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)

2014 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Ernest Borel Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2014, together with the comparative figures for the year ended 31 December 2013.

FINANCIAL AND OPERATION HIGHLIGHTS

- Turnover for the financial year ended 31 December 2014 ("**FY2014**") decreased from HK$604.0 million to HK$602.6 million when compared with last year ("**FY2013**").

- Gross margin for FY2014 decreased from 62.9% to 60.9%. Gross profit for FY2014 decreased from HK$380.1 million to HK$366.7 million.

- Profit after tax for FY2014 decreased by approximately 36.8% from HK$93.0 million to HK$58.8 million, mainly due to listing expenses of HK$22.0 million for FY2014 against HK$7.0 million in FY2013. Excluding the impact of listing expenses, profit after tax for FY2014 decreased by approximately 19.3% from HK$100.1 million to HK$80.8 million.

- Basic earnings per share was HK18.82 cents for FY2014 and HK33.10 cents for FY2013.

- The Board has recommended the payment of a final dividend for FY2014 of HK8 cents (FY2013: Nil) per share.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	NOTES	**2014** *HK$'000*	2013 *HK$'000*
Revenue	*3*	**602,624**	604,013
Cost of sales		**(235,908)**	(223,887)
Gross profit		**366,716**	380,126
Other gains and losses		**(9,102)**	3,105
Other income		**1,285**	1,136
Distribution expenses		**(186,920)**	(204,731)
Administrative expenses		**(65,903)**	(58,045)
Listing expenses		**(22,012)**	(7,029)
Finance costs		**(5,017)**	(3,819)
Profit before tax	*4*	**79,047**	110,743
Income tax expense	*5*	**(20,236)**	(17,722)
Profit for the year attributable to owners of the Company		**58,811**	93,021
Other comprehensive (expense) income, net of tax			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit scheme		**(453)**	(266)
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(19,764)**	8,271
Other comprehensive (expense) income for the year		**(20,217)**	8,005
Total comprehensive income for the year		**38,594**	101,026
EARNINGS PER SHARE	*7*		
— Basic (Hong Kong cents)		**18.82**	33.10
— Diluted (Hong Kong cents)		**18.76**	33.10

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2014

	NOTES	**2014** *HK$'000*	2013 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**81,440**	79,002
Deposits placed for life insurance policies		**9,461**	6,930
Deposit for acquisition of property, plant and equipment		**–**	1,521
Deferred tax assets		**9,119**	9,904
		100,020	97,357
CURRENT ASSETS			
Inventories		**498,027**	424,381
Trade and other receivables	*8*	**156,847**	161,358
Amounts due from related parties		**63**	41
Amounts due from shareholders		**–**	10
Pledged bank deposits		**6,019**	1,016
Bank balances and cash		**141,285**	60,907
		802,241	647,713
CURRENT LIABILITIES			
Trade and other payables	*9*	**67,229**	75,878
Derivative financial instruments		**705**	–
Tax payable		**9,669**	17,217
Dividend payable		**–**	15,000
Bank borrowings		**128,652**	171,318
		206,255	279,413
NET CURRENT ASSETS		**595,986**	368,300
TOTAL ASSETS LESS CURRENT LIABILITIES		**696,006**	465,657
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**9,634**	7,728
Pension obligation		**3,877**	2,825
		13,511	10,553
NET ASSETS		**682,495**	455,104
CAPITAL AND RESERVES			
Share capital		**3,474**	10
Reserves		**679,021**	455,094
TOTAL EQUITY		**682,495**	455,104

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1. GENERAL

The Company was incorporated in the Cayman Islands under the Companies Law of Cayman Islands as an exempted company with limited liability on 18 January 1991. The Company is a public limited company with its shares listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 11 July 2014. The addresses of the registered office and principal place of business of the Company are set out in the corporate information section to the annual report.

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

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

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

In the current year, the Group has applied the following new Interpretations and amendments to International Financial Reporting Standards issued by the International Accounting Standards Board.

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 year have no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised IFRSs in issue but not yet effective

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

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers[2]
Amendments to IFRS 11	Accounting for Acquisitions of Interests in Joint Operations[4]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception[4]
Amendments to IAS 1	Disclosure Initiative[4]
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[4]
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants[4]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[3]
Amendments to IAS 27	Equity Method in Separate Financial Statements[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2010–2012 Cycle[5]
Amendments to IFRSs	Annual Improvements to IFRSs 2011–2013 Cycle[3]
Amendments to IFRSs	Annual Improvements to IFRSs 2012–2014 Cycle[4]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted
2 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted
3 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted
4 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted
5 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions, with earlier application permitted

IFRS 15 "Revenue from Contracts with Customers"

In July 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

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

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

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

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

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

3. REVENUE AND SEGMENT INFORMATION

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

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

Revenue from major products

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

	2014	2013
	HK$'000	*HK$'000*
Mechanical watches	**427,028**	419,670
Quartz watches	**174,408**	183,332
Others	**1,188**	1,011
	602,624	604,013

Geographical information

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

	Revenue from external customers	
	2014	2013
	HK$'000	*HK$'000*
PRC	**449,986**	463,401
Hong Kong and Macau	**114,388**	107,218
Southeast Asia	**27,470**	23,853
Others	**10,780**	9,541
	602,624	604,013

	Non-current assets	
	2014	2013
	HK$'000	*HK$'000*
PRC	**35,899**	33,254
Hong Kong	**7,658**	5,187
Switzerland	**37,883**	42,082
	81,440	80,523

Information about major customers

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

	2014	2013
	HK$'000	*HK$'000*
Customer A	**117,639**	–
Customer B	**75,729**	67,856

4. PROFIT BEFORE TAX

	2014	2013
	HK$'000	*HK$'000*
Profit before tax has been arrived at after charging:		
Auditors' remuneration	**3,441**	4,551
Allowance for inventories	**–**	1,093
Cost of inventories recognised as expenses	**195,170**	184,393
Depreciation of property, plant and equipment	**40,389**	37,980
Staff costs, inclusive of directors' remuneration:		
— salaries and other benefits	**72,986**	67,827
— equity-settled share-based payment	**3,634**	–
— retirement benefits scheme contributions	**5,388**	4,448
Employee benefit expenses	**82,008**	72,275
Operating lease rental in respect of rented premises	**27,399**	20,902

5. INCOME TAX EXPENSE

	2014	2013
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax *(note i)*	**8,191**	13,228
Switzerland income tax *(note ii)*	**6,084**	6,940
PRC Enterprise Income Tax *(note iii)*	**2,740**	2,193
	17,015	22,361
Overprovision in prior year — Hong Kong Profits Tax	**(521)**	(946)
Deferred tax charge (credit)	**3,742**	(3,693)
Income tax expense for the year	**20,236**	17,722

Notes:

(i) Hong Kong

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

(ii) Switzerland

Switzerland income tax is calculated at certain tax rates on the assessable income for both years. Under the relevant Tax Law in Switzerland, the Group's subsidiary incorporated in Switzerland was subjected to Direct Federal Tax ("**DFT**") of 8.5% (2013: 8.5%) and enjoys a special tax benefit which Cantonal Communal Tax ("**CCT**") calculated at 8.97% (2013: 8.97%) on the profit for the year ended 31 December 2014. Starting from 1 January 2015, the subsidiary will be subjected to CCT at 16.55%.

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

(iii) PRC

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

6. DIVIDEND

	2014	2013
	HK$'000	*HK$'000*
Dividend recognised as distribution during the year:		
— 2012 Final, paid — HK$3,000 per share	**–**	30,000
— 2014 Final, proposed — HK8 cents per share	**27,795**	–
	27,795	30,000

No dividend has been proposed or paid for the year ended 31 December 2013.

The final dividend of HK8 cents per share based on 347,437,000 ordinary shares amounting to approximately HK$27,795,000 in respect of the year ended 31 December 2014 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting. The proposed final dividend is not recognised as a liability in these consolidated financial statements.

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2014 *HK$'000*	2013 *HK$'000*
Earnings		
Earnings of the Company for the purposes of basic and diluted earnings per share (profit for the year attributable to owners)	**58,811**	93,021

	2014 *'000*	2013 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share on the assumption that subdivision of shares and capitalisation issue have been effective on 1 January 2013	**312,554**	281,000
Effect of dilutive potential ordinary shares on share options	**887**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**313,441**	281,000

The number of ordinary shares for the purpose of basic earnings per share for both years was taken into account the 281,000,000 ordinary shares in issue which have been retrospectively adjusted to reflect the share subdivision on 24 June 2014 and capitalisation issue on 11 July 2014.

There were no potential ordinary shares outstanding during the year ended 31 December 2013 and as at 31 December 2013.

8. TRADE AND OTHER RECEIVABLES

	2014 *HK$'000*	2013 *HK$'000*
Trade receivables	**123,348**	104,325
Less: allowance for doubtful debts	**(1,259)**	(1,151)
	122,089	103,174
Other receivables	**3,338**	6,114
Other tax recoverable	**10,840**	27,826
Prepayment	**13,839**	17,347
Deposits	**6,741**	6,897
	34,758	58,184
	156,847	161,358

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

	2014	2013
	HK$'000	*HK$'000*
0–90 days	**110,438**	97,973
91–180 days	**10,997**	3,566
181–270 days	**654**	1,635
	122,089	103,174

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

At 31 December 2014, included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$40,500,000 (2013: HK$31,520,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience.

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

	2014	2013
	HK$'000	*HK$'000*
Overdue for		
Within 90 days	**38,900**	26,319
91 to 180 days	**946**	3,566
More than 180 days	**654**	1,635
	40,500	31,520

Movement in the allowance for doubtful debts

	2014	2013
	HK$'000	*HK$'000*
Balance at beginning of the year	**1,151**	170
Impairment losses recognised	**243**	981
Exchange realignment	**(135)**	–
Balance at end of the year	**1,259**	1,151

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

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$1,259,000 (2013: HK$1,151,000) for the year ended 31 December 2014. The Group does not hold any collateral over these balances.

Allowance of doubtful debts are recognised against trade receivables over 120 days based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty, the credit quality of the trade receivable, as well as the number of delayed payments.

Age of impaired trade receivables

	2014	2013
	HK$'000	*HK$'000*
Overdue for		
91 to 180 days	**226**	976
More than 180 days	**1,033**	175
	1,259	1,151

9. TRADE AND OTHER PAYABLES

	2014	2013
	HK$'000	*HK$'000*
Trade payables	**39,424**	31,892
Other payable	**9,165**	5,630
Accruals	**18,640**	38,356
	67,229	75,878

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

	2014	2013
	HK$'000	*HK$'000*
1–30 days	**30,908**	19,900
31–60 days	**3,562**	11,054
Over 60 days	**4,954**	938
	39,424	31,892

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

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

	2014	2013
	HK$'000	*HK$'000*
Denominated in CHF	**–**	13
Denominated in USD	**479**	617

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

On 11 July 2014, the issued shares of the Company (the "**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 established in 1856 with a proud heritage spanning 158 years. Today, our Group is directly involved in a full breadth of operations, spanning design, production, marketing and sale of mechanical and quartz premium watches under our own brand Ernest Borel (依波路), with a particular focus on watches for couples. We have established an extensive distribution network that taps the lucrative retail markets in the People's Republic of China (the "**PRC**,") and for the purpose of this report, excludes the Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region ("**Macau**") and Taiwan. As at 31 December 2014, our Group has a total of 1,054 points of sale ("**POS**"), a significant increase from 969 POS as at 31 December 2013.

During 2014, our Group demonstrated once again its chorological mastery with the launch of 55 new models, which added to our existing product offerings to provide more than 20 different collections of mechanical and quartz watches, comprising more than 232 models. While the latest collection has been warmly received by the market, revenue has decreased by approximately 0.2% to HK$602.6 million during the period as compared to the previous corresponding period. The Group has demonstrated its ceaseless efforts in bolstering its foothold in the PRC, its largest market, by participated in or hosted 210 timepiece roadshows and events in 2014. We strive to leverage our brand recognition and effective marketing strategy to develop more new markets and increase its market share.

Profit attributable to equity holders decreased to HK$58.8 million for 2014 (2013: HK$93.0 million) due to a non-recurring listing expense of $22.0 million that was recognised during the period. Foreign exchange losses were HK$6.8 million, which mainly arose due to depreciation of the Renminbi against the Hong Kong dollar. There was also an increase in the cost of sales of HK$12.0 million mainly due to an increase in costs of materials which could not be passed on to customers as we have adopted a competitive pricing strategy with a lower profit margin in new models to compete in the intense market situation.

The PRC Market

As part of our efforts to continuously increase our presence in the PRC market, we had a total of 852 POS operated by more than 183 watch retailers across 23 provinces, autonomous regions and municipalities in the PRC as at 31 December 2014, an increase from 817 POS as at 31 December 2013.

During the year, China's showing economy added pressure to the Group. Revenue generated from the PRC declined to HK$450.0 million from HK$463.4 million during the corresponding period last year, representing a decrease of approximately 2.9%, accounting for approximately 74.7% of our total revenue. The decline was principally due to the PRC economy growing at a slower pace which has adversely affected the premium watch market.

Hong Kong, Macau and Southeast Asia Markets

The growth in 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. Our efforts in marketing and branding of our products have taken advantage of these macroeconomic factors, and our revenue from this business segment has steadily risen to HK$141.9 million as at the end of 31 December 2014 as compared to HK$131.0 million in 2013.

As at 31 December 2014, we have 176 POS in the Hong Kong, Macau and Southeast Asia markets, as compared to 135 POS as at 31 December 2013.

FINANCIAL REVIEW

Revenue and segment information

Our revenue remained relatively stable with a slight decrease by HK$1.4 million, or approximately 0.2% from HK$604.0 million for FY2013 to HK$602.6 million for FY2014.

Performance by major products

Mechanical watches

Revenue from sales of mechanical watches enjoyed a slight increase of approximately 1.7% from HK$419.7 million for FY2013 to HK$427.0 million for FY2014. The increase was mainly due to a change in our product mix as 37 out of the 55 new models of watches introduced in 2014 were mechanical watches, leading to an increased in sales quantity of mechanical watches compared to last financial year.

Quartz watches

Revenue from sales of quartz watches decreased by approximately 4.9% from HK$183.3 million for FY2013 to HK$174.4 million for FY2014. The decrease was mainly attributable to a change in our product mix as only 18 out of the 55 models of watches introduced in 2014 were quartz watches leading to a decreased in sales quantity of quartz watches in 2014.

Performance by geographical locations

The PRC market

The PRC continues to be our major market, representing approximately 74.7% of our revenue in 2014. Sales in this region showed a decrease of approximately 2.9% from HK$463.4 million for FY2013 to HK$450.0 million for FY2014. The decline was mainly attributable to the slowdown in growth of the PRC economy which has affected the premium watches market.

Hong Kong, Macau and Southeast Asia markets

Hong Kong, Macau and Southeast Asia markets accounted for approximately 23.5% of our total revenue for 2014. Sales in this market increased by approximately 8.2% from HK$131.1 million for FY2013 to HK$141.9 million for FY2014. The increase was mainly attributable to the rise in the number of our POS from 135 for FY2013 to 176 FY2014, 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$9.5 million FY2013 to HK$10.8 million for FY2014.

Cost of Sales

Cost of sales increased by approximately 5.4% from approximately HK$223.9 million for FY2013 to approximately HK$235.9 million for FY2014. Reasons which led to the increase were mainly attributable to increase in cost of watch components in 2014.

Gross profit

Our gross profit decreased by HK$13.4 million or approximately 3.5% from HK$380.1 million for FY2013 to HK$366.7 million for FY2014, while the gross profit margin decreased to approximately 60.9% for FY2014 from approximately 62.9% for FY2013. The decrease in gross profit and gross profit margin was primarily due to our pricing strategy. Although the costs of watch components increased, we were unable to transfer the increase in pricing to our customers due to weak market condition within the industry. It was our pricing strategy to price new models with lower profit margins which accounted for 25.0% of the sales for FY2014 in order to compete in the intensely competitive market.

Other gains and losses

We recorded other losses of HK$9.1 million for FY2014 as compared to other gains of HK$3.1 million for FY2013. This was primarily due to the exchange net loss of HK$6.8 million mainly arising from depreciation of the RMB against the Hong Kong dollar and fair value loss on derivative financial instruments of HK$1.8 million.

Distribution costs

Our selling and distribution costs decreased by HK$17.8 million or approximately 8.7% from HK$204.7 million for FY2013 to HK$186.9 million for FY2014, representing approximately 31.0% of our total revenue for 2014 (2013: approximately 33.9%). The decrease was primarily attributable to a decrease in advertising and marketing expenses from HK$111.7 million for FY2013 to HK$88.6 million for FY2014 as we reduced the scale of our marketing and advertising activities, which was partially offset by an increase in depreciation expenses from HK$30.6 million for FY2013 to HK$33.1 million for FY2014 due to the depreciation of additional display counters for new POS set up in FY2014 and maintenance of display counters in existing POS.

Administrative expenses

Our administrative expenses increased to HK$65.9 million for FY2014 from HK$58.0 million for FY2013, representing an increase of HK$7.9 million or approximately 13.6%. The increase in administrative expenses was primarily due to an increase in staff salaries, HK$6.4 million which includes the pre-option expense of HK$3.6 million and other general office expenses.

Listing expenses

Our listing expenses increased by HK$15.0 million to HK$22.0 million for FY2014 from HK$7.0 million for FY2013. This increase was primarily due to an increase in professional fees paid during 2014 in relation to the listing and the global offering of the Shares when our Shares were listed on the main board of the Stock Exchange on 11 July 2014.

Finance costs

Our finance costs increased by HK$1.2 million or approximately 31.6% from HK$3.8 million for FY2013 to HK$5.0 million for FY2014 as a result of an increase in bank borrowings during the reporting period.

Taxation

Our income tax increased from HK$17.7 million for FY2013 to HK$20.2 million for FY2014, representing an increase of HK$2.5 million or approximately 14.1%. This increase was primarily attributable to the occurrence of deferred tax expense amounting to HK$3.7 million for FY2014 as compared to deferred tax income amounting to HK$3.7 million for FY2013.

Profit for the year attributable to owners of our Company

The gross profit decreased by HK$13.4 million mainly due to lower profit margin recorded from sales of new models and exchange loss of HK$6.8 million mainly due to Renminbi depreciation during the period, The decline was caused in part by the factors mentioned above, and primarily due to an increase of non-recurring listing expense of HK$15.0 million that was recognised during the year. Our net profit for the year decreased by approximately HK$34.2 million or around 36.8% from HK$93.0 million for FY2013 to HK$58.8 million for the year ended 31 December 2014 and the net profit margin declined from approximately 15.4% for FY2013 to approximately 9.8% for FY2014. Excluding the impact of the non-recurring listing expense, profit for the year decreased by approximately 19.3% from HK$100.1 million to HK$80.8 million.

Inventory

Inventory was approximately HK$498.0 million as at 31 December 2014, representing an increase of HK$73.6 million, or around 17.3%, from HK$424.4 million as at 31 December 2013.

The increase in inventory was mainly attributable to three main reasons. Firstly, an increase in watch movement reserves for contingency purposes in the event that one of our watch suppliers decided to withhold the supply of mechanical movements to third parties. Secondly, we had an increased number of work-in-progress and finished goods as we added new models during 2014 to better cater to the tastes and preference of our end customers along with the expansion of our distribution network in different markets which warranted a correspondingly increase of stocks. Lastly, average inventories turnover days are longer for premium branded watches as compared to branded watches to end customers because premium brands rarely offer discounts for the purpose of maintaining their brand images.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK$161.4 million and approximately HK$156.9 million as at 31 December 2013 and 2014 respectively. Such decrease in trade and other receivables is attributable to a decrease in other tax recoverable and prepayment in the current year.

The Group's trade and other payables decreased slightly from approximately HK$75.9 million as at 31 December 2013 to approximately HK$67.2 million as at 31 December 2014 resulting primarily from a decrease in accrual in 2014 as a result of a decrease in advertising and marketing expenses.

Liquidity, financial resources and capital structure

As at 31 December 2014, we had non-pledged cash and bank balances of HK$141.3 million (31 December 2013: HK$60.9 million). Based on the borrowings of HK$128.7 million (31 December 2013: HK$171.3 million) and shareholders' equity of HK$682.5 million (31 December 2013: HK$455.1 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 18.9% (31 December 2013: approximately 37.6%).

As at 31 December 2014, part of our borrowing amounting to HK$27.3 million was repayable over one year and the remaining balance amounting to HK$101.4 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 bank borrowings 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$6.0 million (2013: HK$1.0 million); and

(b) charges over deposits placed for a life insurance policy with a carrying amount of HK$9.5 million (2013: HK$6.9 million);

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during FY2014.

Future plans for material investments and capital assets

There was no definite future plan for material investments and acquisition of material capital assets as at 31 December 2014.

Contingent liabilities

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

Employees and Remuneration Policies

As at 31 December 2014, the Group had a total of 326 full-time employees, representing an increase of 2.5% compared to 318 employees as at 31 December 2013. Total staff costs for 2014 increased to approximately HK$82.0 million from approximately HK$72.3 million for 2013, mainly due to the occurrence of equity-settled share-based payment of HK$3.6 million and an increase in salaries and other benefits of HK$5.2 million in 2014.

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 the Listing Date. Certain Directors and employees have been granted options under the Pre-IPO Share Option Scheme during FY2014 and the details are set out in the section headed "Statutory and General Information — F. Pre-IPO Share Option Scheme of Appendix IV in the prospectus of the Company dated 30 June 2014. No option has been granted under the Share Option Scheme during FY2014.

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

Capital commitment

As at 31 December 2014, there were capital commitments in the amount of HK$1.2 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 2013: HK$6.4 million).

Prospects

Recent figures showed that both China and Hong Kong retail market recorded slower growth due to continuous pressure from the slowdown in China's macroeconomic growth. Despite the uncertainties existed within the macroeconomic environment, the management still believes the Group will be able to explore opportunities amid future challenges.

As the PRC will remain to be the main focus of our development, the management will seek to bolster our presence through prudently expanding our distribution network in the PRC. To better tap into other potential cities in the PRC, we aim to increase an aggregate of 200 POS in the PRC within the next two years commencing from 1 January 2015. Without overlooking the importance of overseas markets outside of the PRC, we have also targeted to establish an aggregate of 60 POS in overseas market outside of the PRC within the next two years.

Given the tough operating environment ahead, 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 devoting greater efforts towards the sales of medium and medium-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 machinery to address the increase in demand for our watches.

Further, we will introduce a new range of watches during 2015 that we believe will further enhance our product mix and address the market in order to better fit current customers' spending pattern. 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 selectively placed, emphasis will shift to implementing marketing initiatives and conducting promotional activities where our POS are located. Such efforts will complement our commitment to working more closely with local retailers and authorised distributors by leveraging 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 which has provided numerous competitive advantages. Supported by a long and distinguished 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.

REVIEW OF ANNUAL RESULTS

The Company has established an audit committee (the "**Audit Committee**") in compliance with Rule 3.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report (the "**Corporate Governance Code**") for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three members, namely Mr. Lo Chi Chiu (who is also the chairman of the Audit Committee), Mr. Cheung Kam Min Mickey and Dr. Yau Bun, all being independent non-executive Directors (the "**INEDs**").

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Group's audited results for FY2014 with the Company's management. The Audit Committee has also met and discussed with the Group's independent auditors, Deloitte Touche Tohmatsu, regarding the Group's audit, internal control system and financial reporting matters.

CORPORATE GOVERNANCE

Code provision A.2.1 of the Corporate Governance Code contained in Appendix 14 to the Listing Rules stipulates that the roles of the chairman and chief executive should be separate and should not be performed by the same individual. Currently, the Company does not have the position of chief executive and the Board considers that Mr. Wong Pong Chun James, one of our executive Directors, who is responsible for internal controls, risk management, investors' relations and external affairs, has been carrying similar roles to a chief executive. As such, the Board is of the view that since the date of listing of the Company's shares on the Main Board of the Stock Exchange on 11 July 2014 (the "**Listing Date**") up to and including 31 December 2014, the Company has complied with all code provisions as set out in the Corporate Governance Code.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealing in the securities of the Company by the Directors. Following specific enquiries made by the Company on the Directors, all Directors have confirmed that they had fully complied with the required standards set out in the Model Code since the Listing Date up to and including 31 December 2014.

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

The Shares were initially listed on the Main Board of the Stock Exchange on 11 July 2014. The Company did not redeem any of its Shares listed on the Main Board of the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such Shares for the period from the Listing Date to 31 December 2014.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK8 cents per share for FY2014 (2013: Nil per share), subject to approval by the shareholders of the Company (the "**Shareholders**") at the annual general meeting ("**AGM**") to be held on 12 June 2015.

AGM

The AGM of the Company will be held in Hong Kong on Friday, 12 June 2015. Notice of the AGM will be issued and disseminated to the Shareholders in due course.

BOOK CLOSURE

In order to determine the Shareholders' entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed on Thursday, 11 June 2015 and Friday, 12 June 2015, both days inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the forthcoming AGM of the Company to be held on Friday, 12 June 2015, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 10 June 2015.

The proposed final dividend is subject to the passing of an ordinary resolution by the Shareholders at the AGM. The transfer books and register of members of the Company will be closed on Thursday, 18 June 2015, on which day no transfer of Shares will be effected. In order to determine the Shareholders' entitlement to the proposed final dividend, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 17 June 2015. The dividend is expected to be paid on Wednesday, 8 July 2015.

PUBLICATION OF RESULTS ANNOUNCEMENT/ANNUAL REPORT

This annual results announcement is available for viewing on the respective websites of the Stock Exchange at www.hkexnews.hk and the Company's website at www.ernestborel.ch. The annual report of the Company for FY2014 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 30 March 2015

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

Executive Directors:	*Mr. Su Da (Chairman), Mr. Wong Pong Chun James and Ms. Liu Libing*
Non-executive Directors:	*Mr. Chan Kwan Pak Gilbert and Mr. Pan Di*
Independent Non-executive Directors:	*Mr. Lo Chi Chiu, Mr. Cheung Kam Min Mickey and Dr. Yau Bun*