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 2019

FINANCIAL HIGHLIGHTS

- Revenue for the financial period ended 30 June 2019 ("**1HFY2019**") decreased from HK$84.3 million to HK$55.7 million when compared with the corresponding period of last year ("**1HFY2018**").
- Gross margin for 1HFY2019 decreased from 46.9% to 44.3%. Gross profit for 1HFY2019 decreased from HK$39.5 million to HK$24.7 million.
- Loss after tax decreased from HK$43.1 million for 1HFY2018 to HK$27.5 million for 1HFY2019.
- Basic loss per share was HK7.90 cents for 1HFY2019 and was HK12.41 cents for 1HFY2018.

RESULTS

The board of directors (the "**Board**") of Ernest Borel Holdings Limited (the "**Company**") announces the unaudited condensed consolidated results of our Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2019 as follows:

CONDENSED CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

		For the six months ended 30 June	
		2019	2018
	NOTES	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**55,734**	84,276
Cost of sales		**(31,036)**	(44,741)
Gross profit		**24,698**	39,535
Other gains and losses, net		**399**	(3,163)
Other income		**628**	466
Distribution expenses		**(19,577)**	(36,297)
Administrative expenses		**(28,124)**	(26,250)
Finance costs		**(5,360)**	(15,623)
Loss before tax		**(27,336)**	(41,332)
Income tax expense	*4*	**(122)**	(1,789)
Loss for the period attributable to owners of the Company	*5*	**(27,458)**	(43,121)
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit scheme		**(1,316)**	485
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**1,054**	(1,056)
Other comprehensive income for the period		**(262)**	(571)
Total comprehensive income for the period		**(27,720)**	(43,692)
Loss per share — (expressed in HK cents)			
Basic and diluted	*7*	**(7.90)**	(12.41)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	NOTES	**As at 30 June 2019** ***HK$'000*** **(Unaudited)**	As at 31 December 2018 *HK$'000* (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**50,669**	37,944
Life insurance policies		**–**	17,226
		50,669	55,170
Current assets			
Inventories		**335,017**	366,118
Trade and other receivables	*8*	**44,322**	62,356
Pledged bank deposits		**–**	1,039
Bank balances and cash		**24,866**	28,946
		404,205	458,459
Current liabilities			
Trade and other payables	*9*	**23,050**	40,968
Tax payable		**2,395**	2,352
Lease liabilities		**7,044**	–
Amount due to a related company		**–**	25,141
Amounts due to fellow subsidiaries		**69,375**	11,443
Amount due to ultimate holding company		**126,174**	176,446
Bank borrowings		**–**	10,048
		228,038	266,398
Net current assets		**176,167**	192,061
Total assets less current liabilities		**226,836**	247,231

	As at 30 June 2019 *HK$'000* (Unaudited)	As at 31 December 2018 *HK$'000* (Audited)
Non-current liabilities		
Lease liabilities	**5,739**	–
Deferred tax liabilities	**20,218**	20,468
Pension obligation	**3,973**	2,137
	29,930	22,605
Net assets	**196,906**	224,626
EQUITY		
Equity attributable to owners of the Company		
Share capital	**3,474**	3,474
Reserves	**193,432**	221,152
Total equity	**196,906**	224,626

NOTES

1. BASIS OF PREPARATION

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

The condensed consolidated interim financial statements have been prepared with the same accounting policies adopted in the 2018 annual financial statements, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 January 2019. This is the first set of the Group's financial statements in which International Financial Reporting Standard 16 Leases ("**IFRS 16**") has been adopted. Details of any changes in accounting policies are set out in below. Except for the adoption of IFRS 16, the adoption of the new and revised IFRSs have no material effect on these condensed consolidated interim financial statements. The Group has not early adopted any new and revised IFRSs that has been issued but not yet effective in the current accounting period.

The preparation of these condensed consolidated interim financial statements in compliance with IAS 34 requires the use of certain judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

These condensed consolidated interim financial statements are presented in Hong Kong Dollars ("**HK$**"), unless otherwise stated. These condensed consolidated interim financial statements contain condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. These condensed consolidated interim financial statements and notes do not include all of the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (the "**IFRSs**") and should be read in conjunction with the 2018 consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

The IASB has issued a number of new or amended IFRS that are first effective for the current accounting period of the Group.

- IFRS16, Lease
- IFRIC-Int 23, Uncertainty over Income Tax Treatments
- Amendments to IFRS 9, Prepayment Features and Negative Compensation
- Amendments to IAS 19, Plan Amendment, Curtailment or Settlement
- Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 included in Annual Improvements to IFRSs 2015-2017 Cycle

The impact of the adoption of IFRS 16 Leases have been summarised in below. The other new or amended IFRSs that are effective from 1 January 2019 did not have any significant impact on the Group's accounting policies.

(i) Impact of the adoption of IFRS 16

IFRS 16 brings significant changes in accounting treatment for lease accounting, primarily for accounting for lessees. It replaces IAS 17 Leases ("IAS 17"), IFRIC-Int 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases — Incentives and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee's perspective, almost all leases are recognised in the condensed consolidated statement of financial position as a right-of-use assets and a lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor's perspective, the accounting treatment is substantially unchanged from IAS 17. For details of IFRS 16 regarding its new definition of a lease, its impact on the Group's accounting policies and the transition method adopted by the Group as allowed under IFRS 16, please refer to section (ii) to (iv) of this note.

The Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained profits/(accumulated losses) at the date of initial application. The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The following tables summarised the impact of transition to IFRS 16 on condensed consolidated statement of financial position as of 31 December 2018 to that of 1 January 2019 as follows (increase/(decrease)):

	HK$'000 (Unaudited)
Condensed consolidated statement of financial position as at 1 January 2019	
Right-of-use assets presented in property, plant and equipment	7,428
Lease liabilities (non-current)	2,265
Lease liabilities (current)	5,163

The following reconciliation explains how the operating lease commitments disclosed applying IAS 17 at the end of 31 December 2018 could be reconciled to the lease liabilities at the date of initial application recognised in the condensed consolidated statement of financial position as at 1 January 2019:

Reconciliation of operating lease commitment to lease liabilities

	HK$'000 (Unaudited)
Operating lease commitment as of 31 December 2018	8,441
Less: short term leases for which lease terms end within 31 December 2019	(748)
Less: future interest expenses	(265)
Total lease liabilities as of 1 January 2019	7,428

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognised in the condensed consolidated statement of financial position as at 1 January 2019 is 5%.

(ii) The new definition of a lease

Under IFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

(iii) Accounting as a lessee

Under IAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the condensed consolidated statement of financial position of the lessee.

Under IFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the condensed consolidated statement of financial position as right-of-use assets and lease liabilities, but IFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the commencement date of a lease.

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use the underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable: (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

(iv) Transition

As mentioned above, the Group has applied IFRS 16 using the cumulative effect approach and recognised all the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of retained profits/(accumulated losses) at the date of initial application (1 January 2019). The comparative information presented in 2018 has not been restated and continues to be reported under IAS 17 and related interpretations as allowed by the transition provision in IFRS 16.

The Group has recognised the lease liabilities at the date of 1 January 2019 for leases previously classified as operating leases applying IAS 17 and measured those lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at 1 January 2019.

The Group has also applied the follow practical expedients: (i) applied a single discount rate to a portfolio of leases with reasonably similar characteristics; (ii) applied the exemption of not to recognise right-of-use assets and lease liabilities for leases with term that will end within 12 months of the date of initial application (1 January 2019) and accounted for those leases as short-term leases; (iii) exclude the initial direct costs from the measurement of the right-of-use asset at 1 January 2019 and (iv) used hindsight in determining the lease terms if the contracts contain options to extend or terminate the leases.

In addition, the Group has also applied the practical expedients such that: (i) IFRS 16 is applied to all of the Group's lease contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 Determining whether an Arrangement contains a Lease and (ii) not to apply IFRS 16 to contracts that were not previously identified as containing a lease under IAS 17 and IFRIC-Int 4.

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 revenue of the Group are recognised at point in time.

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 resources 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 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 disclosures of segment information are set out below.

Geographical information

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

	Revenue from external customers For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
People's Republic of China ("**PRC**")	**46,923**	73,924
Hong Kong and Macau	**4,327**	4,746
Others	**4,484**	5,606
	55,734	84,276

Information about major customers

During the period, there is no revenue from customers contributing over 10% of the total sales of the Group (1HFY2018: Nil).

4. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**–**	–
Switzerland income tax	**130**	1,938
PRC Enterprise Income Tax	**–**	–
	130	1,938
Deferred tax credit	**(8)**	(149)
Income tax expense for the period	**122**	1,789

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both periods. No provision for Hong Kong profits tax has been made for both periods as the Group has no assessable profits arising in Hong Kong.

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 2018: 8.5%) and Cantonal Communal Tax ("**CCT**") of 16.18% (six months ended 30 June 2018: 16.53%).

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% (six months ended 30 June 2018: 25%). No provision for Enterprise Income Tax has been made for both periods as the Group has no assessable profits arising in the PRC.

5. LOSS FOR THE PERIOD

	For the six months ended 30 June	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period has been arrived at after charging/(crediting):		
Cost of inventories recognised as expenses, including	**31,036**	44,741
— Reversal of allowance for inventories	**(2,735)**	(1,477)
Depreciation of property, plant and equipment	**7,672**	8,108

6. DIVIDEND

No dividend was paid or proposed during the six months ended 30 June 2019 and 2018, nor has any dividend been proposed since the end of the reporting period.

7. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the six months ended 30 June 2019 is based on the loss attributable to the owners of the Company of HK$27,458,000 (six months ended 30 June 2018: HK$43,121,000) and on the weighted average number of 347,437,000 (six months ended 30 June 2018: 347,437,000) ordinary shares in issue during the period.

Diluted loss per share amount for the six months ended 30 June 2018 were not presented because the impact of the exercise of the convertible bonds was anti-dilutive. Potential ordinary shares are dilutive when and only when their conversion into ordinary shares would increase loss per share attributable to owners of the Company.

There is no potential dilutive ordinary shares outstanding for the six months ended 30 June 2019 and thus the dilute loss per share is the same as the basic loss per share.

8. TRADE AND OTHER RECEIVABLES

	As at 30 June 2019 *HK$'000* **(Unaudited)**	As at 31 December 2018 *HK$'000* (Audited)
Trade receivables, gross	**56,235**	75,329
Less: impairment loss allowance	**(20,616)**	(20,611)
Trade receivables, net	**35,619**	54,718
Other receivables	**929**	901
Other tax recoverable	**1,615**	1,308
Prepayments	**3,218**	2,296
Deposits	**2,941**	3,133
	8,703	7,638
Total trade and other receivables	**44,322**	62,356

Included in the trade receivables, amounts of HK$648,000 (2018: HK$513,000) are due from the fellow subsidiaries of the Company.

The Group allows a credit period ranging from 30 to 120 days to its trade customers. The following is an ageing analysis of trade receivables, net of impairment loss allowance, presented based on the invoice date which approximates the respective revenue recognition date:

	As at 30 June 2019 *HK$'000* **(Unaudited)**	As at 31 December 2018 *HK$'000* (Audited)
0–90 days	**22,689**	41,702
91–180 days	**5,176**	9,932
181–270 days	**4,682**	1,958
Over 270 days	**3,072**	1,126
	35,619	54,718

9. TRADE AND OTHER PAYABLES

	As at 30 June 2019 *HK$'000* **(Unaudited)**	As at 31 December 2018 *HK$'000* (Audited)
Trade payables	**5,031**	8,098
Other payables	**1,762**	3,575
Accruals	**15,501**	28,983
Contract liabilities arising from sales of goods	**756**	312
	23,050	40,968

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

	As at 30 June 2019 *HK$'000* **(Unaudited)**	As at 31 December 2018 *HK$'000* (Audited)
1–30 days	**3,089**	2,747
31–60 days	**1,428**	4,437
Over 60 days	**514**	914
	5,031	8,098

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning over 163 years. Throughout the course of its history and across its operations, the Group has upheld the principles of producing high precision "Swiss-made" products and implemented stringent quality controls. Under its own brand "Ernest Borel", the Group 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**"), (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 other markets. For the six months ended 30 June 2019, the Group has a total of 808 points of sale ("**POS**").

Ernest Borel recorded a revenue of HK$55.7 million (1HFY2018: HK$84.3 million), representing a year-on-year decrease of approximately 33.9%, and gross profit and gross profit margins declined to HK$24.7 million (1HFY2018: HK$39.5 million) and decreased to 44.3% (1HFY2018: 46.9%) respectively. Consequently, loss attributable to equity holders amounted to HK$27.5 million.

The PRC market

The PRC remains the major market of the Group. As at 30 June 2019, the Group had 658 POS in the country. Revenue from the PRC segment declined from HK$73.9 million for 1HFY2018 to HK$46.9 million for 1HFY2019, accounting for approximately 84.2% of total revenue.

Hong Kong and Macau markets

As at 30 June 2019, the Group had 58 POS in Hong Kong and Macau markets. Sales in these markets decreased by approximately 8.5% from HK$4.7 million for 1HFY2018 to HK$4.3 million for 1HFY2019, accounting for approximately 7.7% of total revenue.

Other markets

As at 30 June 2019, the Group had 92 POS in the other markets, mainly in Southeast Asia and Europe. Sales in these markets decreased by approximately 21.1% from HK$5.7 million for 1HFY2018 to HK$4.5 million for 1HFY2019, accounting for approximately 8.1% of total revenue.

FINANCIAL REVIEWS

Revenue and segment information

Our revenue decreased by HK$28.6 million, or approximately 33.9% from HK$84.3 million for 1HFY2018 to HK$55.7 million for 1HFY2019.

Performance by geographical location

	1HFY2019	1HFY2018	Changes	
	HKD	*HKD*	*HKD*	
	(in million)	*(in million)*	*(in million)*	*%*
PRC market	**46.9**	73.9	(27.0)	(36.5)
Hong Kong and Macau markets	**4.3**	4.7	(0.4)	(8.5)
Other markets mainly in Southeast Asia and Europe	**4.5**	5.7	(1.2)	(21.1)
Total	**55.7**	84.3	(28.6)	(33.9)

The PRC market

The PRC continues to be our major market, representing approximately 84.2% of our revenue for 1HFY2019. Sales in this region showed a decrease of approximately 36.5% from HK$73.9 million for 1HFY2018 to HK$46.9 million for 1HFY2019.

Hong Kong and Macau markets

Hong Kong and Macau markets accounted for approximately 7.7% of our total revenue for 1HFY2019. Sales in this market decreased by approximately 8.5% from HK$4.7 million for 1HFY2018 to HK$4.3 million for 1HFY2019.

Other markets

Revenue from other markets, mainly in Southeast Asia and Europe recorded a decrease from HK$5.7 million for 1HFY2018 to HK$4.5 million for 1HFY2019.

Cost of Sales

Cost of sales decreased by approximately 30.6% from approximately HK$44.7 million for 1HFY2018 to approximately HK$31.0 million for 1HFY2019.

Gross profit

Our gross profit decreased by HK$14.8 million or approximately 37.5% from HK$39.5 million for 1HFY2018 to HK$24.7 million for 1HFY2019. The decrease in gross profit is mainly attributable to decrease in revenue as compared to the same period in 2018. The gross profit margin was recorded a decrease from 46.9% for 1HFY2018 to 44.3% for 1HFY2019.

Other gains and losses

We recorded other gains of HK$0.4 million for 1HFY2019, which was primarily attributable to the exchange net gain of HK$0.2 million and fair value gain on life insurance policies of HK$0.2 million, as compared to losses of HK$3.2 million for 1HFY2018.

Distribution costs

Our selling and distribution costs decreased by HK$16.7 million or approximately 46.0% from HK$36.3 million for 1HFY2018 to HK$19.6 million for 1HFY2019, representing approximately 35.2% of our total revenue for 1HFY2019 (1HFY2018: approximately 43.1%).

Administrative expenses

Our administrative expenses increased to HK$28.1 million for 1HFY2019 from HK$26.3 million for 1HFY2018, representing an increase of HK$1.8 million or approximately 6.8%.

Finance costs

Our finance costs decreased by HK$10.2 million or approximately 65.4% from HK$15.6 million for 1HFY2018 to HK$5.4 million for 1HFY2019.

Loss for the period attributable to owners of our Company

Our net loss decreased from HK$43.1 million for 1HFY2018 to HK$27.5 million for 1HFY2019, representing a decrease of HK$15.6 million or approximately 36.2%.

Inventory

Inventory recorded a decrease from HK$366.1 million as at 31 December 2018 to HK$335.0 million as at 30 June 2019.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK$62.4 million and approximately HK$44.3 million as at 31 December 2018 and 30 June 2019 respectively. Such decrease in trade and other receivables is attributable to decrease in trade receivable arising from decrease in revenue for 1HFY2019.

The Group's trade and other payables decreased from approximately HK$41.0 million as at 31 December 2018 to approximately HK$23.1 million as at 30 June 2019.

Liquidity, financial resources and capital structure

As at 30 June 2019, we had non-pledged cash and bank balances of HK$24.9 million (31 December 2018: HK$28.9 million). Based on the borrowings from bank and other group companies of HK$195.6 million (31 December 2018: HK$223.1 million) and shareholders' equity of HK$196.9 million (31 December 2018: HK$224.6 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 99.3% (31 December 2018: approximately 99.3%). As at 30 June 2019, all of our borrowings amounting to HK$195.6 million were repayable within one year.

Foreign exchange exposure

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

We will 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$Nil (31 December 2018: HK$1.0 million); and

(b) charges over deposits placed for a life insurance policy with a carrying amount of HK$Nil (31 December 2018: HK$17.2 million).

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during 1HFY2019.

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 2019.

Contingent liabilities

As at the close of business on 30 June 2019, the Group did not have any contingent liabilities.

Interim dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2019 (1HFY2018: Nil).

Employees and Remuneration Policies

As at 30 June 2019, the Group has approximately 225 full time employees (31 December 2018: approximately 231). Total staff costs incurred during 1HFY2019 was approximately HK$31.6 million (lHFY2018: approximately HK$33.5 million).

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 share option scheme (the "**Share Option Scheme**") on 24 June 2014, which became effective on 11 July 2014 and will expire on 24 June 2024. No option has been granted under the Share Option Scheme during 1HFY2019.

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.

Commitments

At 30 June 2019, the Group did not have capital commitments.

PROSPECTS

Looking into the second half of 2019, the global economy and the timepiece market environment in the PRC will still pose challenges for the Group. As one of the oldest Swiss premium watchmakers, the Group acknowledges the importance of "Swiss-made" watches and keeps on producing quality watches. At the same time, the Group also continues to improve its product design ability, with a view to designing and launching customized watch series for males, females and couples for our targeted customers, so as to promote and carry forward the craftsmanship spirit of "Swiss-made" watches.

The Group always endeavors to build and enhance the reputation of "Ernest Borel" brand through various marketing tactics as appropriate, including the appointment of renowned brand ambassadors, different promotion activities at each physical point of sale and the introduction of various digital and electronic advertisements, continuing to spread an energetic, youthful and international image and uphold the romantic culture of "Ernest Borel" brand. In addition, the Group continues to properly adjust and apply effective cost control strategies to utilize the Group's resources, which enables the Company to reduce unnecessary operating cost expenses.

In the future, the Group will continue the use of effective sales strategies along with different marketing tactics, with a view to enhancing the sales of online platforms and offline point of sale in each of second-, third- and fourth-tier cities and thereby increasing the revenue of the Group. Meanwhile, the Group will continue to exercise tight control over its operating costs and deploy resources in an effective way. With the coordination of various aspects, the Group is positive and optimistic about its business prospects and ready to face an ever-changing market environment and challenges ahead. Last but not least, the Group will continue to pursue various investment opportunities to diversify and broaden its earning base, with a view to generating valuable and sustainable return for its shareholders in the future.

Events after the Reporting Period

There are no material events undertaken by the Group after the reporting period.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Board is of the view that the Company has complied with all code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**") throughout the six months ended 30 June 2019 except for the deviations as explained below.

Code Provision A.6.7

Pursuant to the Code provision A.6.7, Independent Non-executive Directors and other Non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Lui Wai Ming, the Independent Non-executive Director, was unable to attend the Company's annual general meeting held on 29 May 2019 due to other business engagements.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has 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 2019.

REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

During the six months ended 30 June 2019, the Audit Committee comprises all of our three Independent Non-executive Directors, namely Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa, with Mr. Lui Wai Ming being the chairman of the Audit Committee. Our unaudited interim results and the interim report for the six months ended 30 June 2019 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results and report complied with the applicable accounting standards and requirements, and that adequate disclosures have been made. The Audit Committee has recommended the Board to adopt the same.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchases, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

PUBLICATION OF THE INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of The Stock Exchange of Hong Kong Limited (www.hkexnews.hk) and the Company (www.ernestborel.ch). The Interim Report of the Company for the six months ended 30 June 2019 will be published on the aforesaid websites and will be dispatched to the shareholders of the Company in due course.

By the order of the Board
Ernest Borel Holdings Limited
Shang Jianguang
Chairman

Hong Kong, 29 August 2019

As at the date of this announcement, the Board comprises of the following members:

Executive Directors:	Mr. Shang Jianguang, Mr. Teguh Halim, Mr. Xiong Wei and Ms. Lam Lai
Non-executive Directors:	Mr. Xiong Ying and Mr. Tao Li
Independent Non-executive Directors:	Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa