



**ERNEST  
BOREL**

1856

## Ernest Borel Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1856



Interim Report  
**2014**

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# CORPORATE INFORMATION

## DIRECTORS

### Executive directors

Mr. Su Da (*Chairman*)

Mr. Wong Pong Chun James

Ms. Liu Libing

### Non-executive directors

Mr. Chan Kwan Pak Gilbert

Mr. Pan Di

### Independent Non-executive directors

Mr. Zhang Huaqiao

Mr. Lo Chi Chiu

Mr. Cheung Kam Min Mickey

## COMPANY SECRETARY

Mr. Lau Fan Yu

## AUDIT COMMITTEE

Mr. Lo Chi Chiu (*Chairman*)

Mr. Zhang Huaqiao

Mr. Cheung Kam Min Mickey

## REMUNERATION COMMITTEE

Mr. Lo Chi Chiu (*Chairman*)

Mr. Wong Pong Chun James

Mr. Zhang Huaqiao

Mr. Cheung Kam Min Mickey

## NOMINATION COMMITTEE

Mr. Su Da (*Chairman*)

Mr. Zhang Huaqiao

Mr. Lo Chi Chiu

Mr. Cheung Kam Min Mickey

## AUTHORISED REPRESENTATIVES

Mr. Wong Pong Chun James

Mr. Lau Fan Yu

## COMPANY'S WEBSITE

[www.ernestborel.ch](http://www.ernestborel.ch)

## REGISTERED OFFICE

P.O. Box 309, Ugland House

Grand Cayman KY1-1104

Cayman Islands

## HEAD OFFICE IN SWITZERLAND

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Switzerland

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People's Republic of China

## PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN HONG KONG

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## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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Cayman Islands

**HONG KONG BRANCH  
SHARE REGISTRAR AND  
TRANSFER OFFICE**

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Level 22, Hopewell Centre  
183 Queen's Road East  
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**INDEPENDENT AUDITOR**

Deloitte Touche Tohmatsu  
Certified Public Accountants

**COMPLIANCE ADVISER**

Messis Capital Limited

**PRINCIPAL BANKER**

Hang Seng Bank Limited

**LEGAL ADVISERS**

As to Hong Kong law  
Orrick, Herrington & Sutcliffe

**WEBSITE**

[www.ernestborel.ch](http://www.ernestborel.ch)

## FINANCIAL HIGHLIGHTS

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

The board of directors (the “Directors”) of the Company (the “Board”) is pleased to announce the unaudited condensed consolidated results of our Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2014, together with the relevant comparative figures.

- Turnover for the six months ended 30 June 2014 (1HFY2014) decreased from HK\$285.8 million to HK\$271.8 million when compared with the corresponding period of last year (1HFY2013).
- Gross margin increased from approximately 63.1% for 1HFY2013 to approximately 67.2% for 1HFY2014. Gross profit for 1HFY2014 increased from HK\$180.4 million for 1HFY2013 to HK\$182.7 million.
- Profit after tax for 1HFY2014 decreased by approximately 64.6% from HK\$38.2 million for 1HFY2013 to HK\$13.5 million, mainly due to HK\$18.5 million listing expenses for 1HFY2014 against HK\$0.1 million in 1HFY2013. Excluding the impact of listing expense, Profit after tax for 1HFY2014 decreased by approximately 16.4% from HK\$38.3 million for 1HFY2013 to HK\$32.0 million.
- Earnings per share decreased from 13.6 HK cents in 1HFY2013 to 4.8 HK cents in 1HFY2014.
- Net asset value increased to 166.5 HK cents per share as at 30 June 2014 as compared to 162.0 HK cents per share as at 31 December 2013.

## BUSINESS REVIEWS

On 11 July 2014, our Shares were successfully listed on the main board of the Stock Exchange, marking an important milestone in our development.

We are one of the oldest Swiss premium watchmakers in Switzerland established since 1856 with 158 years heritage. Today, our Group is directly involved in a full breadth of operations, spanning from design, production, marketing and sale of mechanical and quartz premium watches under our own brand Ernest Borel (依波路), with particular focus on watches for couples. We have established an extensive distribution network that taps into the lucrative retail markets in the People's Republic of China (the "PRC", and for the purpose of this report, excludes Hong Kong Special Administrative Region ("Hong Kong"), Macau Special Administrative Region ("Macau") and Taiwan), Hong Kong, Macau and Southeast Asia. As at 30 June 2014, our Group has a total of 1,019 points of sale ("POS"), which have increased significantly from 969 POS as at 31 December 2013.

During the first six months of 2014, our Group demonstrated once again its horological mastery with the launch of 17 new models, thus adding such new models to our existing product offerings to a total of over 20 different collections of mechanical and quartz watches, comprising more than 208 models. As the latest collection has been warmly received by the market, revenue has decreased modestly by approximately 4.9% to HK\$271.8 million during the period as compared to the previous corresponding period, despite the competitive operating environment and a delay in the placement of orders as retailers and distributors have generally waited for the launch of our new watch models at the end of June 2014. Retailers and distributors have started placing orders soon after the launch and such sales will be reflected in the second half of 2014.

However, profit attributable to equity holders decreased to HK\$13.5 million for the six months ended 30 June 2014 (30 June 2013: HK\$38.2 million) due to a non-recurring listing expense of HK\$18.5 million that was recognised during the period. Excluding the impact of listing expense, profit attributable to equity holder decreased by approximately 16.4% from HK\$38.3 million for the six months ended 30 June 2013 to HK\$32.0 million for the six months ended 30 June 2014. The decrease was mainly due to Renminbi depreciation during the period whereby we recognised a foreign exchange loss during the period of HK\$6.1 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## The PRC Market

As part of our effort to continuously increase our presence in the PRC market, we had a total of 848 POS operated by more than 176 watch retailers across 23 provinces, autonomous regions and municipalities in the PRC as at 30 June 2014, and increased from 817 POS as at 31 December 2013.

Revenue generated from the PRC declined to HK\$203.3 million from HK\$223.9 million of the corresponding period last year, representing a decrease of approximately 9.2%, and accounted for approximately 74.8% of our total revenue. The decline was principally due to the delay in orders placed by our customers until the launch of our new watch models at the end of June 2014. Nonetheless, our management remains confident of our business in the PRC given the positive response that it has received since the launch of our latest timepiece collection at the retailers' conference. Further optimism can be drawn from the fact that according to a report issued by Frost & Sullivan (Beijing) Inc., Shanghai Branch Co. (the "Frost & Sullivan Report") as referred to in the prospectus of our Company dated 30 June 2014 (the "Prospectus"), the growth of the PRC luxury goods retail market is expected to maintain strong growth and become the leading luxury goods market in the world in the future, with the retail sales value of the premium watch market in the PRC projected to increase at a CAGR of approximately 20% from 2013 to 2018, reaching RMB27.2 billion in 2014. Hence, we believe we are positioned for the immense opportunities offered by the PRC luxury goods retail market.

It is worth noting as well that according to Frost & Sullivan Report, we ranked fourth in the premium watch market in the PRC in 2013 and ranked second in the premium couples watch market in the PRC in 2013, based on total retail sales value and retail sales volume in 2013. Our management will remain fully committed to sustaining our growth momentum, and will prudently increase the number of POS in the PRC as opportunities arise.

## Hong Kong, Macau and Southeast Asia Markets

While the PRC retail market possesses immense growth potential, the Hong Kong retail market is already the largest Swiss watch import market in the world, according to the Frost & Sullivan Report, and valued at USD4.4 billion in 2013. The luxury good retail industry in Hong Kong and Macau can be credited to the influx of high net worth and middle class visitors from the PRC. With these macroeconomic factors and our efforts in marketing and branding of our products, revenue from this business segment has steadily risen, amounting to HK\$64.4 million as at the end of the reporting period as compared to HK\$57.8 million as at the end of the same period the previous year.

As at the end of the reporting period, we have 150 POS in the Hong Kong, Macau and Southeast Asia markets, as compared to 135 POS as at 31 December 2013.

## FINANCIAL REVIEWS

### Revenue and segment information

Our revenue has decreased by HK\$13.9 million, or approximately 4.9% from HK\$285.7 million for the six months ended 30 June 2013 ("1HFY2013") to HK\$271.8 million for the six months ended 30 June 2014 ("1HFY2014"). The decrease was mainly attributable to the delay in orders placed by our customers until the launch of our new watch models at the end of June 2014.

### Performance by major products

#### Mechanical watches

Revenue in sales of mechanical watches remained relatively stable with a slight decrease of approximately 0.2% from HK\$197.2 million for 1HFY2013 to HK\$196.8 million for 1HFY2014.

#### Quartz watches

Revenue in sales of quartz watches decreased by approximately 15.3% from HK\$88.2 million for 1HFY2013 to HK\$74.7 million for 1HFY2014. The decrease was mainly attributable to the change in product mix during the period as the total revenue was decreased and sales of mechanical watches remain stable, the sales of quartz watches decreased as a result.

### Performance by geographical locations

#### The PRC market

The PRC continues to be our major market, representing approximately 74.8% of our revenue for 1HFY2014. Sales in this region showed a decrease of approximately 9.2% from HK\$223.9 million for 1HFY2013 to HK\$203.3 million for 1HFY2014. The decline was mainly attributable to the delay in orders placed by our customers until the launch of our new watch models at the end of June 2014.

#### Hong Kong, Macau and Southeast Asia markets

Hong Kong, Macau and Southeast Asia markets accounted for approximately 23.7% of our total revenue for 1HFY2014. Sales in this market increased by approximately 11.4% from HK\$57.8 million 1HFY2013 to HK\$64.4 million for 1HFY2014. The increase was mainly attributable to increase our number of POS from 112 for 1HFY2013 to 150 for 1HFY2014, thereby increasing our exposure in the market.

#### Other markets

Revenue from other markets, namely, markets in the United States and Europe, remained relatively stable and recorded a marginal increase from HK\$4.0 million for 1HFY2013 to HK\$4.1 million for 1HFY2014.



# MANAGEMENT DISCUSSION AND ANALYSIS

## Gross profit

Our gross profit increased by HK\$2.3 million or approximately 1.3% from HK\$180.4 million for 1HFY2013 to HK\$182.7 million for 1HFY2014, while the gross profit margin improved to approximately 67.2% for 1HFY2014 from approximately 63.1% for 1HFY2013. The increase in gross profit and improvement in gross profit margin was primarily due to (i) increase in sales contribution of mechanical watches from approximately 69.0% for 1HFY2013 to approximately 72.4% for 1HFY2014 of our total revenue; (ii) the increase in our average selling price of watches during period; and (iii) both other production costs and subcontracting costs decreased as compared with 1HFY2014 as the result of our costs control.

## Other gains and losses

We recorded other losses of HK\$6.4 million for 1HFY2014 as compared to other gains of HK\$2.7 million for 1HFY2013. This was primarily due to the exchange net loss of HK\$6.1 million arising from depreciation of HK\$ against other currencies such as USD, CHF and RMB.

## Distribution costs

Our selling and distribution costs decreased by HK\$8.1 million or approximately 7.3% from HK\$110.7 million for 1HFY2013 to HK\$102.6 million for 1HFY2014, representing approximately 37.7% of our total revenue for 1HFY2014 (1HFY2013: approximately 38.7%). The slight decrease was primarily attribute to a decrease in advertising and marketing expenses from HK\$68.9 million for 1HFY2013 to HK\$55.1 million for 1HFY2014 as we decreased the scale of our marketing and advertising activities during our listing application process, which partially offset by an increase in depreciation expenses from HK\$14.1 million for 1HFY2013 to HK\$17.1 million 1HFY2014 due to the depreciation of additional display counters for new POS set up in 1HFY2014 and maintenance of display counters in existing POS.

## Administrative expenses

Our administrative expenses increased to HK\$29.5 million for 1HFY2014 from HK\$26.5 million for 1HFY2013, representing an increase of HK\$3.0 million or approximately 11.3%, primarily due to an increase in staff salaries and office rental expenses.

## Listing expenses

Our listing expenses increased by HK\$18.4 million to HK\$18.5 million for 1HFY2014 from HK\$0.1 million for 1HFY2013. This increase was primarily due to an increase in professional fees paid during 1HFY2014 in relation to the listing and the global offering of the Shares, where our Shares were listed on the main board of the Stock Exchange on the Listing Date.

## Finance costs

Our finance costs increased by HK\$0.8 million or approximately 47.1% from HK\$1.7 million for 1HFY2013 to HK\$2.5 million for 1HFY2014 as a result of increased bank borrowings during the reporting period.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Taxation

Our income tax increased from HK\$6.8 million for 1HFY2013 to HK\$10.2 million for 1HFY2014, representing an increase of HK\$3.4 million or approximately 50.0%. This increase was primarily attributable to the occurrence of deferred tax expense amounting to HK\$3.6 million for 1HFY2014 as compared to deferred tax income amounting to HK\$2.7 million for 1HFY2013, and we commenced to incur PRC enterprise income tax for 1HFY2014 for profit generated by Ernest Borel (Guangzhou) Trading Co., Ltd., our wholly owned subsidiary in the PRC, during the period.

## Profit for the period attributable to owners of our Company

For the factors above, and primarily due to a non-recurring listing expense of HK\$18.5 million that was recognised during the period, our net profit for the period decreased by HK\$24.7 million or approximately 64.7% from HK\$38.2 million for 1HFY2013 to HK\$13.5 million for 1HFY2014 and that the net profit margin declined from approximately 13.4% for 1HFY2013 to approximately 5.0% for 1HFY2014. Excluding the impact of listing expense, profit for the period decreased by approximately 16.4% from HK\$38.3 million to HK\$32.0 million. The decrease was mainly due to Renminbi depreciation during the period whereby a foreign exchange loss of HK\$6.1 million was recognised during the period.

## Inventories

Inventories were HK\$524.8 million as at 30 June 2014, representing an increase of HK\$100.4 million, or approximately 23.7%, from HK\$424.4 million as at 31 December 2013.

The increase in inventory were mainly attributable to five main reasons. Firstly, we accumulated spare raw materials and work-in-progress for the planned production volume increase to ensure sufficient and steady supply in light of increasing demand for our watches as a result of POS additions during 1HFY2014. Secondly, an increase in watch movement reserves for contingency purposes considering in the case that one of our watch suppliers decided to withdraw the supply of mechanical movements to third parties. Thirdly, an increased number of work-in-progress and finished goods as we added new models during 1HFY2014 to better cater to the tastes and preference of our end-customers along with the expansion of our distribution network in different markets and thereby warranted a correspondingly increasing stockpile. Fourthly, the longer time involves in terms of selling premium branded watches as compared to branded watches to end customers because premium brands rarely offer discounts for the purpose of maintaining their brand image, which the directors of our Company (the "Directors") believe is in line with the industry practice. Lastly, the delay in orders placed by our customers until the launch of our new watch models at the end of June 2014, and our inventories accumulated as a result.

As we have initiated measures to enhance sales efficiency at distribution outlet level and overall inventory management, we expect that the level of inventory would gradually be in line with revenue generated in the medium term.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Liquidity, financial resources and capital structure

As at 30 June 2014, we had non-pledged cash and bank balances of HK\$53.0 million (31 December 2013: HK\$60.9 million). Based on the borrowings of HK\$202.8 million (31 December 2013: HK\$171.3 million) and shareholders' equity of HK\$467.9 million (31 December 2013: HK\$455.1 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 43.3% (31 December 2013: approximately 37.6%).

As at 30 June 2014, part of our borrowing amounted to HK\$56.7 million were repayable over one year and the remaining balances amounted to HK\$146.1 million were repayable within one year.

## Foreign exchange exposure

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

We currently do not have a foreign currency hedging policy. However, we monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

## Charge on assets

For our outstanding bank borrowings, such borrowing were secured by:

- (a) charges over our time deposits with carrying amount of HK\$6.0 million (31 December 2013: HK\$1.0 million);
- (b) charges over deposits placed for a life insurance policy with carrying amount of HK\$9.3 million (31 December 2013: HK\$6.9 million); and
- (c) charges over trade receivables with carrying amount of HK\$9.1 million (31 December 2013: Nil).

## Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during 1HFY2014.

## 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 30 June 2014.

### Contingent liabilities

We did not have any contingent liabilities as at 30 June 2014 (31 December 2013: Nil).

### Capital commitment

As at 30 June 2014, there were capital commitments related to the acquisition of property, plant and equipment amounting to HK\$1.2 million in relation to the remaining payment for the acquisition of a parcel of land in Switzerland for our new production facility (31 December 2013: HK\$6.4 million).

### Prospects

With signs suggesting that the economic health of the world's second largest economy, the PRC, is stabilising, we believe this will lead to a positive knock-on effect across the Asia-Pacific region. Our management is thus cautiously optimistic of the remaining half of the year, which typically includes the traditional peak season towards year end.

As the PRC will continue to be the major focus of our development, our management will seek to bolster our presence through expanding our distribution network in the PRC. To better tap into the robust premium watch market in the PRC, we have aimed to increase an aggregate of 300 POS in the PRC within the next three years commencing from 1 January 2014. Up until the 30 June 2014, we increased 31 POS in the PRC. Not ignoring the importance of the markets outside the PRC, we have also aimed to establish an aggregate of 100 POS outside the PRC at the same time. Up until 30 June 2014, we increased 15 POS outside the PRC.

Aside from expanding our distribution network, our management is fully aware of the importance of improving the profit margin and profitability. In order to achieve these objectives, we will increase our design and production capabilities, as well as place a greater effort towards the sales of high-end and mid-to-high-end watches. In respect of the former, we plan to use the land parcel adjacent to our existing production facility in Le Noirmont, Switzerland that we purchased to construct additional production facilities. We will also expand the Production Department by hiring additional watchmakers and quality control staff, and acquire additional testing machineries by 2016 to address the increase in demand for our watches. Further, we will introduce a new range of watches during the second half of the year that we believe will further enhance our product mix.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

To further reach out to our current and potential customers, our management will adjust our marketing strategy to reinforce the brand image of Ernest Borel in the eyes of our target consumers. While advertising will be cautiously used, emphasis will be placed on implementing marketing initiatives and conducting promotional activities where our POS are located. Such efforts will also align with our commitment to working more closely with local retailers and authorised distributors by leveraging on their local market knowledge for our marketing and promotional initiatives and building a closer tie with them.

Going forward, we will continue to leverage our vertically integrated business model for which has enabled us to enjoy numerous competitive advantages. Underpinned by a long history of producing premium Swiss-made watches, Ernest Borel is well positioned to become one of the best selling brands in the premium watch market in the PRC, leading to stable and long-term returns to our shareholders.

### **INTERIM DIVIDEND**

The Board has not recommended to declare any interim dividend for the six months ended 30 June 2014.

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 June 2014, our Group had 318 full-time employees, of which 215 were in the PRC, 40 in Switzerland and 63 in Hong Kong. Staff costs for 1HFY2014 were HK\$38.3 million (1HFY2013: HK\$34.4 million).

All of our full-time employees are paid a fixed salary and may be granted other allowances, based on their position. 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 the Listing Date. Certain Directors and employees have been granted options under the Pre-IPO Share Option Scheme during 1HFY2014 and the details are set out in the "Pre-IPO Share Option Scheme" section in this report. No option has been granted under the Share Option Scheme during 1HFY2014.

## INTERESTS AND SHORT POSITIONS OF OUR DIRECTORS AND CHIEF EXECUTIVES OF OUR COMPANY IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF OUR COMPANY AND ITS ASSOCIATED CORPORATIONS

Since our Shares were only listed on the Stock Exchange (the "Listing") on the Listing Date, being 11 July 2014, no disclosure of interests or short positions of any directors and/or chief executives of our Company in any shares, underlying shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO")) were made to the Company under the provisions of Divisions 7 and 8 of Part XV of the SFO as at 30 June 2014.

Upon our Company's Listing on the Listing Date, the interests or short positions of our Directors and chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations, within the meaning of Part XV of the SFO which have been notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

### Interests and short positions in our Shares, underlying Shares and debentures and our associated corporations:

#### Long position in our Company

Name of Directors	Capacity/Nature of Interest	Number of Shares	Approximate percentage of the issued share capital (%)
Su Da	Beneficial owner	1,101,103 <sup>(1)</sup>	0.31 <sup>(2)</sup>
	Interest in a controlled corporation	88,515,000 <sup>(3)</sup>	25.51
Wong Pong Chun James	Beneficial owner	339,507 <sup>(1)</sup>	0.10 <sup>(2)</sup>
Liu Libing	Beneficial owner	660,662 <sup>(1)</sup>	0.19 <sup>(2)</sup>

## DISCLOSURE OF INTERESTS

Notes:

- (1) Shares subject to options under the Pre-IPO Share Option Scheme. Particulars of the options are set out in the section headed "Pre-IPO Share Option Scheme" in this report.
- (2) Calculated based on the number of issued Shares taking into account the Shares which may be allotted and issued to all grantees upon their full exercise of the options under the Pre-IPO Share Option Scheme. Particulars of the options are set out in the section headed "Pre-IPO Share Option Scheme" in this report.
- (3) Force Field Limited is owned as to 70% by Mr. Su Da and controlled by Mr. Su Da. Mr. Su Da is therefore deemed to be interested in our Shares held by Force Field Limited.

Save as disclosed above, upon the Listing, none of our Directors or chief executives of our Company had any interest or short positions in any shares or underlying shares or interest in debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to our Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to our Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF OUR COMPANY

Since our Shares were only listed on the Stock Exchange on the Listing Date, being 11 July 2014, no disclosure of interests or short positions in any Shares or underlying Shares were made to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as at 30 June 2014.

Upon our Company's Listing on the Listing Date, so far as our Directors are aware, in addition to the interests of our Directors and chief executives of our Company disclosed under the section headed "Interests and short positions of our Directors and chief executives of our Company in the Shares, underlying Shares and debentures of our Company and its associated corporations" above, so far as our Directors are aware, the following persons or organisations (other than a Director or the chief executive of the Company) had interests or short positions in the Shares or underlying Shares, which were required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of our Group were as follows:

### Interests and short positions in our Shares and the underlying Shares:

Name of Shareholders	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding in the Company (%)
Lam Wai Wah	Beneficial owner	99,755,000	28.75
Force Field Limited <sup>(1)</sup>	Beneficial owner	88,515,000	25.51
Mr. Su Ran <sup>(1)</sup>	Beneficial owner	550,552 <sup>(2)</sup>	0.16 <sup>(3)</sup>
	Interest in a controlled corporation	88,515,000	25.51
Surplus Union Investments Limited <sup>(4)</sup>	Beneficial owner	37,935,000	10.93
Chan Kin Sun <sup>(4)</sup>	Interest in a controlled corporation	37,935,000	10.93
Dragon Cloud Holdings Limited <sup>(5)</sup>	Beneficial owner	33,720,000	9.72
Greenwoods Bloom Fund, L.P. <sup>(5)</sup>	Interest in a controlled corporation	33,720,000	9.72
Greenwoods Bloom Ltd. <sup>(5)</sup>	Interest in a controlled corporation	33,720,000	9.72
Skyeast Global Limited <sup>(5)</sup>	Interest in controlled corporations	33,720,000	9.72
Hua Tang <sup>(5)</sup>	Interest in controlled corporations	33,720,000	9.72



## DISCLOSURE OF INTERESTS

Notes:

- (1) Force Field Limited is owned as to 70% by Mr. Su Da, an executive Director and chairman of our Board and 30% by Mr. Su Ran. Mr. Su Ran (as to the Listing Rules only) is therefore deemed to be interested in the Shares held by Force Field Limited.
- (2) Shares subject to options under the Pre-IPO Share Option Scheme. Particulars of the options are set out in the section headed "Pre-IPO Share Option Scheme" in this report.
- (3) Calculated based on the number of issued Shares taking into account the Shares which may be allotted and issued to all grantees upon their full exercise of the options under the Pre-IPO Share Option Scheme. Particulars of the options are set out in the section headed "Pre-IPO Share Option Scheme" in this report.
- (4) Surplus Union Investments Limited is wholly owned and controlled by Chan Kin Sun and Chan Kin Sun is therefore deemed to be interested in our Shares held by Surplus Union Investments Limited.
- (5) Dragon Cloud Holdings Limited is owned as to 87.26% by Greenwood Bloom Fund, L.P. and 12.74% by Hua Tang. The general partner of Greenwood Bloom Fund, L.P. is Greenwood Bloom Ltd., which is wholly-owned by Hua Tang. Greenwood 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 Hua Tang. Hence, each of Greenwood Bloom Fund, L.P., Greenwood Bloom Ltd., Skyeast Global Limited and Hua Tang are deemed to be interested in our Shares held by Dragon Cloud Holdings Limited.

Save as disclosed above, our Directors are not aware of any persons or organisations (other than a Director or the chief executive of our Company) who/which had, or were deemed or taken to have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to our Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were required to be entered in the register kept by our Company under the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote all circumstances at general meetings of any member of our Group upon the Listing.

### 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, being 11 July 2014. The principal terms of the Pre-IPO Share Option Scheme were summarised in the section headed "Statutory and General Information — F. Pre-IPO Share Option Scheme" of Appendix IV to the Prospectus.

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;

## DISCLOSURE OF INTERESTS

- (b) (i) 2,319,659 underlying Shares were comprised in the tranche 1 options with an exercise price of HK\$2.40 per Share; and
- (ii) the tranche 1 options were vested on 11 July 2014. Such options are exercisable from 11 July 2014 to 11 July 2016,
- (collectively, the "Tranche 1 Option"); and
- (c) (i) 4,501,680 underlying Shares were comprised in the tranche 2 options with an exercise price of HK\$3.00 per Share; and
- (ii) the tranche 2 options will be vested on 11 July 2015. Such options will be exercisable from 11 July 2015 to 11 July 2017,
- (collectively, the "Tranche 2 Option").

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

Particulars of the grantees and their options are as follows:

Grantees	Number of Underlying Shares Comprised in	
	Tranche 1 Option <sup>(1)</sup>	Tranche 2 Option <sup>(2)</sup>
<b>Directors</b>		
Su Da	440,441	660,662
Wong Pong Chun James	137,638	201,869
Liu Libing	264,265	396,397
Sub-Total	842,344	1,258,928
<b>Other eligible employees in aggregate</b>	1,477,315	3,242,752
<b>Total</b>	2,319,659	4,501,680

Notes:

- (1) Tranche 1 Options were vested on 11 July 2014.
- (2) Tranche 2 Options will be vested on 11 July 2015.

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



## **DISCLOSURE OF INTERESTS**

### **SHARE OPTION SCHEME**

Our Company conditionally adopted the Share Option Scheme on 24 June 2014, which was effective upon the Listing Date, being 11 July 2014. The principal terms of the Share Option Scheme were summarised in the section headed “Statutory and General Information — G. Share Option Scheme” of Appendix IV to the Prospectus.

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



## **CORPORATE GOVERNANCE AND OTHER INFORMATION**

### **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

Pursuant to a resolution passed by our Board on 24 June 2014, our Company has adopted all requirements of the code provisions of the Corporate Governance Code contained in Appendix 14 (the "Corporate Governance Code") to the Listing Rules. Since our Shares were only listed on the Stock Exchange on the Listing Date, being 11 July 2014, the Corporate Governance Code was not applicable to our Company during the six months ended 30 June 2014. Our Company is committed to the establishment of good corporate governance practises and procedures with a view to being a transparent and responsible organisation which is open and accountable to the shareholder of our Company.

Code Provision A.2.1 of the Corporate Governance Code stipules that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Currently, our Company does not have the position of chief executive and our Board considers that Mr. Wong Pong Chun James, our executive Director who is responsible for operations, internal controls, risk management, investors' relations and external affairs, would carry out similar roles to a chief executive. As such, our Board is of the view that our Company has complied with all applicable provisions set out in the Corporate Governance Code since the Listing Date up to the date of this report.

### **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

Our Company has adopted the Model Code as its own code of conduct for dealing in securities of our Company by our Directors. Since our Shares were only listed on the Stock Exchange on the Listing Date, being 11 July 2014, the Model Code was not applicable to the Company during the six months ended 30 June 2014.

However, in response to the specific enquiry made on all Directors by our Company on the compliance with the Model Code, all Directors confirmed in writing that all dealings in our Company's securities were disclosed in the Prospectus and they have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions since the Listing Date.



## **CORPORATE GOVERNANCE AND OTHER INFORMATION**

### **REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

On 24 June 2014, our Board established an 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.

Our audit committee comprises all of our three independent non-executive Directors, namely, Mr. Lo Chi Chiu, Mr. Cheung Kam Min Mickey and Mr. Zhang Huaqiao. Mr. Lo Chi Chiu is the chairman of the audit committee. Our unaudited interim results and the interim report for the six months ended 30 June 2014 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 recommended the Board to adopt the same.

Our condensed consolidated financial statements for the six months ended 30 June 2014 have been reviewed by Deloitte Touche Tohmatsu, certified public accountants in Hong Kong, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. Such review report is contained on page 21 of this interim report.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

As our Shares were listed on the main board of the Stock Exchange on the Listing Date, being 11 July 2014, none of our Company and its subsidiaries has purchased, sold or redeemed any of its Shares listed on the Main Board of the Stock Exchange during the six months ended 30 June 2014.



# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## **Deloitte.** **德勤**

### **TO THE BOARD OF DIRECTORS OF ERNEST BOREL HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

### **INTRODUCTION**

We have reviewed the condensed consolidated financial statements of Ernest Borel Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 23 to 40, which comprise the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion 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.

### **SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the comparative condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30 June 2013 and the relevant explanatory notes included in these condensed consolidated financial statements have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity".

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong  
28 August 2014

# CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	NOTES	For the six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue	4	271,811	285,749
Cost of sales		(89,158)	(105,312)
Gross profit		182,653	180,437
Other gains and losses	5	(6,364)	2,710
Other income	6	493	760
Distribution expenses		(102,553)	(110,676)
Administrative expenses		(29,541)	(26,472)
Listing expenses		(18,540)	(147)
Finance costs	7	(2,472)	(1,653)
Profit before tax		23,676	44,959
Income tax expense	8	(10,169)	(6,768)
Profit for the period	9	13,507	38,191
Other comprehensive expense (income)			
<i>Item that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit scheme		(768)	(166)
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		20	(4,031)
Other comprehensive expense for the period		(748)	(4,197)
Total comprehensive income for the period		12,759	33,994
Earnings per share — basic (HK cents)	10	4.8	13.6



# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	NOTES	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	12	76,808	79,002
Deposits placed for life insurance contracts		9,292	6,930
Deposit for acquisition of property, plant and equipment		–	1,521
Deferred tax assets		10,477	9,904
		<b>96,577</b>	97,357
<b>Current assets</b>			
Inventories		524,766	424,381
Trade and other receivables	13	134,599	161,358
Amount due from a related party	14	41	41
Amounts due from shareholders	14	–	10
Pledged bank deposits		6,018	1,016
Bank balances and cash		53,041	60,907
		<b>718,465</b>	647,713
<b>Current liabilities</b>			
Trade and other payables	15	102,584	75,878
Tax payable		11,262	17,217
Dividend payable		15,000	15,000
Bank borrowings	16	202,782	171,318
		<b>331,628</b>	279,413
<b>Net current assets</b>			
		<b>386,837</b>	368,300
<b>Total assets less current liabilities</b>			
		<b>483,414</b>	465,657
<b>Capital and reserves</b>			
Share capital	17	10	10
Reserves		467,853	455,094
<b>Total equity</b>			
		<b>467,863</b>	455,104
<b>Non-current liabilities</b>			
Deferred tax liabilities		11,587	7,728
Pension obligation		3,964	2,825
		<b>15,551</b>	10,553
		<b>483,414</b>	465,657

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Share capital	Other reserve	Actuarial gain and loss reserve	General reserves	Translation reserve	Retained profits	Total
	HK\$'000	HK\$'000 (note 1)	HK\$'000	HK\$'000 (note 2)	HK\$'000	HK\$'000	HK\$'000
At 1 January 2013 (audited)	10	15,500	(2,090)	362	12,775	357,521	384,078
Profit for the period	-	-	-	-	-	38,191	38,191
Other comprehensive income for the period	-	-	(166)	-	(4,031)	-	(4,197)
Total comprehensive income for the period	-	-	(166)	-	(4,031)	38,191	33,994
At 30 June 2013 (unaudited)	10	15,500	(2,256)	362	8,744	395,712	418,072
At 1 January 2014 (audited)	10	15,500	(2,356)	853	21,046	420,051	455,104
Profit for the period	-	-	-	-	-	13,507	13,507
Other comprehensive (expense) income for the period	-	-	(768)	-	20	-	(748)
Total comprehensive (expense) income for the period	-	-	(768)	-	20	13,507	12,759
Transfer	-	-	-	293	-	(293)	-
At 30 June 2014 (unaudited)	10	15,500	(3,124)	1,146	21,066	433,265	467,863

Notes:

- Other reserve represents amount arising from capitalisation of loans from shareholders due by a subsidiary of the Company in 2005.
- General reserves represent the legal reserves 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 represents the statutory surplus reserve of EB (GZ). During the six months ended 30 June 2014, 10% of net profit of EB (GZ) has been transferred to the statutory surplus reserve.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	For the six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	<b>(16,626)</b>	32,116
INVESTING ACTIVITIES		
Additions of property, plant and equipment	<b>(12,678)</b>	(36,355)
Pledged bank deposits placed	<b>(5,002)</b>	(4)
Deposit placed for a life insurance contract paid	<b>(2,223)</b>	–
Interest received	<b>68</b>	32
Repayment from shareholders	<b>10</b>	–
Proceeds from disposal of property, plant and equipment	<b>4</b>	75
NET CASH USED IN INVESTING ACTIVITIES	<b>(19,821)</b>	(36,252)
FINANCING ACTIVITIES		
New bank loans raised	<b>118,381</b>	134,854
Repayment of bank loans	<b>(86,917)</b>	(89,241)
Interest paid	<b>(2,472)</b>	(1,653)
Dividend paid	–	(22,000)
Repayment to a related party	–	(3,723)
Repayment to directors	–	(18)
NET CASH FROM FINANCING ACTIVITIES	<b>28,992</b>	18,219
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<b>(7,455)</b>	14,083
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>60,907</b>	55,456
Effect of foreign exchange rate changes	<b>(411)</b>	(862)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	<b>53,041</b>	68,677



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2014*

## 1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands. The shares of the Company has been listed on the main board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 11 July 2014.

The principal activities of the Group are manufacturing and sales of watches.

The condensed consolidated financial statements is presented in Hong Kong dollar ("HKD"), which is the functional currency of the Company and is 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 HKD as they believe HKD is the appropriate presentation currency for the users of Group's condensed consolidated financial statements.

## 2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the International Accounting Standards "Interim Financial Reporting" ("IAS") 34 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.

## 3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and the method of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are consistent with those followed in the preparation of consolidated financial information of the Group for the three year ended 31 December 2013 as contained in the accountants' report set out in Appendix I of the prospectus of the Company dated 30 June 2014, except for the changes described below.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

In the current interim period, the Group has applied, for the first time, the following new Interpretations and 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 IFRS 10, IFRS 12 and IAS 27	Investment Entities
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting
IFRIC-Int 21	Levies

The application of the above new Interpretations and amendments to IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements.

## 4. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received or receivable for the sales of watches products, less returns and net of 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, which are the executive directors of the Company, for the resource allocation and performance assessment 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 4. REVENUE AND SEGMENT INFORMATION (Continued)

### 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	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Mechanical watches	196,826	197,258
Quartz watches	74,704	88,211
Others	281	280
	<b>271,811</b>	285,749

### 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 deferred tax assets and are analysed by location of assets.

	Revenue from external customers	
	For the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
PRC	203,316	223,904
Hong Kong and Macau	50,396	47,373
Southeast Asia	13,984	10,433
Others	4,115	4,039
	<b>271,811</b>	285,749

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 4. REVENUE AND SEGMENT INFORMATION (Continued)

### Geographical information (Continued)

	Non-current assets	
	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
PRC	25,740	33,254
Hong Kong	16,296	12,117
Switzerland	44,064	42,082
	<b>86,100</b>	87,453

### Information about major customers

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

	For the six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Customer A	59,999	–
Customer B	35,734	32,219

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 5. OTHER GAINS AND LOSSES

	Fox the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Allowance for doubtful debts	–	(26)
Fair value loss on derivative financial instruments	(7)	(270)
Exchange (loss) gain, net	(6,136)	3,045
Loss on disposal of property, plant and equipment	(221)	(39)
	<b>(6,364)</b>	<b>2,710</b>

## 6. OTHER INCOME

	Fox the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest income on life insurance contracts	139	127
Bank interest income	68	32
Maintenance services income	57	75
Government subsidy	–	154
Sundry income	229	372
	<b>493</b>	<b>760</b>

## 7. FINANCE COSTS

	Fox the six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Finance costs represent interest on bank borrowings wholly repayable within five years	<b>2,472</b>	<b>1,653</b>



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 8. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Current tax:		
Hong Kong Profits Tax	3,950	5,940
Switzerland income tax	1,495	3,477
PRC Enterprise Income Tax	1,160	–
	6,605	9,417
Deferred tax charge (credit)	3,564	(2,649)
	10,169	6,768

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

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 subjected to Direct Federal Tax ("DFT") and Cantonal Communal Tax ("CCT"). For the six months ended 30 June 2014, DFT and CCT are 8.5% and 8.97% respectively (six months ended 30 June 2013: 8.5% and 9.07%).

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 9. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Profit for the period has been arrived at after charging (crediting) for the follows items:		
Auditors' remuneration	1,168	1,350
(Reversal of allowance) allowance for inventories	(158)	907
Cost of inventories recognised as expenses	89,158	105,312
Depreciation of property, plant and equipment	20,568	17,359
Director's emoluments		
— fee	—	—
— other emoluments	1,958	1,786
Other staff costs	33,540	30,333
Retirement benefit schemes	2,756	2,327
Employee benefit expenses	38,254	34,446
Operating lease rental in respect of rented premises	13,920	10,510

## 10. EARNINGS PER SHARE

The calculation of the earnings per share for both periods is based on the consolidated profits of the Group attributable to owners of the Company and on 281,000,000 shares in issue during both periods which have been retrospectively adjusted to reflect the share subdivision on 24 June 2014 as disclosed in note 17 and capitalisation issue on 11 July 2014 as disclosed in note 22.

No diluted earnings per share is presented as there were no potential dilutive shares in issue during both periods.

## 11. DIVIDEND

No dividends were paid or declared during the interim period. The directors of the Company do not recommend the payment of an interim dividend.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 12. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of HK\$18,721,000 (six months ended 30 June 2013: HK\$22,287,000).

In addition, the Group disposed of property, plant and equipment with an aggregate carrying amount of HK\$225,000 (six months ended 30 June 2013: HK\$114,000), resulting in a loss on disposal of HK\$221,000 (six months ended 30 June 2013: HK\$39,000).

## 13. TRADE AND OTHER RECEIVABLES

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Trade receivables	74,952	104,325
Less: allowance for doubtful debts	(1,151)	(1,151)
	<b>73,801</b>	103,174
Other receivables	1,668	6,114
Other tax recoverable	29,443	27,826
Prepayments	22,902	17,347
Deposits	6,785	6,897
	<b>60,798</b>	58,184
	<b>134,599</b>	161,358

The Group allows credit period ranging from 30 to 60 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 at the end of the reporting period:

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
0–60 days	55,935	93,525
61–180 days	15,378	8,014
181–270 days	2,488	1,635
	<b>73,801</b>	103,174

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 14. AMOUNTS DUE FROM A RELATED PARTY/SHAREHOLDERS

The amounts due from a related party and shareholders are 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 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Trade payables	43,797	31,892
Other payables	6,390	5,630
Accruals	52,397	38,356
	<b>102,584</b>	<b>75,878</b>

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 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
0–30 days	32,895	19,900
31–60 days	9,792	11,054
Over 60 days	1,110	938
	<b>43,797</b>	<b>31,892</b>

The credit period for trade purchases ranges from 0 to 30 days.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 16. BANK BORROWINGS

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Bank loan	150,343	121,390
Import trade loans	52,439	49,928
	<b>202,782</b>	171,318
Analysis as:		
Secured	190,182	155,118
Unsecured	12,600	16,200
	<b>202,782</b>	171,318

During the period, the Group obtained additional bank borrowings of HK\$118,381,000 (six months ended 30 June 2013: HK\$134,854,000) and repaid bank borrowings of HK\$86,917,000 (six months ended 30 June 2013: HK\$89,241,000).

All the Group's 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 range of effective interest rates is at 2.17% to 3.87% per annum as at 30 June 2014 (31 December 2013: 2.21% to 3.22% per annum).

Details of assets that have been pledged as collateral to secure bank borrowings are set out in note 20.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 17. SHARE CAPITAL

	Number of ordinary shares '000	Par value HK\$	Amount HK\$'000
Authorised:			
At 1 January 2013 and 31 December 2013 (audited)	6,500	1.00	6,500
Shares subdivision (note)	643,500	0.01	–
Increase in authorised share capital (note)	9,350,000	0.01	93,500
At 30 June 2014 (unaudited)	10,000,000	0.01	100,000
Issued and fully paid:			
At 1 January 2013 and 31 December 2013 (audited)	10	1.00	10
Shares subdivision (note)	990	0.01	–
At 30 June 2014 (unaudited)	1,000	0.01	10

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

## 18. CAPITAL COMMITMENTS

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

	As at 30 June 2014 HK\$'000 (Unaudited)	As at 31 December 2013 HK\$'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statement in respect of acquisition of property, plant and equipment	1,197	6,413

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 19. 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:

	<b>As at 30 June 2014 HK\$'000 (Unaudited)</b>	As at 31 December 2013 HK\$'000 (Audited)
Within one year	23,424	21,539
In the second to fifth years inclusive	30,911	25,165
	<b>54,335</b>	46,704

Included in the above is future lease payment with a related party of HK\$190,000 (31 December 2013: HK\$318,000), which fall due is follows:

	<b>As at 30 June 2014 HK\$'000 (Unaudited)</b>	As at 31 December 2013 HK\$'000 (Audited)
Within one year	190	246
In the second to fifth years inclusive	–	72
	<b>190</b>	318

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

## 20. PLEDGED OF ASSETS

The Group's bank borrowings are secured by:

- a. Charges over the Group's bank deposits with carrying amount of HK\$6,018,000 (31 December 2013: HK\$1,016,000);
- b. Charges over deposits placed for life insurance contracts with carrying amount of HK\$9,292,000 (31 December 2013: HK\$6,930,000); and
- c. Charges over trade receivables with carrying amount of HK\$9,129,000 (31 December 2013: nil).

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

## 21. 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	
			2014	2013
			HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Mr. Su Ran	Brother of one of the director/senior management	Rental expense	120	120

- (ii) Amounts due from a related party and shareholders are disclosed in the condensed consolidated statements of financial position and in note 14.
- (iii) Certain directors and shareholders of the Group, have provided guarantees to banks to secure certain banking facilities granted to the Group. The guarantees were subsequently released in August 2014.
- (iv) The remuneration paid and payable to the members of key management, who are the director and the five highest paid individuals during the current period is as follows:

	For the six months ended 30 June	
	2014	2013
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Short term benefits	3,771	3,121
Post employment benefits	8	16
	<b>3,779</b>	3,137

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.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2014*

## **22. EVENT AFTER THE END OF THE REPORTING PERIOD**

On 24 June 2014, written resolutions of all the shareholders of the Company were passed to approve the matters set out in paragraph headed "Written Resolutions of Our Shareholders Passed on 24 June 2014" in Appendix IV of the Prospectus. Simultaneous with the listing of the shares of the Company on the Stock Exchange on 11 July 2014, 280,000,000 ordinary shares of HK\$0.01 per share, each were issued at par to the shareholders whose names were on the register of members of the Company as at the close of business on 24 June 2014 for capitalisation of HK\$2,800,000 standing to the credit of the share premium account of the Company and 66,000,000 ordinary shares of HK\$0.01 each were issued at HK\$3 per share for a total proceeds, before expenses, of HK\$198,000,000.