Mr. Pan Di	6/15	N/A	N/A	N/A	0/1
Ms. Lou Liuqing *(Note 5)*	1/15	N/A	N/A	N/A	N/A
Independent Non-executive Directors					
Mr. Lo Chi Chiu	8/15	4/4	2/2	2/2	1/1
Mr. Choi Tze Kit Sammy *(Note 6)*	2/15	2/4	N/A	N/A	N/A
Mr. To Chun Kei *(Note 6)*	2/15	2/4	N/A	N/A	N/A
Dr. Yau Bun *(Note 7)*	6/15	2/4	2/2	2/2	1/1
Mr. Cheung Kam Min Mickey *(Note 8)*	4/15	2/4	2/2	2/2	1/1

Notes:

1. Appointed as an executive Director on 17 August 2016 and appointed as Chairman of the Board, chairman of the Nomination Committee and a member of the Remuneration Committee on 4 October 2016 and appointed as CEO on 29 March 2017.
2. Appointed as an executive Director and a member of Remuneration Committee and Nomination Committee on 4 October 2016.
3. Resigned as an executive Director and Chairman on 29 July 2016 and resigned as CEO on 17 March 2017.
4. Resigned as an executive Director, Chairman of the Board and a member of the Remuneration Committee on 4 October 2016.
5. Appointed as a non-executive Director on 4 October 2016.
6. Appointed as an INED, a member of each of the Audit Committee, Remuneration Committee and Nomination Committee on 4 October 2016.
7. Resigned as an INED, a member of each of the Audit Committee, Remuneration Committee and Nomination Committee on 4 October 2016.
8. Resigned as an INED, a member of each of the Audit Committee and Remuneration Committee and the chairman of the Nomination Committee on 4 October 2016.

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

COMPANY SECRETARY

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

APPOINTMENT, RE-ELECTION AND REMOVAL OF DIRECTORS

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

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

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

BOARD COMMITTEES

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

(i) Audit Committee

The Company established the Audit Committee pursuant to a resolution of the Directors passed on 24 June 2014 in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the Audit Committee are to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material advice in respect of financial reporting, and oversee the internal control procedures of the Company. The Audit Committee currently consists of three members, namely Mr. Lo Chi Chiu, Mr. Choi Tze Kit Sammy and Mr. To Chun Kei, all of whom are INEDs and have appropriate professional qualifications and experience in accounting matters. Mr. Lo Chi Chiu 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 2015 and unaudited interim results for the six months ended 30 June 2016, met with the external auditors to discuss such annual and interim results without the Company's management being present, and was of the opinion that the preparation of the relevant financial statements complied with the applicable accounting standards and requirements and that adequate disclosure had been made;

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

- recommended the appointment of the external auditors; and

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

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

(ii) Remuneration Committee

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

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

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

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

(iii) Nomination Committee

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

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

- reviewed the annual confirmation of independence submitted by the INEDs and assessed their independence; and
- reviewed the structure, size and composition of the Board during the Year.

CORPORATE GOVERNANCE FUNCTIONS

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

CONSTITUTIONAL DOCUMENTS

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

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

FINANCIAL REPORTING, 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 Deloitte Touche Tohmatsu ("**Deloitte**"), the Company's external auditors in Hong Kong, on the financial statements are set out in the "Independent Auditors' Report" in this annual report.

Risk Management and Internal Controls

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

During the Year, the Group has also engaged an independent professional consultant to perform a risk assessment with the intention to identify, evaluate and prioritise the critical business risks of the Group. The Audit Committee and the Board have received an enterprise-wide risk assessment report and the internal audit report. In addition, the Audit Committee and the Board have also conducted review on the effectiveness of risk management and internal control systems. The three-year Internal Audit plan is also prepared with a risk-based approach covering high risk areas annually and lower risk areas in every two to three years.

For the year ended 31 December 2016, the Board considered that the Company's internal control and risk management systems are adequate and effective and the Company has complied with the Code provisions on internal control and risk management of the Corporate Governance Code.

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

INDEPENDENT AUDITOR

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

	HK$'000
Audit services	1,100
Non-audit services	
Interim review	200
Tax services	57
Agreed-upon procedure on inventory	35

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

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHTS

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

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

SHAREHOLDERS' RIGHTS

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

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

Procedures by which enquiries may be put to the Board

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

Environmental, Social and Governance Report

About This Report

This is the first Environmental, Social & Governance ("**ESG**") Report ("**ESG Report**", the "**Report**") detailing the material ESG issues faced by Ernest Borel Holdings (hereinafter referred to as "**We**", "**Ernest Borel**", the "**Company**") and its subsidiaries (collectively the "**Group**") approaches to tackling these issues from 1 January 2016 to 31 December 2016.

This Report was prepared according to Appendix 27 of the Rules Governing the Listing of Securities set by the Hong Kong Exchanges and Clearing limited ("**HKEx**"), with reference to the General Disclosures. The Group may consider disclosing information regarding Key Performance Indicators ("**KPIs**") in the future.

Message from Chairman

Established in 1856, for more than a century, Ernest Borel has stood for elegance and romance, producing high-quality watches for consumers worldwide. Carrying this history of artistry and excellence to the present, not only are we committed to uphold the success of our predecessors in watch production, but we are also determined to extend the practice of sustainability and integrity to our workplace and daily operation.

As the 21st century unfolds, corporate social responsibility ("**CSR**") has become an increasingly important topic for all companies and corporations, across all industries. In particular, against the backdrop of climate change and globalization, environmental issues and human rights concerns have gained much attention from the society. As a part of the manufacturing and retail industry, we, at Ernest Borel, recognize our responsibilities in promoting the idea of sustainability in our production and throughout our operations.

With that said, we are delighted to present to you the first ESG Report of Ernest Borel. This report details our policies on environmental and social issues material to our business, as identified by our internal and external stakeholders. As a responsible producer, one of our main emphases this year is on product responsibility - how to ensure the quality of our products, as well as to protect the rights of our consumers. We have set up policies to monitor and assess 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.

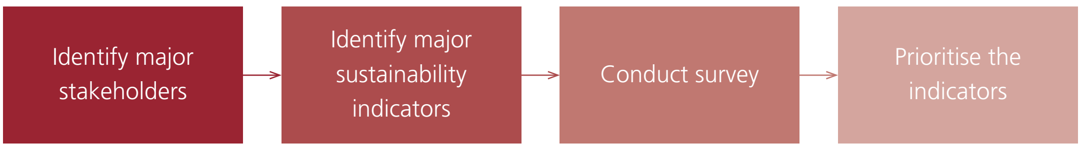
Apart from products, we also believe that employees are essential to the operation of our business. Hence, as a responsible employer, we have also established sets of policies to make sure our employees are treated fairly and equally at workplace and that they have the opportunity to explore and develop their potentials. Through providing trainings and development opportunities for our staff, we hope to create values for our employees and build a rewarding workplace.

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

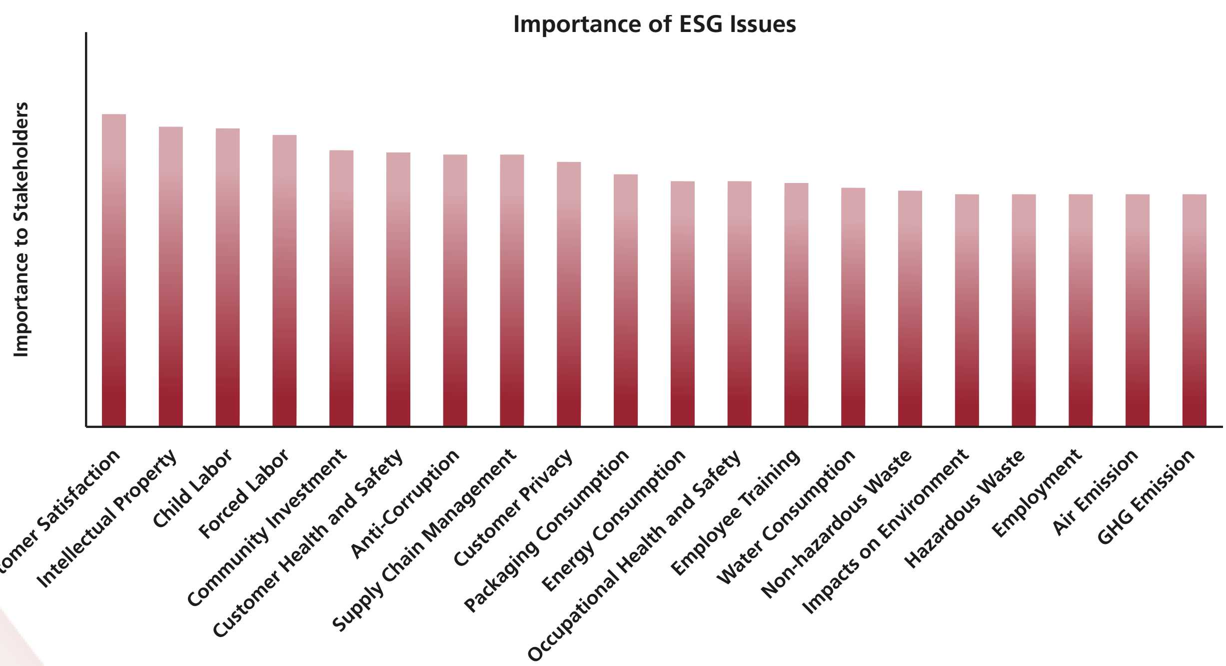
Stakeholder Engagement and Materiality Assessment

We know that our stakeholders care about our environmental and social governance performance as much as we do. Hence, to know more about their opinions and views on our operation, we have conducted a stakeholder engagement to identify which aspects and issues they believe are the most significant to our business.

As such, to reach a wider audience and more stakeholders, an online questionnaire with a list of relevant environmental and social issues was developed and distributed to our stakeholders, including employees, board of directors, consumers, suppliers, etc.



The questionnaire consists of two major parts, with the first part containing a set of rating questions that allows stakeholders to determine the importance and relativity of each sustainability indicators to the Group's operations, and the second part as a Q&A section that provides a platform for stakeholders to share their opinions and comments with the Group.



Topic	Key concerns	Our current actions to address the concerns	Section
Customer Satisfaction	• Quality assurance process • Recall procedures • Customer complaints	Our production process has ensured the product quality by strictly abiding to the product quality control and assurance policy. We also have customer warrantee to reassure customer's satisfaction.	Product Responsibility
Intellectual Property	• Protection of intellectual property rights • Security system	As a long-established watch brand, we respect and followed laws and regulations regarding intellectual property rights.	Product Responsibility
Child Labor	• Measurements to review employment practices to avoid child labor	We comply with labor laws and regulations and have zero-tolerance on unethical employment practices such as child labor and forced labor.	Caring Employer
Forced Labor	• Measurements to review employment practices to avoid forced labor		
Community Investment	• Focus areas of contribution and resources contributed to the community	We have started to set up the community investment policy in our Group and will disclose more information in the future ESG reports.	Community

PRODUCT RESPONSIBILITY

As a producer, we recognize our responsibility in ensuring the quality of our products, from the initial procurement process to the final stage. All of our watches are Swiss-made according to the corresponding Swiss Federal Law, i.e. the movement of our watches is Swiss-made, with the watches assembled and the final quality check conducted in Switzerland. Hence, all of our watches are produced under strict production standards with utmost care and diligence. Furthermore, each watchmaker is responsible for the full assembling of the entire watch, so as to avoid any issues that may arise from miscommunications between different parties.

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. Upon finishing the products, we will conduct a final quality check before shipping to our consumers, to ensure that the products received by our customers are of the best quality.

Managing Our Supply Chain

As the assembling of watches involve multiple parts, in our production, we often have to work with suppliers to obtain various materials and parts needed. To establish efficient supply-chain management, we have implemented comprehensive sets of policies on procurement process, and have defined a clear set of criteria for selecting suppliers. We believe that costs should not be the only factor that determines our selection of suppliers. Hence, we assess suppliers with an integrated approach, among which quality, undoubtedly, is one of the most important aspects that we consider. Thus, we always conduct and record quality check on products provided by suppliers. We also maintain close communication with our suppliers, in case of any defects discovered regarding the materials we received.

Intellectual Property

As a part of the manufacturing and retail industry, we understand the importance of intellectual property, in particular when it comes to the design and production of watches. Hence we have set out clear guidelines for our employees on the protection of data and intellectual property, which stated the confidentiality policy on Company's property and information. We recognize the values of intellectual property – as the creativity and innovation embedded in intellectual property is worth far more than any physical asset. In fact, constant innovation and creation are the very key to our success and competitiveness. 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 usage of intellectual property.

Advertising, Labeling and Data Privacy

We also understand that advertising, labeling and data privacy are important factors affecting consumers' experience. Hence, on top of complying with the Trade Descriptions Ordinance 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 contain no misleading, offensive, or false information that may adversely affect consumers' behaviors.

In regards to data privacy, we comply with the Personal Data Privacy Ordinance, by taking all necessary steps to ensure consumers' data and information is secure and properly used.

Maintaining High Product Quality

Yet we believe that our responsibility extends beyond quality assurance. In particular, we also put emphasis on after-sales services, as we believe that maintenance of product quality is just as important as its initial production. All customers who purchased the Ernest Borel watches from our shops and distributors are subject to maintenance services within the warrantee period.

Sustainable Operation

We are committed to building an environmental-friendly corporation that pays close attention to conserving natural resources and minimizing our environmental impact by efficient energy usage.

Environmental Impacts

In our Switzerland workshop, our production involves mainly in watch assembling. We do not engage in the use of heavy machineries that generate high level of air pollutants or Greenhouse Gases (GHG) emission, hence we do not have any significant impacts on environmental pollution. The major source of energy usage is electricity, for daily operation and to provide an optimal level of brightness for our workers to precisely assemble the watches.

Waste Handling

All wastes from our Switzerland workshop are disposed of or recycled according to the local environmental laws and regulations. We do not generate hazardous waste during our production. The used watch batteries are recycled by a third party recycling company in order to minimize the chemical release from the batteries to the landfill.

Green Practices

We encourage and promote green practices in our Hong Kong and China offices. Our green office policy covered various environmental friendly actions in our offices, such as green procurement strategy on electronic equipment that are certified with energy efficient labels; installation of better energy performance LED lightings; reduce paper usage by default setting of double page printing; purchase recycled paper or paper accredited with sustainable forest standard.

To further expand our green practices in our operation, we are planning to conduct carbon auditing and quantification on energy usage in the upcoming year. These calculations can allow us to further understand the environmental performance of the Group and hence act accordingly by implementing additional green practices.

Caring Employer

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

Employment Practices

We offer competitive remuneration packages and provide benefits including medical insurance and year-end bonuses etc. for our employees. On top of statutory leave, employees are also given annual and special leave, providing them with the flexibility to balance their schedule between work and life.

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 do not tolerate any forms of harassment or discrimination. Communication channels are provided for employees to express their opinions and report any related incidents at work. We treat each case of report seriously and will provide all necessary support for employees.

Training and Development Opportunities

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 believe that changes always come from within and no improvement can be made possible without the growth and development of our employees. Therefore, we are committed to providing trainings and opportunities for our staff, so that they can grow with us.

On top of induction trainings provided to all new staff on company culture and brand value, we also arrange diverse programs specifically targeting various issues and employees at different positions. For example, for managerial staff, to improve our daily operation, we have arranged corresponding trainings courses on management as solutions, including programs on leadership skills and communication. These programs were offered to staff across different departments, to make sure employees from various parts of our operation can benefit equally from our development opportunities.

Health and Safety

Since our production is relatively small-scaled and does not involve the use of heavy machinery or hazardous chemicals, our production 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 posted tips 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 fire accident at office buildings. Hence, to ensure that our staff is aware of the emergency plans in place, 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.

Ethical Conduct

We do not tolerate any form of bribery, forgery, or corruption at Ernest Borel. To eliminate such forms of illegal activities, we have established an internal code of conduct for all employees, which prohibits abuse, forgery, or fraud, as well as corrupt activities including the acceptance of benefits from those with a business relationship with the Group.

Extending this code of ethical conduct to external stakeholders, we also ask that our employees avoid conflicts of interest, especially for purchasing staff that is responsible for making procurement decisions.

Community

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

Report of the Directors

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

BUSINESS REVIEW

A review on the business of the Group during the Year and a discussion on the Group's future business development are set out in the Chairman's Statement and Management Discussion and Analysis on pages 4 to 5 and pages 9 to 15 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 77.6% and 19.7% of our revenue was denominated in Renminbi ("**RMB**") and Hong Kong dollars during the year ended 31 December 2016, 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 2016, the net foreign exchange loss amounted to HK$10.1 million (2015: HK$13.9 million)

To reduce our exposure to foreign exchange fluctuations of CHF against Hong Kong dollars, our functional currency, we entered into certain foreign-exchange contracts to buy CHF and sell Hong Kong dollars at specified exchange rates on specified future dates. We recognised fair value gains on derivative financial instruments of HK$0.3 million as at 31 December 2016 (2015: HK$2.6 million). We cannot assure such transactions will be risk-free, and any loss resulting from such transactions may materially and adversely affect our financial condition and results of operations. Although we have entered into certain foreign currency forward contracts to hedge against part of our exposure to foreign currency risk, we cannot predict the impact of future exchange rate fluctuations on our results of operations nor is there any assurance that we shall not incur any net foreign currency losses in the future.

KEY RELATIONSHIPS

(i) Employees

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

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

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

(ii) Suppliers

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

(iii) Retailers and distributors

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

PERMITTED INDEMNITIES

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

ENVIRONMENTAL POLICIES

We are committed to building an environmental-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycling of office supplies and other materials. 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 design, manufacture, market and sell Swiss-made mechanical and quartz premium watches for men and women.

SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2016 are set out in note 35 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 10.3% (2015: 17.4%) and 34.8% (2015: 41.8%), respectively, of the Group's total revenue for the Year.

The aggregate purchases from the Group's largest and five largest suppliers accounted for 45.7% (2015: 43.8%) and 78.5% (2015: 75%), respectively, of the Group's total purchases for the Year.

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

FINANCIAL STATEMENTS

The loss of the Group for the year ended 31 December 2016 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 48 to 50 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 15 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 2016 and for the past four financial years are set out on page 110 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

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

RESERVES

Details of movements in reserves of the Company and the Group are set out on page 51 of the consolidated financial statements.

DISTRIBUTABLE RESERVES OF THE COMPANY

At 31 December 2016, the Company's reserves available for distribution to the Shareholders amounted to HK$211,182,000 (2015: HK$210,465,000).

Under the Companies Law of the Cayman Islands, the share premium account of the Company in the amount of HK$182,099,000 (2015: HK$182,099,000) may be applied for paying distributions or dividends to the Shareholders provided that immediately following the date on which the distribution or dividend is proposed to be paid, the Company will be able to pay its debts as they fall due in the ordinary course of business.

DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for the Year (2015: Nil).

CHARITABLE DONATIONS

The Group did not make any charitable donation during the Year (2015: Nil).

USE OF THE PROCEEDS FROM INITIAL PUBLIC OFFERING

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

Details of the use of net proceeds as at 31 December 2016 and the charge in use of proceeds as resolved by the Board on 1 April 2016 are set out in page 15 of this annual report.

BANK BORROWINGS AND OTHER BORROWINGS

Details of bank borrowings and other borrowings of the Company and its subsidiaries as at 31 December 2016 are set out in note 22 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 26 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

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

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

DIRECTORS

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

Name	Position
Mr. Sit Yau Chiu	Executive Director and Chairman of the Board and Chief Executive Officer
Mr. Xiong Wei	Executive Director
Ms. Liu Libing	Executive Director
Mr. Su Da	Executive Director *(resigned on 29 July 2016)*
Mr. Wong Pong Chun James	Executive Director *(resigned on 4 October 2016)*
Mr. Chan Kwan Pak Gilbert	NED
Mr. Pan Di	NED
Ms. Lou Liuqing	NED
Mr. Lo Chi Chiu	INED
Mr. Choi Tze Kit Sammy	INED
Mr. To Chun Kei	INED
Dr. Yau Bun	INED *(resigned on 4 October 2016)*
Mr. Cheung Kam Min Mickey	INED *(resigned on 4 October 2016)*

Pursuant to article 83(3) of the Articles of Association, Mr. Sit Yau Chiu, who was appointed by the Board as an executive Director on 17 August 2016, Mr. Xiong Wei, who was appointed by the Board as an executive Director on 4 October 2016, Ms. Lou Liuqing, who was appointed by the Board as a non-executive Director on 4 October 2016, Mr. Choi Tze Kit Sammy and Mr. To Chun Kei, who were appointed by the Board as an independent non-executive Director on 4 October 2016, shall hold office until the AGM, being the first general meeting after these appointment, and shall retire and subject to re-election at the AGM.

Pursuant to article 84 of the Articles of Association, one-third of the Directors shall retire from office by rotation, and accordingly, Ms. Liu Libing shall retire from office by rotation and Mr. Lo Chi Chiu will voluntarily retire from office at the AGM. Each of them, being eligible, will offer themselves for re-election at the AGM.

The Company has received from each of the INEDs an annual confirmation of their independence in writing pursuant to 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, 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 to six month prior written notice. Each of the NEDs and the INEDs has entered into an appointment letter with the Company for a term of three years, 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/appointment letters are automatically renewed upon expiration.

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

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

MANAGEMENT CONTRACTS

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

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

As at 31 December 2016, the interests or short positions of the Directors and the chief executive in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**") which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which whey were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be recorded in the register referred to therein or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

Long Positions in the Company's Shares

Name of Directors/ Chief Executive	Capacity/ Nature of interest	Number of Shares held	Approximate Percentage of interest in the total issued Shares [7]
Mr. Sit Yau Chiu ("**Mr. Sit**")	Interest in controlled corporation [1]	68,800,000	19.80%
Mr. Xiong Wei ("**Mr. Xiong**")	Interest in controlled corporation [3]	37,935,000	10.92%
Mr. Su Da [2]	Beneficial owner	660,662 [4]	0.19%
	Interest in controlled corporation [5]	3,260,000 [6]	0.94%
Ms. Liu Libing	Beneficial owner	396,397 [4]	0.11%

Notes:

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

(2) On 29 July 2016, Force Field Limited ("**Force Field**"), which is wholly-owned by Mr. Su entered into a sale and purchase agreement with Top One, pursuant to which Force Field sold and Top One purchased 68,800,000 shares in the Company (representing approximately 19.80% of the issued share capital of the Company as at the Latest Practicable Date) ("**Disposal**"). Upon completion of the Disposal, Mr. Su ceased to be a substantial shareholder of the Company and Top One will hold approximately 19.80% of the issued capital of the Company. For details, please refer to the announcement of the Company dated 29 July 2016.

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

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

(5) Force Field is a company wholly-owned and controlled by Mr. Su. Mr. Su is therefore deemed to be interested in the shares held by Force Field.

(6) As at 29 July 2016.

(7) Calculated based on the number of issued Shares as at 31 December 2016 (i.e. 347,437,000 shares).

Saved as disclosed above, as at 31 December 2016, 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 2016, the persons or corporations (not being a Director or chief executive of the Company) who or which had an interest or short position in the Shares and underlying Shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Long Position in the Company's Shares

Name of Directors/Chief Executive	Capacity/Nature of interest	Number of Shares held	Approximate Percentage of interest in the total issued Shares (6)
Sense Control International Limited ("**Sense Control**") (1)	Beneficial owner	99,755,000	28.71%
Mr. Lin Siyu ("**Mr. Lin**") (1)	Interest in controlled corporation	99,755,000	28.71%
Top One (2)	Beneficial owner	68,800,000	19.80%
Prime Route (3)	Beneficial owner	37,935,000	10.92%
Dragon Cloud Holdings Limited (4)	Beneficial owner	33,720,000	9.71%
Greenwoods Bloom Fund, L.P. (4)	Interest in controlled corporation	33,720,000	9.71%
Greenwoods Bloom Ltd. (5)	Interest in controlled corporation	33,720,000	9.71%
Skyeast Global Limited (5)	Interest in controlled corporation	33,720,000	9.71%
Ms. Tang Hua (5)	Interest in controlled corporation	33,720,000	9.71%

Notes:

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

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

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

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

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

(6) Calculated based on the number of issued Shares as at 31 December 2016 (i.e. 347,437,000 shares).

Save as disclosed above, as at 31 December 2016, the Directors were not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

PRE-IPO SHARE OPTION SCHEME

The Pre-IPO Share Option Scheme was conditionally adopted by our Company on 24 June 2014 and became effective upon the Listing Date for the purpose of aiding us in recruiting and retaining key employees, directors or consultants of outstanding ability and to reward such employees, directors or consultants to exert their best efforts on behalf of the Company through the granting of options. The principal terms of the Pre-IPO Share Option Scheme were summarised in note 33 to the consolidated financial statements.

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

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

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

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

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

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

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

Details of the change of the Tranche 1 Options [3] and Tranche 2 Options [4] granted under the Pre-IPO Share Option Scheme as at 31 December 2016 are as follows:

Grantees	Tranche	Exercise price Per Share	Balance as at 1 January 2016	Lapsed during the Year	Transferred during the Year	Balance as at 31 December 2016
Directors						
Mr. Su Da [1]	1	HK$2.40	440,441	(440,441)	–	–
	2	HK$3.00	660,662	–	(660,662)	–
Mr. Wong Pong Chun James [2]	1	HK$2.40	137,638	(137,638)	–	–
	2	HK$3.00	201,869	(201,869)	–	–
Ms. Liu Libing	1	HK$2.40	214,265	(214,265)	–	–
	2	HK$3.00	396,397	–	–	396,397
Sub-total			2,051,272	(994,213)	(660,662)	396,397
Other employees	1	HK$2.40	1,089,335	(1,089,335)	–	–
	2	HK$3.00	2,609,617	(532,200)	660,662	2,738,079
Total			5,750,224	(2,615,748)	–	3,134,476

Notes:

1. Mr. Su Da resigned as an executive Director with effect from 29 July 2016 but he acts as CEO until 17 March 2017.
2. Mr. Wong Pong Chun James resigned as an executive Director on 4 October 2016.
3. Tranche 1 Options vested on 11 July 2014.
4. Tranche 2 Options vested on 11 July 2015.

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

The total number of Shares available for issue under the Pre-IPO Share Option Scheme is 2,473,814 Shares, representing approximately 0.71% of the Company's issued Shares as at the date of this annual report. Further details of the Pre-IPO Share Option Scheme are set out in note 33 to the consolidated financial statements.

SHARE OPTION SCHEME

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

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

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

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

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

(a) the nominal value of a Share;

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

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

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

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

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

CONNECTED TRANSACTION

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions undertaken in the ordinary course of business by the Group during the Year are set out in note 34 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 2016 and up to and including the date of this annual report.

DIRECTORS' AND SHAREHOLDERS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party to and in which a Director or a shareholder had a material interest, whether directly or indirectly, and subsisted at 31 December 2016 or at any time during the Year.

ARRANGEMENT FOR DIRECTORS TO PURCHASE SHARES OR DEBENTURES

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

EMOLUMENT POLICY

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

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

The Group has adopted two share option schemes to motivate and reward its Directors and eligible employees. Details of these schemes are set out in the paragraphs headed "Pre-IPO Share Option Scheme" and "Share Option Scheme" above and note 33 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 21 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the "Pre-IPO Share Option Scheme" and "Share Option Scheme" described above, no equity-linked agreements were entered into by the Group, or existed during the year ended 31 December 2016.

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 2016.

SIGNIFICANT LEGAL PROCEEDINGS

The Company was not engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company during the Year.

CORPORATE GOVERNANCE REPORT

Details of the corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 16 to 24 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period are set out in the section headed "Management Discussion and Analysis" of this annual report.

REVIEW BY AUDIT COMMITTEE

The Audit Committee comprises all the three INEDs, namely Mr. Lo Chi Chiu, Mr. Choi Tze Kit Sammy and Mr. To Chun Kei with Mr. Lo Chi Chiu serving as the chairman. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial report matters including the review of the Group's consolidated annual results and annual report for the Year.

INDEPENDENT AUDITOR

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

By order of the Board
Ernest Borel Holdings Limited

Sit Yau Chiu
Chairman and Executive Director

Hong Kong, 29 March 2017

Independent Auditor's Report

Deloitte. 德勤

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

Opinion

We have audited the consolidated financial statements of Ernest Borel Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as "**the Group**") set out on pages 48 to 109, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("**IFRSs**") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

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

Key Audit Matters

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

Key audit matters	How our audit addressed the key audit matters
Valuation of inventories	
We identified the valuation of inventories as a key audit matter due to the significance of the inventories balance to the consolidated financial statements as a whole and the management judgement involved in the estimation of the allowance for inventories. In determining the allowance for inventories, the management estimates the net realisable value of inventories with reference to the conditions and usefulness of the inventories, aging analysis, subsequent sales and usage of inventories and, latest selling prices and current market condition. At 31 December 2016, the carrying amount of inventories is HK$500,629,000 (net of write-down of inventories of HK$19,602,000) as disclosed in note 16 to the consolidated financial statements.	Our procedures in relation to valuation of inventories included: • Obtaining an understanding of how allowance for inventories is estimated by the management; • Assessing the reasonableness of the estimation of the net realisable value of inventories with reference to the conditions and usefulness of inventories, aging analysis, sales and usage of inventories subsequent to the end of reporting period and latest selling prices; • Testing the aging analysis of the inventories, on a sample basis, to the source documents including goods receipt notes, warehouse and production records; • Tracing, on a sample basis, the latest selling price to relevant documents; and • Evaluating the allowance estimated by the management by comparing historical allowance made to the actual loss incurred.

Key Audit Matters *(Continued)*

Key audit matters	How our audit addressed the key audit matters
Valuation of trade receivables	
We identified the valuation of trade receivables as a key audit matter due to the use of judgment and estimation by management in assessing the recoverability of trade receivables. In determining the allowance for doubtful debts, the management considers the credit history of the trade receivables including default or delay in payments, settlement records, settlements of trade receivables subsequent to the end of the reporting period and aging analysis of trade receivables. At 31 December 2016, the carrying amount of trade receivables is HK$56,665,000 (net of allowance for doubtful debts of HK$725,000) as set out in note 17 to the consolidated financial statements.	Our procedures in relation to the valuation of trade receivables included: • Obtaining an understanding of how allowance for doubtful debts is estimated by the management; • Testing the key controls of the Group relating to the preparation of aging analysis of trade receivables and the determination of credit limits, credit approval for customers and other monitoring procedures for recovering overdue debts; • Testing the aging analysis of trade receivables, on a sampling basis, to the source documents including goods delivery notes and sales invoices; • Testing the settlements of trade receivables subsequent to the end of reporting period to related documents on a sampling basis; and • Assessing the reasonableness of allowance for doubtful debts made by the management with reference to the credit history of the trade receivables including default or delay in payments, settlement records, subsequent settlements and aging analysis of trade receivables.

Other Information

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

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

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

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

(Continued)

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

(Continued)

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

The engagement partner on the audit resulting in the independent auditor's report is Luk Kam Fan.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
Revenue	5	**248,883**	414,315
Cost of sales		**(152,097)**	(176,121)
Gross profit		**96,786**	238,194
Other gains and losses	6	**(14,387)**	(13,184)
Other income	7	**1,081**	1,216
Distribution expenses		**(158,699)**	(161,985)
Administrative expenses		**(59,693)**	(66,452)
Finance costs	8	**(7,673)**	(4,542)
Loss before tax	9	**(142,585)**	(6,753)
Income tax expense	10	**(2,426)**	(5,163)
Loss for the year attributable to owners of the Company		**(145,011)**	(11,916)
Other comprehensive income (expense), net of tax			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit scheme		**1,440**	(1,352)
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(4,763)**	(1,545)
Other comprehensive expense for the year		**(3,323)**	(2,897)
Total comprehensive expense for the year		**(148,334)**	(14,813)
LOSS PER SHARE	13		
– Basic and diluted (Hong Kong cents)		**(41.74)**	(3.43)

Consolidated Statement of Financial Position

As 31 December 2016

	NOTES	**2016 HK$'000**	2015 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	*14*	**70,964**	76,398
Deposits placed for life insurance policies	*15*	**17,579**	17,023
Deferred tax assets	*25*	**8,449**	8,277
		96,992	101,698
CURRENT ASSETS			
Inventories	*16*	**500,629**	556,196
Derivative financial instruments	*24*	**–**	769
Trade and other receivables	*17*	**71,143**	127,885
Amount due from a related party	*18*	**50**	143
Tax recoverable		**7,071**	8,607
Pledged bank deposits	*19*	**1,022**	3,832
Bank balances and cash	*19*	**18,272**	62,325
		598,187	759,757
CURRENT LIABILITIES			
Trade and other payables	*20*	**46,754**	38,341
Tax payable		**1,263**	9
Bank and other borrowings	*22*	**57,246**	164,089
		105,263	202,439
NET CURRENT ASSETS		**492,924**	557,318
TOTAL ASSETS LESS CURRENT LIABILITIES		**589,916**	659,016
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*25*	**12,102**	11,521
Pension obligation	*21*	**4,744**	6,091
Note payable	*23*	**80,000**	–
		96,846	17,612
NET ASSETS		**493,070**	641,404

Consolidated Statement of Financial Position

As 31 December 2016

	NOTES	2016 HK$'000	2015 HK$'000
CAPITAL AND RESERVES			
Share capital	26	**3,474**	3,474
Reserves		**489,596**	637,930
TOTAL EQUITY		**493,070**	641,404

The consolidated financial statements on pages 48 to 109 were approved by the Board of Directors on 29 March 2017 and are signed on its behalf by:

Sit Yau Chiu
DIRECTOR

Xiong Wei
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital HK$'000 *(note 26)*	Share premium HK$'000	Other reserve HK$'000 *(note i)*	Share options reserve HK$'000	Actuarial gain and loss reserve HK$'000	General reserve HK$'000 *(note ii)*	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2015	3,474	182,099	15,500	3,233	(2,809)	1,547	1,282	478,169	682,495
Loss for the year	–	–	–	–	–	–	–	(11,916)	(11,916)
Other comprehensive expense for the year	–	–	–	–	(1,352)	–	(1,545)	–	(2,897)
Total comprehensive expense for the year	–	–	–	–	(1,352)	–	(1,545)	(11,916)	(14,813)
Recognition of equity-settled share-based payments	–	–	–	1,517	–	–	–	–	1,517
Dividends recognised as distribution *(note 12)*	–	–	–	–	–	–	–	(27,795)	(27,795)
At 31 December 2015	**3,474**	**182,099**	**15,500**	**4,750**	**(4,161)**	**1,547**	**(263)**	**438,458**	**641,404**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(145,011)**	**(145,011)**
Other comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**1,440**	**–**	**(4,763)**	**–**	**(3,323)**
Total comprehensive income (expense) for the year	**–**	**–**	**–**	**–**	**1,440**	**–**	**(4,763)**	**(145,011)**	**(148,334)**
Lapse of share option	**–**	**–**	**–**	**(2,299)**	**–**	**–**	**–**	**2,299**	**–**
At 31 December 2016	**3,474**	**182,099**	**15,500**	**2,451**	**(2,721)**	**1,547**	**(5,026)**	**295,746**	**493,070**

Notes:

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

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
OPERATING ACTIVITIES		
Loss before tax	**(142,585)**	(6,753)
Adjustments for:		
Allowance for inventories	**7,808**	3,622
Allowance for doubtful debt	**–**	1,625
Impairment loss recognised on property, plant and equipment	**2,946**	–
Depreciation of property, plant and equipment	**43,756**	39,703
Finance costs	**7,673**	4,542
Interest income	**(765)**	(669)
Loss on disposal of property, plant and equipment	**1,655**	260
Provision for defined benefit scheme	**1,371**	1,456
Change in fair value of derivative financial instruments	**(285)**	(2,598)
Unrealised exchange loss	**9,077**	14,027
Recognition of equity-settled share-based payments	**–**	1,517
Operating cash flows before movements in working capital	**(69,349)**	56,732
Decrease (increase) in inventories	**38,031**	(70,353)
Decrease in trade and other receivables	**53,222**	21,779
Decrease in trade and other payables	**(7,313)**	(21,930)
Contribution to defined benefit scheme	**(783)**	(865)
Change in derivative financial instruments	**1,054**	1,124
Cash generated from (used in) operations	**14,862**	(13,513)
Hong Kong Profits Tax paid	**–**	(11,223)
Switzerland income tax refund (paid)	**772**	(8,825)
PRC Enterprise Income Tax paid	**–**	(413)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**15,634**	(33,974)
INVESTING ACTIVITIES		
Additions of property, plant and equipment	**(27,765)**	(42,815)
Pledged bank deposits withdrawn	**2,810**	2,187
Repayment from (advance to) related parties	**93**	(80)
Proceeds from disposal of property, plant and equipment	**80**	1
Interest received	**73**	151
Deposit paid for a life insurance policy	**–**	(7,141)
NET CASH USED IN INVESTING ACTIVITIES	**(24,709)**	(47,697)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 HK$'000	2015 HK$'000
FINANCING ACTIVITIES		
Repayment of bank and other borrowings	**(228,386)**	(146,043)
Interest paid	**(7,673)**	(4,542)
New bank and other borrowings raised	**121,543**	181,480
Proceeds from issue of note	**80,000**	–
Dividend paid	**–**	(27,795)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(34,516)**	3,100
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(43,591)**	(78,571)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**62,325**	141,285
Effect of foreign exchange rate changes	**(462)**	(389)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**18,272**	62,325

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. GENERAL

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

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

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are set out in note 35.

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

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

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

Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012 – 2014 Cycle

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

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

New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[5]

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

IFRS 9 "Financial Instruments"

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

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

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

Based on the Group's existing business model and financial instruments as at 31 December 2016, the application of IFRS 9 in the future may have a material impact on the measurement of the Group's financial asset and the expected loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs.

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

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

IFRS 15 "Revenue from Contracts with Customers"

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

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

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

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

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

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

IFRS 16 "Leases"

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

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

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

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

IFRS 16 "Leases" *(Continued)*

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

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

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$27,967,000 (2015: HK$37,284,000) as disclosed in note 30. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors of the Company complete a detailed review.

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

The principal accounting policies are as set out below.

Basis of consolidation

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

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

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

Revenue recognition

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

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

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

Maintenance service income is recognised when services are provided.

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

Leasing

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

The Group as lessee

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

Foreign currencies

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

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

For the purposes of presenting consolidated financial statements, the asset and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

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

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

Retirement benefit costs

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

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

Defined benefit costs are categorised as follows:

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 (e.g. 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 cost by attributing the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost by attributing contributions to the employees periods of service in accordance with IAS 19 paragraph 70.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 33 to the Group's consolidated financial statements.

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

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

Taxation

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

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

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

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

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

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

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

Property, plant and equipment

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

Freehold land is not depreciated.

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

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

Impairment of assets

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets *(Continued)*

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.

Inventories

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

Provision

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

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

Financial assets

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

Effective interest method

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

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

Loans and receivables

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

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

Equity instruments

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

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, bank borrowings and note payable) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

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

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated allowance of trade and other receivables

The Group makes allowance for doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgment and estimates. Where the expectation on the recoverability of trade and other receivables is different from the original estimate, such difference will impact the carrying value of trade and other receivables. The determination of allowance for doubtful debts take into accounts the history of default or delay in payments, settlement records, settlement of trade receivables subsequent to the end of reporting period and aging analysis of trade receivables. The carrying amount of trade and other receivables as at 31 December 2016 amounting to HK$71,143,000 (2015: HK$127,885,000).

Estimated allowance for inventories

The Group makes allowance for inventories based on an assessment of the net realisable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. In estimation of the net realisable value of inventories and the allowance for inventories, the management would takes into account the conditions and usefulness of the inventories, aging analysis, subsequent sales and usage of the relevant inventories, the latest selling prices and current market condition. The carrying amount of inventories as at 31 December 2016 amounting to HK$500,629,000 (2015: HK$556,196,000).

5. REVENUE AND SEGMENT INFORMATION

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

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

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Revenue from major products

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

	2016 HK$'000	2015 HK$'000
Mechanical watches	**172,271**	300,355
Quartz watches	**75,005**	112,406
Others	**1,607**	1,554
	248,883	414,315

Geographical information

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

	Revenue from external customers	
	2016 HK$'000	2015 HK$'000
PRC	**193,109**	311,958
Hong Kong and Macau	**25,355**	70,304
Southeast Asia	**23,616**	24,297
Others	**6,803**	7,756
	248,883	414,315

	Non-current assets	
	2016 HK$'000	2015 HK$'000
PRC	**34,310**	35,357
Hong Kong	**5,765**	6,717
Switzerland	**30,889**	34,324
	70,964	76,398

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

Information about major customers

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

	2016 HK$'000	2015 HK$'000
Customer A	**25,545**	42,235
Customer B	**–[1]**	72,074

[1] Current year revenue did not contribute over 10% of the total revenue of the Group.

6. OTHER GAINS AND LOSSES

	2016 HK$'000	2015 HK$'000
Exchange loss, net	**(10,071)**	(13,897)
Impairment loss recognised on property, plant and equipment	**(2,946)**	–
Loss on disposal of property, plant and equipment	**(1,655)**	(260)
Fair value gain on derivative financial instruments	**285**	2,598
Allowance for doubtful debts	**–**	(1,625)
	(14,387)	(13,184)

7. OTHER INCOME

	2016 HK$'000	2015 HK$'000
Interest income on life insurance contract	**692**	518
Bank interest income	**73**	151
Maintenance service income	**140**	158
Sundry income	**176**	389
	1,081	1,216

8. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest on:		
Bank and other borrowings	**6,249**	4,542
Note payable	**1,424**	–
	7,673	4,542

9. LOSS BEFORE TAX

	2016 HK$'000	2015 HK$'000
Loss before tax has been arrived at after charging:		
Auditors' remuneration	**1,260**	3,869
Allowance for inventories	**7,808**	3,622
Cost of inventories recognised as expenses	**142,778**	152,932
Depreciation of property, plant and equipment	**43,756**	39,703
Directors' emoluments *(note 11)*	**4,830**	5,096
Other staff costs		
– salaries and other benefits	**60,534**	65,614
– equity-settled share-based payment	**–**	1,024
– retirement benefits scheme contributions	**5,125**	5,605
Total staff costs	**70,489**	77,339
Operating lease rental in respect of rented premises	**27,892**	27,278

10. INCOME TAX EXPENSE

	2016 HK$'000	2015 HK$'000
Current tax:		
Hong Kong Profits Tax *(note i)*	–	–
Switzerland income tax *(note ii)*	2,122	1,758
PRC Enterprise Income Tax *(note iii)*	–	–
	2,122	1,758
(Overprovision) underprovision in prior years		
Switzerland income tax	(57)	–
PRC Enterprise Income tax	–	253
	(57)	253
Deferred tax charge *(note 25)*	361	3,152
Income tax expense for the year	2,426	5,163

Notes:

(i) Hong Kong

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

(ii) Switzerland

Switzerland income tax is calculated at certain tax rates on the assessable income for both years. Under the relevant Tax Laws in Switzerland, the Group's subsidiary incorporated in Switzerland was subjected to Direct Federal Tax ("**DFT**") of 8.5% (2015: 8.5%) and Cantonal Communal Tax ("**CCT**") calculated at 16.37% (2015: 16.55%).

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

(iii) PRC

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

10. INCOME TAX EXPENSE *(Continued)*

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

	2016 **HK$'000**	2015 HK$'000
Loss before tax	**(142,585)**	(6,753)
Tax at the average income tax rate of 17.50% (2015: 13.28%)	**(24,952)**	(897)
Tax effect of income not taxable for tax purposes	**(51)**	(63)
Tax effect of expenses not deductible for tax purposes	**2,623**	849
Tax effect of tax losses not recognised	**24,448**	4,033
Tax effect of temporary difference not recognised	**409**	1,010
(Over)underprovision of profits tax in prior years	**(51)**	253
Others	**–**	(22)
Income tax expense for the year	**2,426**	5,163

Note: The average income tax rate for the year ended 31 December 2016 and 2015 represents the weighted average tax rate of the operations in different jurisdictions on the relative amounts of assessable profits and the relevant statutory rates.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors

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

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

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

Directors *(Continued)*

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

Notes:

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

ii. Mr. Su Da ("**Mr. Su**") has resigned as an executive director of the Company on 29 July 2016 and continues to be the Chief Executive Officer of the Group. The amount represents the emolument paid to Mr. Su for his services in connection with the management of the affairs of the Company and the Group in the capacity as an executive director. Subsequent to year end, Mr. Su's employment as the Chief Executive Officer of the Group was terminated on 17 March 2017.

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

iv. Mr. Wong Pong Chun, James resigned as an executive director of the Company on 4 October 2016.

v. Mr. Sit Yau Chiu ("**Mr. Sit**") and Mr. Xiong Wei were appointed as executive directors of the Company on 17 August 2016 and 4 October 2016, respectively. Mr. Sit is also the Chief Executive of the Company.

vi. Ms. Lou Liuqing was appointed as a non-executive director of the Company on 4 October 2016.

vii. Mr. Cheung Kam Min, Mickey and Dr. Yau Bun resigned as independent non-executive directors of the Company on 4 October 2016.

viii. Mr. Choi Tze Kit, Sammy and Mr. To Chun Kei were appointed as independent non-executive directors of the Company on 4 October 2016.

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

Employees

The five highest paid employees of the Group during the year included two (2015: two directors) directors of the Company, details of whose emoluments are set out in the disclosures above. Details of the remuneration for the year of the remaining highest paid employees (including Mr. Su, for his services in the capacity as an executive director and the Chief Executive Officer) who are neither a director of the Company are as follows:

	2016 HK$'000	2015 HK$'000
Salary and other benefits	**3,522**	3,809
Equity-settled share-based payments	**–**	183
Retirement benefits scheme contributions	**110**	193
	3,632	4,185

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:

	2016 Number of employees	2015 Number of employees
Below HK$1,000,000	**2**	–
HK$1,000,001 to HK$1,500,000	**1**	2
HK$1,500,001 to HK$2,000,000	**–**	1

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

12. DIVIDEND

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

No dividend was paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2016 and 2015, nor has any dividend been proposed since the end of the reporting period.

13. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year ended 31 December 2016 is based on the loss attributable to the owners of the Company of HK$145,011,000 (2015: HK$11,916,000) and on the weighted average number of 347,437,000 (2015: 347,437,000) ordinary shares in issue during the year.

The computation of diluted loss per share for the year ended 31 December 2015 and 2016 does not assume the exercise of the Company's share options because the exercise price of the share options was higher than the average market price for both years.

14. PROPERTY, PLANT AND EQUIPMENT

	Freehold land and building outside Hong Kong HK$'000	Leasehold improvement HK$'000	Furniture, fixtures and equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Total HK$'000
COST						
At 1 January 2015	37,100	9,281	175,438	4,982	1,416	228,217
Additions	384	1,255	33,250	–	–	34,889
Disposals	–	(1,414)	(41,211)	–	–	(42,625)
Exchange realignment	(52)	(4)	(73)	(5)	(40)	(174)
At 31 December 2015	**37,432**	**9,118**	**167,404**	**4,977**	**1,376**	**220,307**
Additions	**–**	**3,585**	**40,222**	**67**	**–**	**43,874**
Disposals	**–**	**(3,092)**	**(20,006)**	**–**	**(400)**	**(23,498)**
Exchange realignment	**(1,029)**	**(99)**	**(327)**	**(114)**	**(36)**	**(1,605)**
At 31 December 2016	**36,403**	**9,512**	**187,293**	**4,930**	**940**	**239,078**
DEPRECIATION AND IMPAIRMENT						
At 1 January 2015	6,316	3,249	133,372	3,039	801	146,777
Provided for the year	1,126	1,667	36,229	454	227	39,703
Eliminated on disposals	–	(1,154)	(41,210)	–	–	(42,364)
Exchange realignment	(40)	(12)	(118)	(12)	(25)	(207)
At 31 December 2015	**7,402**	**3,750**	**128,273**	**3,481**	**1,003**	**143,909**
Provided for the year	**1,102**	**1,773**	**40,268**	**393**	**220**	**43,756**
Impairment loss recognised in profit or loss	**–**	**–**	**2,946**	**–**	**–**	**2,946**
Eliminated on disposals	**–**	**(1,407)**	**(19,956)**	**–**	**(400)**	**(21,763)**
Exchange realignment	**(238)**	**(58)**	**(317)**	**(91)**	**(30)**	**(734)**
At 31 December 2016	**8,266**	**4,058**	**151,214**	**3,783**	**793**	**168,114**
CARRYING VALUES						
At 31 December 2016	**28,137**	**5,454**	**36,079**	**1,147**	**147**	**70,964**
At 31 December 2015	30,030	5,368	39,131	1,496	373	76,398

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

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

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

No depreciation is provided on freehold land.

During the year ended 31 December 2016, in view of recurring losses, the directors of the Company conducted a review on the recoverable amounts of certain furniture, fixtures and equipment used in the PRC for goods display and considered the fair value of the relevant assets was minimal and would substantially be offset by the relevant costs to sell. Accordingly, impairment loss of HK$2,946,000 have been recognised.

15. DEPOSITS PLACED FOR LIFE INSURANCE POLICIES

In prior years, the Group entered into two life insurance policies with an insurance company to insure an executive director, who has resigned as a director of the Group on 29 July 2016 and continues to be the senior management of the Group during the year ended 31 December 2016. ("**Policy A**" and "**Policy B**"). In May 2015, the Group entered into another two life insurance policies with two insurance companies to insure the same person ("**Policy C**" and "**Policy D**").

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

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

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

Particulars of the policies are as follows:

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

The carrying amount of the life insurance policies as at 31 December 2016 and 31 December 2015 approximates the Cash Value of the insurance policies and the expected life of the policies remained unchanged from the initial recognition. The entire balance of the life insurance policies is denominated in United States Dollar ("**USD**"), being a currency other than the functional currency of the relevant group entity.

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

16. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw materials	**249,632**	269,239
Work-in-progress	**107,519**	121,310
Finished goods	**143,478**	165,647
	500,629	556,196

17. TRADE AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	**57,390**	107,109
Less: allowance for doubtful debts	**(725)**	(2,837)
	56,665	104,272
Other receivables	**2,610**	1,413
Other tax recoverable	**1,569**	3,019
Prepayment	**5,172**	13,301
Deposits	**5,127**	5,880
	14,478	23,613
	71,143	127,885

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

	2016 HK$'000	2015 HK$'000
0 – 90 days	**37,510**	87,985
91 – 180 days	**13,221**	8,660
181 – 270 days	**887**	3,133
Over 270 days	**5,047**	4,494
	56,665	104,272

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

At 31 December 2016, included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$37,068,000 (2015: HK$53,129,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience.

17. TRADE AND OTHER RECEIVABLES *(Continued)*

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

	2016 HK$'000	2015 HK$'000
Overdue for		
Within 90 days	**26,461**	41,523
91 to 180 days	**6,455**	6,710
Over 180 days	**4,152**	4,896
	37,068	53,129

Movement in the allowance for doubtful debts

	2016 HK$'000	2015 HK$'000
Balance at beginning of the year	**2,837**	1,259
Impairment losses recognised	**–**	1,625
Amounts written off as uncollectible	**(2,099)**	–
Exchange realignment	**(13)**	(47)
Balance at end of the year	**725**	2,837

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

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$725,000 (2015: HK$2,837,000) at 31 December 2016. The Group does not hold any collateral over these balances.

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

17. TRADE AND OTHER RECEIVABLES *(Continued)*

Age of impaired trade receivables

	2016 HK$'000	2015 HK$'000
Overdue for		
91 to 180 days	–	56
More than 180 days	**725**	2,781
	725	2,837

18. AMOUNT DUE FROM A RELATED PARTY

The amount due from a related party is unsecured, interest-free and repayable on demand. No collateral is held over these balances by the Group.

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

	2016 HK$'000	2015 HK$'000
Non-trade nature		
Mr. Su Ran	**50**	143

19. PLEDGED BANK DEPOSITS, BANK BALANCES AND CASH

Pledged bank deposits included in current assets carried interest in the range of 0.05% to 0.35% (2015: 0.05% to 0.25%) per annum at 31 December 2016. These bank deposits are pledged to secure the short term banking facilities granted to the Group.

Bank balances carried market interest rate in the range of 0.01% to 0.3% (2015: 0.01% to 0.3%) per annum at 31 December 2016.

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:

	2016 HK$'000	2015 HK$'000
Denominated in USD	**3**	80
Denominated in RMB	**2,889**	10,441
Denominated in CHF	**40**	42

20. TRADE AND OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Trade payables	**12,785**	19,353
Other payables	**24,043**	8,339
Accruals	**9,926**	10,649
	46,754	38,341

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

	2016 HK$'000	2015 HK$'000
1 – 30 days	**2,738**	7,072
31 – 60 days	**3,738**	8,479
Over 60 days	**6,309**	3,802
	12,785	19,353

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

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

	2016 HK$'000	2015 HK$'000
Denominated in USD	**96**	353
Denominated in CHF	**237**	–

21. RETIREMENT BENEFIT SCHEME

Hong Kong

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

People's Republic of China

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

Switzerland

Defined benefit scheme

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

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

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

The valuations of the plan assets and the present value of the defined benefit obligations were estimated by the directors with reference to the valuation carried out at 31 December 2016 and 2015 by an independent qualified professional actuary not connected to the Group. The present value of the defined benefit obligations and the related current service cost were measured using the projected unit credit method.

21. 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:

	2016	2015
Price inflation	**0.50%**	0.50%
Discount rate	**0.70%**	0.95%
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	**51.5**	49.8

The actuarial valuation showed that the market value of plan assets was HK$8,966,000 (2015: HK$10,641,000) at 31 December 2016 and that the actuarial value of these assets represented 65% (2015: 64%) of the benefits that had accrued to members. The shortfall of HK$4,744,000 (2015: HK$6,091,000) is to be cleared over the estimated remaining service period of 9.9 years (2015: 9.6 years).

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

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

	2016 HK$'000	2015 HK$'000
Service costs:		
Current service cost	**1,313**	1,543
Past service cost	**–**	(126)
Net interest expense	**58**	39
Components of defined benefit cost recognised in profit or loss	**1,371**	1,456
Remeasurement on the net defined benefit liability:		
Return on plan assets (excluding amounts included in net interest expense)	**(297)**	(2,095)
Actuarial (gains) losses arising from experience adjustments	**(2,264)**	4,030
Actuarial losses (gains) arising from changes in financial assumptions	**754**	(245)
Deferred tax expense (credit) arising on remeasurement of the net defined benefit liability *(note 25)*	**367**	(338)
Components of defined benefit cost (reversed) recognised in other comprehensive income	**(1,440)**	1,352
Total	**(69)**	2,808

21. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

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

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

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

	2016 **HK$'000**	2015 HK$'000
Present value of defined benefit obligations	**13,710**	16,732
Fair value of plan assets	**(8,966)**	(10,641)
Net liability arising from defined benefit obligations	**4,744**	6,091

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

	2016 **HK$'000**	2015 HK$'000
Opening defined benefit obligations	**16,732**	11,026
Current service cost	**1,313**	1,543
Past service cost	**–**	(126)
Interest cost	**160**	113
Remeasurements (gains) losses:		
Actuarial (gains) losses arising from experience adjustments	**(2,264)**	4,030
Actuarial losses (gains) arising from changes in financial assumptions	**754**	(245)
Benefits paid	**(3,391)**	(645)
Contributions paid by plan participants	**783**	1,212
Exchange differences on foreign plans	**(377)**	(176)
Closing defined benefit obligations	**13,710**	16,732

21. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

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

	2016 HK$'000	2015 HK$'000
Opening fair value of plan assets	**10,641**	7,149
Interest income	**102**	74
Remeasurement gain:		
Return on plan assets (excluding amounts included in net interest expense)	**297**	2,095
Contributions from employers	**783**	865
Benefits paid	**(3,391)**	(645)
Contributions paid by plan participants	**783**	1,212
Exchange differences on foreign plans	**(249)**	(109)
Closing fair value of plan assets	**8,966**	10,641

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

	2016 HK$'000	2015 HK$'000
Fixed interest, cash and cash equivalents and time deposits	**6,088**	7,521
Real estate	**1,358**	1,490
Mortgages and other claims	**665**	781
Others	**855**	849
	8,966	10,641

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

21. RETIREMENT BENEFIT SCHEME *(Continued)*

Switzerland *(Continued)*

Defined benefit scheme *(Continued)*

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

- If the discount rate is 0.5% higher (lower), the defined benefit obligation would decrease by HK$484,000 (increase by HK$579,000).
- If the expected salary growth increases (decreases) by 0.5%, the defined benefit obligation would increase by HK$52,000 (decrease by HK$62,000).
- If the life expectancy increases (decreases) by 1 year, the defined benefit obligation would increase by HK$76,000 (decrease by HK$76,000).

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

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

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

The average duration of the benefit obligation at 31 December 2016 is 22.3 years (2015: 21.6 years).

The Group expects to make a contribution of HK$632,000 to the defined benefit plan during the next financial year ending 31 December 2017.

22. BANK AND OTHER BORROWINGS

	2016 HK$'000	2015 HK$'000
Bank loan	**36,266**	108,416
Import trade loans	**5,980**	55,673
Other borrowing	**15,000**	–
	57,246	164,089
Analysed as:		
Secured	**39,846**	159,289
Unsecured	**17,400**	4,800
	57,246	164,089

	2016 HK$'000	2015 HK$'000
The borrowings repayable based on scheduled repayment dates set out in the loan agreement, are as follows:		
Within one year	**44,225**	117,494
More than one year, but not exceeding two years	**11,667**	39,788
More than two years, but not exceeding five years	**1,354**	6,163
More than five years	**–**	644
	57,246	164,089
The carrying amounts of bank loans that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	**29,225**	117,494
Within a period of more than one year but not exceeding two years	**11,667**	39,788
Within a period of more than two years but not exceeding five years	**1,354**	6,163
Within a period of more than five years	**–**	644
	42,246	164,089
Amounts due within one year that contain no repayable on demand clause	**15,000**	–
Amounts shown under current liabilities	**57,246**	164,089

22. BANK AND OTHER BORROWINGS *(Continued)*

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

	2016 **HK$'000**	2015 HK$'000
Fixed-rate borrowing	**15,000**	–
Variable-rate borrowings	**42,246**	164,089
	57,246	164,089

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:

	2016	2015
Effective interest rate:		
Fixed-rate borrowings	**12%**	N/A
Variable-rate borrowings	**2.50% to 3.80%**	2.20% to 3.23%

Details of assets that have been pledged as collateral to secure borrowings are set out in note 32.

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

23. NOTE PAYABLE

On 24 October 2016, the Company entered into a subscription agreement with an agent (the "**Agent**"), pursuant to which the Company agreed to issue, through the Agent, on a best effort basis, the note up to an aggregate principal amount of HK$80,000,000 to an independent third party (the "**Subscription**"). The note payable is unsecured and guaranteed by Mr. Sit. The note carries interest at 10% per annum and is to be redeemed on the second anniversary from the issue date of the guaranteed note.

As at 31 December 2016, the aggregate principal amount of the note payable was HK$80,000,000.

The movement of the note payable for the year ended 31 December 2016 are set out below:

	HK$'000
At 1 January 2016	–
Issue of the note payable	80,000
At 31 December 2016	80,000

24. DERIVATIVE FINANCIAL INSTRUMENTS

During the year ended 31 December 2016, fair value gain of approximately HK$285,000 (2015: gain of approximately HK$2,598,000) was recognised directly in profit or loss. All of the foreign exchange forward contracts matured during the year ended 31 December 2016 and there is no outstanding foreign exchange contracts as at 31 December 2016.

The details of outstanding foreign exchange forward contracts as at 31 December 2015 to which the Group is committed are as follows:

Notional amount	Maturity	Exchange rates
Buy CHF500,000	15 January 2016	CHF1: HK$7.7695
Buy CHF500,000	29 January 2016	CHF1: HK$7.7710
Buy CHF500,000	16 February 2016	CHF1: HK$7.6800
Buy CHF500,000	29 February 2016	CHF1: HK$7.6750
Buy CHF500,000	15 March 2016	CHF1: HK$7.6606
Buy CHF500,000	31 March 2016	CHF1: HK$7.6681
Buy CHF500,000	15 April 2016	CHF1: HK$7.6741
Buy CHF500,000	29 April 2016	CHF1: HK$7.6801
Buy CHF500,000	17 May 2016	CHF1: HK$7.6876
Buy CHF500,000	31 May 2016	CHF1: HK$7.6936

25. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	Defined benefit pension scheme HK$'000	Unrealised profit HK$'000	Others HK$'000 *(note)*	Total HK$'000
At 1 January 2015	(1,630)	776	8,409	(8,070)	(515)
Credited (charged) to profit or loss *(note 10)*	1,095	119	(132)	(4,234)	(3,152)
Credited to equity *(note 21)*	–	338	–	–	338
Exchange realignment	3	(13)	–	95	85
At 31 December 2015	**(532)**	**1,220**	**8,277**	**(12,209)**	**(3,244)**
(Charged) credited to profit or loss *(note 10)*	**(37)**	**117**	**172**	**(613)**	**(361)**
Charged to equity *(note 21)*	**–**	**(367)**	**–**	**–**	**(367)**
Exchange realignment	**16**	**(26)**	**–**	**329**	**319**
At 31 December 2016	**(553)**	**944**	**8,449**	**(12,493)**	**(3,653)**

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:

	2016 HK$'000	2015 HK$'000
Deferred tax assets	**8,449**	8,277
Deferred tax liabilities	**(12,102)**	(11,521)
	(3,653)	(3,244)

At the end of the reporting period, the Group has deductible temporary differences of HK$58,890,000 (2015: HK$55,653,000) available for offset against future profits. A deferred tax asset has been recognised in respect of such deductible temporary differences HK$51,205,000 (2015: HK$50,162,000) associated with unrealised profit generated on intra-group transactions. No deferred tax asset has been recognised in respect of the remaining deductible temporary difference of HK$7,685,000 (2015: HK$5,491,000) as it is not probable that taxable profit will be available against which the deductible temporary difference can be utilised.

25. DEFERRED TAXATION *(Continued)*

At the end of the reporting period, the Group has unutilised tax losses of HK$149,345,000 (2015: HK$20,624,000) 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$26,995,000 that will expire during the period from 2020 to 2021. Other losses may be carried forward indefinitely.

The aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised for the year ended 31 December 2016 was HK$153,702,000 (2015: HK$141,620,000). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

26. SHARE CAPITAL

	Number of ordinary shares '000	Par value HK$	Share capital HK$'000
Authorised:			
Balance at 1 January 2015, 31 December 2015 and 31 December 2016	10,000,000	0.01	100,000
Issued and fully paid:			
Balance at 1 January 2015, 31 December 2015 and 31 December 2016	347,437	0.01	3,474

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

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

	2016 HK$'000	2015 HK$'000
NON-CURRENT ASSETS		
Investment in a subsidiary	**32,641**	13,271
Amount due from a subsidiary	**239,489**	109,176
	272,130	122,447
CURRENT ASSETS		
Other receivables	**216**	271
Amounts due from subsidiaries	**37,017**	77,000
Bank balances and cash	**1,892**	14,366
	39,125	91,637
CURRENT LIABILITIES		
Other payable	**1,598**	144
Amount due to a subsidiary	**1**	1
Other borrowing	**15,000**	–
	16,599	145
NET CURRENT ASSETS	**22,526**	91,492
TOTAL ASSETS LESS CURRENT LIABILITIES	**294,656**	213,939
NON-CURRENT LIABILITY		
Note payable	**80,000**	–
NET ASSETS	**214,656**	213,939
CAPITAL AND RESERVES		
Share capital	**3,474**	3,474
Reserves *(note)*	**211,182**	210,465
TOTAL EQUITY	**214,656**	213,939

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

Note:

	Share premium HK$'000	Share options reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2015	182,099	3,233	54,036	239,368
Loss and total comprehensive expense for the year	–	–	(2,625)	(2,625)
Recognition of equity-settled share-based payments	–	1,517	–	1,517
Dividend recognised as distribution *(note 12)*	–	–	(27,795)	(27,795)
At 31 December 2015	182,099	4,750	23,616	210,465
Gain and total comprehensive income for the year	**–**	**–**	**717**	**717**
Lapse of share option	**–**	**(2,299)**	**2,299**	**–**
At 31 December 2016	**182,099**	**2,451**	**26,632**	**211,182**

28. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debt, which includes bank and other borrowings and note payable disclosed in notes 22 and 23 respectively, net of cash and cash equivalents, and equity comprising issued share capital and reserves.

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

29. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**96,198**	189,008
Fair value through profit or loss Derivative financial instruments	–	769
Financial liabilities		
Amortised cost	**172,471**	188,293

(b) Financial risk management objectives and policies

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

29. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk

(i) Foreign currency risk

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

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

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	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
Third parties				
RMB	**–**	–	**2,889**	10,441
USD	**3,962**	6,802	**17,582**	17,104
CHF	**237**	–	**40**	42
Intra-group balances				
RMB	**–**	–	**141,183**	182,450
CHF	**–**	–	**50,541**	84,354

Sensitivity analysis

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

29. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Foreign currency risk (Continued)

Sensitivity analysis *(Continued)*

The following table indicates the approximate change in the Group's loss for the year in response to 5% (2015: 5%) and 10% (2015: 10%) increase or decrease in the functional currency of each group entity against RMB and CHF respectively to which the Group has significant exposure at the end of reporting period. A negative/positive number below indicates an increase/decrease in loss where the functional currency of the relevant group entity strengthens 5% (2015: 5%) against RMB and 10% (2015: 10%) against CHF. For a 5% (2015: 5%) weakening of the functional currency of the relevant group entity against RMB and 10% (2015: 10%) against CHF, there would be an equal and opposite impact on the loss.

A sensitivity rate of 5% (2015: 5%) on RMB and 10% (2015: 10%) on CHF represents management's assessment of the reasonably possible change in foreign currency exchange rates.

	RMB impact		CHF impact	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
(Increase) decrease in loss	**(121)**	(436)	**16**	(3)

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% (2015: 5%) and 10% (2015: 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% (2015: 5%) against RMB and 10% (2015: 10%) against CHF. For a 5% (2015: 2%) weakening of the functional currency of the relevant group entity against RMB and 10% (2015: 10%) against CHF, there would be an equal and opposite impact on the loss.

A sensitivity rate of 5% (2015: 5%) on RMB and 10% (2015: 10%) on CHF represents management's assessment of the reasonably possible change in foreign currency exchange rates.

	RMB impact		CHF impact	
	2016	2015	**2016**	2015
	HK$'000	HK$'000	**HK$'000**	HK$'000
Loss	**(5,894)**	(7,617)	**(4,220)**	(7,044)

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.

29. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) *Foreign currency risk* *(Continued)*

Sensitivity analysis *(Continued)*

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

No sensitivity analysis for the foreign exchange contracts is presented for the year ended 31 December 2016 as all foreign exchange contracts has settled as at 31 December 2016.

(ii) *Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate other borrowing and note payable (see notes 22 and 23 for details).

The Group is also exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank balances and variable-rate bank borrowing (see notes 19 and 22 for details). The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and LIBOR arising from the Group's Hong Kong dollar denominated borrowings. The management considers the exposure to interest rate risk in relation to bank balances is insignificant due to the low interest rate. The Group currently does not use any derivative contract to hedge its exposure to interest rate risk. However, the management of the Group, will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate bank borrowings. The analysis is prepared assuming the amount of liability outstanding at the end of the reporting period existed for the whole year. A 100 basis point (2015: 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 (2015: 100 basis point) higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2016 would increase/decrease by HK$353,000 (2015: HK$1,370,000).

Credit risk

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

29. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

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

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

For the year ended 31 December 2016, the Group has concentration of credit risk as 42.47% (2015: 49.91%) of the total trade receivables due from the Group's five largest trade customers. The directors of the Company consider that the customers are of good qualities because the counterparties have good reputation and no default payment history. An analysis of the amounts due from two of the five largest customers at the end of the reporting period is as follows:

	% of total trade receivables	
	2016	2015
Customer A	**–**	23%
Customer B	**14%**	9%
Customer C	**13%**	–

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

Liquidity risk

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

In accordance with the covenant of the note payable with a carrying amount of HK$80,000,000 with details set out in note 23 to the consolidated financial statements and subsequent agreement dated 24 March 2017 entered between the Company, the guarantor, Mr. Sit Yau Chiu ("**Mr. Sit**"), the substantial shareholder of the Company and also the Chairman and executive director of the Company, and the note holder, the Company is required to maintain a consolidated net assets of HK$500,000,000 from 29 June 2017 to 23 October 2018. As at 31 December 2016, the consolidated net assets of the Group amounted to HK$493,070,000 and there is a possibility that the consolidated net assets of the Group continue to be below HK$500,000,000 from 29 June 2017 to 23 October 2018. In view of this, the Group is in the process of renegotiation with the note holder on the terms of covenant to avoid immediate repayment for the note payable after 29 June 2017. In case the Company failing to reach an agreement with the note holder on the asset requirement of the note payable, the directors is of the opinion that the Company will have the necessary liquidity to settle the financial obligations as they fall due after taking into account of (i) the financial support received from Mr. Sit; (ii) the availability of unutlised banking facility; and (iii) internally generated funds of the Group.

29. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

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	3 months to 1 year	1 year to 2 years	Total undiscounted cash flows	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2016						
Non-derivative financial liabilities						
Trade and other payables	**–**	**22,307**	**12,918**	**–**	**35,225**	**35,225**
Fixed interest rate other borrowing	**12.00**	**15,064**	**–**	**–**	**15,064**	**15,000**
Variable interest rate bank borrowings *(Note)*	**3.61**	**42,246**	**–**	**–**	**42,246**	**42,246**
Note payable	**10.00**	**2,000**	**6,000**	**86,667**	**94,667**	**80,000**
		81,617	**18,918**	**86,667**	**187,202**	**172,471**
At 31 December 2015						
Non-derivative financial liabilities						
Trade and other payables	–	11,923	12,281	–	24,204	24,204
Variable interest rate bank borrowings *(Note)*	3.00	164,089	–	–	164,089	164,089
		176,012	12,281	–	188,293	188,293

Note: Bank loans with a repayment on demand clause are included in the repayable on demand or less than 3 months' time band in the above maturity analysis. At 31 December 2016, the aggregate undiscounted principal amounts of these bank loans amounted to HK$42,246,000 (2015: HK$164,089,000). 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$43,558,000 (2015: HK$169,795,000).

29. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

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

	Less than 3 months HK$'000	3 months to 1 year HK$'000	1 year to 2 years HK$'000	2 years to 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2016	**7,901**	**22,385**	**11,909**	**1,363**	**–**	**43,558**	**42,246**
At 31 December 2015	36,984	84,877	41,068	6,201	665	169,795	164,089

The following table details the Group's liquidity analysis for its derivative financial instruments outstanding as at 31 December 2015. The table has been drawn up based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

	Repayable on demand or less than 3 months HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 31 December 2015			
– inflow	39,239	39,239	39,239
– outflow	(38,470)	(38,470)	(38,470)
	769	769	769

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

29. FINANCIAL INSTRUMENTS *(Continued)*

(c) Fair value measurements of financial instruments

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

Financial liability	Fair value as at 31 December 2016 HK$'000	2015 HK$'000	Fair value hierarchy	Valuation techniques and key inputs
Foreign exchange forward contracts *(note 24)*	–	769	Level 2	Discounted cash flow. Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

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

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

30. 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:

	2016 HK$'000	2015 HK$'000
Within one year	**12,689**	22,016
In the second to fifth years inclusive	**15,278**	15,268
	27,967	37,284

As at 31 December 2016, included in the above is future lease payments with a related party of HK$500,000 (2015: HK$952,000) and the Group has commitments for future minimum lease payments for premises under the non-cancellable operating leases.

30. OPERATING LEASE COMMITMENTS *(Continued)*

	2016 HK$'000	2015 HK$'000
Within one year	**400**	423
In the second to fifth years inclusive	**100**	529
	500	952

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.

31. CAPITAL COMMITMENT

	2016 HK$'000	2015 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment	**1,043**	1,073

32. PLEDGE OF ASSETS

The Group's bank borrowings are secured by:

	2016 HK$'000	2015 HK$'000
Fixed charges over time deposits	**1,022**	3,832
Fixed charges over deposits placed for life insurance policies	**17,579**	17,023
Floating charges over inventories	**244,509**	–

33. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

At 31 December 2016, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 3,134,476 shares (2015: 5,750,224 shares), representing 0.90% (2015: 1.66%) of the shares of the Company in issue at that date. Without prior approval from the Company's shareholder, (i) the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time; (ii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time; and (iii) options in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million may not be granted to substantial shareholders or independent non-executive directors.

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

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

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

No share option was granted during the year ended 31 December 2016.

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

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

Type of participant	Tranche	Exercise price HK$	Outstanding at 31 December 2015 and 1 January 2015	Lapsed during the year	Transfer during the year	Outstanding at 31 December 2016 *(note)*
Director	1	2.40	792,344	(792,344)	–	–
	2	3.00	1,258,928	(201,869)	(660,662)	396,397
			2,051,272	(994,213)	(660,662)	396,397
Employee	1	2.40	1,089,335	(1,089,335)	–	–
	2	3.00	2,609,617	(532,200)	660,662	2,738,079
			3,698,952	(1,621,535)	660,662	2,738,079
			5,750,224	(2,615,748)	–	3,134,476

	2016	2015
Exercisable at the end of the year	**3,134,476**	5,750,224

During the year ended 31 December 2016, 2,615,748 share options has lapsed.

During the year ended 31 December 2016, 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.

During the year ended 31 December 2015, the Group recognised the total expense of approximately HK$1,517,000 in relation to share options granted by the Company.

Note: Mr. Su Da was originally a director of the Group and ceased to be the director with effect from 29 July 2016. He remains as the Chief Executive Officer during the year ended 31 December 2016. The share options granted to Mr. Su Da was disclosed under the category of employee accordingly.

34. RELATED PARTY TRANSACTIONS

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

Name of related party	Relationship	Nature of transaction	2016 HK$'000	2015 HK$'000
Su Ran	Brother of one of the senior management	Rental expense	**419**	391
Truly Semiconductors Limited	Entity controlled by one of the directors (who have since resigned on 4 October 2016)	Sales	**34**	119
Mr. Chan Kin Sun	A substantial shareholder (who has disposal his shares since 3 October 2016)	Interest expense	**669**	–

(ii) Amount due from a related party is disclosed in the consolidated statement of financial position and in note 18.

(iii) Mr. Su, who has since resigned as a director of the Group on 29 July 2016 and continues to be the senior management of the Group during the year ended 31 December 2016, has provided guarantees to a bank amounting to HK$2,400,000 (2015: HK$4,800,000) in aggregate as at 31 December 2016 to secure a banking facility granted to the Group. Mr. Su's employment as the senior management of the Group was terminated on 17 March 2017.

A director of the Group has provided guarantees to the note holder amounting to HK$80,000,000 as at 31 December 2016 to secure the note payable to the Group.

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

35. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiary	Place of incorporation/ registration/ operation	Nominal value of issued and fully paid share capital/ registered capital	Proportion ownership interest held by the Company 2016	2015	Principal activities
Boillat Les Bois S.A.	Switzerland	CHF100,000	**100%**	100%	Development, manufacturing and marketing of watches
Ernest Borel S.A.	Switzerland	CHF100,000	**100%**	100%	Manufacturing and trading of watches
Ernest Borel (Far East) Company Limited	Hong Kong	HK$20,000	**100%**	100%	Investment holding and trading of watches
Ernest Borel (Guangzhou) Trading Co., Ltd. (依波路(廣州)貿易有限公司)	PRC	RMB20,000,000	**100%**	100%	Distribution and sales of watches
Ernest Borel (Hong Kong) Limited	Hong Kong	HK$1,000	**100%**	100%	Investment holding
Ernest Borel Investment Limited	British Virgin Islands (the "**BVI**")	USD100	**100%**	100%	Investment holding
Swissmount Holdings Limited *(note)*	BVI	USD100	**100%**	–	Investment holding
Swissmount Global Company Limited *(note)*	Hong Kong	HK$1,000	**100%**	–	Inactive

Note: The subsidiary was set up during the year ended 31 December 2016.

36. EVENT AFTER THE REPORTING PERIOD

On 5 January 2017, the Company has entered into a subscription agreement with a subscriber, Phoenix Green Limited, pursuant to which the Company conditionally agreed to issue the convertible bond in the principal amount of HK$100,000,000.

Assuming full conversion of the bonds at the initial conversion price of HK$2.00, the bonds will be convertible into approximately 50,000,000 shares in aggregate, representing approximately 14.39% of the total issued share capital of the Company as at the date of the agreement and approximately 12.58% of the issued share capital of the Company as enlarged by 50,000,000 conversion shares.

The estimated net proceeds of the issue of the convertible bonds, after deduction of expenses, are approximately HK$97,600,000. The net proceeds are all intended to be used by the Group to fund the day-to-day operations of the business as operated by the Group and to expand its sales network. The issuance of convertible bonds was completed on 11 January 2017. The directors of the Company is in the process of assessing the financial impact on the convertible bonds.

Five-Year Financial Summary

A summary of the published results and assets, liabilities and total equity of the Group as at 31 December 2016 and for the last four financial years, as extracted from the Group's audited financial statements, is set out below:

Results	For the year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**248,883**	414,315	602,624	604,013	550,880
(Loss) profit before taxation	**(142,585)**	(6,753)	79,047	110,743	127,347
Income tax expense	**(2,426)**	(5,163)	(20,236)	(17,722)	(27,873)
(Loss) profit for the year	**(145,011)**	(11,916)	58,811	93,021	99,474
(Loss) earnings per share					
Basic (HK cents)	**(42)**	(3)	19	33	35

Asset and Liabilities	For the year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**695,179**	861,455	902,261	745,070	641,777
Total liabilities	**(202,109)**	(220,051)	(219,766)	(289,966)	(257,699)
Total equity	**493,070**	641,404	682,495	455,104	384,078