ERNEST BOREL
1856

ERNEST BOREL HOLDINGS LIMITED
依波路控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

- 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.

RESULTS

The board of directors (the "Board") of Ernest Borel Holdings Limited (the "Company") 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 as follows:

CONDENSED CONSOLIDATED STATEMENTS 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	*3*	**271,811**	285,749
Cost of sales		**(89,158)**	(105,312)
Gross profit		**182,653**	180,437
Other gains and losses		**(6,364)**	2,710
Other income		**493**	760
Distribution expenses		**(102,553)**	(110,676)
Administrative expenses		**(29,541)**	(26,472)
Listing expenses		**(18,540)**	(147)
Finance costs		**(2,472)**	(1,653)
Profit before tax		**23,676**	44,959
Income tax expense	*4*	**(10,169)**	(6,768)
Profit for the period	*5*	**13,507**	38,191
Other comprehensive expense (income)			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit scheme		**(768)**	(166)
Item that may be subsequently reclassified to profit or loss:			
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)	*6*	**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)
Non-current assets			
Property, plant and equipment		**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
		96,577	97,357
Current assets			
Inventories		**524,766**	424,381
Trade and other receivables	*8*	**134,599**	161,358
Amount due from a related party		**41**	41
Amounts due from shareholders		**–**	10
Pledged bank deposits		**6,018**	1,016
Bank balances and cash		**53,041**	60,907
		718,465	647,713
Current liabilities			
Trade and other payables	*9*	**102,584**	75,878
Tax payable		**11,262**	17,217
Dividend payable		**15,000**	15,000
Bank borrowings		**202,782**	171,318
		331,628	279,413
Net current assets		**386,837**	368,300
Total assets less current liabilities		**483,414**	465,657
Capital and reserves			
Share capital		**10**	10
Reserves		**467,853**	455,094
Total equity		**467,863**	455,104
Non-current liabilities			
Deferred tax liabilities		**11,587**	7,728
Pension obligation		**3,964**	2,825
		15,551	10,553
		483,414	465,657

NOTES

1. 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 of Hong Kong Limited (the "Stock Exchange").

2. 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.

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.

3. 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 and results are therefore the same as the amount presented in the condensed consolidated statement of profit or loss and other comprehensive income. 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	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Mechanical watches	**196,826**	197,258
Quartz watches	**74,704**	88,211
Others	**281**	280
	271,811	285,749

Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers determined based on the location of customers.

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

4. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(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%.

5. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(Unaudited)	(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

6. 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 and capitalisation issue on 11 July 2014 as disclosed in note 10.

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

7. 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.

8. 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)
	73,801	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
	60,798	58,184
	134,599	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
	73,801	103,174

9. 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
	102,584	75,878

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
	43,797	31,892

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

10. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEWS

On 11 July 2014 (the "Listing Date"), the shares of our Company (the "Shares") were successfully listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 an 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.

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.

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.

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 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.

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.

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.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Pursuant to a resolution passed by the 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 practices 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 announcement.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

Our Company has adopted the Model Code for Securities Transactions by Directors of Listed Issues contained in Appendix 10 to the Listing Rules (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.

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 other, 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 of 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 our audit committee. Our unaudited interim results 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 complied with the applicable accounting standards and requirements, and that adequate disclosures have been made.

Our unaudited condensed consolidated financial statements for the six months ended 30 June 2014 contained in this announcement 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.

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.

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

Hong Kong, 28 August 2014

As at the date of this announcement, the Directors are:

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