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 2015

FINANCIAL HIGHLIGHTS

- Revenue for the financial period ended 30 June 2015 ("**1HFY2015**") decreased from HK$271.8 million to HK$206.6 million when compared with the corresponding period of last year ("**1HFY2014**").
- Gross margin for 1HFY2015 decreased from 67.2% to 59.2%. Gross profit for 1HFY2015 decreased from HK$182.7 million to HK$122.2 million.
- Profit after tax for 1HFY2015 decreased by approximately 24.4% from HK$13.5 million to HK$10.2 million, mainly due to a decrease in revenue of approximately 24.0% from HK$271.8 million to HK$206.6 million, and decrease in gross profit of approximately 33.1% from HK$182.7 million to HK$122.2 million.
- Basic earnings per share was HK2.9 cents for 1HFY2015 and HK4.8 cents for 1HFY2014.

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 2015 as follows:

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2015

		For the six months ended 30 June	
		2015	2014
	NOTES	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**206,623**	271,811
Cost of sales		**(84,389)**	(89,158)
Gross profit		**122,234**	182,653
Other gains and losses		**4,793**	(6,364)
Other income		**673**	493
Distribution expenses		**(81,412)**	(102,553)
Administrative expenses		**(31,918)**	(29,541)
Listing expenses		**–**	(18,540)
Finance costs		**(1,874)**	(2,472)
Profit before tax		**12,496**	23,676
Income tax expense	*4*	**(2,285)**	(10,169)
Profit for the period	*5*	**10,211**	13,507
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit scheme			
Item that may be subsequently reclassified to profit or loss:		**–**	(768)
Exchange differences arising on translation of foreign operations		**9,984**	20
Other comprehensive income (expense) for the period		**9,984**	(748)
Total comprehensive income for the period		**20,195**	12,759
Earning per share — (expressed in HK cents)			
Basic	*6*	**2.94**	4.81
Diluted	*6*	**2.94**	4.81

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	NOTES	**As at 30 June 2015** *HK$'000* **(Unaudited)**	As at 31 December 2014 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**78,673**	81,440
Deposits placed for life insurance policies		**12,181**	9,461
Deferred tax assets		**11,366**	9,119
		102,220	100,020
Current assets			
Inventories		**559,128**	498,027
Trade and other receivables	*8*	**129,834**	156,847
Amounts due from related parties		**–**	63
Tax recoverable		**1,314**	–
Pledged bank deposits		**6,022**	6,019
Bank balances and cash		**150,265**	141,285
		846,563	802,241
Current liabilities			
Trade and other payables	*9*	**53,906**	67,229
Amount due to a related party		**72**	–
Derivative financial instruments		**–**	705
Tax payable		**1,745**	9,669
Dividend payable		**27,795**	–
Bank borrowings		**175,330**	128,652
		258,848	206,255
Net current assets		**587,715**	595,986
Total assets less current liabilities		**689,935**	696,006
Non-current liabilities			
Deferred tax liabilities		**9,127**	9,634
Pension obligation		**4,483**	3,877
		13,610	13,511
Net assets		**676,325**	682,495
Capital and reserves			
Share capital		**3,474**	3,474
Reserves		**672,851**	679,021
Total equity		**676,325**	682,495

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.

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.

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 2015 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2014.

In the current interim period, the Group has applied, for the first time, the following new 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 19	Defined Benefits Plans: Employee Contribution
Amendments to IFRS	Annual Improvement to IFRSs 2010–2012 Cycle
Amendments to IFRS	Annual Improvement to IFRSs 2011–2013 Cycle

The application of the above new amendments to IFRSs in the current interim period has had no material effect on the amounts reported on the Group's financial performance and positions for the current and prior periods 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 the 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	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Mechanical watches	**149,888**	196,826
Quartz watches	**55,877**	74,704
Others	**858**	281
	206,623	271,811

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	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
People's Republic of China ("PRC")	**153,070**	203,316
Hong Kong and Macau	**38,232**	50,396
Southeast Asia	**10,164**	13,984
Others	**5,157**	4,115
	206,623	271,811

4. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**2,072**	3,950
Switzerland income tax	**3,170**	1,495
PRC Enterprise Income Tax	**256**	1,160
	5,498	6,605
Deferred tax (credit) charge	**(3,213)**	3,564
Income tax expense for the period	**2,285**	10,169

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 2014: 8.5%) and Cantonal Communal Tax ("**CCT**") of 16.55% (six months ended 30 June 2014: 8.97%).

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. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting):		
Allowance (reversal of allowance) for inventories	**1,527**	(158)
Cost of inventories recognised as expenses	**67,030**	69,779
Depreciation of property, plant and equipment	**19,136**	20,568
Operating lease rental in respect of rented premises	**12,895**	13,920

6. 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:

	For the six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings of the Company for the purposes of basic and diluted earnings per share (profit for the year attributable to owners)	**10,211**	13,507
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	**347,437,000**	281,000,000
Effect of dilutive potential ordinary shares on share options	**18,000**	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**347,455,000**	281,000,000

The number of ordinary shares for the purpose of basic earnings per share for both periods 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 period ended 30 June 2015 and as at 30 June 2014.

7. DIVIDEND

	For the six months ended 30 June	
	2015	2014
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Dividend recognised as distribution:		
— 2014 Final, proposed — HK8 cents per share	**27,795**	–

No dividend has been proposed or paid for the period ended 30 June 2014.

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 approved by the shareholders in the annual general meeting held on 12 June 2015. The proposed final dividend was recognised as a liability in the condensed consolidated financial statements.

8. TRADE AND OTHER RECEIVABLES

	As at 30 June 2015	As at 31 December 2014
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables	**95,529**	123,348
Less: allowance for doubtful debts	**(1,689)**	(1,259)
	93,840	122,089
Other receivables	**3,132**	3,338
Other tax recoverable	**11,703**	10,840
Prepayments	**15,272**	13,839
Deposits	**5,887**	6,741
	35,994	34,758
	129,834	156,847

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 at the end of the reporting period:

	As at 30 June 2015 *HK$'000* **(Unaudited)**	As at 31 December 2014 *HK$'000* (Audited)
0–90 days	**76,879**	110,438
91–180 days	**10,875**	10,997
181–270 days	**4,542**	654
Over 270 days	**1,544**	–
	93,840	122,089

9. TRADE AND OTHER PAYABLES

	As at 30 June 2015 *HK$'000* **(Unaudited)**	As at 31 December 2014 *HK$'000* (Audited)
Trade payables	**28,992**	39,424
Other payables	**5,524**	9,165
Accruals	**19,390**	18,640
	53,906	67,229

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 2015 *HK$'000* **(Unaudited)**	As at 31 December 2014 *HK$'000* (Audited)
0–30 days	**26,648**	30,908
31–60 days	**596**	3,562
Over 60 days	**1,748**	4,954
	28,992	39,424

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEWS

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning nearly 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 implementing stringent quality controls. Under its own brand "Ernest Borel", the Group is 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". Together with its distinctive market position, Ernest Borel has gained leadership among brands of watches for couples in Switzerland. The extensive distribution network of the Group covers retail 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 Southeast Asia. As at 30 June 2015, the Group has a total of 1,060 points of sale ("**POS**").

In the first half of 2015, the Group has operated amidst an unfavourable business environment as consumer sentiment has been affected by the slowdown in economic growth of PRC which led to a downturn in the retail market. For the six months ended 30 June 2015, Ernest Borel recorded revenue of HK$206.6 million while revenue of the corresponding period last year was HK$271.8 million. The decline in revenue was mainly attributable to a reduced volume of orders placed by watch retailers and authorised distributors due to the slowdown in economic growth of PRC and weakened consumer sentiment. Owing to a shift in product mix of lower gross profit margin product under weakened consumer sentiment, gross profit and gross profit margin dropped to HK$122.2 million (2014: HK$182.7 million) and 59.2% (2014: 67.2%) respectively. Profit attributable to equity holders decreased to HK$10.2 million (2014: HK$13.5 million).

The PRC Market

The PRC market remains as the core business market of the Group. We had a total of 849 POS operated by more than 170 watch retailers across 23 provinces, autonomous regions and municipalities in the PRC as at 30 June 2015, representing an increase of 1 POS from 848 POS in the corresponding period last year.

During the period under review, the economic growth in the PRC has recorded its lowest level in six years. Local consumers were prudent about purchasing high-end consumer products due to the uncertainties in the external economic environment. Along with the intense competition among its peers, the Group has been confronted with additional tough challenges. As a result, revenue generated from the PRC declined to HK$153.1 million from HK$203.3 million in the corresponding period last year, accounting for approximately 74.1% of the total revenue.

Hong Kong, Macau and Southeast Asia Markets

As at the end of the reporting period, we have 185 POS in the Hong Kong, Macau and Southeast Asia markets. The growth in the luxury goods retail industry in Hong Kong and Macau has been credited to the influx of high net-worth and middle-class visitors from the PRC. As the PRC's economic expansion has weakened, the number of visitors to Hong Kong under the Individual Visit Scheme has continued to decline, when coupled with the expensive shop rental, has caused the revenue derived from this business segment to decline to HK$48.4 million from HK$64.4 million in the corresponding period in 2014.

FINANCIAL REVIEWS

Revenue and segment information

Our revenue decreased by HK$65.2 million, or approximately 24.0% from HK$271.8 million for 1HFY2014 to HK$206.6 million for 1HFY2015. The decrease in revenue of mechanical watches and quartz watches were mainly due to slow-down in the economic growth of PRC, weakened consumer sentiment and reduced volume of orders placed by watch retailers and authorised distributors.

Performance by major products

	1HFY2015	1HFY2014	Changes	
	HKD'000	*HKD'000*	*HKD'000*	*%*
Mechanical watches	**149.9**	196.8	(46.9)	–23.8%
Quartz watches	**55.9**	74.7	(18.8)	–25.2%
Total	**205.8**	271.5	(65.7)	–24.2%

Mechanical watches

Revenue from sales of mechanical watches decreased by approximately 23.8% from HK$196.8 million for 1HFY2014 to HK$149.9 million for 1HFY2015.

Quartz watches

Revenue from sales of quartz watches decreased by approximately 25.2% from HK$74.7 million for 1HFY2014 to HK$55.9 million for 1HFY2015.

Performance by geographical location

	1HFY2015 *HKD'000*	1HFY2014 *HKD'000*	Changes *HKD'000*	%
PRC Market	**153.1**	203.3	(50.2)	–24.7%
Hong Kong, Macau and Southeast Asia Markets	**48.4**	64.4	(16.0)	–24.8%
Other Markets mainly in United States and Europe	**5.1**	4.1	1.0	24.4%
Total	**206.6**	271.8	(65.2)	–24.0%

The PRC market

The PRC continues to be our major market, representing approximately 74.1% of our revenue for 1HFY2015. Sales in this region showed a decrease of approximately 24.7% from HK$203.3 million for 1HFY2014 to HK$153.1 million for 1HFY2015 due to slowdown in economic growth.

Hong Kong, Macau and Southeast Asia markets

Hong Kong, Macau and Southeast Asia markets accounted for approximately 23.4% of our total revenue for 1HFY2015. Sales in this market decreased by approximately 24.8% from HK$64.4 million for 1HFY2014 to HK$48.4 million for 1HFY2015. The decrease was mainly attributable to the decline in number of tourists and local consumption.

Other markets

Revenue from other markets, namely, markets in the United States and Europe recorded an increase from HK$4.1 million for 1HFY2014 to HK$5.1 million for 1HFY2015.

Cost of Sales

Cost of sales decreased by approximately 5.4% from approximately HK$89.2 million for 1HFY2014 to approximately HK$84.4 million for 1HFY2015. Reasons which led to the decrease were mainly attributable to decrease in cost of watch components in 1HFY2015.

Gross profit

Our gross profit decreased by HK$60.5 million or approximately 33.1% from HK$182.7 million for 1HFY2014 to HK$122.2 million for 1HFY2015. The decrease in gross profit is mainly attributable to decrease in revenue and the decline in gross profit margin from 67.2% for 1HFY2014 to 59.2% for 1HFY2015. The decrease in gross profit margin was primarily due to the shift of in product mix to lower gross profit margin models under current weakened consumer sentiment.

Other gains and losses

We recorded other gains of HK$4.8 million for 1HFY2015 as compared to losses of HK$6.4 million for 1HFY2014. This was primarily due to the exchange net gain of HK$3.0 million mainly arising from appreciation of the Swiss Franc against the Hong Kong dollar and fair value gain on derivative financial instruments of HK$2.2 million.

Distribution costs

Our selling and distribution costs decreased by HK$21.2 million or approximately 20.7% from HK$102.6 million for 1HFY2014 to HK$81.4 million for 1HFY2015, representing approximately 39.4% of our total revenue for 1HFY2015 (1HFY2014: approximately 37.7%). The decrease was primarily attributable to a decrease in advertising and marketing expenses from HK$55.1 million for 1HFY2014 to HK$37.0 million for 1HFY2015 as we reduced the scale of our marketing and advertising activities.

Administrative expenses

Our administrative expenses increased to HK$31.9 million for 1HFY2015 from HK$29.5 million for 1HFY2014, representing an increase of HK$2.4 million or approximately 8.1%. The increase in administrative expenses was primarily due to an increase in pre-option expense of HK$1.4 million and other general office expenses.

Listing expenses

Our listing expenses decreased from HK$18.5 million for 1HFY2014 to HK$nil million for 1HFY2015. This decrease was primarily due to no professional fees were incurred during 2015 in relation to the global offering of the Shares as the Company had already been listed on 11 July 2014.

Finance costs

Our finance costs decreased by HK$0.6 million or approximately 24.0% from HK$2.5 million for 1HFY2014 to HK$1.9 million for 1HFY2015 as a result of a decrease in bank borrowings during the six months ended 30 June 2015.

Taxation

Our income tax decreased from HK$10.2 million for 1HFY2014 to HK$2.3 million for 1HFY2015, representing a decrease of HK$7.9 million or approximately 77.5%. This decrease was primarily attributable to the occurrence of deferred tax income amounting to HK$3.2 million for 1HFY2015 as compared to deferred tax expense amounting to HK$3.6 million for 1HFY2014, and decrease in our profits tax.

Profit for the year attributable to owners of our Company

Our net profit for the year decreased by approximately HK$3.3 million or around 24.4% from HK$13.5 million for 1HFY2014 to HK$10.2 million for 1HFY2015 and the net profit margin decreased from approximately 5.0% for 1HFY2014 to approximately 4.9% for 1HFY2015, mainly due to a decrease in revenue of approximately 24.0%.

Inventory

Inventory was approximately HK$559.1 million as at 30 June 2015, representing an increase of HK$61.1 million, or around 12.3%, from HK$498.0 million as at 31 December 2014.

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 1HFY2015 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$156.9 million and approximately HK$129.8 million as at 31 December 2014 and 30 June 2015 respectively. Such decrease in trade and other receivables is attributable to a decrease in revenue in 1HFY2015.

The Group's trade and other payables decreased slightly from approximately HK$67.2 million as at 31 December 2014 to approximately HK$53.9 million as at 30 June 2015 resulting primarily from a decrease in purchase of watch component in 1HFY2015.

Liquidity, financial resources and capital structure

As at 30 June 2015, we had non-pledged cash and bank balances of HK$150.3 million (31 December 2014: HK$141.3 million). Based on the borrowings of HK$175.3 million (31 December 2014: HK$128.7 million) and shareholders' equity of HK$676.3 million (31 December 2014: HK$682.5 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 25.9% (31 December 2014: approximately 18.9%). As at 30 June 2015, part of our borrowing amounting to HK$75.5 million was repayable over one year and the remaining balance amounting to HK$99.8 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$6.0 million (31 December 2014: HK$6.0 million);

(b) charges over deposits placed for a life insurance policy with a carrying amount of HK$12.2 million (31 December 2014: HK$9.5 million); and

(c) charges over trade receivables with a carrying amount of HK$nil million (31 December 2014: 8.6 million).

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during 1HFY2015.

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 2015.

Contingent liabilities

We did not have any contingent liabilities as at 30 June 2015 (31 December 2014: Nil).

Interim dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2015 (1HFY2014: Nil).

Employees and Remuneration Policies

As at 30 June 2015, the Group had a total of 331 full-time employees, representing an increase of approximately 1.5% compared to 326 employees as at 31 December 2014. Total staff costs for 1HFY2015 increased to approximately HK$39.5 million from approximately HK$38.3 million for 1HFY2014, mainly due to the occurrence of equity-settled share-based payment of HK$1.4 million in 1HFY2015.

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 1HFY2015.

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 2015, 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 2014: HK$1.2 million).

Prospects

As the PRC economy remains weak and the retail markets in both the PRC and Hong Kong are unlikely to improve in the short term, the operating environment is likely to remain challenging to the premium watch industry as a whole during this financial year.

Facing the challenges in the market, the management is fully aware of the importance of improving profit margin and profitability. With this in mind, Ernest Borel is adjusting its design and marketing strategies and devote greater effort towards the sales of medium and medium- high-end watches with an aim to penetrate the corresponding consumer segment and reach out to potential customers. Meanwhile, the Group is also enhancing its design and production capabilities, and will introduce a new range of watches in the second half of the year to enrich its current product mix and address market demands. Moreover, the Group will continue to adopt and leverage our vertically-integrated business model in order to effectively control all key stages of the entire production chain. In this way we can ensure that the entire process, covering product design and development, procurement of materials and components, production, logistics, quality control, promotion and distribution, maintaining a high level of operating efficiency so as to lower production costs.

Furthermore, in order to fully realise the competitive strength of online to offline (O2O) operation that has been growing significantly, the Group has been actively exploring and developing its ecommerce platform. It targets online customers, providing them with a more convenient, highly flexible as well as easier channel to purchase watches of Ernest Borel. Moreover, the Group will expand and strengthen its distribution network in the PRC prudently and progressively while exploring the second-, third- and fourth-tier cities with potential to set up POS. While advertising will be carefully targeted, emphasis will shift to implementing marketing initiatives and conducting promotional activities where our POS are located. Through working closely with local retailers and authorised distributors, we will leverage their local market knowledge for our marketing and promotional initiatives and forge closer ties in a bid to generate greater synergies.

Moving forward, the Group will leverage its in-depth experience in the industry and flexibly adjust the strategies and sales plans to respond to market dynamics so as to cope with the operating conditions. Supported by Ernest Borel's long and distinguished history of producing premium Swiss-made watches and as one of the best-selling brands in the premium watch market in the PRC, the management still believes that the Group will gradually resume growth when the operating environment improves.

USE OF PROCEEDS FROM THE IPO

The ordinary shares of the Company were listed on the Main Board of the Stock Exchange on 11 July 2014 with net proceeds from the global offering of the Company of approximately HK$173.4 million (after deducting underwriting fees and related expenses).

The use of the net proceeds from the global offering as at 30 June 2015 was approximately as follows:

Use for	**Percentage of net proceeds**	**Amount of net proceeds** *(in HK$ million)*	**Amount utilised** *(in HK$ million)*	**Amount remaining** *(in HK$ million)*
Marketing and promotional activities of our brand and watches	35%	60.7	(54.1)	6.6
Expanding and enhancing our distribution network	35%	60.7	(31.7)	29.0
Capital expenditures on ongoing expansion of our production capacity	20%	34.7	(0.3)	34.4
Providing funding for working capital and other general corporate purposes	10%	17.3	(17.3)	–
	100%	173.4	(103.4)	70.0

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. Pan Di, a non-executive Director, and Mr. Cheung Kam Min Mickey, an independent non-executive Director were unable to attend the Company's annual general meeting held on 12 June 2015 due to other business engagements.

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 2015.

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 2015.

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.

The Audit Committee comprises all of our three independent non-executive Directors, namely Mr. Lo Chi Chiu, Mr. Cheung Kam Min Mickey and Dr. Yau Bun, 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 2015 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.

Our condensed consolidated financial statements for the six months ended 30 June 2015 have been reviewed by Deloitte Touche Tohmatsu, certified public accountants in Hong Kong, the independent auditor of the Company, 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

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 2015.

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

Hong Kong, 27 August 2015

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. Lo Chi Chiu
Dr. Yau Bun
Mr. Cheung Kam Min Mickey