ERNEST BOREL
1856

ERNEST BOREL HOLDINGS LIMITED
依波路控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

2017 ANNUAL RESULTS ANNOUNCEMENT

ANNUAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Ernest Borel Holdings Limited (the"**Company**" or "**Ernest Borel**") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017, together with the comparative figures for the year ended 31 December 2016.

FINANCIAL AND OPERATION HIGHLIGHTS

- Turnover for the financial year ended 31 December 2017 ("**FY2017**") decreased from HK$248.9 million to HK$227.2 million when compared with last year ("**FY2016**").
- Gross margin for FY2017 decreased from 38.9% to 21.2%. Gross profit for FY2017 decreased from HK$96.8 million to HK$48.1 million.
- Loss after tax for FY2017 was HK$197.3 million (FY2016: HK$145.0 million), mainly due to (i) increase in allowance for doubtful debts amounting to HK$18.8 million, (ii) occurrence of loss of inventory amounting to HK$18.8 million, (iii) increase in allowance for inventories from HK$7.8 million for FY2016 to HK$49.9 million for FY2017, (iv) increase in finance costs from HK$7.7 million for FY2016 to HK$27.7 million for FY2017, (v) decrease in revenue of approximately 8.7% from HK$248.9 million for FY2016 to HK$227.2 million for FY2017, and (vi) increase in income tax expense from HK$2.4 million for FY2016 to HK$14.1 million for FY2017.
- Loss per share was HK56.78 cents for FY2017 (FY2016: HK41.74 cents).
- The Board has resolved not to recommend any payment of a final dividend for FY2017 (FY2016: Nil).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Revenue	*3*	**227,205**	248,883
Cost of sales		**(179,099)**	(152,097)
Gross profit		**48,106**	96,786
Other gains and losses		**(25,789)**	(14,387)
Other income		**859**	1,081
Distribution expenses		**(117,587)**	(158,699)
Administrative expenses		**(61,122)**	(59,693)
Finance costs		**(27,651)**	(7,673)
Loss before tax	*4*	**(183,184)**	(142,585)
Income tax expense	*5*	**(14,099)**	(2,426)
Loss for the year attributable to owners of the Company		**(197,283)**	(145,011)
Other comprehensive income/(expense), net of tax			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit scheme		**396**	1,440
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**6,912**	(4,763)
Other comprehensive income/(expense) for the year		**7,308**	(3,323)
Total comprehensive expense for the year		**(189,975)**	(148,334)
LOSS PER SHARE			
— Basic and diluted (Hong Kong cents)	*7*	**(56.78)**	(41.74)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**44,216**	70,964
Deposits placed for life insurance policies		**17,405**	17,579
Deposit paid for acquisition of a subsidiary		**25,000**	–
Deferred tax assets		**–**	8,449
		86,621	96,992
CURRENT ASSETS			
Inventories		**402,224**	500,629
Trade and other receivables	*8*	**81,569**	71,143
Amount due from a related party		**–**	50
Tax recoverable		**–**	7,071
Pledged bank deposits		**1,026**	1,022
Bank balances and cash		**56,177**	18,272
		540,996	598,187
CURRENT LIABILITIES			
Trade and other payables	*9*	**39,241**	46,754
Bank borrowings		**11,591**	57,246
Notes payable		**140,000**	–
Tax payable		**2,333**	1,263
		193,165	105,263
NET CURRENT ASSETS		**347,831**	492,924
TOTAL ASSETS LESS CURRENT LIABILITIES		**434,452**	589,916
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**21,921**	12,102
Pension obligation		**4,973**	4,744
Note payable		**–**	80,000
Convertible bond		**89,972**	–
		116,866	96,846
NET ASSETS		**317,586**	493,070
CAPITAL AND RESERVES			
Share capital		**3,474**	3,474
Reserves		**314,112**	489,596
TOTAL EQUITY		**317,586**	493,070

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL

The Company was incorporated in the Cayman Islands under the Companies Law of Cayman Islands as an non-resident company with limited liability on 18 January 1991 and re-registered as an exempted company with limited liability on 14 April 2014 under the Companies Law. The Company is a public limited company with its shares listed on The Main Board of the Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). The addresses of the registered office and principal place of business of the Company are set out in the corporate information section to the annual report.

The principal activity of the Group are manufacturing and sales of watches.

The consolidated financial statements are presented in Hong Kong dollar ("**HK$**"), which is the functional currency of the Company and may be different from the functional currency of certain group entities, i.e. Renminbi ("**RMB**") and Swiss Franc ("**CHF**"). The Group's management has elected to use HK$ as they believe HK$ is the appropriate presentation currency for the users of Group's consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

Amendments to IFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretations Committee ("IFRIC") for the first time in the current year:

Amendments to IAS 7	Disclosure Initiative
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to IFRS 12	As part of the Annual Improvements to IFRSs 2014–2016 Cycle

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosure set out in these consolidated financial statements.

Amendments to IAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Apart from the additional disclosure, the application of these amendments has had no impact on the Group's consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received or receivable for the sale of watch products, less returns and trade discounts, during the year.

The Group's principal activities are the manufacturing and sale of watches. Information reported to the chief operating decision makers, being the executive Directors of the Company, for resource allocation and performance assessment, is based on the Group's overall performance, which is considered as a single operating segment. Segment revenue, results, assets and liabilities are therefore the same as the respective amounts presented in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position. Equity-wide segment information is set out below.

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2017	2016
	HK$'000	*HK$'000*
Mechanical watches	**146,243**	172,271
Quartz watches	**76,153**	75,005
Others	**4,809**	1,607
	227,205	248,883

Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers determined based on the location of customers, and (ii) the Group's non-current assets (which exclude deposit paid for acquisition of a subsidiary, deposits placed for life insurance policies and deferred tax assets) based on the location of assets.

	Revenue from external customers	
	2017	2016
	HK$'000	*HK$'000*
The People's Republic of China (the "**PRC**")	**193,401**	193,109
Hong Kong and Macau	**10,692**	25,355
Southeast Asia	**17,992**	23,616
Others	**5,120**	6,803
	227,205	248,883

	Non-current assets	
	2017	2016
	HK$'000	*HK$'000*
PRC	**9,243**	34,310
Hong Kong	**4,648**	5,765
Switzerland	**30,325**	30,889
	44,216	70,964

Information about major customers

Revenue from customer contributing over 10% of the total sales of the Group was as follows:

	2017 HK$'000	2016 HK$'000
Customer A	**–**[1]	25,545

[1] Current year revenue did not contribute over 10% of the total revenue of the Group.

4. LOSS BEFORE TAX

	2017 HK$'000	2016 HK$'000
Loss before tax has been arrived at after charging:		
Auditors' remuneration	**1,615**	1,260
Allowance for doubtful debts	**18,788**	–
Allowance for inventories	**49,849**	7,808
Cost of inventories recognised as expenses	**128,316**	142,778
Loss of inventory	**18,785**	–
Depreciation of property, plant and equipment	**34,451**	43,756
Directors' emoluments	**3,723**	4,830
Other staff costs		
— salaries and other benefits	**50,991**	60,534
— retirement benefits scheme contributions	**4,668**	5,125
Total staff costs	**59,382**	70,489
Operating lease rental in respect of rented premises	**18,165**	27,892

5. INCOME TAX EXPENSE

	2017 HK$'000	2016 HK$'000
Current tax:		
Hong Kong Profits Tax *(note i)*	**–**	–
Switzerland Income Tax *(note ii)*	**257**	2,122
PRC Enterprise Income Tax *(note iii)*	**–**	–
	257	2,122
Overprovision in prior years:		
Switzerland Income Tax	**(1,915)**	(57)
Deferred tax charge	**15,757**	361
Income tax expense for the year	**14,099**	2,426

Notes:

(i) Hong Kong

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

(ii) Switzerland

Switzerland Income Tax is calculated at certain tax rates on the assessable income for both years. Under the relevant Tax Laws in Switzerland, the Group's subsidiary incorporated in Switzerland was subjected to Direct Federal Tax ("**DFT**") of 8.5% (2016: 8.5%) and Cantonal Communal Tax("**CCT**") calculated at 16.37% (2016: 16.55%).

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 years.

(iii) PRC

Under the laws of PRC on Enterprise Income Tax (The "**EIT Law**") and Implementation Regulation of EIT Law, the tax rate of PRC subsidiary is 25% (2016: 25%).

6. DIVIDEND

No dividend has been paid or proposed for ordinary shareholders of the Company during the year ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting period.

7. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the year ended 31 December 2017 is based on the loss attributable to the owners of the Company of HK$197,283,000 (2016: HK$145,011,000) and on the weighted average number of 347,437,000 (2016: 347,437,000) ordinary shares in issue during the year.

The computation of diluted loss per share for the year ended 31 December 2017 does not assume the conversion of the convertible bond because the exercise price of the convertible bond was higher than the average market price for the year.

The computation of diluted loss per share for the year ended 31 December 2016 did not assume the exercise of the Company's share options because the exercise price of the share options was higher than the average market price for 2016.

8. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables	**92,619**	57,390
Less: allowance for doubtful debts	**(20,216)**	(725)
	72,403	56,665
Other receivables	**1,426**	2,610
Other tax recoverable	**1,847**	1,569
Prepayment	**2,715**	5,172
Deposits	**3,178**	5,127
	9,166	14,478
	81,569	71,143

The Group allows a credit period ranging from 30 to 90 days to its trade customers. The following is an ageing analysis of trade receivables, net of allowance of doubtful debts, presented based on the invoice date which approximates the respective revenue recognition dates:

	2017	2016
	HK$'000	*HK$'000*
0–90 days	**42,177**	37,510
91–180 days	**28,557**	13,221
181–270 days	**1,068**	887
Over 270 days	**601**	5,047
	72,403	56,665

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for customer. Limits attributed to customers are reviewed annually.

At 31 December 2017, included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$52,108,000 (2016: HK$37,068,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and the amounts are still considered recoverable based on historical experience.

Ageing of trade receivables (by due date) which are past due but not impaired

	2017	2016
	HK$'000	*HK$'000*
Overdue for		
Within 90 days	**41,670**	26,461
91 to 180 days	**8,670**	6,455
Over 180 days	**1,768**	4,152
	52,108	37,068

Movement in the allowance for doubtful debts

	2017	2016
	HK$'000	*HK$'000*
Balance at beginning of the year	**725**	2,837
Impairment losses recognised	**19,046**	–
Amounts written off as uncollectible	**(258)**	(2,099)
Exchange realignment	**703**	(13)
Balance at end of the year	**20,216**	725

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date at which credit was initially granted up to the reporting date.

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of HK$20,216,000 (2016: HK$725,000) at 31 December 2017. The Group does not hold any collateral over these balances.

Allowance of doubtful debts are recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparty, the credit quality of the trade receivable, as well as the number of delayed payments.

Age of impaired trade receivables

	2017	2016
	HK$'000	*HK$'000*
Overdue for		
91 to 180 days	**8**	–
More than 180 days	**20,208**	725
	20,216	725

9. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**8,579**	12,785
Other payables	**6,232**	24,043
Accruals	**24,430**	9,926
	39,241	46,754

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

	2017	2016
	HK$'000	*HK$'000*
1–30 days	**3,849**	2,738
31–60 days	**3,835**	3,738
Over 60 days	**895**	6,309
	8,579	12,785

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

The Group's trade payables that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2017	2016
	HK$'000	*HK$'000*
Denominated in USD	**215**	96
Denominated in CHF	**2,893**	237
Denominated in EUR	**34**	–
Denominated in RMB	**713**	–

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning over 160 years. Throughout the course of its history and across its operations, the Group has upheld the principles of producing high precision "Swiss-made" products and 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**", and for the purpose of this announcement, excludes the Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region ("**Macau**") and Taiwan), Hong Kong, Macau and Southeast Asia. As at 31 December 2017, the Group has a total of 847 points of sale ("**POS**").

Due to a decrease in orders placed by watch retailers and authorized distributors, Ernest Borel recorded a revenue of HK$227.2 million (2016: HK$248.9 million), representing a year-on-year decrease of approximately 8.7%, and gross profit and gross profit margins declined to HK$48.1 million (2016: HK$96.8 million) and 21.2% (2016: 38.9%), respectively. Consequently, loss attributable to equity holders amounted to HK$197.3 million in FY2017.

The PRC Market

The PRC remains the core market of the Group. As at 31 December 2017, the Group had 683 POS in the country. Revenue from the PRC segment increased slightly from HK$193.1 million for FY2016 to HK$193.4 million for FY2017, accounting for approximately 85.1% of total revenue.

Hong Kong, Macau and Southeast Asia Markets

As at 31 December 2017, the Group had 139 POS in Hong Kong, Macau and Southeast Asia markets. Sales in these markets decreased by approximately 41.4% from HK$49.0 million for FY2016 to HK$28.7 million for FY2017, accounting for approximately 12.6% of total revenue.

EVENTS AFTER THE REPORTING PERIOD

On 30 November 2017, Swissmount Holdings Limited (the "**Purchaser**"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "**Sale and Purchase Agreement**") with Mr. Sit Yau Chiu (the "**Vendor**"), the substantial shareholder of the Company and also the Chairman and executive director of the Company, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell 10,000 ordinary shares of Top Win International Trading Limited ("**Top Win**"), representing 100% of the issued share capital of Top Win, for a consideration of HK$50,000,000 (the "**Acquisition**"). On 22 March 2018, the Purchaser entered into the supplemental sale and purchase agreement with the Vendor to amend certain terms in the Sale and Purchase Agreement.

The Acquisition have not been completed as at the date of this announcement. Upon the completion of the Acquisition, Top Win will become a wholly-owned subsidiary of the Company. For details of the Acquisition, please refer to the announcements dated 30 November 2017 and 22 March 2018 and the circular dated 26 March 2018 of the Company.

Save as disclosed above, there are no material events undertaken by the Group after the reporting period.

FINANCIAL REVIEW

Revenue and segment information

Our revenue decreased by HK$21.7 million, or approximately 8.7% from HK$248.9 million for FY2016 to HK$227.2 million for FY2017. The decrease in revenue of mechanical watches was mainly due to deterioration of the premium watch retail market in Hong Kong, Macau and Southeast Asia as compared to FY2016 leading to a decrease in orders placed by watch retailers.

Performance by major products

	2017	2016	Changes	
	HK$'000	*HK$'000*	*HK$'000*	*%*
Mechanical watches	**146,243**	172,271	**(26,028)**	**(15.1)**
Quartz watches	**76,153**	75,005	**1,148**	**1.5**
Total	**222,396**	247,276	**(24,880)**	**(10.1)**

Mechanical watches

Revenue from sales of mechanical watches decreased by approximately 15.1% from HK$172.3 million for FY2016 to HK$146.2 million for FY2017.

Quartz watches

Revenue from sales of quartz watches increased by approximately 1.5% from HK$75.0 million for FY2016 to HK$76.2 million for FY2017.

Performance by geographical locations

	2017	2016	Changes	
	HK$'000	*HK$'000*	*HK$'000*	*%*
PRC market	**193,401**	193,109	**292**	**0.15**
Hong Kong, Macau and Southeast Asia markets	**28,684**	48,971	**(20,287)**	**(41.4)**
Other markets mainly in United States and Europe	**5,120**	6,803	**(1,683)**	**(24.7)**
Total	**227,205**	248,883	**(21,678)**	**(8.7)**

The PRC market

The PRC continues to be our major market, representing approximately 85.1% of our revenue for FY2017. Sales in this region showed a slight increase of approximately 0.15% from HK$193.1 million for FY2016 to HK$193.4 million for FY2017.

Hong Kong, Macau and Southeast Asia markets

Hong Kong, Macau and Southeast Asia markets accounted for approximately 12.6% of our total revenue for FY2017. Sales in these markets decreased by approximately 41.4% from HK$49.0 million for FY2016 to HK$28.7 million for FY2017. The decrease was mainly attributable to the deterioration of the premium watch retail market.

Other markets

Revenue from other markets, namely markets in the United States and Europe recorded a decrease from HK$6.8 million FY2016 to HK$5.1 million for FY2017.

Cost of sales

Cost of sales increased by approximately 17.8% from approximately HK$152.1 million for FY2016 to approximately HK$179.1 million for FY2017. The increase was mainly attributable to the increase in allowance for inventories from HK$7.8 million for FY2016 to HK$49.8 million for FY2017.

Gross profit

Our gross profit decreased by HK$48.7 million or approximately 50.3% from HK$96.8 million for FY2016 to HK$48.1 million for FY2017, while the gross profit margin decreased to approximately 21.2% for FY2017 from approximately 38.9% for FY2016. The decrease in gross profit margin was primarily due to the increase in allowance for inventories from HK$7.8 million for FY2016 to HK$49.8 million for FY2017.

Other gains and losses

We recorded other losses of HK$25.8 million for FY2017 as compared to HK$14.4 million for FY2016. This was primarily due to the increase in allowance for doubtful debts amounting to HK$18.8 million, loss of inventory amounting to HK$18.8 million and occurrence of compensation amounting to HK$4.3 million, which was partially offset by the foreign exchange gain of HK$16.1 million mainly arising from appreciation of the RMB and CHF against the Hong Kong dollars.

Distribution costs

Our selling and distribution costs decreased by HK$41.1 million or approximately 25.9% from HK$158.7 million for FY2016 to HK$117.6 million for FY2017, representing approximately 51.8% of our total revenue for 2017 (2016: approximately 63.8%). The decrease was primarily attributable to (i) the decrease in advertising and marketing expenses from HK$57.1 million for FY2016 to HK$36.6 million for FY2017 as we reduced the scale of our marketing and advertising activities, (ii) the decrease in commission to retailer expenses from HK$9.3 million for FY2016 to HK$4.0 million for FY2017, (iii) the decrease in depreciation for display counter from HK$37.9 million for FY2016 to HK$30.3 million for FY2017, (iv) the decrease in salaries and other benefit from HK$24.8 million for FY2016 to HK$19.9 million for FY2017, and (v) the decrease in shop expense from HK$15.3 million for FY2016 to HK$11.3 million for FY2017.

Administrative expenses

Our administrative expenses increased to HK$61.1 million for FY2017 from HK$59.7 million for FY2016, representing an increase of HK$1.4 million or approximately 2.4%. The increase in administrative expenses was primarily due to an addition to the provision for legal fee of HK$4.0 million for FY2017, which was partially offset by the decrease in depreciation from HK$5.9 million for FY2016 to HK$4.2 million for FY2017.

Finance costs

Our finance costs increased by HK$20.0 million or approximately 260.4% from HK$7.7 million for FY2016 to HK$27.7 million for FY2017 as a result of the addition of convertible bond and note payable for FY2017.

Taxation

Our income tax increased from HK$2.4 million for FY2016 to HK$14.1 million for FY2017, representing an increase of HK$11.7 million or approximately 481.1%. This increase was primarily attributable to the increase in deferred tax expense from HK$0.4 million for FY2016 to HK$15.8 million for FY2017.

Loss for the year attributable to owners of our Company

Our net loss for FY2017 increased from HK$145.0 million for FY2016 to HK$197.3 million for FY2017 and it was mainly due to the (i) increase in allowance for doubtful debts amounting to HK$18.8 million, (ii) occurrence of loss of inventory amounting to HK$18.8 million, (iii) increase in allowance for inventories from HK$7.8 million for FY2016 to HK$49.8 million for FY2017, (iv) increase in finance cost from HK$7.7 million for FY2016 to HK$27.7 million for FY2017, (v) decrease in revenue of approximately 8.7% from HK$248.9 million for FY2016 to HK$227.2 million for FY2017, and (vi) increase in income tax expense from HK$2.4 million for FY2016 to HK$14.1 million for FY2017.

Inventory

Inventory amounted to approximately HK$402.2 million as at 31 December 2017, representing a decrease of HK$98.4 million, or around 19.7%, from HK$500.6 million as at 31 December 2016. Such decrease in inventory was attributable to the increase in allowance for inventories amounting to HK$49.8 million for FY2017 and loss of inventory amounting to HK$18.8 million for FY2017.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK$71.1 million and approximately HK$81.6 million as at 31 December 2016 and 2017 respectively. Such increase in trade and other receivables was attributable to an increase in revenue in the second half of FY2017.

The Group's trade and other payables increased from approximately HK$46.8 million as at 31 December 2016 to approximately HK$39.2 million as at 31 December 2017 resulting primarily from the decrease in other payables due to the decrease in display counter expenses that we paid to display counter manufacturers.

Liquidity, financial resources and capital structure

As at 31 December 2017, we had non-pledged cash and bank balances of HK$56.2 million (2016: HK$18.3 million). Based on the borrowings of HK$241.6 million (2016: HK$137.2 million) and shareholders' equity of HK$317.6 million (2016: HK$493.1 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 76.1% (2016: approximately 27.8%).

As at 31 December 2017, part of our borrowing amounting to HK$90.0 million was repayable over one year and the remaining balance amounting to HK$151.6 million was repayable within one year.

Foreign exchange exposure

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

We monitor foreign exchange trends and shall consider hedging significant foreign currency exposure should the need arise.

Charge on assets

Our outstanding bank borrowings were secured by:

(a) charges over our time deposits with a carrying amount of HK$1.0 million (2016: HK$1.0 million);

(b) charges over deposits placed for a life insurance policy with a carrying amount of HK$17.4 million (2016: HK$17.6 million); and

(c) charges over inventories with a carrying amount of HK$Nil (2016: HK$244.5 million).

Material acquisition and disposal of subsidiaries or associated companies

Save as disclosed in this announcement, no material acquisition or disposal of any subsidiaries or associated companies was made during FY2017.

Future plans for material investments and capital assets

Save as disclosed in this announcement, the Group does not have any plan authorised by the Board for material investments or additions of capital assets as at the date of this announcement.

Contingent liabilities

As at the close of business on 31 December 2017, the Group had the following litigations:

(a) On 6 October 2017, there is a claim against Ernest Borel (Far East) Company Limited ("**EB Far East**"), a wholly-owned subsidiary of the Company, for RMB1,726,664.80 in relation to the rentals in respect of a store operated by the landlord under an agreement dated 1 August 2012 and a co-operation agreement dated 21 July 2015 purportedly made between

EB Far East and the landlord, plus interest accruing on the claimed rentals and other related costs. On 10 January 2018, EB Far East filed a counter-claim. The above litigation is still at the early stage and EB Far East will vigorously defend against the claim taken by the landlord. However, for prudence's sake, a full provision for the claimed rentals of RMB1,726,664.80 has been made in the books of EB Far East.

(b) On 20 October 2017, Guangzhou Tianhe Labour Tribunal* (廣州市天河區勞動人事爭議仲裁委員會) issued a judgment (the "**Judgment**") against Ernest Borel (Guangzhou) Trading Co., Ltd. ("**EB Guangzhou**"), an indirect wholly-owned subsidiary of the Company, for a claim of salaries and other benefits totaling RMB2,566,186.83 in favour of Ms. Liu Libing ("**Ms. Liu**"). Ms. Liu brought the claim in the capacity of employee regarding her employment as the general manager of EB Guangzhou. Ms. Liu was also a director of the Company but was retired by rotation on 26 May 2017. On 21 November 2017, EB Guangzhou instituted a legal action in Guangzhou Tianhe District Court* (廣州市天河區法院) to set aside the Judgment. On 24 November 2017, Ms. Liu further claimed RMB1,173,000 against EB Guangzhou. The directors of the Company believe that EB Guangzhou shall have valid grounds to defend and to set aside all those claims taken by Ms. Liu. The legal proceeding taken by EB Guangzhou in Guangzhou Tianhe District Court is still at its early stage. However, for prudence's sake, a full provision for the claim of RMB2,566,186.83 has been made in the consolidated financial statements of the Company.

(c) On 12 June 2017, Mr. Su Da, a former employee of the Company instigated a legal action against the Company for claim of salaries and other benefits in arrears in the capacity of employee regarding his employment as the chief executive officer of the Company. The Company does not agree on the basis of the claim. No provision for the claim has been made in the consolidated financial statements of the Company and the Company does not expect to have further material amount arising from the claim.

(d) On 20 July 2017, EB Guangzhou instituted a legal action against a distributor for the settlement of outstanding trade debts of RMB26,529,351.70 and related overdue interest. This distributor counterclaimed against EB Guangzhou for losses of RMB3,979,000 arising from termination of the distributorship agreement.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital, term loans and overdrafts, debt securities, hire purchase commitment, liabilities under acceptances (other than normal trade bills) or acceptance credits, borrowings or indebtedness in the nature of borrowings or any guarantees or other material contingent liabilities as at the close of business on 31 December 2017. (2016: Nil).

Employees and remuneration policies

As at 31 December 2017, the Group had a total of 273 full-time employees, representing the same as compared to 273 employees as at 31 December 2016. Total staff costs for FY2017 decreased to approximately HK$59.4 million from approximately HK$70.5 million for FY2016, mainly due to the decrease in salaries and other benefits from HK$60.5 million in FY2016 to HK$51.0 million in FY2017.

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 pre-IPO share option scheme and a share option scheme (the "**Share Option Scheme**") on 24 June 2014 for the purpose of providing incentives and rewards to eligible directors and employees of the Group, which became effective on the Listing Date. No option has been granted under the Share Option Scheme during FY2017.

The Group provides training to its employees on a regular basis to keep them abreast of their knowledge in the Group's products, technology developments and market conditions of its industry. In addition, the Group's senior management also participates in conferences and exhibitions to deepen their knowledge in the industry.

Capital commitments

As at 31 December 2017, there were capital commitments in the amount of HK$1.1 million which represented the balance payment in relation to the acquisition of a parcel of land in Switzerland for our new production facility (2016: HK$1.0 million), and amount of HK$25.0 million which represented the balance payment in relation to the acquisition of a subsidiary.

PROSPECTS

As the Group expected, 2017 was a year full of challenges for the overall retail market and the premium watch market segment. Nevertheless, the PRC government has been actively launching structural reforms to facilitate economic development in an orderly manner. Consequently, the premium watch market segment recovers slowly as a whole.

Looking ahead to 2018, the Group is still prudently optimistic and will continue to develop new POS in the PRC, Europe and Asia. Apart from expanding our retail networks, the Group aims to enhance the attractiveness of "Ernest Borel" brand by implementing effective market strategies and organizing various brand enhancement activities, such as launch events of new collections of watches. We can invite our VIP guests and watch distributors to join the said activities to bring the latest trends of the Group to their attention as well as to consolidate the valuable customer relationship. Moreover, the Group will make investments in enhancing brand image, engaging celebrities to endorse our products, organizing road shows in different regions, placing outdoor advertising (billboards) and digital advertising.

In addition, the Group will continue to strengthen product design capabilities and develop different collections of couple watches with "romance and elegance" as the brand image, so as to meet the diverse preferences of our target mid-range-to-high end customers. Depending on the technological advancements and new online customer behaviors, the Group recorded a sustainable growth in sales of e-commerce business during the past year. Therefore, we will allocate more resources to develop tailor-made products for selling on our existing e-commerce platforms.

Moreover, the Group will closely monitor the operational costs and implement the effective resources utilization plan in "Swiss-made" watches industry. Besides, the Group had formed an Executive Committee and Investment Committee during the year for exploring other business and investment opportunities to widen the source of income and return. Lastly, the Group will aim to deliver satisfactory growth and sustainable returns to our shareholders proactively.

REVIEW OF ANNUAL RESULTS

The Company has established an audit committee (the "**Audit Committee**") in compliance with Rule 3.21 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") and paragraph C.3 of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Listing Rules (the "**Corporate Governance Code**") for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises three members, namely Mr. Lui Wai Ming (who is also the chairman of the Audit Committee), Mr. To Chun Kei and Ms. Chan Lai Wa, all being independent non-executive Directors (the "**INEDs**") of the Company.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Group's audited results for FY2017 with the Company's management. The Audit Committee has also met and discussed with the Group's independent auditors, Crowe Horwath (HK) CPA Limited, regarding the Group's audit, internal control system and financial reporting matters.

CORPORATE GOVERNANCE

Code provision A.6.7 of the Corporate Governance Code provides that independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Pan Di and Ms. Lou Liuqing, the non-executive Directors were unable to attend the Company's annual general meeting held on 26 May 2017 due to other business engagements.

According to Rule 3.10(1) of the Listing Rules, the Board is required to have at least three independent non-executive Directors. Furthermore, Rule 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of Corporate Governance Code state that the Audit Committee must comprise a minimum of three members and the remuneration committee of the Board (the "**Remuneration Committee**") and the nomination committee of the Board (the "**Nomination Committee**") must comprise a majority of independent non-executive Directors. Following the resignation of Mr. Choi Tze Kit Sammy as the independent non-executive Director and ceased to be the member of the Audit Committee, the Remuneration Committee and the Nomination Committee with effect from 1 August 2017, the Board has two independent non-executive Directors. The Audit Committee comprises only two members and both of the Remuneration Committee and the Nomination Committee comprises two executive Directors and two independent non-executive Directors. These were in deviation from Rules 3.10(1), 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of Corporate Governance Code.

However, following the appointment of Mr. Lui Wai Ming as an independent non-executive Director with effect from 27 October 2017, the Company has three independent non-executive Directors; the Audit Committee comprises three members; and each of the Remuneration Committee and the Nomination Committee comprises a majority of independent non-executive Directors in compliance with the requirements under Rules 3.10(1), 3.21 and 3.25 of the Listing Rules and code provision A.5.1 of Corporate Governance Code.

Save as disclosed above, the Board is of the view that the Company has complied with all code provisions as set out in the Corporate Governance Code for the year ended 31 December 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS OF DIRECTORS OF LISTED ISSUERS ("MODEL CODE")

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its own code of conduct for dealing in the securities of the Company by the Directors. Following specific enquiries made by the Company on the Directors, all Directors have confirmed that they had fully complied with the required standards set out in the Model Code during the year ended 31 December 2017.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2017, the Company did not redeem any of its shares listed and traded on the Stock Exchange nor did the Company or any of its subsidiaries purchase or sell any of such shares.

FINAL DIVIDEND

The Board has resolved not to recommend the payment of a final dividend for FY2017 (2016: Nil).

ANNUAL GENERAL MEETING

The annual general meeting of the Company (the "**AGM**") will be held in Hong Kong on Friday, 1 June 2018. Notice of the AGM will be issued and disseminated to the Company's shareholders (the "**Shareholders**") in due course.

BOOK CLOSURE

In order to determine the Shareholders' entitlement to attend and vote at the AGM, the transfer books and register of members of the Company will be closed from Tuesday, 29 May 2018 to Friday, 1 June 2018, both days inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the forthcoming AGM, all transfer documents, accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Monday, 28 May 2018.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is available for viewing on the respective websites of the Stock Exchange at www.hkexnews.hk and the Company's website at www.ernestborel.ch. The annual report of the Company for FY2017 containing all the information required by Appendix 16 to the Listing Rules will be dispatched to the Shareholders and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board of
Ernest Borel Holdings Limited
Sit Yau Chiu
Chairman

Hong Kong, 28 March 2018

As at the date of this announcement, the Directors are:

Executive Directors:	Mr. Sit Yau Chiu and Mr. Xiong Wei
Non-executive Directors:	Mr. Chan Kwan Pak Gilbert and Ms. Lou Liuqing
Independent Non-executive Directors:	Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa