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 2017

FINANCIAL HIGHLIGHTS

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

RESULTS

The board of directors (the "**Board**") of Ernest Borel Holdings Limited (the "**Company**") announces the unaudited condensed consolidated results of our Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2017 as follows:

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	NOTES	As at 30 June 2017 HK$'000 (Unaudited)	As at 31 December 2016 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment		**55,371**	70,964
Deposits placed for life insurance policies		**17,847**	17,579
Deposit paid for acquisition of a subsidiary		**25,000**	–
Deferred tax assets		**7,450**	8,449
		105,668	96,992
Current assets			
Inventories		**479,332**	500,629
Trade and other receivables	*8*	**63,012**	71,143
Amounts due from related parties		**–**	50
Tax recoverable		**7,071**	7,071
Pledged bank deposits		**1,026**	1,022
Bank balances and cash		**18,197**	18,272
		568,638	598,187
Current liabilities			
Trade and other payables	*9*	**38,899**	46,754
Tax payable		**1,899**	1,263
Bank and other borrowings		**11,561**	57,246
		52,359	105,263
Net current assets		**516,279**	492,924
Total assets less current liabilities		**621,947**	589,916

	NOTES	As at 30 June 2017 HK$'000 (Unaudited)	As at 31 December 2016 HK$'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		**14,320**	12,102
Pension obligation		**5,324**	4,744
Note payable	*10*	**80,000**	80,000
Convertible bond		**85,739**	–
		185,383	96,846
Net assets		**436,564**	493,070
Capital and reserves			
Share capital		**3,474**	3,474
Reserves		**433,090**	489,596
Total equity		**436,564**	493,070

NOTES

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

Convertible bond

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

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

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

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

Application of amendments to International Financial Reporting Standards ("IFRSs")

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

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

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

3. REVENUE AND SEGMENT INFORMATION

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

The Group's principal activities are manufacturing and sales of watches. Information reported to the chief operating decision makers, being the executive directors of the Company, for resource allocation and performance assessment, is based on the Group's overall performance, which is considered as a single operating segment. Segment revenue 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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Mechanical watches	**65,330**	92,088
Quartz watches	**30,732**	37,501
Others	**1,956**	733
	98,018	130,322

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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
People's Republic of China ("**PRC**")	**81,246**	100,425
Hong Kong and Macau	**5,084**	12,357
Southeast Asia	**9,004**	13,109
Others	**2,684**	4,431
	98,018	130,322

4. INCOME TAX EXPENSE

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

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 subject to Direct Federal Tax ("**DFT**") of 8.5% (six months ended 30 June 2016: 8.5%) and Cantonal Communal Tax ("**CCT**") of 16.55% (six months ended 30 June 2016: 16.55%).

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

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

5. LOSS FOR THE PERIOD

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

6. LOSS PER SHARE

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

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

7. DIVIDEND

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

8. TRADE AND OTHER RECEIVABLES

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

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

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

9. TRADE AND OTHER PAYABLES

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

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

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

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

10. NOTE PAYABLE

On 24 October 2016, the Company entered into a subscription agreement with an agent (the "**Agent**"), pursuant to which the Company agreed to issue, through the Agent, on a best effort basis, the note up to an aggregate principal amount of HK$80,000,000 to an independent third party (the "**Subscription**"). The note payable is unsecured and guaranteed by Mr. Sit. The note carries interest at 10% per annum and is to be redeemed on the second anniversary from the issue date of the guaranteed note. As at 30 June 2017, the aggregate principal amount of the note payable was HK$80,000,000

In accordance with the covenant of the note payable with a carrying amount of HK$80,000,000 and subsequent agreement dated 24 March 2017 entered between the Company, the guarantor, Mr. Sit Yau Chiu ("**Mr. Sit**"), the substantial shareholder of the Company and also the Chairman and executive director of the Company, and the note holder, the Company is required to maintain a consolidated net assets of HK$500,000,000 from 29 June 2017 to 23 October 2018. As at 30 June 2017, the consolidated net assets of the Group amounted to HK$436,564,000 and there is a possibility that the consolidated net assets of the Group continue to be below HK$500,000,000 from 29 June 2017 to 23 October 2018. In view of this, the Group is in the process of renegotiation with the note holder on the terms of covenant to avoid immediate repayment for the note payable after 29 June 2017. In case the Company failing to reach an agreement with the note holder on the asset requirement of the note payable, the directors is of the opinion that the Company will have the necessary liquidity to settle the financial obligations as they fall due after taking into account of (i) the financial support received from Mr. Sit; and (ii) internally generated funds of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning over 160 years. Throughout the course of its history and across its operations, the Group has upheld the principles of producing high precision "Swiss-made" products and implemented stringent quality controls. Under its own brand "Ernest Borel", the Group engaged in the design, production, marketing and sale of mechanical and quartz premium watches. As one of the oldest Swiss premium watchmakers, Ernest Borel has adopted the "dancing couple" as its icon, which embodies "romance and elegance". The extensive distribution network of the Group covers retails markets in the People's Republic of China (the "**PRC**", and for the purpose of this announcement, excludes the Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region ("**Macau**") and Taiwan), Hong Kong, Macau and Asia. For the six months ended 30 June 2017, the Group has a total of 887 points of sale ("**POS**").

Despite the stable economic retail growth of the PRC, the premium watch market remained weak in the first half of 2017. Ernest Borel recorded a revenue of HK$98.0 million (1HFY2016: HK$130.3 million), representing a year-on-year decrease of approximately 24.8%, and gross profit and gross profit margins declined to HK$40.1 million (1HFY2016: HK$52.8 million) and 40.9% (1HFY2016: 40.6%) respectively. Consequently, loss attributable to equity holders amounted to HK$81.6 million.

The PRC

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

Hong Kong, Macau and Southeast Asia Markets

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

FINANCIAL REVIEWS

Revenue and segment information

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

Performance by major products

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

Mechanical watches

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

Quartz watches

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

Performance by geographical location

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

The PRC market

The PRC continues to be our major market, representing approximately 82.9% of our revenue for 1HFY2017. Sales in this region showed a decrease of approximately 19.1% from HK$100.4 million for 1HFY2016 to HK$81.2 million for 1HFY2017 due to the deterioration of the premium watch retail market in PRC as compared to the same period in 2016 leading to a decrease in orders placed by watch retailers.

Hong Kong, Macau and Southeast Asia markets

Hong Kong, Macau and Southeast Asia markets accounted for approximately 14.4% of our total revenue for 1HFY2017. Sales in this market decreased by approximately 44.7% from HK$25.5 million for 1HFY2016 to HK$14.1 million for 1HFY2017. The decrease was mainly attributable to the decline in number of tourists and the deterioration of the premium watch retail market.

Other markets

Revenue from other markets, namely, markets in the United States and Europe recorded a decrease from HK$4.4 million for 1HFY2016 to HK$2.7 million for 1HFY2017.

Cost of Sales

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

Gross profit

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

Other gains and losses

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

Distribution costs

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

Administrative expenses

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

Finance costs

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

Taxation

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

Loss for the period attributable to owners of our Company

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

Inventory

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

Trade and other receivables and payables

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

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

Liquidity, financial resources and capital structure

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

Foreign exchange exposure

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

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

Charge on assets

Our outstanding bank borrowings were secured by:

(a) charges over our time deposits with a carrying amount of HK$1.0 million (31 December 2016: HK$1.0 million); and

(b) charges over deposits placed for a life insurance policy with a carrying amount of HK$17.8 million (31 December 2016: HK$17.6 million).

(c) charges over inventories with carrying amount of HK$Nil (31 December 2016: HK$ 244.5 million).

Material acquisition and disposal of subsidiaries or associated companies

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

Future plans for material investments and capital assets

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

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

Contingent liabilities

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

Interim dividend

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

Employees and Remuneration Policies

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

All of our full-time employees are paid a fixed salary and may be granted other allowances based on their positions. Members of the sales staff are also eligible for commissions based on their ability to meet sales targets. In addition, year end bonuses may also be awarded to the employees at our discretion and based on employee performance. Yearly performance appraisals are conducted to ensure that the employees receive feedback on their performance. Our Company has adopted a pre-IPO share option scheme (the "**Pre-IPO Share Option Scheme**") and a share option scheme (the "**Share Option Scheme**") on 24 June 2014, which became effective on 11 July 2014, the date on which the shares of the Company were initially listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" and the "**Listing Date**", respectively). Certain Directors and employees have been granted options under the Pre-IPO Share Option Scheme during FY2014. No option has been granted under the Share Option Scheme during 1HFY2017.

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

Capital commitment

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

Prospects

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

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

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

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

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

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

Events after the Reporting Period

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

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

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

Code Provision A.2.1

Pursuant to the Code provision A.2.1, the roles of the Chairman and Chief Executive Officer ("**CEO**") should be separate and should not be performed by the same individual as this ensures a better system of checks and balances and hence better corporate governance. Mr. Sit Yau Chiu holds the positions of the Chairman and CEO, who is primarily responsible for the overall strategies, planning and business development of the Group. The Board considers that the current structure provides the Group with strong and consistent leadership and allows for efficient and effective business planning and execution. The Board believes that the balance of power and authority is adequately ensured by the composition of the existing Board.

Save as disclosed above, the Board is of the view that the Company has complied with all code provisions as set out in the Corporate Governance Code throughout the six months ended 30 June 2017.

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

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

As at the date of this Announcement, the Board comprises 2 Executive Directors, 2 Non-Executive Directors and 2 Independent Non-Executive Directors. The number of Independent Non-Executive Directors represents less than one-third of the Board as required under Rule 3.10(1) and Rule 3.10A of the Listing Rules. The Company will take all necessary measures to comply with Rule 3.10(1) and Rule 3.10A of the Listing Rules.

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

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

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

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

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

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

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has since 24 June 2014 adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2017.

REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

During the six months ended 30 June 2017, the Audit Committee comprises all of our three independent non-executive Directors, namely Mr. Lo Chi Chiu, Mr. Choi Tze Kit Sammy and Mr. To Chun Kei, with Mr. Lo Chi Chiu being the chairman of the Audit Committee. Our unaudited interim results and the interim report for the six months ended 30 June 2017 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results and report complied with the applicable accounting standards and requirements, and that adequate disclosures have been made. The Audit Committee has recommended the Board to adopt the same.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchases, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2017.

By the order of the Board
Ernest Borel Holdings Limited
Sit Yau Chiu
Chairman

Hong Kong, 30 August 2017

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

Executive Directors:
Mr. Sit Yau Chiu
Mr. Xiong Wei

Non-executive Directors:
Mr. Chan Kwan Pak Gilbert
Ms. Lou Liuqing

Independent Non-executive Directors:
Mr. Lo Chi Chiu
Mr. To Chun Kei