



ERNEST
BOREL
1856

ERNEST BOREL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

STOCK CODE : 1856



2020 INTERIM REPORT

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CORPORATE INFORMATION

Ernest Borel Holdings Limited ((the “**Company**”), and together with its subsidiaries, the “**Group**”)

DIRECTORS

Executive Directors

Mr. Shang Jianguang

*(Chairman of the Board of Directors (the “**Board**”))*

Mr. Teguh Halim

(Vice Chairman of the Board)

Mr. Xiong Wei

Ms. Lam Lai

Non-executive Directors

Mr. Xiong Ying

Mr. Tao Li

Independent Non-executive Directors

Mr. To Chun Kei

Mr. Hui Cheuk Kit Frederick

Ms. Chan Lai Wa

COMPANY SECRETARY

Mr. Lau Fan Yu

AUDIT COMMITTEE

Mr. To Chun Kei (*Chairman*)

Mr. Hui Cheuk Kit Frederick

Ms. Chan Lai Wa

REMUNERATION COMMITTEE

Mr. To Chun Kei (*Chairman*)

Mr. Teguh Halim

Mr. Xiong Wei

Mr. Hui Cheuk Kit Frederick

Ms. Chan Lai Wa

NOMINATION COMMITTEE

Mr. Shang Jianguang (*Chairman*)

Mr. Xiong Wei

Mr. To Chun Kei

Mr. Hui Cheuk Kit Frederick

Ms. Chan Lai Wa

EXECUTIVE COMMITTEE

Mr. Shang Jianguang (*Chairman*)

Mr. Teguh Halim

Mr. Xiong Wei

Ms. Lam Lai

INVESTMENT COMMITTEE

Mr. Shang Jianguang (*Chairman*)

Mr. Teguh Halim

Mr. Xiong Wei

Ms. Lam Lai

AUTHORISED REPRESENTATIVES

Ms. Lam Lai

Mr. Lau Fan Yu

COMPANY'S WEBSITE

www.ernestborel.ch

REGISTERED OFFICE

Second Floor, Century Yard, Cricket Square

P.O. Box 902, Grand Cayman, KY1-1103

Cayman Islands

HEAD OFFICE IN SWITZERLAND

8, rue des Perrières
2340 Le Noirmont
Switzerland

INDEPENDENT AUDITOR

BDO Limited
Certified Public Accountants

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 BANKER

Hang Seng Bank Limited

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

Unit 1612–18, Level 16, Tower 1
Grand Century Place
193 Prince Edward Road West
Mongkok, Kowloon
Hong Kong

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

Tricor Services (Cayman Islands) Limited
Second Floor, Century Yard, Cricket Square
P.O. Box 902, Grand Cayman, KY1-1103
Cayman Islands

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

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- Revenue for the financial period ended 30 June 2020 (“**1HFY2020**”) decreased from HK\$55.7 million to HK\$38.2 million when compared with the corresponding period of last year (“**1HFY2019**”).
- Gross margin for 1HFY2020 increased from 44.3% to 54.7%. Gross profit for 1HFY2020 decreased from HK\$24.7 million to HK\$20.9 million.
- Loss after tax decreased from HK\$27.5 million for 1HFY2019 to HK\$10.1 million for 1HFY2020.
- Basic loss per share was HK2.91 cents for 1HFY2020 and was HK7.90 cents for 1HFY2019.

Note: In the case of any inconsistency between the Chinese translation and the English text of this interim report, the English text shall prevail.

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**"), (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 2020, the Group has a total of 775 points of sale ("**POS**").

Ernest Borel recorded a revenue of HK\$38.2 million (1HFY2019: HK\$55.7 million), representing a year-on-year decrease of approximately 31.4%, and gross profit and gross profit margins declined to HK\$20.9 million (1HFY2019: HK\$24.7 million) and increased to 54.7% (1HFY2019: 44.3%) respectively. Consequently, loss attributable to equity holders amounted to HK\$10.1 million.

OVERVIEW

In the first half of 2020, the China-US trade dispute and regional political factors in Hong Kong still disrupted the economy in the world, the PRC and Hong Kong. In addition, coupled with the continuous outbreak of the novel coronavirus disease ("**COVID-19**"), the Company has carried out appropriate adjustments and strategies in relation to brand promotion and distribution to cope with market conditions.

The willingness of out-of-home consumption among local citizens and tourists worldwide was substantially subdued amidst the lockdown and quarantine measures adopted by local governments in the first half of the year, which resulted in a decrease in offline sales. The Company strengthened the promotion of "Ernest Borel" brand through the Internet, including but not limited to WeChat, Weibo, mini videos and online live broadcasts. It also sold its watches on various mainstream online sales platforms such as Tmall and JD.com. In order to meet customers' needs, the Group promoted exclusive watches which were only available in these online platforms to broaden the source of income. Leveraging on the strong and effective advertising advantages of the Internet, the Company has received positive responses to its brand from the market, which drove an increase in sales on online e-commerce platforms.

The PRC market

The PRC remains the major market of the Group. As at 30 June 2020, the Group had 635 POS in the country. Revenue from the PRC segment declined from HK\$46.9 million for 1HFY2019 to HK\$36.3 million for 1HFY2020, accounting for approximately 95.0% of total revenue.

Hong Kong and Macau markets

As at 30 June 2020, the Group had 53 POS in Hong Kong and Macau markets. Sales in these markets decreased by approximately 83.7% from HK\$4.3 million for 1HFY2019 to HK\$0.7 million for 1HFY2020, accounting for approximately 1.9% of total revenue.

Other markets

As at 30 June 2020, the Group had 87 POS in the other markets, mainly in Southeast Asia and Europe. Sales in these markets decreased by approximately 73.3% from HK\$4.5 million for 1HFY2019 to HK\$1.2 million for 1HFY2020, accounting for approximately 3.1% of total revenue.

FINANCIAL REVIEWS

Revenue and segment information

Our revenue decreased by HK\$17.5 million, or approximately 31.4% from HK\$55.7 million for 1HFY2019 to HK\$38.2 million for 1HFY2020.

Performance by geographical location

	1HFY2020 HKD (in million)	1HFY2019 HKD (in million)	Changes HKD (in million)	%
PRC market	36.3	46.9	(10.6)	(22.6)
Hong Kong and Macau markets	0.7	4.3	(3.6)	(83.7)
Other markets mainly in Southeast Asia and Europe	1.2	4.5	(3.3)	(73.3)
Total	38.2	55.7	(17.5)	(31.4)

Cost of Sales

Cost of sales decreased by approximately 44.2% from approximately HK\$31.0 million for 1HFY2019 to approximately HK\$17.3 million for 1HFY2020.

Gross profit

Our gross profit decreased by HK\$3.8 million or approximately 15.4% from HK\$24.7 million for 1HFY2019 to HK\$20.9 million for 1HFY2020. The decrease in gross profit is mainly attributable to decrease in revenue as compared to the same period in 2019. The gross profit margin was recorded a increase from 44.3% for 1HFY2019 to 54.7% for 1HFY2020.

Other gains and losses

We recorded other losses of HK\$2.1 million for 1HFY2020, which was primarily attributable to the exchange net loss of HK\$2.1 million as compared to other gain of HK\$0.4 million for 1HFY2019.

Distribution costs

Our selling and distribution costs decreased by HK\$2.8 million or approximately 14.3% from HK\$19.6 million for 1HFY2019 to HK\$16.8 million for 1HFY2020, representing approximately 44.0% of our total revenue for 1HFY2020 (1HFY2019: approximately 35.2%).

Administrative expenses

Our administrative expenses decreased to HK\$12.1 million for 1HFY2020 from HK\$28.1 million for 1HFY2019, representing a decrease of HK\$16.0 million or approximately 56.9%.

Finance costs

Our finance costs increased by HK\$0.2 million or approximately 3.7% from HK\$5.4 million for 1HFY2019 to HK\$5.6 million for 1HFY2020.

Loss for the period attributable to owners of our Company

Our net loss decreased from HK\$27.5 million for 1HFY2019 to HK\$10.1 million for 1HFY2020, representing a decrease of HK\$17.4 million or approximately 63.3%.

Inventory

Inventory recorded a increase from HK\$326.9 million as at 31 December 2019 to HK\$327.7 million as at 30 June 2020.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK\$42.0 million and approximately HK\$36.5 million as at 31 December 2019 and 30 June 2020 respectively. Such decrease in trade and other receivables is attributable to decrease in trade receivable arising from decrease in revenue for 1HFY2020.

The Group's trade and other payables decreased from approximately HK\$33.3 million as at 31 December 2019 to approximately HK\$16.1 million as at 30 June 2020.

Liquidity, financial resources and capital structure

As at 30 June 2020, we had non-pledged cash and bank balances of HK\$16.4 million (31 December 2019: HK\$18.7 million). Based on the borrowings from bank and other group companies of HK\$230.1 million (31 December 2019: HK\$205.9 million) and shareholders' equity of HK\$134.1 million (31 December 2019: HK\$140.4 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 171.6% (31 December 2019: approximately 146.7%). As at 30 June 2020, all of our borrowings amounting to HK\$226.0 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.

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during 1HFY2020.

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 2020.

Contingent liabilities

As at the close of business on 30 June 2020, the Group did not have any material contingent liabilities.

Interim dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2020 (1HFY2019: Nil).

Employees and Remuneration Policies

As at 30 June 2020, the Group has approximately 195 full time employees (31 December 2019: approximately 211). Total staff costs incurred during 1HFY2020 was approximately HK\$22.0 million (1HFY2019: approximately HK\$31.6 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 1HFY2020.

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.

Commitments

At 30 June 2020, the Group did not have material capital commitments.

Events after the Reporting Period

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

PROSPECTS

As mentioned above, in the first half of 2020, the China-US trade dispute and regional political factors in Hong Kong still disrupted the economy in the world, the PRC and Hong Kong. In addition, coupled with the ongoing outbreak of COVID-19, the willingness of out-of-home consumption among local citizens and tourists worldwide was substantially subdued amidst the lockdown and quarantine measures adopted by local governments, which caused severe negative effects on all retail industries of non-essential goods. The premium watch retail markets in Hong Kong, Macau and the PRC also inevitably suffered from these factors. These major factors exerted adverse effects on the Company's operation and revenue. In the second half of the year, the PRC, as the Company's largest market, has put the epidemic under control and its economy has gradually recovered, which restore consumers spending behaviour and ultimately increase sales of branded watches.

Products

The Company always insists on making high-quality "Swiss-made" watches. Through continuous communication with our customers and customers' feedbacks, the Company has a better understanding of market demands. In the future, the Company will design watch series for men, women and couples that conformed to the preference of our target consumers from an objective view by applying its professional product design.

Brand Promotion

The Company continues to promote and enhance the reputation of "Ernest Borel" brand through various marketing tactics. During the period under review, in response to social distancing control measures in different regions and market conditions, the Company strengthened the promotion of "Ernest Borel" brand through the Internet. In the future, the Company will continue to monitor market conditions and the epidemic development in various regions. In addition to online promotion, roadshow activities will also be organized in an appropriate, timely and safe manner, so that we can communicate more directly with our end consumers, and at the same time increase our brand's exposure rate.

Distribution Channel

The Company continues to adopt effective sales strategies and endeavors to explore new POS in markets with growth potential through different brand promotion tactics. Meanwhile, the Company will continue to review the performance of each POS and abandon those with a weak performance with a view to increasing the sales revenue of POS with better performances. During the period under review, due to the influence of COVID-19, sales of certain regional segments was unsatisfying; however, sales of e-commerce business remained stable, higher than that of the corresponding period last year. In the future, the Company will continue to monitor the pandemic development and market conditions, and adequately distribute resources to each regional segment and e-commerce with a view to further increasing sales revenue.

Operation

The Company has always adopted effective cost control strategies to utilize and allocate resources. Meanwhile, the Company has been closely monitoring our inventory and was able to maintain it on a reasonable level.

Conclusion

Looking ahead, as COVID-19 started to get under control in the PRC and other parts of the world, and some countries claimed that effective preventive vaccines will soon be successfully developed, it is expected that the pandemic will subside. However, given uncertainties in global economy, such as the China-US trade dispute, still exist, the same will also apply to the economic environment in the future, which will continue to disturb the retail market. Given the aforementioned factors, it is expected that the Company will still face grim prospects in the second half of 2020. Despite the difficulties and challenges ahead, the Company will maintain a prudential and proactive attitude, closely monitor market conditions, and adjust the Company's operation strategies based on actual situations. Meanwhile, the Company will continue to review and allocate the resources amongst advertisements, product research and development, and control operation expenses with diligence.

Lastly, the Company has been exploring various investment and development opportunities with a view to increasing the Company's revenue and bringing valuable and sustainable returns for our shareholders in the future.

DISCLOSURE OF INTERESTS

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

As at 30 June 2020, the interests or short positions of the Directors and the Chief Executive of the Company in the shares, underlying shares and debentures of the Company or 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 of Hong Kong Limited (the “**Stock Exchange**”) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which 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 by Directors of Listed Issuers (the “**Model Code**”) set out 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 Shares or shares in associated corporation of the Company

Name of Directors	Company/ Name of associated corporation	Capacity/ Nature of Interest	Number of Shares held	Approximate Percentage of interest in the total issued Shares in the Company ⁽³⁾ / associated corporation
Mr. Shang Jianguang	Citychamp Watch & Jewellery Group Limited (“ Citychamp ”)	Beneficial owner/ Personal Interest	5,300,000	0.12%
Mr. Teguh Halim	Citychamp	Beneficial owner/ Personal Interest/ Interest of Spouse ⁽¹⁾	6,000,000	0.14%
Mr. Xiong Wei	Company	Interest of Spouse ⁽²⁾	37,935,000	10.92%
Mr. Tao Li	Citychamp	Beneficial owner/ Personal Interest	5,000,000	0.11%

Notes:

1. 3,000,000 shares were held by Mr. Teguh Halim's wife.
2. Prime Route Investment Limited ("Prime Route") is a company wholly-owned and controlled by Ms. Xu Hong ("Ms. Xu"). Ms. Xu is the spouse of Mr. Xiong Wei ("Mr. Xiong"), Mr. Xiong is the Executive Director of the Company and the director of Prime Route. Mr. Xiong is therefore deemed to be interested in the shares held by Prime Route.
3. Calculated based on the number of issued Shares as at 30 June 2020 (i.e. 347,437,000 shares).

Saved as disclosed above, as at 30 June 2020, 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 2020, the persons or corporations (not being a Director or 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 Divisions 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 Company's Shares

Name	Capacity	Number of Shares	Approximately % of total number of issued Shares ⁽⁵⁾
VGB Limited ⁽¹⁾	Beneficial owner	222,634,485	64.08%
Citychamp ⁽¹⁾	Interest in controlled corporation	222,634,485	64.08%
Sincere View International Limited ⁽¹⁾	Interest in controlled corporation	222,634,485	64.08%
Full Day Limited ⁽¹⁾	Interest in controlled corporation	222,634,485	64.08%
Hon Kwok Lung ^(2,3)	Interest in controlled corporation	222,634,485	64.08%
Lam Suk Ying ^(2,3)	Interest in controlled corporation	222,634,485	64.08%
Prime Route ⁽⁴⁾	Beneficial owner	37,935,000	10.92%
Xu Hong ⁽⁴⁾	Interest in controlled corporation	37,935,000	10.92%

Notes:

1. 222,634,485 shares in the issued share capital of the Company were directly held by VGB Limited. VGB Limited is wholly-owned and controlled by Citychamp. Citychamp was the controlled corporation of each of Sincere View International Limited ("Sincere View") and Full Day Limited ("Full Day"). Accordingly, each of Citychamp, Sincere View and Full Day was deemed to be interested in the shares of the Company held by VGB Limited.

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2. Mr. Hon Kwok Lung (“**Mr. Hon**”) held the entire issued share capital of Full Day. Sincere View was the controlled corporation of each of Mr. Hon and Ms. Lam Suk Ying (“**Ms. Lam**”), the spouse of Mr. Hon. Accordingly, each of Mr. Hon and Ms. Lam was deemed to be interested in the shares of the Company held by VGB Limited.
 3. Mr. Hon and Ms. Lam also directly held 3,500,000 shares and 1,374,000 shares in the issued share capital of Citychamp, respectively.
 4. Prime Route is a company wholly-owned and controlled by Ms. Xu. Ms. Xu is therefore deemed to be interested in the shares held by Prime Route.
 5. Calculated based on the number of issued Shares as at 30 June 2020 (i.e. 347,437,000 shares).

Save as disclosed above, as at 30 June 2020, 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 Divisions 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.

SHARE OPTION SCHEME

The Company conditionally adopted a Share Option Scheme on 24 June 2014, which was effective upon 11 July 2014 and will expire on 24 June 2024. 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.

Eligible persons include (a) any Executive Director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in, any member of the Group, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; (b) a director or proposed director (including an Independent Non-Executive Director) of any member of the Group; (c) a direct or an indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and (g) an associate of any of the persons referred to in (a) to (c) above.

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\$1.00 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 up to the date of this interim report, no share options were granted, exercised or cancelled or lapsed under the Share Option Scheme.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 2020 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. Tao Li, the Non-executive Director, was unable to attend the Company’s annual general meeting held on 27 May 2020 due to other business engagements.

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 2020.

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 2020, the Audit Committee comprises all of our three Independent Non-executive Directors, namely Mr. To Chun Kei, Mr. Hui Cheuk Kit Frederick and Ms. Chan Lai Wa, 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 2020 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 2020.

CONTINUING DISCLOSURE REQUIREMENTS UNDER RULE 13.21 OF THE LISTING RULES

In accordance with the continuing obligations set out in Rule 13.21 of the Listing Rules, the following are the details of the facility letter (the "**Facility Letter**") with covenants relating to specific performance on the controlling shareholders of the Company.

On 19 February 2020, the Company is the borrower, accepted a Facility Letter issued by a bank offering for the grant of a revolving loan facility and trade finance of up to HK\$20,000,000.

Pursuant to the Facility Letter, amongst other things, the Company had undertaken to the Bank that:

- (i) Citychamp, the controlling and largest shareholder of the Company and the shares of which are listed on the main board of The Stock Exchange (the "**Mainboard**") (stock code: 256), shall remain as the largest shareholder of the Company; and
- (ii) Citychamp shall remain listed on the Mainboard and its shares shall not be suspended for trading for more than 21 consecutive calendar days.

Breach of such undertakings will constitute an event of default and all amounts (including principal and interest) due and owing by the Company to the Bank under the Facility Letter shall become immediately due and payable.

As at the date of this interim report, Citychamp is still treated as the controlling and largest shareholder of the Company as well as remain listed on the Mainboard.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

	NOTES	For the six months ended 30 June	
		2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Revenue	3	38,236	55,734
Cost of sales		(17,374)	(31,036)
 Gross profit		20,862	24,698
Other gains and losses, net	4	(2,145)	399
Other income	5	762	628
Distribution expenses		(16,810)	(19,577)
Administrative expenses		(12,065)	(28,124)
Finance costs	6	(5,621)	(5,360)
 Loss before tax		(15,017)	(27,336)
Income tax credit/(expense)	7	4,902	(122)
 Loss for the period attributable to owners of the Company	8	(10,115)	(27,458)
 Other comprehensive income			
<i>Item that will not be reclassified to profit or loss:</i>			
Remeasurement of defined benefit scheme		525	(1,316)
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		3,273	1,054
 Other comprehensive income for the period		3,798	(262)
 Total comprehensive income for the period		(6,317)	(27,720)
 Loss per share — (expressed in HK cents)			
Basic and diluted	10	(2.91)	(7.90)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020

NOTES	As at		As at 31 December 2019 HK\$'000 (Audited)	
	30 June 2020	HK\$'000 (Unaudited)		
ASSETS AND LIABILITIES				
Non-current assets				
Property, plant and equipment	11	28,479	26,448	
		28,479	26,448	
Current assets				
Inventories		327,713	326,900	
Trade and other receivables	12	36,546	41,971	
Restricted bank deposits		1,243	1,260	
Bank balances and cash		16,371	18,735	
		381,873	388,866	
Current liabilities				
Trade and other payables	13	16,112	33,252	
Tax payable		2,418	2,388	
Lease liabilities		6,916	6,385	
Amounts due to fellow subsidiaries	14	148,492	144,132	
Amount due to ultimate holding company	14	43,107	39,488	
Amounts due to directors	14	17,000	22,241	
Bank borrowings	15	17,448	–	
		251,493	247,886	
Net current assets		130,380	140,980	
Total assets less current liabilities		158,859	167,428	

	NOTES	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Non-current liabilities			
Lease liabilities		1,757	3,023
Deferred tax liabilities		15,620	20,360
Pension obligation		3,298	3,617
Bank borrowings	15	4,073	–
		24,748	27,000
Net assets		134,111	140,428
EQUITY			
Equity attributable to owners of the Company			
Share capital	16	3,474	3,474
Reserves		130,637	136,954
Total equity		134,111	140,428

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Share capital HKD'000	Share premium HKD'000	Other reserve HKD'000 (note (i))	Actuarial gain and loss reserve HKD'000	General reserve HKD'000 (note (ii))	Translation reserve HKD'000	Retained profits/ (accumulated losses) HKD'000	Total HKD'000
At 1 January 2019 (audited)	3,474	182,099	15,500	185	1,547	3,274	18,547	224,626
Loss for the period	–	–	–	–	–	–	(27,458)	(27,458)
Other comprehensive income for the period	–	–	–	(1,316)	–	1,054	–	(262)
At 30 June 2019 (unaudited)	3,474	182,099	15,500	(1,131)	1,547	4,328	(8,911)	196,906
At 1 January 2020 (audited)	3,474	182,099	15,500	(647)	1,547	6,383	(67,928)	140,428
Loss for the period	–	–	–	–	–	–	(10,115)	(10,115)
Other comprehensive income for the period	–	–	–	525	–	3,273	–	3,798
At 30 June 2020 (unaudited)	3,474	182,099	15,500	(122)	1,547	9,656	(78,043)	134,111

Notes:

- (i) Other reserve of HK\$15,500,000 represents amount arising from capitalisation of loans from former shareholders of a subsidiary of the Company.
- (ii) General reserve represents the legal reserve being allocated from the retained profits of certain subsidiaries of the Company, as required under the relevant legislation of Switzerland and the People's Republic of China (the "PRC"), respectively.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	(18,658)	17,164
INVESTING ACTIVITIES		
Additions of property, plant and equipment	(2,402)	(4,061)
Pledged bank deposits withdrawn	–	1,039
Proceeds from the withdrawal of life insurance policies	–	17,428
Interest received	24	45
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(2,378)	14,451
FINANCING ACTIVITIES		
New bank borrowings and other borrowings raised	22,569	–
Repayment of bank borrowings	(1,094)	(10,048)
Lease payments for lease liabilities	(3,704)	(3,451)
Interest paid	(895)	(1,267)
Repayment of loan from a related company	–	(25,141)
Loan from fellow subsidiaries	4,177	58,975
Repayment of loan from fellow subsidiaries	(1,099)	–
Loan from ultimate holding company	5,000	–
Repayment of loan from ultimate holding company	(2,220)	(54,365)
Repayment of loan from directors	(5,000)	–
NET CASH (USED IN) FINANCING ACTIVITIES	17,734	(35,297)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,302)	(3,682)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	18,735	28,946
Effect of foreign exchange rate changes	938	(398)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	16,371	24,866

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 2019 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 2020.

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 2019 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 2019 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, 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	
	2020	2019
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
People's Republic of China ("PRC")	36,283	46,923
Hong Kong and Macau	708	4,327
Others	1,245	4,484
	38,236	55,734

Information about major customers

During the period, there is no revenue from customers contributing over 10% of the total sales of the Group (1HFY2019: Nil).

4. OTHER GAINS AND LOSSES, NET

	For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Loss on disposal of property, plant and equipment	-	(4)
Exchange (loss)/gain, net	(2,135)	226
Impairment loss of trade receivables, net	(10)	(25)
Fair value gain on life insurance policies	-	202
	(2,145)	399

5. OTHER INCOME

	For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Bank interest income	24	45
Sundry income	738	583
	762	628

6. FINANCE COSTS

	For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Interest on:		
Bank borrowings	201	168
Loan from a related company	-	100
Loan from fellow subsidiaries	3,877	637
Loan from ultimate holding company	840	4,093
Loan from directors	518	-
Interest on lease liabilities	185	362
	5,621	5,360

7. INCOME TAX (CREDIT)/EXPENSE

	For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Current tax:		
Hong Kong Profits Tax	–	–
Switzerland income tax	69	130
PRC Enterprise Income Tax	–	–
	69	130
Deferred tax credit	(4,971)	(8)
	(4,902)	122

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 10.0% (six months ended 30 June 2019: 8.5%) and Cantonal Communal Tax ("CCT") of 8.50% (six months ended 30 June 2019: 16.18%).

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 2019: 25%). No provision for Enterprise Income Tax has been made for both periods as the Group has no assessable profits arising in the PRC.

8. LOSS FOR THE PERIOD

	For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Loss for the period has been arrived at after charging/(crediting):		
Cost of inventories recognised as expenses, including		
— Reversal of allowance for inventories	17,374	31,036
Depreciation of property, plant and equipment	(1,974)	(2,735)
	3,252	7,672

9. DIVIDEND

No dividend was paid or proposed during the six months ended 30 June 2020 and 2019, nor has any dividend been proposed since the end of the reporting period.

10. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the six months ended 30 June 2020 is based on the loss attributable to the owners of the Company of HK\$10,115,000 (six months ended 30 June 2019: HK\$27,458,000) and on the weighted average number of 347,437,000 (six months ended 30 June 2019: 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 2020 and thus the dilute loss per share is the same as the basic loss per share.

11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2020, the Group acquired property, plant and equipment of HK\$2,402,000 (six months ended 30 June 2019: HK\$4,061,000).

In addition, the Group has entered into several leases contracts for premises in Hong Kong, the PRC and Switzerland during the six month ended 30 June 2020. Right-of-use assets arising from these lease contracts amounted to HK\$3,213,000 has been recognised during the current period.

12. TRADE AND OTHER RECEIVABLES

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Trade receivables, gross	49,602	55,585
Less: impairment loss allowance	(21,177)	(21,534)
Trade receivables, net	28,425	34,051
Other receivables	2,364	1,111
Other tax recoverable	–	1,162
Prepayments	2,674	2,625
Deposits	3,083	3,022
	8,121	7,920
Total trade and other receivables	36,546	41,971

Included in the trade receivables, amounts of HK\$947,000 (2019: HK\$756,000) 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 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
0–90 days	14,069	20,571
91–180 days	4,561	8,639
181–270 days	4,651	3,310
Over 270 days	5,144	1,531
	28,425	34,051

13. TRADE AND OTHER PAYABLES

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Trade payables	7,618	9,602
Other payables	2,497	2,059
Accruals	5,284	20,675
Contract liabilities arising from sales of goods	713	916
	16,112	33,252

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 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
1–30 days	2,848	4,873
31–60 days	2,216	2,329
Over 60 days	2,554	2,400
	7,618	9,602

The credit period for trade purchases ranges from 30 to 60 days.

14. AMOUNTS DUE TO FELLOW SUBSIDIARIES, ULTIMATE HOLDING COMPANY AND DIRECTORS

As at 30 June 2020, amounts due to fellow subsidiaries of aggregate principal amount of RMB131,000,000 (equivalent to HK\$143,511,000) (2019: RMB 128,200,000 (equivalent to HK\$142,994,000) were unsecured, interest bearing at range from 5% to 6% per annum and repayable within one year.

As at 30 June 2020, amount due to ultimate holding company of principal amount of HK\$33,978,000 (2019: HK\$31,198,000) was unsecured, interest bearing at 5% (2019: 5%) per annum and repayable within one year.

As at 30 June 2020, amounts due to directors of aggregate principal amount of HK\$17,000,000 (2019: HK\$22,000,000) was unsecured, interest bearing at 5% (2019: 5%) per annum and repayable within one year.

15. BANK BORROWINGS

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Bank loan, secured (note)	14,073	–
Import trade loans, secured (note)	7,448	–
	21,521	–
The bank borrowings repayable based on scheduled repayment date set out in the loan agreements, are as follows:		
Within one year	17,448	–
More than one year, but not exceeding two years	–	–
More than two years, but not exceeding five years	4,073	–
	21,521	–

15. BANK BORROWINGS (Continued)

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
The carrying amounts of bank borrowings that contain a repayment on demand clause (shown under current liabilities) but repayable:		
Within one year	17,448	—

The exposure of the Group's borrowings are as follows:

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Variable-rate borrowings	17,448	—

The Group's variable-rate borrowings carry interest at Hong Kong Interbank Offered Rate ("HIBOR") or London Interbank Offered Rate ("LIBOR") plus certain basis points.

The ranges of effective interest rate on the Group's borrowings are as follow:

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Effective interest rate: Variable-rate borrowings	3.69% to 5.24%	N/A

Note:

At the reporting date, the bank borrowings were secured by:

- (i) corporate guarantee provided by Citychamp Watch & Jewellery Group Limited ("Citychamp"), the ultimate holding company of the Group. Further, certain subordination deeds have been signed by Shang Jianguang and Halim Teguh, directors of the Group and Citychamp to secured the bank loan and import trade loan; and
- (ii) guarantee provided by the government of certain country.

16. SHARE CAPITAL

	Number of ordinary shares '000	Par value HK\$	Amount HK\$'000
Authorised:			
At 1 January 2019, 30 June 2019, 31 December 2019 and 30 June 2020	10,000,000	0.01	100,000
Issued and fully paid:			
At 1 January 2019, 30 June 2019, 31 December 2019 and 30 June 2020	347,437	0.01	3,474

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

17. FINANCIAL INSTRUMENTS

Categories of financial instruments

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Financial assets		
Amortised cost	48,403	55,157
Financial liabilities		
Amortised cost	246,232	226,930

18. RELATED PARTY TRANSACTIONS

- (i) During the six months ended 30 June 2020, the Group entered into the following transactions with related parties:

Name of related party	Relationship	Nature of transaction	For the six months ended 30 June 2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Guangdong Juxin Watch Co., Limited (廣東鉅信鐘錶連鎖有限公司)	Fellow subsidiary	Sales of goods	1	4
Liaoning Hengjia Horologe Co., Limited (遼寧恒嘉鐘錶有限公司)	Fellow subsidiary	Sales of goods	29	88
Shenzhen Permanence Commerce Co., Limited (深圳市恒譽嘉時貿易有限公司)	Fellow subsidiary	Sales of goods	1,572	1,292
Corum Watches (M) Sdn Bhd	Fellow subsidiary	Sales of goods	-	141
Eterna S.A.	Fellow subsidiary	Assembly services	-	19
Zhuhai Rossini Watch Industry Limited (珠海羅西尼表業有限公司)	Fellow subsidiary	Sales of goods	7	-
		Loan interest expenses	1,292	637
PAMA Precision Manufacturing Ltd (深圳市帕瑪精品製造有限公司)	Fellow subsidiary	Loan interest expenses	1,807	-
Actor Investments Limited (安達投資有限公司)	Fellow subsidiary	Loan interest expenses	778	-
Fair Future Industrial Limited	Related company	Loan interest expenses	-	100
Citychamp Watch & Jewellery Group Limited	Ultimate holding company	Loan interest expenses	840	4,093
Mr. Sheng Jianguang	Director of the company	Loan interest expenses	374	-
Mr. Teguh Halim	Director of the company	Loan interest expenses	144	-

18. RELATED PARTY TRANSACTIONS (Continued)

- (ii) The details for balances with related parties are disclosed in note 12 and 14 to the condensed consolidated financial statements.
- (iii) The compensations to key management personnel of the Group (i.e. the Company's directors) are as follows:

	For the six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Fees	779	281
Basic salaries and other benefits	2,120	2,482
Pension scheme contributions	36	42
	<hr/> 2,935	<hr/> 2,805