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 2023

FINANCIAL HIGHLIGHTS

- Revenue for the financial period ended 30 June 2023 ("**1HFY2023**") increased from approximately HK$59.4 million to approximately HK$82.5 million when compared with the corresponding period of last year ("**1HFY2022**").

- Gross profit margin decreased from approximately 65.8% for 1HFY2022 to approximately 53.4% for 1HFY2023. Gross profit increased from approximately HK$39.1 million for 1HFY2022 to approximately HK$44.1 million for 1HFY2023.

- Profit after tax was approximately HK$1.3 million for 1HFY2023, turnaround from loss after tax of approximately HK$9.7 million for 1HFY2022.

- Basic and diluted earnings per share was approximately HK0.36 cent for 1HFY2023 and basic and diluted loss per share was approximately HK2.80 cents for 1HFY2022.

RESULTS

The board of directors (the "**Board**") of Ernest Borel Holdings Limited (the "**Company**") announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2023 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2023

		For the six months ended 30 June	
		2023	2022
	NOTES	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**82,542**	59,390
Cost of sales		**(38,433)**	(20,306)
Gross profit		**44,109**	39,084
Other gains and losses, net		**3,463**	(1,303)
Other income		**2,762**	1,060
Distribution expenses		**(23,475)**	(23,079)
Administrative expenses		**(21,409)**	(19,200)
Finance costs		**(4,439)**	(6,447)
Profit/(loss) before tax	*4*	**1,011**	(9,885)
Income tax credit	*5*	**260**	155
Profit/(loss) for the period attributable to owners of the Company		**1,271**	(9,730)
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit scheme		**126**	2,875
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**7,285**	(2,951)
Other comprehensive income for the period		**7,411**	(76)
Total comprehensive income for the period		**8,682**	(9,806)
Earnings/(loss) per share — (expressed in HK cents)			
Basic and diluted	*7*	**0.36**	(2.80)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	NOTES	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**59,717**	23,093
Rental deposits	*8*	**1,886**	881
Goodwill	*9*	**42,178**	–
Intangible assets	*10*	**66,867**	–
Deferred tax assets		**7,317**	–
		177,965	23,974
Current assets			
Inventories		**316,042**	322,277
Trade and other receivables	*8*	**139,065**	88,920
Pledged bank deposits		**6,500**	6,500
Bank balances and cash		**3,040**	6,274
		464,647	423,971
Current liabilities			
Trade and other payables	*11*	**63,167**	33,689
Tax payable		**1,464**	1,493
Lease liabilities		**8,565**	4,935
Contingent consideration payable	*12*	**11,590**	–
Amount due to a related party		**880**	728
Amounts due to fellow subsidiaries		**253,681**	244,990
Amounts due to a director		**2,410**	3,503
Amounts due to ultimate holding company		**4,000**	–
Bank and other borrowings		**35,376**	29,390
		381,133	318,728
Net current assets		**83,514**	105,243
Total assets less current liabilities		**261,479**	129,217

	NOTES	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Non-current liabilities			
Lease liabilities		**12,842**	2,882
Bank borrowings		**2,541**	3,459
Deferred tax liabilities		**31,214**	14,119
Pension obligation		**1,491**	915
Contingent consideration payable	*12*	**66,097**	–
		114,185	21,375
Net assets		**147,294**	107,842
EQUITY			
Equity attributable to owners of the Company			
Share capital		**3,603**	3,474
Reserves		**143,691**	104,368
Total equity		**147,294**	107,842

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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 2022 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 2023.

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 2022 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 2022 consolidated financial statements.

2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received or receivable for the sales of watches products and smart watches components, 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. During the six months ended 30 June 2023, the Group expanded its business into the smart manufacturing business. 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 are considered as two operating segments. Segment revenue and results are therefore not 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.

The Group's operating businesses are structured and managed separately according to the nature of the operations. Each of the Group's reportable operating segments represents a strategic business unit that is subject to risks and returns that are different from other reportable operating segment.

The Group's reportable and operating segments are as follows:

- Watches business segment: manufacturing and sales of watches; and
- Smart manufacturing business segment: design, development and manufacturing of stainless-steel alloy watches cases, smartwatches cases on ODM or OEM basis.

(a) Segment revenue and results

For the six months ended 30 June 2023

	Watches	**Smart Manufacturing**	**Unallocated**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
Segment revenue				
Revenue	**61,339**	**21,203**	**–**	**82,542**
Segment results	**4,521**	**4,950**	**–**	**9,471**
Unallocated corporate incomes and expenses, net	**–**	**–**	**(4,021)**	**(4,021)**
Finance costs	**(4,367)**	**(72)**	**–**	**(4,439)**
Profit/(loss) before income tax	**154**	**4,878**	**(4,021)**	**1,011**
Income tax (expense)/credit	**(119)**	**379**	**–**	**260**
Profit/(loss) after income tax	**35**	**5,257**	**(4,021)**	**1,271**

For the six months ended 30 June 2022

	Watches *HK$'000* (Unaudited)	Smart Manufacturing *HK$'000* (Unaudited)	Unallocated *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Segment revenue				
Revenue	59,390	–	–	59,390
Segment results	1,475	–	–	1,475
Unallocated corporate incomes and expenses, net	–	–	(4,913)	(4,913)
Finance costs	(6,447)	–	–	(6,447)
Loss before income tax	(4,972)	–	(4,913)	(9,885)
Income tax expense	155	–	–	155
Loss after income tax	(4,817)	–	(4,913)	(9,730)

(b) 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	
	2023 ***HK$'000*** **(Unaudited)**	2022 *HK$'000* (Unaudited)
People's Republic of China ("**PRC**")	**61,939**	57,026
Hong Kong and Macau	**5,252**	1,491
Southeast Asia	**14,519**	635
Others (mainly in Europe)	**832**	238
	82,542	59,390

(c) Information about major customers

Revenue derived from customers contributed 10% or more of the total revenue of the Group are as follows:

	For the six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Customer A from watches business segment	**10,301**	14,199
Customer B from smart manufacturing business segment	**14,757**	–

4. PROFIT/(LOSS) BEFORE TAX

	For the six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit/(loss) before tax has been arrived at after charging/ (crediting):		
(Reversal of)/provision for impairment loss of trade receivables, net*	**(3,201)**	676
Cost of inventories recognised as expenses, including	**38,433**	20,306
— Reversal of allowance for inventories	**(37)**	(4,822)
Government subsidies#	**(973)**	(432)
Depreciation of property, plant and equipment	**4,931**	3,871
Amortisation of intangible assets	**1,516**	–
Staff costs (including directors' emoluments):		
— Salaries and other benefits	**24,472**	20,633
— Retirement benefits scheme contributions	**2,236**	2,235
Total staff costs	**26,708**	22,868

Notes: * Included in "other gains or losses"

Included in "other income"

5. INCOME TAX CREDIT

	For the six months ended 30 June	
	2023	2022
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Switzerland Income Tax	**(135)**	(137)
Deferred tax credit	**395**	292
Income tax credit for the period	**260**	155

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 2022: 8.5%) and Cantonal Communal Tax ("**CCT**") of 11.5% (six months ended 30 June 2022: 11.5%).

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 2022: 25%). No provision for EIT has been made for both periods as the Group has no assessable profits arising in the PRC.

6. DIVIDEND

No dividend was paid or proposed during the six months ended 30 June 2023 and 2022, nor has any dividend been proposed since the end of the reporting period.

7. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share for the six months ended 30 June 2023 is based on the profit attributable to owners of the Company of HK$1,271,000 (six months ended 30 June 2022: loss of HK$9,730,000) and on the weighted average number of 352,041,051 (six months ended 30 June 2022: 347,437,000) ordinary shares in issue during the period.

There is no potential dilutive ordinary shares outstanding for the six months ended 30 June 2023 and thus the dilute earnings/(loss) per share is the same as the basic earnings/(loss) per share.

8. TRADE AND OTHER RECEIVABLES

	As at 30 June 2023 *HK$'000* (Unaudited)	As at 31 December 2022 *HK$'000* (Audited)
Non-current:		
Rental deposits	**1,886**	881
Current:		
Trade receivables, gross	**132,976**	96,151
Less: impairment loss allowance	**(8,154)**	(18,230)
Trade receivables, net	**124,822**	77,921
Other receivables	**5,473**	2,875
Other tax recoverable	**393**	957
Prepayments	**6,029**	5,646
Deposits	**2,348**	1,521
	14,243	10,999
Total current trade and other receivables	**139,065**	88,920
Total trade and other receivables	**140,951**	89,801

Included in the trade receivables, amounts of HK$8,053,000 (31 December 2022: HK$8,516,000) are due from fellow subsidiaries of the Company.

The Group allows a credit period ranging from 30 to 180 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 2023 *HK$'000* (Unaudited)	As at 31 December 2022 *HK$'000* (Audited)
0–90 days	**56,122**	52,336
91–180 days	**30,812**	12,901
181–270 days	**31,118**	9,324
Over 270 days	**6,770**	3,360
	124,822	77,921

9. GOODWILL

	Total *HK$'000* (Unaudited)
As at 1 January 2023	–
Acquisition of subsidiaries *(Note 12)*	42,178
As at 30 June 2023	42,178

10. INTANGIBLE ASSETS

	Technical knowhow *HK$'000* (Unaudited)	Customer Relationship *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
COST			
As at 1 January 2023	–	–	–
Acquisition of subsidiaries *(Note 12)*	46,050	22,333	68,383
As at 30 June 2023	46,050	22,333	68,383
ACCUMULATED AMORTISATION			
As at 1 January 2023	–	–	–
Charge for the period	770	746	1,516
As at 30 June 2023	770	746	1,516
CARRYING AMOUNTS			
As at 30 June 2023	45,280	21,587	66,867
As at 31 December 2022	–	–	–

11. TRADE AND OTHER PAYABLES

	As at 30 June 2023 HK$'000 (Unaudited)	As at 31 December 2022 HK$'000 (Audited)
Trade payables	**31,439**	23,860
Other payables	**27,354**	2,529
Accruals	**3,359**	6,962
Contract liabilities arising from sales of goods	**1,015**	338
	63,167	33,689

Included in the trade payables, amount of HK$302,000 (31 December 2022: HK$1,035,000) are due to fellow subsidiaries of the Company.

12. ACQUISITION OF SUBSIDIARIES

Acquisition of Gold Vantage Group

On 19 April 2023, the Group completed the acquisition of the entire equity interest of Gold Vantage Industrial Limited ("**Gold Vantage**"), which together with its subsidiaries (collectively, the "**Gold Vantage Group**") at the consideration of HK$108,456,000 from Fair Future Industrial Limited ("**Fair Future**"), an associate of ultimate holding company. Gold Vantage Group are principally engaged in the business of design, development and manufacturing of stainless-steel alloy watches cases, smart watch cases on ODM or OEM basis.

Pursuant to the sales and purchase agreement, the consideration shall be settled by way of issuing 38,461,538 consideration shares and HK$40,000,000 by cash in different timeslots. The number of consideration shares and the amount of cash consideration for the settlement shall be subject to the adjustment pursuant to the profit guarantee, in which Fair Future guarantees to the Company that the net profit after tax of Gold Vantage Group for each of financial years ending 31 December 2023, 31 December 2024 and 31 December 2025 shall not be less than HK$30,000,000 (the "**Profit Target**"). If there is any shortfall of the Profit Target in any such year, an amount equal to 1.5 times the amount by which the actual net profit after tax is less than the Profit Target (the "**Profit Compensation**") shall be payable by the vendor to the Company.

The consideration shall be reduced by the amount of the Profit Compensation firstly by the reduction of the outstanding consideration shares for the instalment and then the balance of the Profit Compensation shall be reduced by the outstanding cash consideration for the instalment. If the unpaid instalment is not sufficient to set off the Profit Compensation, the difference between the Profit Compensation and the unpaid instalment shall be paid in cash by Fair Future to the Company within 30 business days after the issuance of the annual financial statements of Gold Vantage Group for the respective financial year.

The first instalment of 12,820,512 consideration shares has been issued to Fair Future at the completion date. The first instalment of cash consideration of HK$13,333,333.3 shall be paid to Fair Future (i) on 1 April 2024 if the annual financial statements of Gold Vantage Group for the year ending 31 December 2023 has been issued on or before 31 March 2024 or (ii) within 30 business days after the issuance of annual financial statements of Gold Vantage Group for the year ending 31 December 2023 if the annual financial statements for the year ending 31 December 2023 is issued after 31 March 2024.

The second instalment of 12,820,513 consideration shares shall be issued to Fair Future (i) on 1 April 2025 if the annual financial statements of Gold Vantage Group for the year ending 31 December 2024 has been issued on or before 31 March 2025 or (ii) within 30 business days after the issuance of annual financial statements of Gold Vantage Group for the year ending 31 December 2024 if the annual financial statements for the year ending 31 December 2024 is issued after 31 March 2025. Payment for the second instalment of cash consideration of HK$13,333,333.3 is subject to the net profit after tax for the six months ending 30 June 2024 attained by Gold Vantage Group ("**2024 H1 Profit**"):

(i) If the 2024 H1 Profit is not less than HK$14,000,000, an amount up to HK$13,333,333.3 shall be paid to Fair Future on 1 September 2024.

(ii) If the 2024 H1 Profit is HK$12,000,000 or more but less than HK$14,000,000, an amount of HK$12,000,000.00 shall be paid to Fair Future on 1 September 2024. If the 2024 H1 Profit is HK$10,000,000 or more but less than HK$12,000,000, an amount of HK$10,000,000.00 shall be paid to Fair Future on 1 September 2024. The respective shortfall between HK$13,333,333.3 of the second instalment cash consideration and the amount of cash paid under the aforesaid scenarios shall be paid to Fair Future (i) on 1 April 2025 if the annual financial statements of Gold Vantage Group for the year ended 31 December 2024 has been issued on or before 31 March 2025; or (ii) within 30 business days after the issuance of the annual financial statements of Gold Vantage Group for the year ended 31 December 2024 if the annual financial statements for the year ended 31 December 2024 is issued after 31 March 2025.

(iii) If the 2024 H1 Profit is less than HK$10,000,000, an amount up to HK$13,333,333.3 shall be paid to Fair Future (i) on 1 April 2025 if the annual financial statements of Gold Vantage Group for the year ended 31 December 2024 has been issued on or before 31 March 2025; or (ii) within 30 business days after the issuance of the annual financial statements of Gold Vantage Group for the year ended 31 December 2024 if the annual financial statements for the year ended 31 December 2024 is issued after 31 March 2025.

The third instalment of 12,820,513 consideration shares of shall be issued to Fair Future and the third instalment cash consideration of HK$13,333,333.4 shall be paid to Fair Future (i) on 1 April 2026 if the Annual Financial Statements of Gold Vantage Group for the year ended 31 December 2025 has been issued on or before 31 March 2026 or (ii) within 30 business days after the issuance of annual financial statements of Gold Vantage Group for the year ended 31 December 2025 if the annual financial statements for the year ending 31 December 2025 is issued after 31 March 2026.

The first instalment of consideration shares has been issued to Fair Future at the completion date. The remaining instalments of the consideration are subject to the adjustment of Profit Compensation and are recognised as contingent consideration payable.

The total consideration is determined as follows:

	HK$'000 (Unaudited)
Issuance of first instalment consideration shares at the Completion	30,769
Fair value of contingent consideration payable	77,687
Total consideration	108,456

Details of the net assets acquired as at the acquisition date are as follows:

	HK$'000 (Unaudited)
Total consideration	108,456
Less: Fair value of net assets acquired	(66,278)
Goodwill	42,178

The goodwill of HK$42,178,000 arising from the acquisition is attributable to the synergies expected to arise from the business combination and the growth and profit potential in the expansion of smart watches business. None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair values of the identifiable assets and liabilities arising from the acquisition of Gold Vantage Group as at the date of acquisition:

	Fair value *HK$'000* (Unaudited)
Property, plant and equipment	25,634
Intangible assets	68,383
Deferred tax assets	7,690
Inventories	7,679
Trade receivables	11,067
Prepayments, deposits and other receivables	2,755
Cash and cash equivalents	12,186
Deferred tax liabilities	(17,096)
Trade payables	(10,506)
Bank borrowings	(5,336)
Lease liabilities	(373)
Other payables and accruals	(35,805)
Fair value of net assets acquired	66,278

	HK$'000
	(Unaudited)
Net cash inflow from acquisition of subsidiaries:	
Cash and cash equivalents in subsidiaries acquired	12,186
	12,186

Gold Vantage Group contributed revenue of approximately HK$21,203,000 and net profit of approximately HK$5,257,000 to the Group from the date of acquisition to 30 June 2023.

Had the business combination taken place on 1 January 2023, revenue of the Group for the six months ended 30 June 2023 would have been increased by approximately HK$14,549,000 and net profit would have decreased by HK$6,893,000. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had the acquisition of Gold Vantage Group been completed on 1 January 2023 nor are they intended to be a projection of future results.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2023, the Group has successfully diversified its business scope by acquiring the smart manufacturing business. It provides an attractive opportunity for the Group to capture the opportunities in the smart watches market and enhance the growth potential of the Group.

Ernest Borel recorded a revenue of approximately HK$82.5 million for 1HFY2023 (1HFY2022: approximately HK$59.4 million), representing an increase of approximately 38.9%. Gross profit and gross profit margin increased to approximately HK$44.1 million for 1HFY2023 (1HFY2022: approximately HK$39.1 million) and decreased to approximately 53.4% for 1HFY2023 (1HFY2022: approximately 65.8%), respectively. Consequently, profit attributable to equity holders amounted to approximately HK$1.3 million for 1HFY2023 (1HFY2022: loss of approximately HK$9.7 million).

BUSINESS REVIEW

Watches Business

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning 167 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 Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region ("**Macau**") and other markets. As at 30 June 2023, the Group has a total of 818 points of sale ("**POS**").

During the first half of 2023, there was a decline in consumer confidence in the PRC retail market, resulting in some customers adopting a more cautious approach to spending. However, the Group responded proactively by maintaining strong customer relationships. Consistent efforts were taken to visit clients, nurture customer loyalty, and support the retail partners. Additionally, the market trends were closely monitored to ensure that we were well-informed about consumer demands and preferences. By actively managing inventory and improving the sales-to-inventory ratio, the Group aimed to optimize our operations and enhance profitability. We also sought out new opportunities for collaboration and partnerships, aiming to expand the market reach and establish mutually beneficial relationships.

In the e-commerce sector, the Group experienced an ease of decline compared to the previous year. This positive trend was attributed to the Group's strict adherence to pricing policies and effective communication with online platforms. We actively promoted exclusive new products, and strived to achieve breakout success models. Leveraging the Group's existing resources, we focused on increasing the sales proportion of e-commerce exclusive products. We also explored innovative sales channels, such as third-party collaborations and various e-commerce platforms. By maintaining strong partnerships with various e-commerce platforms and actively engaging in communication, the Group aimed to secure additional resources and opportunities for promotional activities.

In the PRC self-trade zones, Hong Kong, Macau, and overseas markets, the Group faced challenges related to limited customer traffic. In particular, sales in Hainan duty-free stores experienced a slight decline due to a slowdown in tourism trends. However, the Group witnessed positive growth in Southeast Asian markets. These markets presented opportunities for expansion and increased sales. In North America and other regions, the Group focused on online sales, emphasizing limited edition and redesigned styles aiming to increase inventory turnover rate.

Overall, the Group demonstrated resilience and adaptability in the face of market challenges. By maintaining strong customer relationships, exploring new sales channels, and promoting exclusive products, aimed to navigate changing market conditions and pursue growth opportunities.

The PRC market

The PRC remains the core market of the Group. As at 30 June 2023, the Group had 673 POS in the country. Revenue from the PRC segment decreased by approximately 1.9% from approximately HK$57.0 million for 1HFY2022 to approximately HK$55.9 million for 1HFY2023, accounting for approximately 91.1% of total revenue of watches business.

Hong Kong and Macau markets

As at 30 June 2023, the Group had 43 POS in Hong Kong and Macau markets. Sales in these markets increased by approximately 193.3% from approximately HK$1.5 million for 1HFY2022 to approximately HK$4.4 million for 1HFY2023, accounting for approximately 7.2% of total revenue of watches business.

Other markets

As at 30 June 2023, the Group had 102 POS in the other markets, mainly in Southeast Asia and Europe. Sales in these markets increased by approximately 22.2% from approximately HK$0.9 million for 1HFY2022 to approximately HK$1.1 million for 1HFY2023, accounting for approximately 1.7% of total revenue of watches business.

Smart Manufacturing Business

The Group acquired the smart manufacturing business on 19 April 2023 (the "**Acquisition**") which is principally engaged in the business of design, development and manufacturing of stainless-steel alloy watches cases, smartwatches cases on ODM or OEM basis.

In the first half of 2023, the smart manufacturing division (the "**Smart Manufacturing Division**" or the "**Division**") primarily focused on finalizing the delivery of the remaining orders for one of its major clients. Simultaneously, the Division established a strategic partnership with another renowned electronics manufacturer, aiming to drive business development and prototype creation. The Division also received an order for components of a new structure for smartwatches, which would be integrated into the upcoming smartwatch models. Furthermore, the Division dedicated significant efforts to the development and production of dedicated watchbands for a specified smartwatch model, which would enter into mass production stage in the second half of the year. This involved meticulous design iterations, prototype production, and optimization work to ensure that the watchbands met strict aesthetic, comfort, and durability standards. Meanwhile, the Division also completed the development of molds for a wearable ring for an important client and is currently entering the Engineering Verification Testing (EVT) phase. Subsequently, these molds would undergo Design Verification Testing (DVT) in the second half of the year to ensure compliance with all design specifications and requirements, paving the way for formal mass production. Additionally, the division actively protected its intellectual property and submitted 13 patent applications for innovative structural designs in the first half of 2023. Three of these applications have already been certified, highlighting the Group's commitment to safeguarding its novel technological advancements.

Overall, the first half of 2023 marked an important transformational period for the Smart Manufacturing Division's smartwatches components business. During this phase, the Division introduced an advanced new structure for smartwatches, successfully integrated it into designated models, and made substantial progress in the development and mass production of dedicated watchbands. Accomplishing customer orders, pursuing patent protection, and preparing for future production and market demands demonstrated the Group's proactive approach to innovation and market competitiveness.

FINANCIAL REVIEW

Revenue and segment information

The Group's revenue increased by approximately HK$23.1 million or approximately 38.9% from approximately HK$59.4 million for 1HFY2022 to approximately HK$82.5 million for 1HFY2023.

Watches Business

Revenue from watches business increased by HK$1.9 million or approximately 3.2% from approximately HK$59.4 million for 1HFY2022 to approximately HK$61.3 million for 1HFY2023.

Smart Manufacturing Business

Revenue from smart manufacturing business was approximately HK$21.2 million for the 1HFY2023.

Cost of Sales

The Group's cost of sales increased by approximately HK$18.1 million or approximately 89.2% from approximately HK$20.3 million for 1HFY2022 to approximately HK$38.4 million for 1HFY2023.

Watches Business

Cost of sales from watches business increased by HK$5.1 million or approximately 25.1% from approximately HK$20.3 million for 1HFY2022 to approximately HK$25.4 million for 1HFY2023.

Smart Manufacturing Business

Cost of sales from smart manufacturing business was approximately HK$13.0 million for 1HFY2023.

Gross profit

The Group's gross profit increased by approximately HK$5.0 million or approximately 12.8% from approximately HK$39.1 million for 1HFY2022 to approximately HK$44.1 million for 1HFY2023. Watches business contributed approximately HK$35.9 million for 1HFY2023 (1HFY2022: approximately HK$39.1 million); and smart manufacturing business contributed approximately HK$8.2 million for 1HFY2023 (1HFY2022: Nil). The gross profit margin decreased from approximately 65.8% for 1HFY2022 to approximately 53.4% for 1HFY2023.

Other gains and losses, net

The Group recorded net gains of approximately HK$3.5 million for 1HFY2023 as compared to net losses of approximately HK$1.3 million for 1HFY2022.

Distribution expenses

The Group's distribution expenses increased by approximately HK$0.4 million or approximately 1.7% from approximately HK$23.1 million for 1HFY2022 to approximately HK$23.5 million for 1HFY2023, representing approximately 28.4% of the Group's total revenue for 1HFY2023 (1HFY2022: approximately 38.9%).

Administrative expenses

The Group's administrative expenses increased by approximately HK$2.2 million or approximately 11.5% from approximately HK$19.2 million for 1HFY2022 to approximately HK$21.4 million for 1HFY2023.

Finance costs

The Group's finance costs decreased by approximately HK$2.0 million or approximately 31.3% from approximately HK$6.4 million for 1HFY2022 to approximately HK$4.4 million for 1HFY2023.

Profit for the period attributable to owners of the Company

The Group's net profit attributable to owners of the Company was approximately HK$1.3 million for 1HFY2023, turnaround from net loss of approximately HK$9.7 million for 1HFY2022.

Inventory

Inventory amounted to approximately HK$316.0 million as at 30 June 2023, which represented a decrease of approximately HK$6.3 million from approximately HK$322.3 million as at 31 December 2022.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK$141.0 million as at 30 June 2023, which represented an increase of approximately HK$51.2 million from approximately HK$89.8 million as at 31 December 2022.

The Group's trade and other payables amounted to approximately HK$63.2 million as at 30 June 2023, which represented an increase of approximately HK$29.5 million from approximately HK$33.7 million as at 31 December 2022.

Liquidity, financial resources and capital structure

As at 30 June 2023, the Group had pledged bank deposits of approximately HK$6.5 million (31 December 2022: approximately HK$6.5 million) and non-pledged cash and bank balances of approximately HK$3.0 million (31 December 2022: approximately HK$6.3 million). As at 30 June 2023, the Group had bank and other borrowings of approximately HK$298.9 million (31 December 2022: approximately HK$282.1 million), of which approximately Nil (31 December 2022: approximately HK$3.9 million) were secured and interest-free; of which approximately HK$21.9 million (31 December 2022: approximately HK$13.0 million) were secured and carried with variable interest bearings ranged from 1.5% to 8.41% (31 December 2022: 6.97% to 8.88%) per annum; of which approximately HK$24.7 million (31 December 2022: approximately HK$3.4 million) were unsecured and interest free; and of which approximately HK$252.3 million (31 December 2022: approximately HK$261.8 million) were unsecured and carried with fixed interest bearings ranged from 2.56% to 6% (31 December 2022: 5% to 6%) per annum. As at 30 June 2023, part of the bank and other borrowings amounted to approximately HK$2.5 million was repayable over one year and the remaining balance amounted to approximately HK$296.4 million was repayable within one year.

As at 30 June 2023, the Group's gearing ratio was approximately 202.9% (31 December 2022: approximately 261.6%). This was calculated by dividing the bank and other borrowings (including bank borrowings, amount due to a related party, amounts due to fellow subsidiaries, amounts due to a director and amount due to ultimate holding Company) by total equity attributable to owners of the Company as at 30 June 2023.

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

As at 30 June 2023, bank deposits of approximately HK$6.5 million were pledged to secure the short term banking facilities granted to the Group.

Material acquisition and disposal of subsidiaries or associated companies

On 21 November 2022, the Group entered into a sale and purchase agreement with a vendor (the "**Vendor**"), pursuant to which the Group conditionally agreed to acquire and the Vendor conditionally agreed to sell the entire issued share capital of Gold Vantage Industrial Limited ("**Gold Vantage**"), which together with its subsidiaries (collectively, the "**Gold Vantage Group**") are principally engaged in the business of design, development and manufacturing of stainless-steel alloy watches cases, smart watch cases on ODM or OEM basis (the "**Acquisition**"). The Acquisition was completed on 19 April 2023.

The consideration for the Acquisition of HK$140,000,000 shall be satisfied as to (i) HK$100,000,000 by way of the allotment and issue of the consideration shares to the vendor; and (ii) HK$40,000,000 in cash, subject to the satisfaction of the profit guarantee. Details of the transaction are set out in the Company's announcement dated 21 November 2022 and the Company's circular dated 13 March 2023.

Save as disclosed above, the Group had no significant investment, material acquisition and disposal of subsidiaries, associates and joint ventures during the 1HYF2023.

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 2023.

Contingent liabilities

As at 30 June 2023, the Group did not have any material contingent liabilities (31 December 2022: Nil).

Interim dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2023 (1HFY2022: Nil).

Employees and remuneration policies

As at 30 June 2023, the Group had a total of 446 full time employees (31 December 2022: 146). Total staff costs, including directors' emoluments, was approximately HK$26.7 million for 1HFY2023 (1HFY2022: approximately HK$22.9 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 employees' 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 1HFY2022.

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 to deepen their knowledge in the industry.

Capital commitments

At 30 June 2023, the Group did not have material capital commitments (31 December 2022: Nil).

Events after the reporting period

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

PROSPECTS

Watches Business

Products

The Group always insists on making high-quality "Swiss-made" watches. In the future, the Group will closely monitor market conditions and keep abreast of the popular trend by analyzing the mindset and consumption power of our major consumers and design watch series, that conformed to the preference of our target consumers, for men, women and couples with our professional product design ability.

Brand Promotion

The Group continues to promote and enhance the awareness of the "Ernest Borel" brand through different forms of marketing initiatives, introducing the "Ernest Borel" brand to younger and international consumers, so that the romantic culture of the "Ernest Borel" brand can be sustained.

The Group aims to enhance brand visibility and market share by coordinating online and offline brand promotion efforts. We will interlink these channels to create a seamless brand experience for consumers. Collaborations with influential bloggers, social media influencers, and traditional media outlets will be pursued to generate buzz and reach a wider audience. Additionally, strategic advertising placements on online platforms will help raise brand awareness. The Group will adjust its brand promotion strategy to target on younger demographic, leveraging market research and consumer analysis to identify effective communication channels and content formats. By integrating internal and external resources, we intend to execute a successful brand rejuvenation, revitalizing the brand image and attracting a younger consumer base. Through these measures, the Group aims to achieve its goals of increased brand visibility, youthful growth, and expanded market presence.

Distribution Channels

The Group's offline sales strategy will continue to implement a flexible sales policy, tailored to each region and customer, with the aim of aggressively pursuing the annual sales target. The focus remains on strengthening customer service awareness and implementing a responsive and targeted customer management approach that promotes mutual understanding, mutual benefits, and win-win outcomes. Proactive efforts will be made to tap into new market segments, maintain regular communication, conduct frequent customer visits, provide encouragement, and build customer confidence, effectively addressing challenges such as replenishment difficulties and customer acquisition barriers. The Group will diligently focus on meticulous management in all areas, striving to enhance terminal sales through a dedicated approach that leaves no detail overlooked.

E-commerce sales

In terms of e-commerce business, on the premise of maintaining basic monthly sales income, we are devoted to achieving steady increase, and will reasonably evaluate the results between the various inputs and outputs of the platform, and make appropriate optimizations to further enhance the profitability of the platform. In addition to the three major traditional e-commerce platforms, namely Tmall, JD.com and VIPs, the Group will explore and pursue some potential platforms for partnership. Under the current livestreaming sales model, the Group is also actively tapping into different types of livestreaming models to drive sales performance and enhance brand awareness.

Operation

The Group's product plan focuses on reducing inventory level of watch movements and spare parts while ensuring sales supply. Procurement department will closely align with sales department to avoid inventory buildup and waste, gradually improving efficiency throughout the supply chain operations. Real-time analysis of sales and inventory will enable phased production and on-demand delivery, controlling cash flow expenditures and reducing excessive stock accumulation.

Research and development efforts will be strengthened to achieve refined craftsmanship for premium products, which represent the brand image. Special attention will be given to the research and development of products exclusive to e-commerce, with a focus on speed and precision to cater to the unique characteristics of online retail. Market differentiation will be implemented between overseas and domestic markets, as well as between e-commerce and offline markets, to develop products tailored for specific market segments and seize market opportunities through differentiated offerings.

Smart Manufacturing Business

The Group is fully committed to meeting customer demands and ensuring the successful production of the Milanese band. The Group closely monitors the entire production process, adhering to quality standards and delivery schedules to achieve the targets for the second half of the year. In response to the growing market potential for smart rings, the Group has signed contracts for a few different smart ring models. These models undergo rigorous sampling and testing, and upon approval, production orders are swiftly implemented to meet market demand. At the same time, the Group stays abreast of industry trends by studying the latest smart watches models of one of its major smart watches customers and assessing its relevance to the product lineup. And it will adjust its production plans accordingly, aligning its capacity with market trends. Furthermore, to meet the increasing demand for smart watch bands, the Group plans to expand production capacity in the second half of the year, potentially through acquiring machinery, optimizing processes, and increasing workforce. Talent acquisition is a priority, with a focus on recruiting skilled professionals with strong operating capabilities from domestic listed companies. By strengthening the team, the division aims to enhance sales efforts and ensure the sustained growth of the Group. These strategic initiatives reflect the Group's proactive approach to deliver high-quality products and meet customer needs.

Conclusion

In recent years, there has been a global economic shift, and while we have moved forward from the pandemic, the external environment is becoming more complex and challenging and domestic economic development is under pressure. However, the fundamental strength of China's economy, characterized by resilience, great potential and vitality remains unchanged. The watch market is primarily driven by the widespread adoption of premium accessories as status symbols and the emerging fast fashion trend. Additionally, the increasing penetration of the internet and the growing adoption of smartphones have propelled the demand for connected devices, including smartwatches, further bolstering the market growth.

The Group will continue to supervise the watches business and smart manufacturing business diligently and to seek different channels to generate sales revenue and closely control the Group's operating costs in terms of sales, distribution, and administrative expenses in order to achieve the goal of raising revenue and reducing expenditure. At the same time, the Group will prepare itself for future opportunities with the aim of expanding its earnings and generating valuable and sustainable returns for our shareholders.

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 and the Corporate Governance Report contained in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**") throughout the six months ended 30 June 2023, except for the deviation from the Corporate Governance Code A.6.7 explained in the following relevant section.

Code Provision C.1.6 stipulates that independent non-executive Directors and non-executive directors shall attend general meetings and develop a balanced understanding of the views of shareholders. Non-executive director, Mr. Xiong Ying did not attend the annual general meeting of the Company held on 2 June 2023 due to other business engagement.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code 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 and its code of conduct regarding directors' securities transactions throughout the six months ended 30 June 2023.

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.

As at 30 June 2023, the Audit Committee comprises all of our three Independent Non-executive Directors, namely Mr. To Chun Kei, Ms. Chan Lai Wa and Mr. Zhang Bin, with Mr. To Chun Kei being the chairman of the Audit Committee. Our unaudited interim results and the interim report for the six months ended 30 June 2023 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 2023.

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 2023 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
Teguh Halim
Chairman

Hong Kong, 30 August 2023

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

Executive Directors:	Mr. Teguh Halim and Ms. Lam Lai
Non-executive Directors:	Mr. Xiong Ying
Independent Non-executive Directors:	Mr. To Chun Kei, Ms. Chan Lai Wa and Mr. Zhang Bin