



**ERNEST
BOREL**
1856

Ernest Borel Holdings Limited

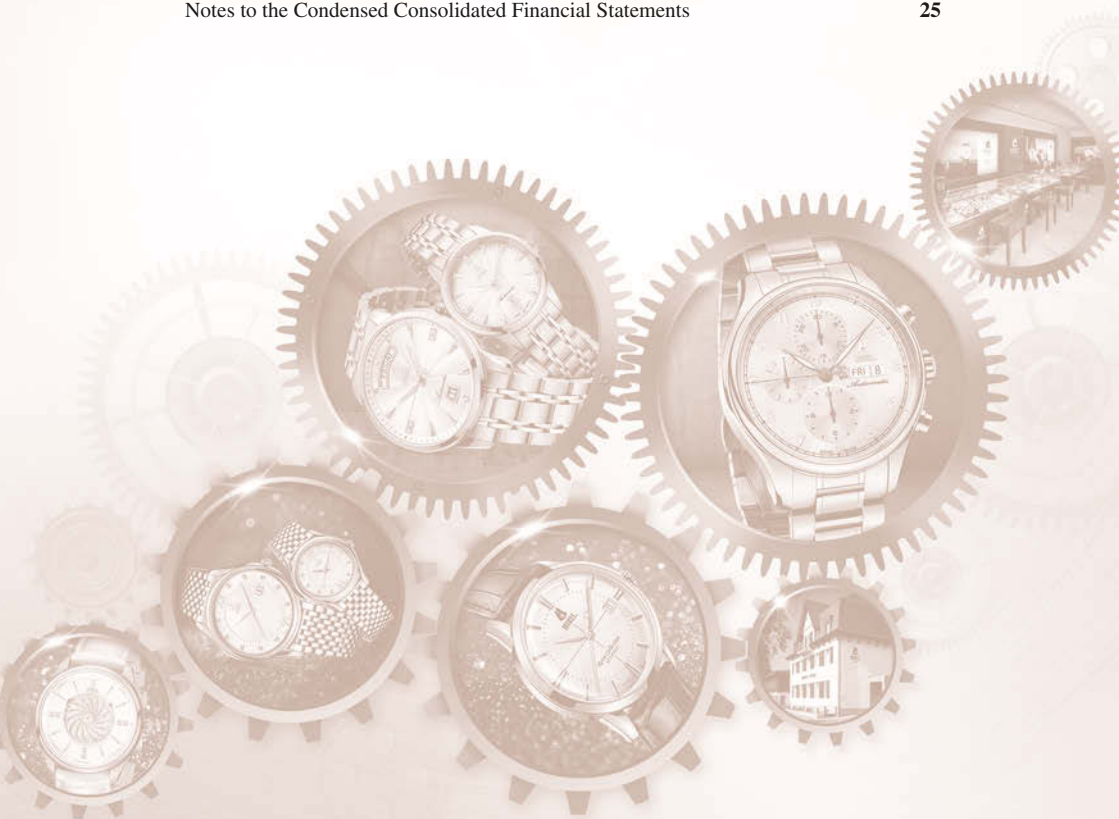
(Incorporated in the Cayman Islands with limited liability)
Stock Code : 1856



INTERIM REPORT
2017

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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”))

Mr. Xiong Wei

Ms. Liu Libing (*retired on 26 May 2017*)

Non-executive Directors

Mr. Chan Kwan Pak Gilbert

Ms. Lou Liuqing

Mr. Pan Di (*resigned on 24 July 2017*)

Independent Non-executive Directors

Mr. Lo Chi Chiu

Mr. To Chun Kei

Mr. Choi Tze Kit Sammy

(*resigned on 1 August 2017*)

COMPANY SECRETARY

Mr. Lau Fan Yu

AUDIT COMMITTEE

Mr. Lo Chi Chiu (*Chairman*)

Mr. To Chun Kei

Mr. Choi Tze Kit Sammy

(*resigned on 1 August 2017*)

REMUNERATION COMMITTEE

Mr. Lo Chi Chiu (*Chairman*)

Mr. Sit Yau Chiu

Mr. Xiong Wei

Mr. To Chun Kei

Mr. Choi Tze Kit Sammy

(*resigned on 1 August 2017*)

NOMINATION COMMITTEE

Mr. Sit Yau Chiu (*Chairman*)

Mr. Xiong Wei

Mr. Lo Chi Chiu

Mr. To Chun Kei

Mr. Choi Tze Kit Sammy

(*resigned on 1 August 2017*)

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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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

CORPORATE INFORMATION

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

PRINCIPAL BANKER

Hang Seng Bank Limited

LEGAL ADVISERS

As to Hong Kong law
JunHe Law Offices



FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- Revenue for the financial period ended 30 June 2017 (“**1HFY2017**”) decreased from HK\$130.3 million to HK\$98.0 million when compared with the corresponding period of last year (“**1HFY2016**”).
- Gross margin for 1HFY2017 increased from 40.5% to 40.9%. Gross profit for 1HFY2017 decreased from HK\$52.8 million to HK\$40.1 million.
- Loss after tax for 1HFY2017 increased from HK\$64.6 million for 1HFY2016 to HK\$81.6 million for 1HFY2017.
- Basic loss per share was HK23.48 cents for 1HFY2017 and earnings per share was HK18.60 cents for 1HFY2016.

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

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”. The extensive distribution network of the Group covers retails markets in the People’s Republic of China (the “**PRC**”, and for the purpose of this interim report, excludes the Hong Kong Special Administrative Region (“**Hong Kong**”), the Macau Special Administrative Region (“**Macau**”) and Taiwan), Hong Kong, Macau and Asia. For the six months ended 30 June 2017 (the “**Period**”), the Group has a total of 887 points of sale (“**POS**”).

Despite the stable economic retail growth of the PRC, the premium watch market remained weak in the first half of 2017. Ernest Borel recorded a revenue of HK\$98.0 million (1HFY2016: HK\$130.3 million), representing a year-on-year decrease of approximately 24.8%, and gross profit declined to HK\$40.1 million (1HFY2016: HK\$52.8 million) and gross profit margins increased to 40.9% (1HFY2016: 40.5%) respectively. Consequently, loss attributable to equity holders amounted to HK\$81.6 million.

The PRC

The PRC remains the major market of the Group. As at 30 June 2017, the Group had 722 POS in the country. Revenue from the PRC segment declined from HK\$100.4 million in the same period last year to HK\$81.2 million for the period ended 30 June 2017, accounting for approximately 82.9% of total revenue.

Hong Kong, Macau and Southeast Asia Markets

As at 30 June 2017, the Group had 141 POS in Hong Kong, Macau and Southeast Asia Markets. Sales in these markets decreased by approximately 44.7% from HK\$25.5 million for 1HFY 2016 to HK\$14.1 million for 1HFY 2017, accounting for approximately 14.4% of total revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEWS

Revenue and segment information

Our revenue decreased by HK\$32.3 million, or approximately 24.8% from HK\$130.3 million for 1HFY2016 to HK\$98.0 million for 1HFY2017. The decrease in revenue of mechanical watches and quartz watches were mainly due to deterioration of the premium watch retail market in PRC and Hong Kong as compared to the same period in 2016 leading to a decrease in orders placed by watch retailers.

Performance by major products

	1HFY2017 HKD (in million)	1HFY2016 HKD (in million)	Changes HKD (in million)	%
Mechanical watches	65.3	92.1	(26.8)	(29.1)%
Quartz watches	30.7	37.5	(6.8)	(18.1)%
Total	96.0	129.6	(33.6)	(25.9)%

Mechanical watches

Revenue from sales of mechanical watches decreased by approximately 29.1% from HK\$92.1 million for 1HFY2016 to HK\$65.3 million for 1HFY2017.

Quartz watches

Revenue from sales of quartz watches decreased by approximately 18.1% from HK\$37.5 million for 1HFY2016 to HK\$30.7 million for 1HFY2017.

Performance by geographical location

	1HFY2017 HKD (in million)	1HFY2016 HKD (in million)	Changes HKD (in million)	%
PRC Market	81.2	100.4	(19.2)	(19.1)%
Hong Kong, Macau and Southeast Asia Markets	14.1	25.5	(11.4)	(44.7)%
Other Markets mainly in United States and Europe	2.7	4.4	(1.7)	(38.6)%
Total	98.0	130.3	(32.3)	(24.8)%

MANAGEMENT DISCUSSION AND ANALYSIS

The PRC market

The PRC continues to be our major market, representing approximately 82.9% of our revenue for 1HFY2017. Sales in this region showed a decrease of approximately 19.1% from HK\$100.4 million for 1HFY2016 to HK\$81.2 million for 1HFY2017 due to the deterioration of the premium watch retail market in PRC as compared to the same period in 2016 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 14.4% of our total revenue for 1HFY2017. Sales in this market decreased by approximately 44.7% from HK\$25.5 million for 1HFY2016 to HK\$14.1 million for 1HFY2017. 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\$4.4 million for 1HFY2016 to HK\$2.7 million for 1HFY2017.

Cost of Sales

Cost of sales decreased by approximately 25.3% from approximately HK\$77.5 million for 1HFY2016 to approximately HK\$57.9 million for 1HFY2017. Reasons which led to the decrease were mainly attributable to decrease in sales quantities in 1HFY2017.

Gross profit

Our gross profit decreased by HK\$12.7 million or approximately 24.1% from HK\$52.8 million for 1HFY2016 to HK\$40.1 million for 1HFY2017. The decrease in gross profit is mainly attributable to decrease in revenue as compared to the same period in 2016. The gross profit margin was recorded a slight increase from 40.5% for 1HFY2016 to 40.9% for 1HFY2017.

Other gains and losses

We recorded other losses of HK\$19.8 million for 1HFY2017 as compared to losses of HK\$0.8 million for 1HFY2016. This was primarily due to inventory loss of HK\$18.8 million, and allowance for doubtful debts of HK\$10.3 million, which was partially offset by the exchanges net gain of HK\$9.3 million mainly arising from appreciation of the Renminbi and the Swiss Franc against the Hong Kong dollar.

Distribution costs

Our selling and distribution costs decreased by HK\$21.7 million or approximately 26.5% from HK\$82.0 million for 1HFY2016 to HK\$60.3 million for 1HFY2017, representing approximately 61.5% of our total revenue for 1HFY2017 (1HFY2016: approximately 62.9%). The decrease was primarily attributable to: (i) a decrease in advertising and marketing expenses of HK\$19.0 million, (ii) a decrease in depreciation of display counter of HK\$1.5 million, and (iii) a decrease in salaries and other benefit of HK\$1.7 million.



MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

Our administrative expenses decreased to HK\$27.0 million for 1HFY2017 from HK\$30.3 million for 1HFY2016, representing a decrease of HK\$3.3 million or approximately 10.9%. The decrease in administrative expenses was primarily due to a decrease in rental expense of HK\$1.6 million and other general office expenses.

Finance costs

Our finance costs increased by HK\$11.2 million or approximately 414.8% from HK\$2.7 million for 1HFY2016 to HK\$13.9 million for 1HFY2017 as a result of raising of note payable in 2016 and issuance of convertible bond during the six months ended 30 June 2017.

Taxation

Our income tax recorded a decrease from HK\$2.2 million for 1HFY2016 to HK\$1.4 million for 1HFY2017.

Loss for the period attributable to owners of our Company

Our net loss for 1HFY 2017 increased from HK\$64.6 million for 1HFY 2016 to HK\$81.6 million for 1HFY 2017, representing an increase of HK\$17.0 million or approximately 26.3%. This was mainly due to: (i) a decrease in revenue of approximately 24.8%, (ii) inventory loss of HK\$18.8 million for 1HFY 2017, (iii) an increase in allowance for doubtful debt of HK\$10.3 million, and (iv) an increase in finance cost from HK\$2.7 million for 1HFY2016 to HK\$13.9 million for 1HFY2017.

Inventory

Inventory recorded a decrease from HK\$500.6 million as at 31 December 2016 to HK\$479.3 million as at 30 June 2017.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK\$71.1 million and approximately HK\$63.0 million as at 31 December 2016 and 30 June 2017 respectively. Such decrease in trade and other receivables is attributable to decrease in trade receivable arising from decrease in sales revenue for 1HFY2017.

The Group's trade and other payables decreased from approximately HK\$46.8 million as at 31 December 2016 to approximately HK\$38.9 million as at 30 June 2017 resulting primarily from a decrease in display counter capital expenditure in 1HFY2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity, financial resources and capital structure

As at 30 June 2017, we had non-pledged cash and bank balances of HK\$18.2 million (31 December 2016: HK\$18.3 million). Based on the borrowings of HK\$177.3 million (31 December 2016: HK\$137.2 million) and shareholders' equity of HK\$436.6 million (31 December 2016: HK\$493.1 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 40.6% (31 December 2016: approximately 27.8%). As at 30 June 2017, part of our borrowing amounting to HK\$165.7 million was repayable over one year and the remaining balance amounting to HK\$11.6 million was repayable within one year.

Foreign exchange exposure

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

We monitor foreign exchange trends and will 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 (31 December 2016: HK\$1.0 million);
- (b) charges over deposits placed for a life insurance policy with a carrying amount of HK\$17.8 million (31 December 2016: HK\$17.6 million); and
- (c) charges over inventories with carrying amount of HK\$Nil (31 December 2016: HK\$244.5 million).

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during 1HFY2017.



MANAGEMENT DISCUSSION AND ANALYSIS

Future plans for material investments and capital assets

Pursuant to the Company's announcement made on 11 May 2017, the Company had entered into a non-legally binding memorandum of understanding ("**MOU**") with Mr. Sit Yau Chiu ("**Mr. Sit**"), the substantial shareholder of the Company and also the Chairman and executive director of the Company, on the proposed acquisition of the entire equity interest in Top Win International Trading Limited (the "**Proposed Acquisition**") on 10 May 2017. The total consideration of the Proposed Acquisition is expected to be HK\$50 million. As at 30 June 2017, a deposit of HK\$25 million had been paid by the Group to Mr. Sit as a deposit on the MOU and included in the non-current assets of the Group. Pursuant to the Company's announcement made on 9 August 2017, the Company and Mr. Sit have agreed to extend the expiry of the MOU until 30 November 2017 or a later date mutually agreed between the two parties as the Company and Mr. Sit are still in the process of negotiating the terms of the Proposed Acquisition.

Except mentioned above, there was no other definite future plan for material investments and acquisition of material capital assets as at 30 June 2017.

Contingent liabilities

We did not have any contingent liabilities as at 30 June 2017 (31 December 2016: Nil).

Interim dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2017 (1HFY2016: Nil).

Employees and Remuneration Policies

As at 30 June 2017, the Group had a total of 271 full-time employees, representing a decrease of approximately 0.7% compared to 273 employees as at 31 December 2016. Total staff costs for 1HFY2017 decreased to approximately HK\$29.5 million from approximately HK\$36.8 million for 1HFY2016, mainly due to the decreased number of staff in 1HFY2017.

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 (the "**Pre-IPO Share Option Scheme**") and a share option scheme (the "**Share Option Scheme**") on 24 June 2014, which became effective on 11 July 2014, the date on which the shares of the Company were initially listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" and the "**Listing Date**", respectively). Certain Directors and employees have been granted options under the Pre-IPO Share Option Scheme during FY2014. No option has been granted under the Share Option Scheme during 1HFY2017.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Prospects

Despite the PRC's luxury goods sales showing signs of recovery, the Group expects operation in the overall retail market and the premium watch market segment to remain challenging in the second half year of 2017. The Group is still prudently optimistic and will continue to focus on the PRC market and actively leverage brand positioning and effective marketing strategy to develop new POS in Europe and Asia. At present, the Group maintains more than 880 POS globally and is planning to develop new POS in the third-to-fourth-tier cities in the PRC, Europe and Asia.

The Group aims at increasing its exposure, we will strengthen advertisements on all e-commerce platforms, engage celebrities as ambassadors and conduct various and diverse promotional activities, for example, a grand new product collection launching event took place in PRC Chengdu on July 2017, all of our PRC VIP guests, watch distributors, ambassadors and medias had been invited to join the event with our Chairman and Senior Management, moreover, approximately 200 road shows have been organised in the coming future. Through these events, we could increase media coverage and brand awareness of Ernest Borel and the attractiveness of Ernest Borel's watches among business persons, as well as young and trendy consumers.

Besides, the Group will increase design capabilities in medium-high end watches and carefully devise pricing strategies by taking into account prevailing market price of watches of competitors as well as the overall economy in the PRC, and sales performance of different collections of watches. These strategies are aimed at penetrating the mid-range-to-high end consumer segment to meet the different preferences of customers and driving a stable business development and expanding the Group's market share.

Meanwhile, the Group will keep cost-control strategies and an effective resources utilisation plan in sales and distribution and administration expenses, manage and control the logistics and inventory to maintain high operational efficiency and reduce inventory costs.



MANAGEMENT DISCUSSION AND ANALYSIS

Furthermore, the Group is also exploring other business and investment opportunities to widen its source of income and return. On 10 May 2017, the Group entered into a non-legally binding memorandum of understanding in relation to a proposed acquisition of the entire issued share capital of a global luxury brand watch distribution company. The intention of the acquisition is to diversify the business scope of the Group and enhance our future development to participate in the sales of watches other than our branded watches. Hence, the acquisition will strengthen our revenue base and leverage our global distribution network and channels to develop our brand in new markets.

Looking ahead, the Group remains open to new investment opportunities and looks forward to maximizing value for shareholders in the long run.

Events after the Reporting Period

With effect from 24 July 2017, Mr. Pan Di resigned as a non-executive director of the Company in order to devote more time to his other business commitments.

With effect from 1 August 2017, Mr. Choi Tze Kit Sammy (“**Mr. Choi**”) resigned as an independent non-executive director of the Company in order to devote more time to his other business commitments. Accordingly, Mr. Choi ceased to be a member of each of the audit committee, the remuneration committee and the nomination committee of the Company.

For details, please refer to the Company’s announcements dated 24 July 2017 and 1 August 2017 in relation to the resignation of directors and member of the Board committees.

DISCLOSURE OF INTERESTS

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

As at 30 June 2017, the interests or short positions of the Directors and the chief executive in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be recorded in the register referred to therein or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, are as follows:

Long Positions in the Company's Shares

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

Notes:

- (1) Top One Global Holdings Limited ("Top One") is a company wholly-owned and controlled by Mr. Sit. Mr. Sit is therefore deemed to be interested in the shares held by Top One.
- (2) Prime Route Investment Limited ("Prime Route") is a company wholly-owned and controlled by Mr. Xiong. Mr. Xiong is therefore deemed to be interested in the shares held by Prime Route.
- (3) Calculated based on the number of issued Shares as at 30 June 2017 (i.e. 347,437,000 shares).

Saved as disclosed above, as at 30 June 2017, none of the Directors and the chief executive of the Company and their respective associates had or was deemed to have any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DISCLOSURE OF INTERESTS

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 30 June 2017, the persons or corporations (not being a Director or chief executive of the Company) who or which had an interest or short position in the Shares and underlying Shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Long Position in the Company's Shares

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

Notes:

- (1) Top One is a company wholly-owned and controlled by Mr. Sit. Mr. Sit is therefore deemed to be interested in the shares held by Top One.
- (2) Sense Control is a company wholly-owned and controlled by Mr. Lin. Mr. Lin is therefore deemed to be interested in the shares held by Sense Control.
- (3) Prime Route is a company wholly-owned and controlled by Mr. Xiong. Mr. Xiong is therefore deemed to be interested in the shares held by Prime Route.
- (4) Calculated based on the number of issued Shares as at 30 June 2017 (i.e. 347,437,000 shares).

Save as disclosed above, as at 30 June 2017, the Directors were not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

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 23 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.

DISCLOSURE OF INTERESTS

Details of the change of the Tranche 1 Options⁽¹⁾ and Tranche 2 Options⁽²⁾ granted under the Pre-IPO Share Option Scheme as at 30 June 2017 are as follows:

Grantees	Tranche	Exercise price Per Share	Balance as at 1 January 2017	Exercised from 1 January to 30 June 2017	Cancelled/ Lapsed during the Period	Balance as at 30 June 2017
Director						
Ms. Liu Libing ⁽³⁾	1	HK\$2.40	–	–	–	–
	2	HK\$3.00	396,397	–	(396,397)	–
Sub-total			–	–	–	–
Other employees	1	HK\$2.40	–	–	–	–
	2	HK\$3.00	2,738,079	–	(660,662)	2,077,417
Total			3,134,476		(1,057,059)	2,077,417

Notes:

1. Tranche 1 Options vested on 11 July 2014.
2. Tranche 2 Options vested on 11 July 2015.
3. Ms. Liu Libing retired as the executive director with effect from 26 May 2017.

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

The total number of Shares available for issue under the Pre-IPO Share Option Scheme is 2,077,417 Shares, representing approximately 0.6% of the Company's issued Shares as at 30 June 2017.

Further details of the Pre-IPO Share Option Scheme are set out in note 23 to the consolidated financial statements.

DISCLOSURE OF INTERESTS

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 interim 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.



DISCLOSURE OF INTERESTS

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 independent non-executive director 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 interim report, no share options were granted, exercised or cancelled or lapsed under the Share Option Scheme.

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Code provision A.6.7 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the “**Corporate Governance Code**”) provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Xiong Wei and Ms. Liu Libing, the executive directors, Mr. Pan Di and Ms. Lou Liuqing, the non-executive directors, were unable to attend the Company’s annual general meeting held on 26 May 2017 due to other business engagements.

Code Provision A.2.1

Pursuant to 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. The Board believes that the balance of power and authority is adequately ensured by the composition of the existing Board.

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 throughout the Period.

Non-Compliance with Rule 3.10(1) and Rule 3.10A of the Listing Rules

Pursuant to Rule 3.10(1) and Rule 3.10A of the Listing Rules, every board of directors of a listed issuer must include at least three independent non-executive directors and the independent non-executive directors of a listed issuer must represent at least one-third of the board of directors.

As at the date of this interim report, the Board comprises 2 executive directors, 2 non-executive directors and 2 independent non-executive directors. The number of independent non-executive directors represents less than one-third of the Board as required under Rule 3.10(1) and Rule 3.10A of the Listing Rules. The Company will take all necessary measures to comply with Rule 3.10(1) and Rule 3.10A of the Listing Rules.

Non-Compliance with Rule 3.21 and Rule 3.25 of the Listing Rules

Pursuant to the Rule 3.21 and Rule 3.25 of the Listing Rules, the remuneration committee of a listed issuer must be chaired by an independent non-executive director and comprising a majority of independent non-executive directors.

As at the date of this interim report, Mr. Choi left the post of the member of the Remuneration Committee vacant and the members of the Remuneration Committee did not comprise of a majority of independent non-executive directors. The Company will take all necessary measures to comply with Rules 3.21 and 3.25 of the Listing Rules.



CORPORATE GOVERNANCE AND OTHER INFORMATION

Non-Compliance with Code provision A.5.1 of the Corporate Governance Code

Pursuant to the Code provision A.5.1, the Nomination committee of a listed issuer must be chaired by an independent non-executive director and comprising a majority of independent non-executive directors.

As at the date of this interim report, Mr. Choi left the post of the member of the Nomination Committee vacant and the members of the Nomination Committee did not comprise of a majority of independent non-executive directors. The Company will take all necessary measures to comply with Code provision A.5.1.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has since 24 June 2014 adopted the Model Code as 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 of the Company, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the Period.

REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On 24 June 2014, our Board established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C3 of the Corporate Governance Code. The duties of our Audit Committee are, among others, to make recommendations to our Board on the appointment, re-appointment and removal of external auditors, and to assist our Board in fulfilling its responsibilities by providing an independent review and supervision of our financial and other reporting, by reviewing our internal control, risk management systems and internal audit functions.

During the Period, the Audit Committee comprises all of our three independent non-executive directors, namely Mr. Lo Chi Chiu, Mr. Choi and Mr. To Chun Kei, with Mr. Lo Chi Chiu being the chairman of the Audit Committee. Our unaudited interim results and the interim report for the Period have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results and report complied with the applicable accounting standards and requirements, and that adequate disclosures have been made. The Audit Committee has recommended the Board to adopt the same.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchases, sold or redeemed any of the Company’s listed securities during the Period.

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	NOTES	For the six months ended 30 June	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Revenue	3	98,018	130,322
Cost of sales		(57,912)	(77,478)
Gross profit		40,106	52,844
Other gains and losses	4	(19,800)	(790)
Other income	5	657	552
Distribution expenses		(60,304)	(82,038)
Administrative expenses		(27,000)	(30,316)
Finance costs	6	(13,887)	(2,711)
Loss before tax		(80,228)	(62,459)
Income tax expense	7	(1,360)	(2,160)
Loss for the period	8	(81,588)	(64,619)
Other comprehensive income (expense)			
<i>Item that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit scheme		—	(2,419)
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		10,591	1,327
Other comprehensive income (expense) for the period		10,591	(1,092)
Total comprehensive expense for the period		(70,997)	(65,711)
Loss per share — (expressed in HK cents)			
Basic	10	(23.48)	(18.60)
Diluted	10	(23.48)	(18.60)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	55,371	70,964
Deposits placed for life insurance policies		17,847	17,579
Deposit paid for acquisition of a subsidiary	12	25,000	–
Deferred tax assets		7,450	8,449
		105,668	96,992
Current assets			
Inventories		479,332	500,629
Trade and other receivables	13	63,012	71,143
Amounts due from related parties	14	–	50
Tax recoverable		7,071	7,071
Pledged bank deposits		1,026	1,022
Bank balances and cash		18,197	18,272
		568,638	598,187
Current liabilities			
Trade and other payables	15	38,899	46,754
Tax payable		1,899	1,263
Bank and other borrowings	16	11,561	57,246
		52,359	105,263
Net current assets		516,279	492,924
Total assets less current liabilities		621,947	589,916
Non-current liabilities			
Deferred tax liabilities		14,320	12,102
Pension obligation		5,324	4,744
Note payable	17	80,000	80,000
Convertible bond	18	85,739	–
		185,383	96,846
Net assets		436,564	493,070
Capital and reserves			
Share capital	19	3,474	3,474
Reserves		433,090	489,596
Total equity		436,564	493,070

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Share capital HKD'000	Share premium HKD'000	Other reserve HKD'000 (note 1)	Share option reserve HKD'000	Convertible bond equity reserve HKD'000	Actuarial gain and loss reserve HKD'000	General reserve HKD'000 (note 2)	Translation reserve HKD'000	Retained profits HKD'000	Total HKD'000
At 1 January 2016 (audited)	3,474	182,099	15,500	4,750	-	(4,161)	1,547	(263)	438,458	641,404
Loss for the period	-	-	-	-	-	-	-	-	(64,619)	(64,619)
Other comprehensive (expense) income for the period	-	-	-	-	-	(2,419)	-	1,327	-	(1,092)
At 30 June 2016 (unaudited)	3,474	182,099	15,500	4,750	-	(6,580)	1,547	1,064	373,839	575,693
At 1 January 2017 (audited)	3,474	182,099	15,500	2,451	-	(2,721)	1,547	(5,026)	295,746	493,070
Loss for the period	-	-	-	-	-	-	-	-	(81,588)	(81,588)
Other comprehensive income for the period	-	-	-	-	-	-	-	10,591	-	10,591
Total comprehensive income (expense) for the period	-	-	-	-	-	-	-	10,591	(81,588)	(70,997)
Lapse of share option	-	-	-	(826)	-	-	-	-	826	-
Recognition of equity component of convertible bond (note 18)	-	-	-	-	16,288	-	-	-	-	16,288
Deferred tax liabilities on recognition of equity component of convertible bond	-	-	-	-	(1,797)	-	-	-	-	(1,797)
At 30 June 2017 (unaudited)	3,474	182,099	15,500	1,625	14,491	(2,721)	1,547	5,565	214,984	436,564

Notes:

- 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.
- 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).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017	2016
	HKD'000	HKD'000
	(Unaudited)	(Unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(12,120)	7,565
INVESTING ACTIVITIES		
Deposit paid for acquisition of a subsidiary	(25,000)	–
Additions of property, plant and equipment	(9,676)	(15,830)
Interest received	39	38
Repayment from related parties	50	–
Proceeds from disposal of property, plant and equipment	–	80
NET CASH USED IN INVESTING ACTIVITIES	(34,587)	(15,712)
FINANCING ACTIVITIES		
Proceeds from issue of convertible bond	98,500	–
New bank and other borrowing raised	9,341	51,379
Repayment of bank and other borrowings	(55,026)	(79,235)
Interest paid	(6,738)	(2,567)
Advance from a substantial shareholder	–	20,000
NET CASH FROM (USED IN) FINANCING ACTIVITIES	46,077	(10,423)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(630)	(18,570)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	18,272	62,325
Effect of foreign exchange rate changes	555	14
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	18,197	43,769

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the International Accounting Standard 34 (“**IAS 34**”) “Interim Financial Reporting” issued by the International Accounting Standards Board (“**IASB**”) as well as the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange (the “**Listing Rules**”).

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for defined benefit scheme, which are measured at fair value.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2016.

Convertible bond

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

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

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

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of amendments to International Financial Reporting Standards (“IFRSs”)

In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“IFRSs”) issued by IASB that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The application of the above amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received or receivable for the sales of watches products, less returns and trade discounts, during the interim period.

The Group’s principal activities are manufacturing and sales 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 amount presented in the condensed consolidated statement of profit or loss and other comprehensive income and the condensed consolidated statement of financial position. Entity wide segment information is set out below.

Revenue from major products

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

	For the six months ended 30 June	
	2017	2016
	HK\$’000	HK\$’000
	(Unaudited)	(Unaudited)
Mechanical watches	65,330	92,088
Quartz watches	30,732	37,501
Others	1,956	733
	98,018	130,322

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

Geographical information

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

	Revenue from external customers For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC	81,246	100,425
Hong Kong and Macau	5,084	12,357
Southeast Asia	9,004	13,109
Others	2,684	4,431
	98,018	130,322

	Non-current assets	
	As at	As at
	30 June	31 December
	2017	2016
	HKD'000	HKD'000
	(Unaudited)	(Audited)
PRC	20,876	34,310
Hong Kong and Macau	2,393	5,765
Switzerland	32,102	30,889
	55,371	70,964

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

4. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fair value gain on derivative financial instruments	–	285
(Loss) gain on disposal of property, plant and equipment	(4)	75
Exchange gain (loss), net	9,285	(1,150)
Allowance for doubtful debts	(10,297)	–
Loss of inventory	(18,784)	–
	(19,800)	(790)

5. OTHER INCOME

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on life insurance contracts	336	346
Bank interest	43	41
Maintenance services	48	63
Sundry	230	102
	657	552

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

6. FINANCE COSTS

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on:		
Bank and other borrowings	219	2,711
Note payable	5,456	–
Convertible bond	8,212	–
	13,887	2,711

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax (note i)	–	–
Switzerland income tax (note ii)	712	1,449
PRC Enterprise Income Tax (note iii)	–	–
	712	1,449
Deferred tax charge	648	711
Income tax expense for the period	1,360	2,160

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

7. INCOME TAX EXPENSE (Continued)

Notes:

(i) Hong Kong

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

(ii) Switzerland

Switzerland income tax is calculated at certain tax rates on the assessable income for both periods. Under relevant Tax Law in Switzerland, the Group's subsidiary incorporated in Switzerland was subject to Direct Federal Tax ("DFT") of 8.5% (six months ended 30 June 2016: 8.5%) and Cantonal Communal Tax ("CCT") of 16.55% (six months ended 30 June 2016: 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 periods.

(iii) PRC

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

8. LOSS FOR THE PERIOD

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss for the period has been arrived at after charging:		
Allowance for doubtful debts	10,297	—
Allowance for inventories	2,670	4,563
Cost of inventories recognised as expenses	47,417	62,709
Depreciation of property, plant and equipment	19,178	21,334
Loss of inventory	18,784	—
Operating lease rental in respect of rented premises	11,106	13,409

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

9. DIVIDEND

No dividends were paid or proposed for ordinary shareholders of the Company during the period ended 30 June 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

10. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the period ended 30 June 2017 is based on the loss attributable to the owners of the Company of HK\$81,588,000 (six months ended 30 June 2016: HK\$64,619,000) and on the weighted average number of 347,437,000 (six months ended 30 June 2016: 347,437,000) ordinary shares in issue during the period.

The computation of diluted loss per share for the period ended 30 June 2016 and 2017 does not assume the exercise of the Company's share options and convertible bond because the exercise prices of the share options and convertible bond were higher than the average market price for both periods.

11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2017, the Group acquired property, plant and equipment of HKD1,447,000 (six months ended 30 June 2016: HKD21,809,000).

12. DEPOSIT PAID FOR ACQUISITION OF A SUBSIDIARY

Pursuant to the Company's announcement made on 11 May 2017, the Company had entered into a non-legally binding memorandum of understanding ("**MOU**") with Mr. Sit Yau Chiu ("**Mr. Sit**"), the substantial shareholder of the Company and also the Chairman and executive director of the Company, on the proposed acquisition of entire equity interest in Top Win International Trading Limited (the "**Proposed Acquisition**") on 10 May 2017. The total consideration of the Proposed Acquisition is expected to be HK\$50,000,000. As at 30 June 2017, a deposit of HK\$25,000,000 had been paid by the Group to Mr. Sit as a deposit on the MOU and included in the non-current assets of the Group. The deposit is refundable in case of failure entering into a formal acquisition agreement between the Company and Mr. Sit within three months from the date of MOU or at a later date mutually agreed between the two parties. In case a formal acquisition agreement will be entered between the Company and Mr. Sit, the deposit paid will be used to settle as part of the consideration of the Proposed Acquisition and the remaining consideration will be settled upon the completion of the Proposed Acquisition. The Proposed Acquisition has not yet completed at the date of approval for the issuance of the condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

13. TRADE AND OTHER RECEIVABLES

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Trade receivables	61,302	57,390
Less: allowance for doubtful debts	(11,116)	(725)
	50,186	56,665
Other receivables	642	2,610
Other tax recoverable	3,741	1,569
Prepayment	5,842	5,172
Deposits	2,601	5,127
	12,826	14,478
	63,012	71,143

The Group allows 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 respective revenue recognition dates:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
0-90 days	32,431	37,510
91-180 days	8,200	13,221
181-270 days	4,784	887
Over 270 days	4,771	5,047
	50,186	56,665

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

14. AMOUNTS DUE FROM RELATED PARTIES

The amounts were unsecured, interest-free and repayable on demand. No collateral is held over these balances by the Group.

15. TRADE AND OTHER PAYABLES

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Trade payables	11,101	12,785
Other payable	19,433	24,043
Accruals	8,365	9,926
	38,899	46,754

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

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
1-30 days	6,447	2,738
31-60 days	4,079	3,738
Over 60 days	575	6,309
	11,101	12,785

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

16. BANK AND OTHER BORROWINGS

	As at 30 June 2017 HKD'000 (Unaudited)	As at 31 December 2016 HKD'000 (Audited)
Bank loan	5,066	36,266
Import trade loans	6,495	5,980
Other borrowing	–	15,000
	11,561	57,246
Analysed as:		
Secured	10,361	39,846
Unsecured	1,200	17,400
	11,561	57,246

During the period ended 30 June 2017, the Group obtained additional bank and other borrowings of HK\$9,341,000 (six months ended 30 June 2016: HK\$51,379,000) and repaid bank and other borrowings of HK\$55,026,000 (six months ended 30 June 2016: HK\$79,235,000).

All the Group's bank borrowings are variable-rate borrowings which carry interest at Hong Kong Interbank Offered Rate or London Interbank Offered Rate plus certain basis points. Interest is repricing every six months and the effective interest rates is ranging from 3.04% to 4.22% per annum for the period ended 30 June 2017 (six months ended 30 June 2016: 1.77% to 3.76% per annum).

Details of assets that have been pledged as collateral to secure bank borrowings are set out in note 22.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

17. 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.

In accordance with the covenant of the note payable with a carrying amount of HK\$80,000,000 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 30 June 2017, the consolidated net assets of the Group amounted to HK\$436,564,000 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; and (ii) internally generated funds of the Group.

18. CONVERTIBLE BOND

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

The major terms of the convertible bond are as follows:

(i) Conversion by the bondholder

The bondholder may at any time before the maturity date require the Company to convert the whole or any part of the outstanding principal amount of the convertible bond into shares. The initial conversion price will be HK\$2.00 per conversion share, subject to any adjustment from time to time.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

18. CONVERTIBLE BOND *(Continued)*

(ii) Redemption at maturity

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

(iii) Redemption at the option of the Company

The Company may at any time after the first anniversary of the issue date and from time to time, upon the Company giving thirty days prior written notice bondholder, the Company may redeem all or any such bond at the outstanding principal amount plus accrued and unpaid interests on such date.

At initial recognition, the equity component of the convertible bond was separated from the liability component. The equity element is presented in equity heading “convertible bond equity reserve”. The early redemption option is considered as closely related to the host debt. The effective interest rate of the liability component is 21.10% per annum.

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

	HKD'000
Issue value on 11 January 2017	82,212
Interest charged (note 6)	8,212
Interest paid	(2,466)
At 30 June 2017	87,958
Less: Amount due within one year (note)	(2,219)
Amount due after one year	85,739

note: The amount represented interest payable and included in other payables.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

19. SHARE CAPITAL

	Number of ordinary shares '000	Par value HK\$	Amount HK\$'000
Authorised:			
At 1 January 2016, 30 June 2016, 31 December 2016 and 30 June 2017	10,000,000	0.01	100,000
Issued and fully paid:			
At 1 January 2016, 30 June 2016, 31 December 2016 and 30 June 2017	347,437	0.01	3,474

Details of the exercise of Pre-IPO share option scheme are set out in note 23.

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

20. CAPITAL COMMITMENTS

At the end of the reporting period, the Group has the following capital commitment:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	1,116	1,043

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

21. OPERATING LEASE COMMITMENT

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

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Within one year	8,474	12,689
In the second to fifth years inclusive	10,140	15,278
	18,164	27,967

As at 31 December 2016, included in the above was future lease payments with a related party of HK\$500,000 as at 31 December 2016 and the Group had commitments for future minimum lease payments for premises under non-cancellable operating leases. Such person has ceased to be a related party of the Group since 17 March 2017.

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Within one year	–	400
In the second to fifth years inclusive	–	100
	–	500

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

22. PLEDGE OF ASSETS

The Group's bank borrowings are secured by:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Fixed charges over time deposits	1,026	1,022
Fixed charges over deposits placed for life insurance policies	17,847	17,579
Floating charges over inventories	–	244,509

23. SHARE-BASED PAYMENT TRANSACTIONS

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

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

At 30 June 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 2,077,417 shares (31 December 2016: 3,134,476 shares), representing 0.60% (31 December 2016: 0.90%) 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

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

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

Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	Fair value at grant date HK\$
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 period ended 30 June 2017 and 2016.

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

Type of participant	Exercise price HK\$	Outstanding at 1 January 2017	Lapsed during the period	Outstanding at 30 June 2017 (note)
Director	3.00	396,397	(396,397)	–
Employee	3.00	2,738,079	(660,662)	2,077,417
		3,134,476	(1,057,059)	2,077,417

During the period ended 30 June 2017, 1,057,059 share option has lapsed.

During the period ended 30 June 2017, based on the directors' best estimate, there is no change to the variables and assumptions used in computing the fair value of the share options at grant date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

24. RELATED PARTY DISCLOSURES

- (i) During the interim period, the Group entered into following transactions with related parties:

Name of related company	Relationship	Nature of transaction	For the six months period ended 30 June	
			2017 HKD'000 (Unaudited)	2016 HKD'000 (Unaudited)
Mr. Su Ran	Brother of one of the senior management (in which the employment of senior management was terminated on 17 March 2017)	Rental expense	–	213
Mr. Chan Kin Sun	Substantial shareholder (who has disposal his share since October 2016)	Interest expense	–	46

- (ii) Details of the outstanding balances with related parties are set out in the condensed consolidated statement of financial position and in notes 12 and 14.
- (iii) A director of the Group has provided guarantees to the note holder amounting to HK\$80,000,000 as at 30 June 2017 and 31 December 2016 to secure the note payable issued by the Group as disclosed in note 17.

A director of the Group has provided guarantees to the convertible bond holder amounting to HK\$100,000,000 as at 30 June 2017 to secure the convertible bond issued by the Group as disclosed in note 18.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

24. RELATED PARTY DISCLOSURES *(Continued)*

- (iv) The remuneration paid and payable to the members of key management, who are the directors and the five highest paid individuals during the current period is as follows:

	For the six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short term benefits	4,583	3,304
Post employment benefits	85	117
	4,668	3,421

The remuneration of key executives who were the directors and other members of key management personnel are determined by reference to the performance of individuals and market trends.

25. EVENT AFTER THE REPORTING PERIOD

As set out in note 12, the Company had entered into a MOU with Mr. Sit on the proposed acquisition of entire equity interest in Top Win International Trading Limited on 10 May 2017 and a refundable deposit of HK\$25,000,000 had been paid by the Company on the MOU. Pursuant to the Company's announcement made on 9 August 2017, the Company and Mr. Sit have agreed to extend the expiry of the MOU until 30 November 2017 or at a later date mutually agreed between the two parties as the Company and Mr. Sit are still in the process of negotiating the terms of the Proposed Acquisition.