



**ERNEST  
BOREL**

1856

# Ernest Borel Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 1856



**2015**  
**INTERIM REPORT**



# CONTENTS

Corporate Information	2
Financial Highlights	4
Management Discussion and Analysis	5
Disclosure of Interests	15
Corporate Governance and Other Information	20
Report on Review of Condensed Consolidated Financial Statements	22
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	24
Condensed Consolidated Statement of Financial Position	25
Condensed Consolidated Statement of Changes in Equity	26
Condensed Consolidated Statement of Cash Flows	27
Notes to the Condensed Consolidated Financial Statements	28

## DIRECTORS

### Executive directors

Mr. Su Da (*Chairman*)

Mr. Wong Pong Chun James

Ms. Liu Libing

### Non-executive directors

Mr. Chan Kwan Pak Gilbert

Mr. Pan Di

### Independent non-executive directors

Mr. Lo Chi Chiu

Mr. Cheung Kam Min Mickey

Dr. Yau Bun

## COMPANY SECRETARY

Mr. Lau Fan Yu

## AUDIT COMMITTEE

Mr. Lo Chi Chiu (*Chairman*)

Dr. Yau Bun

Mr. Cheung Kam Min Mickey

## REMUNERATION COMMITTEE

Mr. Lo Chi Chiu (*Chairman*)

Mr. Wong Pong Chun James

Dr. Yau Bun

Mr. Cheung Kam Min Mickey

## NOMINATION COMMITTEE

Mr. Su Da (*Chairman*)

Dr. Yau Bun

Mr. Lo Chi Chiu

Mr. Cheung Kam Min Mickey

## AUTHORISED REPRESENTATIVES

Mr. Wong Pong Chun James

Mr. Lau Fan Yu

## COMPANY'S WEBSITE

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

## REGISTERED OFFICE

P.O. Box 309, Ugland House

Grand Cayman KY1-1104

Cayman Islands

## HEAD OFFICE IN SWITZERLAND

8, rue des Perrières

2340 Le Noirmont

Switzerland

## OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Suite 701, Taikoo Hui Tower 1

385 Tianhe Road, Guangzhou 510620

People's Republic of China

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

Suites 1101-3 & 1112-14

11th Floor, Tower 6

The Gateway, Harbour City

9 Canton Road

Tsim Sha Tsui, Kowloon

Hong Kong

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

Royal Bank of Canada Trust Company

(Cayman) Limited

4th Floor

Royal Bank House

24 Shedden Road

PO Box 1586

Grand Cayman KY1-1110

Cayman Islands

## CORPORATE INFORMATION

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

Tricor Investor Services Limited  
Level 22, Hopewell Centre  
183 Queen's Road East  
Hong Kong

### **INDEPENDENT AUDITOR**

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

### **COMPLIANCE ADVISER**

Messis Capital Limited

### **PRINCIPAL BANKER**

Hang Seng Bank Limited

### **LEGAL ADVISERS**

*As to Hong Kong law*  
Orrick, Herrington & Sutcliffe

## 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.

## 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 REVIEW

### 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

	<b>1HFY2015</b>	1HFY2014	Changes	
	<b>HKD'000</b>	HKD'000	HKD'000	%
Mechanical watches	<b>149.9</b>	196.8	(46.9)	-23.8%
Quartz watches	<b>55.9</b>	74.7	(18.8)	-25.2%
Total	<b>205.8</b>	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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Performance by geographical location

	<b>1HFY2015</b>	1HFY2014	Changes	
	<b>HKD'000</b>	HKD'000	HKD'000	%
PRC Market	<b>153.1</b>	203.3	(50.2)	-24.7%
Hong Kong, Macau and Southeast Asia Markets	<b>48.4</b>	64.4	(16.0)	-24.8%
Other Markets mainly in United States and Europe	<b>5.1</b>	4.1	1.0	24.4%
<b>Total</b>	<b>206.6</b>	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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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).

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2015, the interests or short positions of the Directors and the chief executive in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be recorded in the register referred to therein or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions of Directors of Listed Issuers (the "Model Code") as set forth in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), are as follows:

### Long Positions in the Company's ordinary share (the "Shares")

Name of Directors/ Chief Executive	Capacity/Nature of Interest	Number of interested Shares	Approximate percentage of interest in the total issued Shares
Su Da	Beneficial owner	1,201,103 <sup>(1)</sup>	0.35% <sup>(2)</sup>
	Interest in a controlled corporation <sup>(3)</sup>	71,960,000	20.71% <sup>(2)</sup>
Wong Pong Chun James	Beneficial owner	339,507 <sup>(1)</sup>	0.10% <sup>(2)</sup>
Liu Libing	Beneficial owner	610,662	0.18% <sup>(2)</sup>

(1) 1,101,103 share options granted under the Pre-IPO Share Option Scheme.

(2) Calculated based on the number of issued Shares as at 30 June 2015.

(3) Force Field Limited ("Force Field") is owned as to 100% by Mr. Su Da and controlled by Mr. Su Da. Mr. Su Da is therefore deemed to be interested in the Shares held by Force Field.

Saved as disclosed above, as at 30 June 2015, none of the Directors and the chief executive of the Company and their respective associates had or was deemed to have any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any Director or chief executive of the Company, as at 30 June 2015, the persons or corporations (not being a Director or the chief executive of the Company) who or which had an interest or short position in the Shares and underlying Shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

### Long Position in the Shares

Name of Shareholders	Capacity/Nature of interest	Number of Shares interested	Approximate percentage of interest in the total issued Shares
Mr. Lam Wai Wah	Beneficial owner	99,755,000	28.71%
Force Field	Beneficial owner	71,960,000	20.71%
Surplus Union Investments Limited	Beneficial owner	37,935,000	10.92%
Mr. Chan Kin Sun <sup>(1)</sup>	Interest in controlled corporation	37,935,000	10.92%
Dragon Cloud Holdings Limited <sup>(2)</sup>	Beneficial owner	33,720,000	9.71%
Greenwoods Bloom Fund, L.P. <sup>(2)</sup>	Interest in controlled corporation	33,720,000	9.71%
Greenwoods Bloom Ltd. <sup>(3)</sup>	Interest in controlled corporation	33,720,000	9.71%
Skyeast Global Limited <sup>(3)</sup>	Interest in controlled corporation	33,720,000	9.71%
Hua Tang <sup>(3)</sup>	Interest in controlled corporation	33,720,000	9.71%

(1) Surplus Union Investments Limited is wholly owned and controlled by Mr. Chan Kin Sun. Mr. Chan Kin Sun is therefore deemed to be interested in the shares held by Surplus Union Investments Limited.

(2) Dragon Cloud Holdings Limited is owned as to 87.26% by Greenwoods Bloom Fund, L.P. and 12.74% by Hua Tang.

(3) Greenwoods Bloom Ltd. is the general partner of Greenwoods Bloom Fund, L.P. Greenwoods Bloom Ltd. is wholly owned by Hua Tang. Greenwoods Bloom Fund, L.P. is then owned as to 47% by Skyeast Global Limited and controlled by Skyeast Global Limited. Skyeast Global Limited is wholly-owned by Hua Tang. Each of Greenwoods Bloom Fund, L.P., Greenwoods Bloom Ltd., Skyeast Global Limited and Hua Tang is therefore deemed to be interested in the Shares held by Dragon Cloud Holdings Limited.

## DISCLOSURE OF INTERESTS

Save as disclosed above, as at 30 June 2015, the Directors were not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

### PRE-IPO SHARE OPTION SCHEME

The Pre-IPO Share Option Scheme was conditionally adopted by our Company on 24 June 2014 and became effective upon the Listing Date for the purpose of aiding us in recruiting and retaining key employees, directors or consultants of outstanding ability and to reward such employees, directors or consultants to exert their best efforts on behalf of the Company through the granting of options. The principal terms of the Pre-IPO Share Option Scheme were summarised in the section headed “Statutory and General Information — F. Pre-IPO Share Option Scheme” of Appendix IV to the Prospectus of the Company dated 30 June 2014 (the “**Prospectus**”).

Details of the options granted under the Pre-IPO Share Option Scheme are as follows:

- (a) there were tranche 1 and tranche 2 options to subscribe for an aggregate of 6,821,339 Shares, where were granted to the grantees on 24 June 2014 under the Pre-IPO Share Option Scheme;
- (b)
  - (i) 2,319,659 underlying Shares were comprised in the tranche 1 options with an exercise price of HK\$2.40 per Share; and
  - (ii) the tranche 1 options were vested on 11 July 2014. Such options are exercisable from 11 July 2014 to 11 July 2016,  
  
(collectively, the “**Tranche 1 Option**”); and
- (c)
  - (i) 4,501,680 underlying Shares were comprised in the tranche 2 options with an exercise price of HK\$3.00 per Share; and
  - (ii) the tranche 2 options were vested on 11 July 2015. Such options are exercisable from 11 July 2015 to 11 July 2017,  
  
(collectively, the “**Tranche 2 Option**”).

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

## DISCLOSURE OF INTERESTS

Details of the movements of the Tranche 1 Options<sup>(1)</sup> and Tranche 2 Option<sup>(2)</sup> granted under the Pre-IPO Share Option Scheme as at 30 June 2015 are as follows:

Grantees	Tranche	Exercise price per Share	Balance as at 1 January 2015	Exercised from 1 January to 30 June 2015	Cancelled/lapsed during the six months ended 30 June 2015 (the "Period")	Balance as at 30 June 2015
<b>Directors</b>						
Su Da	1	HK\$2.40	440,441	–	–	440,441
	2	HK\$3.00	660,662	–	–	660,662
Wong Pong Chun James	1	HK\$2.40	137,638	–	–	137,638
	2	HK\$3.00	201,869	–	–	201,869
Liu Libing	1	HK\$2.40	214,265	–	–	214,265
	2	HK\$3.00	396,397	–	–	396,397
Sub-total			2,051,272	–	–	2,051,272
<b>Other employees</b>						
	1	HK\$2.40	1,089,335	–	–	1,089,335
	2	HK\$3.00	2,609,617	–	–	2,609,617
<b>Total</b>			5,750,224	–	–	5,750,224

Notes:

- (1) Tranche 1 Options vested on 11 July 2014
- (2) Tranche 2 Options will vest on 11 July 2015

Saved as disclosed above, no options were granted or cancelled or lapsed for the Period under the Pre-IPO Share Option Scheme.

The total number of shares available for issue under the Pre-IPO Share Option Scheme is 5,750,224, representing approximately 1.66% and 1.66% of the Company's issued shares as at the date of the Company's 2014 annual report and as at the date of this interim report, respectively.

Further details of the Pre-IPO Share Option Scheme are set out in note 20 to the consolidated financial statements.

## SHARE OPTION SCHEME

The Company conditionally adopted a share option scheme (the “**Share Option Scheme**”) on 24 June 2014, which was effective upon the Listing Date. The purpose of the Share Option Scheme is to help motivate eligible persons to optimize their future performance and efficiency to the Group and/or reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

The maximum number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 34,700,000 shares, representing approximately 9.99% of the issued share capital as at the date of this interim report.

No option may be granted to any participant of the Share Option Scheme such that the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company’s issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK\$1.0 upon acceptance of the grant on or before the 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

- (a) the nominal value of a share;
- (b) the closing price of a share as stated in the Stock Exchange’s daily quotations sheets on the offer date; and
- (c) the average closing price of a share as stated in the Stock Exchange’s daily quotation sheets for the five business days immediately preceding the offer date.

The Share Option Scheme shall be valid and effective for a period of 10 years from the adoption date, after which no further options will be granted or offered.

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

Further details of the Share Option Scheme are summarised in the section headed “Statutory and General Information — G. Share Option Scheme” of Appendix IV to the Prospectus.

## 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.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

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.



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

*(incorporated in Cayman Islands with limited liability)*

**INTRODUCTION**

We have reviewed the condensed consolidated financial statements of Ernest Borel Holdings Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) set out on pages 24 to 44, which comprise the condensed consolidated statement of financial position as of 30 June 2015 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” (“**IAS 34**”) issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**SCOPE OF REVIEW**

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

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## **CONCLUSION**

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

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong  
27 August 2015

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

For the six months ended 30 June 2015

	NOTES	For the six months ended 30 June	
		2015 HKD'000 (Unaudited)	2014 HKD'000 (Unaudited)
Revenue	3	<b>206,623</b>	271,811
Cost of sales		<b>(84,389)</b>	(89,158)
Gross profit		<b>122,234</b>	182,653
Other gains and losses	4	<b>4,793</b>	(6,364)
Other income	5	<b>673</b>	493
Distribution expenses		<b>(81,412)</b>	(102,553)
Administrative expenses		<b>(31,918)</b>	(29,541)
Listing expenses		<b>–</b>	(18,540)
Finance costs	6	<b>(1,874)</b>	(2,472)
Profit before tax		<b>12,496</b>	23,676
Income tax expense	7	<b>(2,285)</b>	(10,169)
Profit for the period	8	<b>10,211</b>	13,507
Other comprehensive income (expense)			
<i>Item that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit scheme		<b>–</b>	(768)
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<b>9,984</b>	20
Other comprehensive income (expense) for the period		<b>9,984</b>	(748)
Total comprehensive income for the period		<b>20,195</b>	12,759
Earnings per share — (expressed in HK cents)			
Basic	10	<b>2.94</b>	4.81
Diluted	10	<b>2.94</b>	4.81

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2015

	NOTES	As at 30 June 2015 HKD'000 (Unaudited)	As at 31 December 2014 HKD'000 (Audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	11	78,673	81,440
Deposits placed for life insurance policies		12,181	9,461
Deferred tax assets		11,366	9,119
		<b>102,220</b>	100,020
<b>CURRENT ASSETS</b>			
Inventories		559,128	498,027
Trade and other receivables	12	129,834	156,847
Amounts due from related parties	13	–	63
Tax recoverable		1,314	–
Pledged bank deposits		6,022	6,019
Bank balances and cash		150,265	141,285
		<b>846,563</b>	802,241
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	53,906	67,229
Amount due to a related party	13	72	–
Derivative financial instruments		–	705
Tax payable		1,745	9,669
Dividend payable		27,795	–
Bank borrowings	15	175,330	128,652
		<b>258,848</b>	206,255
<b>NET CURRENT ASSETS</b>		<b>587,715</b>	595,986
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>689,935</b>	696,006
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		9,127	9,634
Pension obligation		4,483	3,877
		<b>13,610</b>	13,511
<b>NET ASSETS</b>		<b>676,325</b>	682,495
<b>CAPITAL AND RESERVES</b>			
Share capital	16	3,474	3,474
Reserves		672,851	679,021
<b>TOTAL EQUITY</b>		<b>676,325</b>	682,495

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

	Share capital	Share premium	Other reserve	Share option reserve	Actuarial gain and loss reserve	General reserves	Translation reserve	Retained profits	Total
	HKD'000	HKD'000	HKD'000 (note 1)	HKD'000	HKD'000	HKD'000 (note 2)	HKD'000	HKD'000	HKD'000
At 1 January 2014 (audited)	10	-	15,500	-	(2,356)	853	21,046	420,051	455,104
Profit for the period	-	-	-	-	-	-	-	13,507	13,507
Other comprehensive (expense) income for the period	-	-	-	-	(768)	-	20	-	(748)
Total comprehensive (expense) income for the period	-	-	-	-	(768)	-	20	13,507	12,759
Transfer	-	-	-	-	-	293	-	(293)	-
At 30 June 2014 (unaudited)	10	-	15,500	-	(3,124)	1,146	21,066	433,265	467,863
At 1 January 2015 (audited)	3,474	182,099	15,500	3,233	(2,809)	1,547	1,282	478,169	682,495
Profit for the period	-	-	-	-	-	-	-	10,211	10,211
Other comprehensive income for the period	-	-	-	-	-	-	9,984	-	9,984
Total comprehensive income for the period	-	-	-	-	-	-	9,984	10,211	20,195
Recognition of equity-settled share based payments	-	-	-	1,430	-	-	-	-	1,430
Dividends recognised as distribution (note 9)	-	-	-	-	-	-	-	(27,795)	(27,795)
At 30 June 2015 (unaudited)	3,474	182,099	15,500	4,663	(2,809)	1,547	11,266	460,585	676,325

## Notes:

- Other reserve of HK\$15,500,000 represents amount arising from capitalisation of loans from shareholders due by Ernest Borel (Far East) Company Limited ("EB Far East"), a subsidiary of the Company in 2005.
- General reserves represent the legal reserves being allocated from the retained profits of Ernest Borel S.A. ("EB Switzerland") and Ernest Borel (Guangzhou) Trading Co., Ltd ("EB (GZ)"), the subsidiaries of the Company, as required under the relevant legislation of Switzerland and the People's Republic of China (the "PRC"), respectively. According to the relevant legislation, EB Switzerland has allocated to the general reserve until this reserve reached 50% of its share capital. For the legal reserve in the PRC, it represented the statutory surplus reserve of EB (GZ).

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

	For the six months ended 30 June	
	2015 HKD'000 (Unaudited)	2014 HKD'000 (Unaudited)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(25,857)</b>	(16,626)
<b>INVESTING ACTIVITIES</b>		
Additions of property, plant and equipment	<b>(8,630)</b>	(12,678)
Deposit placed for a life insurance contract paid	<b>(2,984)</b>	(2,223)
Interest received	<b>231</b>	68
Repayment from related parties	<b>23</b>	–
Pledged bank deposits placed	–	(5,002)
Repayment from shareholders	–	10
Proceeds from disposal of property, plant and equipment	–	4
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(11,360)</b>	(19,821)
<b>FINANCING ACTIVITIES</b>		
New bank loans raised	<b>123,094</b>	118,381
Repayment of bank loans	<b>(76,415)</b>	(86,917)
Interest paid	<b>(1,874)</b>	(2,472)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>44,805</b>	28,992
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>7,588</b>	(7,455)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>141,285</b>	60,907
Effect of foreign exchange rate changes	<b>1,392</b>	(411)
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD,</b> represented by bank balances and cash	<b>150,265</b>	53,041

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received or receivable for the sale 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, results, assets and liabilities are therefore the same as the respective amounts presented in the condensed consolidated statement of profit or loss and other comprehensive income and the condensed consolidated statement of financial position. Entity-wide segment information is set out below.

### 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
	HKD'000	HKD'000
	(Unaudited)	(Unaudited)
Mechanical watches	149,888	196,826
Quartz watches	55,877	74,704
Others	858	281
	<b>206,623</b>	271,811

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 3. REVENUE AND SEGMENT INFORMATION *(Continued)*

### 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	
	For the six months ended 30 June	
	2015	2014
	HKD'000	HKD'000
	(Unaudited)	(Unaudited)
PRC	153,070	203,316
Hong Kong and Macau	38,232	50,396
Southeast Asia	10,164	13,984
Others	5,157	4,115
	<b>206,623</b>	271,811

  

	Non-current assets	
	As at 30 June 2015	As at 31 December 2014
	HKD'000	HKD'000
	(Unaudited)	(Audited)
PRC	32,485	35,899
Hong Kong and Macau	7,746	7,658
Switzerland	38,442	37,883
	<b>78,673</b>	81,440

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 4. OTHER GAINS AND LOSSES

	Fox the six months ended 30 June	
	2015 HKD'000 (Unaudited)	2014 HKD'000 (Unaudited)
Fair value gain (loss) on derivative financial instruments	2,184	(7)
Exchange gain (loss), net	2,958	(6,136)
Allowance for doubtful debts	(349)	–
Loss on disposal of property, plant and equipment	–	(221)
	<b>4,793</b>	<b>(6,364)</b>

## 5. OTHER INCOME

	Fox the six months ended 30 June	
	2015 HKD'000 (Unaudited)	2014 HKD'000 (Unaudited)
Interest on life insurance contracts	166	139
Bank interest	234	68
Maintenance services	78	57
Sundry	195	229
	<b>673</b>	<b>493</b>

## 6. FINANCE COSTS

	Fox the six months ended 30 June	
	2015 HKD'000 (Unaudited)	2014 HKD'000 (Unaudited)
Interest on bank borrowings wholly repayable within five years	1,874	2,472

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2015 HKD'000 (Unaudited)	2014 HKD'000 (Unaudited)
Current tax:		
Hong Kong Profits Tax (note i)	2,072	3,950
Switzerland income tax (note ii)	3,170	1,495
PRC Enterprise Income Tax (note iii)	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

Notes:

(i) Hong Kong

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

(ii) Switzerland

Switzerland income tax is calculated at certain tax rates on the assessable income for both periods. Under the relevant Tax Laws 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.

(iii) PRC

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%.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 8. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2015	2014
	HKD'000	HKD'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

## 9. DIVIDEND

	For the six months ended 30 June	
	2015	2014
	HKD'000	HKD'000
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.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 10. 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 HKD'000 (Unaudited)	2014 HKD'000 (Unaudited)
<b>Earnings</b>		
Earnings of the Company for the purposes of basic and diluted earnings per share (profit for the year attributable to owners)	<b>10,211</b>	13,507
<b>Number of shares</b>		
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	<b>347,437,000</b>	281,000,000
Effect of dilutive potential ordinary shares on share options	<b>18,000</b>	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>347,455,000</b>	281,000,000

The number of ordinary shares for the purpose of basic earnings per share for both periods has 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 as disclosed in note 16.

There were no potential ordinary shares outstanding during the period ended 30 June 2015 and as at 30 June 2014.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2015, the Group acquired property, plant and equipment of HKD14,056,000 (six months ended 30 June 2014: HKD18,721,000).

During the period ended 30 June 2014, the Group disposed of property, plant and equipment with an aggregate carrying amount of HKD225,000, resulting in a loss on disposal of HKD221,000.

## 12. TRADE AND OTHER RECEIVABLES

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 12. TRADE AND OTHER RECEIVABLES *(Continued)*

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 at the end of the reporting period:

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

## 13. AMOUNTS DUE FROM (TO) RELATED PARTIES

The amounts are unsecured, interest-free and repayable on demand. No collateral is held over these balances by the Group.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 14. TRADE AND OTHER PAYABLES

	<b>As at 30 June 2015 HKD'000 (Unaudited)</b>	As at 31 December 2014 HKD'000 (Audited)
Trade payables	<b>28,992</b>	39,424
Other payable	<b>5,524</b>	9,165
Accruals	<b>19,390</b>	18,640
	<b>53,906</b>	67,229

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

	<b>As at 30 June 2015 HKD'000 (Unaudited)</b>	As at 31 December 2014 HKD'000 (Audited)
0–30 days	<b>26,648</b>	30,908
31–60 days	<b>596</b>	3,562
Over 60 days	<b>1,748</b>	4,954
	<b>28,992</b>	39,424

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 15. BANK BORROWINGS

	<b>As at 30 June 2015 HKD'000 (Unaudited)</b>	As at 31 December 2014 HKD'000 (Audited)
Bank loan	<b>133,316</b>	100,610
Import trade loans	<b>42,014</b>	28,042
	<b>175,330</b>	128,652
Analysed as:		
Secured	<b>168,130</b>	119,052
Unsecured	<b>7,200</b>	9,600
	<b>175,330</b>	128,652

During the current interim period, the Group obtained additional bank borrowings of HK\$123,094,000 (six months ended 30 June 2014: HK\$118,381,000) and repaid bank borrowings of HK\$76,415,000 (six months ended 30 June 2014: HK\$86,917,000).

All the Group's borrowings are variable-rate borrowings which carry interest at Hong Kong Interbank Offered Rate or London Interbank Offered Rate plus certain basis points. Interest is repricing every six months and the effective interest rates is ranging from 2.19% to 4.34% per annum for the six months ended 30 June 2015 (six months ended 30 June 2014: 2.17% to 3.87% per annum).

Details of assets that have been pledged as collateral to secure bank borrowings are set out in note 19.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 16. SHARE CAPITAL

	<b>Number of ordinary shares</b> '000	<b>Par value</b> HK\$	<b>Amount</b> HK\$'000
<b>Authorised:</b>			
At 1 January 2014	6,500	0.01	6,500
Shares subdivision (note i)	643,500		–
Increase in authorised share capital (note i)	9,350,000	0.01	93,500
At 30 June 2014, 31 December 2014 and 30 June 2015	10,000,000	0.01	100,000
<b>Issued and fully paid:</b>			
At 1 January 2014	10	1.00	10
Shares subdivision (note i)	990	0.01	–
At 30 June 2014	1,000	0.01	10
Issue of shares by capitalisation of share premium account (note ii)	280,000	0.01	2,800
Issue of shares on global offering (note iii)	66,000	0.01	660
Exercise of Pre-IPO share option	437	0.01	4
At 31 December 2014 and 30 June 2015	347,437	0.01	3,474

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 16. SHARE CAPITAL (Continued)

Notes:

- (i) Pursuant to the shareholders' resolution passed on 24 June 2014, every share of HK\$1 each in the issued and unissued share capital of the Company was subdivided into 100 shares of HK\$0.01 each and the authorised share capital of the Company was increased from HK\$6,500,000 divided into 6,500,000 shares of HK\$1 each to HK\$100,000,000 divided into 10,000,000,000 of HK\$0.01 each by the creation of 9,350,000,000 shares of HK\$0.01 each.
- (ii) Simultaneous with the listing of the shares of the Company on the Stock Exchange on 11 July 2014, 280,000,000 ordinary shares of HK\$0.01 per share, each were issued at par to the shareholders whose names were on the register of members of the Company as at the close of business on 24 June 2014 for capitalisation of HK\$2,800,000 standing to the credit of the share premium account of the Company.
- (iii) The Company's shares were listed on the Stock Exchange on 11 July 2014. The Company allotted and issued the total of 66,000,000 new ordinary shares of HK\$0.01 each to the public at a price of HK\$3.0 per share pursuant to the initial public offering by way of a sum of HK\$198,000,000.

Details of the exercise of Pre-IPO share option scheme are set out in note 20.

All the shares issued rank pari passu with the existing shares in all respect.

## 17. CAPITAL COMMITMENTS

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

	<b>As at 30 June 2015 HKD'000 (Unaudited)</b>	As at 31 December 2014 HKD'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	<b>1,140</b>	1,157

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 18. OPERATING LEASE COMMITMENT

At the end of the interim period, the Group had commitments for future minimum lease payments for premises under non-cancellable operating leases which fall due:

	<b>As at 30 June 2015 HKD'000 (Unaudited)</b>	As at 31 December 2014 HKD'000 (Audited)
Within one year	<b>20,351</b>	23,180
In the second to fifth years inclusive	<b>10,676</b>	18,065
	<b>31,027</b>	41,245

Included in the above is future lease payments with related party of HK\$675,000 (31 December 2014: HK\$82,000), which fall due is follows:

	<b>As at 30 June 2015 HKD'000 (Unaudited)</b>	As at 31 December 2014 HKD'000 (Audited)
Within one year	<b>225</b>	82
In the second to fifth years inclusive	<b>450</b>	–
	<b>675</b>	82

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

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 19. PLEDGE OF ASSETS

The Group's bank borrowings are secured by:

	<b>As at 30 June 2015 HKD'000 (Unaudited)</b>	As at 31 December 2014 HKD'000 (Audited)
Fixed charges over time deposits	<b>6,022</b>	6,019
Fixed charges over deposits placed for life insurance policies	<b>12,181</b>	9,461
Floating charge over trade receivables	–	8,551

## 20. SHARE-BASED PAYMENT TRANSACTIONS

The Company's pre-IPO share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 24 June 2014, which will expire on 24 June 2024. The Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions that the eligible participants under the Scheme have or may have made to the Company.

The eligible participants include any full-time or part-time employees, executives or officers (including executive, non-executive and independent non-executive directors) of the Company, or any of its subsidiaries and any suppliers, customers, consultants, agents and advisers who, in the opinion of the directors of the Company, will contribute or have contributed to the Company and/or any of its subsidiaries.

At 30 June 2015, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 5,750,224 shares (31 December 2014: 5,750,224 shares), representing 1.66% (31 December 2014: 1.66%) of the shares of the Company in issue at that date. Without prior approval from the Company's shareholder, (i) the total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time; (ii) the number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time; and (iii) options in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million may not be granted to substantial shareholders or independent non-executive directors.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 20. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Upon acceptance of the share option, the grantee shall pay HK\$1 to the Company by way of consideration for the grant.

Details of the options granted under the Scheme are as follows:

Tranche	Date of grant	Vesting period	Exercisable period	Exercise price per share HK\$	Fair value at grant date HK\$
1	24.6.2014	24.6.2014–11.7.2014	11.7.2014–11.7.2016	2.40	0.9159
2	24.6.2014	24.6.2014–11.7.2015	11.7.2015–11.7.2017	3.00	0.7822

The following table shows the movements in the Company's share options granted:

Type of participant	Tranche	Exercise price HK\$	Outstanding at 1 January 2014	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 31 December 2014 and 30 June 2015
Director	1	2.40	–	842,344	(50,000)	–	792,344
	2	3.00	–	1,258,928	–	–	1,258,928
			–	2,101,272	(50,000)	–	2,051,272
Employee	1	2.40	–	1,477,315	(387,000)	(980)	1,089,335
	2	3.00	–	3,242,752	–	(633,135)	2,609,617
			–	4,720,067	(387,000)	(634,115)	3,698,952
			–	6,821,339	(437,000)	(634,115)	5,750,224

During the current interim period, there is no exercise of share option.

During the six months ended 30 June 2015, there is no change to the variables and assumptions used in computing the fair value of the share options at grant date are based on the directors' best estimate. The Group recognised the total expense of HK\$1,430,000 for the period ended 30 June 2015 (for the six months ended 30 June 2014: nil) in relation to share options granted by the Company.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

## 21. RELATED PARTY DISCLOSURES

- (i) During the interim period, the Group entered into following transactions with related parties:

Name of related company	Relationship	Nature of transaction	For the six months period ended 30 June	
			2015 HKD'000 (Unaudited)	2014 HKD'000 (Unaudited)
Mr. Su Ran	Brother of one of the director/ senior management	Rental expense	172	120

- (ii) Amounts due from (to) related parties are disclosed in the condensed consolidated statements of financial position and in note 13.
- (iii) Certain directors and related parties of the Group, have provided guarantees to banks amounting to HK\$24,000,000 (as at 31 December 2014: HK\$36,000,000) in aggregate as at 30 June 2015 to secure certain banking facilities granted to the Group.
- (iv) The remuneration paid and payable to the members of key management, who are the directors and the five highest paid individuals during the current period is as follows:

	For the six months ended 30 June	
	2015 HKD'000 (Unaudited)	2014 HKD'000 (Unaudited)
Short term benefits	3,454	3,771
Post employment benefits	31	8
Equity-settled share-based payments	564	–
	4,049	3,779

The remuneration of key executives who were the directors and other members of key management personnel are determined by reference to the performance of individuals and market trends.