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)**

## 2015 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 2015, together with the comparative figures for the year ended 31 December 2014.

### FINANCIAL AND OPERATION HIGHLIGHTS

- Turnover for the financial year ended 31 December 2015 ("**FY2015**") decreased from HK$602.6 million to HK$414.3 million when compared with last year ("**FY2014**").

- Gross margin for FY2015 decreased from 60.9% to 57.5%. Gross profit for FY2015 decreased from HK$366.7 million to HK$238.2 million.

- Loss after tax for FY2015 was HK$11.9 million (FY2014: Profit of HK$58.8 million), mainly due to (i) decrease in turnover of approximately 31.2% from HK$602.6 million for FY2014 to HK$414.3 million for FY2015, and (ii) foreign exchange loss of approximately HK$13.9 million mainly arising from the depreciation of the Renminbi against Hong Kong dollars.

- Loss per share was HK3.43 cents for FY2015 (FY2014: earnings per share of HK18.82 cents).

- The Board has resolved not to recommend any payment of a final dividend for FY2015 (FY2014: HK8 cents per share).

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*FOR THE YEAR ENDED 31 DECEMBER 2015*

| | *NOTES* | **2015** **HK$'000** | 2014 *HK$'000* |
|---|---|---|---|
| Revenue | *3* | **414,315** | 602,624 |
| Cost of sales | | **(176,121)** | (235,908) |
| Gross profit | | **238,194** | 366,716 |
| Other gains and losses | | **(13,184)** | (9,102) |
| Other income | | **1,216** | 1,285 |
| Distribution expenses | | **(161,985)** | (186,920) |
| Administrative expenses | | **(66,452)** | (65,903) |
| Listing expenses | | **–** | (22,012) |
| Finance costs | | **(4,542)** | (5,017) |
| (Loss) profit before tax | *4* | **(6,753)** | 79,047 |
| Income tax expense | *5* | **(5,163)** | (20,236) |
| (Loss) profit for the year attributable to owners of the Company | | **(11,916)** | 58,811 |
| Other comprehensive expense, net of tax | | | |
| *Item that will not be reclassified to profit or loss:* | | | |
| Remeasurement of defined benefit scheme | | **(1,352)** | (453) |
| *Item that may be subsequently reclassified to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **(1,545)** | (19,764) |
| Other comprehensive expense for the year | | **(2,897)** | (20,217) |
| Total comprehensive (expense) income for the year | | **(14,813)** | 38,594 |
| (LOSS) EARNINGS PER SHARE | | | |
| — Basic (Hong Kong cents) | *7* | **(3.43)** | 18.82 |
| — Diluted (Hong Kong cents) | | **(3.43)** | 18.76 |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*AT 31 DECEMBER 2015*

| | *NOTES* | **2015** **HK$'000** | 2014 *HK$'000* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **76,398** | 81,440 |
| Deposits placed for life insurance policies | | **17,023** | 9,461 |
| Deferred tax assets | | **8,277** | 9,119 |
| | | **101,698** | 100,020 |
| CURRENT ASSETS | | | |
| Inventories | | **556,196** | 498,027 |
| Derivative financial instruments | | **769** | – |
| Trade and other receivables | *8* | **127,885** | 156,847 |
| Amounts due from related parties | | **143** | 63 |
| Tax recoverable | | **8,607** | – |
| Pledged bank deposits | | **3,832** | 6,019 |
| Bank balances and cash | | **62,325** | 141,285 |
| | | **759,757** | 802,241 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | *9* | **38,341** | 67,229 |
| Derivative financial instruments | | **–** | 705 |
| Tax payable | | **9** | 9,669 |
| Bank borrowings | | **164,089** | 128,652 |
| | | **202,439** | 206,255 |
| NET CURRENT ASSETS | | **557,318** | 595,986 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **659,016** | 696,006 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | | **11,521** | 9,634 |
| Pension obligation | | **6,091** | 3,877 |
| | | **17,612** | 13,511 |
| NET ASSETS | | **641,404** | 682,495 |
| CAPITAL AND RESERVES | | | |
| Share capital | | **3,474** | 3,474 |
| Reserves | | **637,930** | 679,021 |
| TOTAL EQUITY | | **641,404** | 682,495 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
*FOR THE YEAR ENDED 31 DECEMBER 2015*

### 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**") on 11 July 2014. 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 REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

The Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board ("**IASB**") for the first time in current year:

| | |
|---|---|
| Amendments to IAS 19 | Defined Benefits Plans: Employee Contribution |
| Amendments to IFRS | Annual Improvement to IFRSs 2010–2012 Cycle |
| Amendments to IFRS | Annual Improvement to IFRSs 2011–2013 Cycle |

The application of the above amendments to IFRSs in the current year have no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

**New and revised IFRSs in issue but not yet effective**

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

| | |
|---|---|
| IFRS 9 | Financial Instruments[1] |
| IFRS 15 | Revenue from Contracts with Customers[1] |
| IFRS 16 | Leases[2] |
| Amendments to IFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[3] |
| Amendments to IFRS 10 and IAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4] |
| Amendments to IFRS 10, IFRS 12 and IAS 28 | Investment Entities: Applying the Consolidation Exception[3] |
| Amendments to IAS 1 | Disclosure Initiative[3] |
| Amendments to IAS 16 and IAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[3] |
| Amendments to IFRSs | Annual Improvements to IFRSs 2012–2015 Cycle[3] |
| Amendments to IAS 7 | Disclosure Initiative[5] |
| Amendments to IAS 12 | Recognition of Deferred Tax Assets for Unrealised Losses[5] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2016
4 Effective for annual periods beginning on or after a date to be determined
5 Effective for annual periods on or after 1 January 2017

**IFRS 9 "Financial Instruments"**

IFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's existing business model and financial instruments as at 31 December 2015, the application of IFRS 9 in the future may result in early recognition of credit losses based on expected loss model in relation to the Group's financial assets measured at amortised costs. It is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

**IFRS 15 "Revenue from Contracts with Customers"**

IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 "Revenue", IAS 11 "Construction Contracts" and the related interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

The directors of the Company anticipate that the application of IFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until the Group performs a detailed review.

The directors of the Company anticipate that the application of the other new and revised IFRSs will have no material impact on the results and financial position of the Group.

## 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:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Mechanical watches | **300,355** | 427,028 |
| Quartz watches | **112,406** | 174,408 |
| Others | **1,554** | 1,188 |
| | **414,315** | 602,624 |

**Geographical information**

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

| | **Revenue from external customers** | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| The People's Republic of China (the "PRC") | **311,958** | 449,986 |
| Hong Kong and Macau | **70,304** | 114,388 |
| Southeast Asia | **24,297** | 27,470 |
| Others | **7,756** | 10,780 |
| | **414,315** | 602,624 |

| | **Non-current assets** | |
|---|---|---|
| | **2015** | 2014 |
| | ***HK$'000*** | *HK$'000* |
| PRC | **35,357** | 35,899 |
| Hong Kong | **6,717** | 7,658 |
| Switzerland | **34,324** | 37,883 |
| | **76,398** | 81,440 |

**Information about major customers**

Revenue from customers contributing over 10% of the total sales of the Group are as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A | **72,074** | 117,639 |
| Customer B | **42,235** | 75,729 |

## 4. (LOSS) PROFIT BEFORE TAX

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| (Loss) profit before tax has been arrived at after charging: | | |
| Auditors' remuneration | **3,869** | 3,441 |
| Allowance for inventories | **3,622** | – |
| Cost of inventories recognised as expenses | **152,932** | 195,170 |
| Depreciation of property, plant and equipment | **39,703** | 40,389 |
| Directors' emoluments | **5,096** | 6,113 |
| Other staff costs | | |
| — salaries and other benefits | **65,614** | 68,199 |
| — equity-settled share-based payment | **1,024** | 2,371 |
| — retirement benefits scheme contributions | **5,605** | 5,325 |
| Total staff costs | **77,339** | 82,008 |
| Operating lease rental in respect of rented premises | **27,278** | 27,399 |

## 5. INCOME TAX EXPENSE

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax: | | |
| Hong Kong Profits Tax *(note i)* | **–** | 8,191 |
| Switzerland Income Tax *(note ii)* | **1,758** | 6,084 |
| PRC Enterprise Income Tax *(note iii)* | **–** | 2,740 |
| | **1,758** | 17,015 |
| Under(over)provision in prior years: | | |
| PRC Enterprise Income Tax | **253** | – |
| Hong Kong Profits Tax | **–** | (521) |
| Deferred tax charge | **3,152** | 3,742 |
| Income tax expense for the year | **5,163** | 20,236 |

*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% (2014: 8.5%) and Cantonal Communal Tax ("**CCT**") calculated at 16.55% (2014: 8.97%).

Swiss Federal withholding tax is levied at a rate of 35% on the distribution of the profit of the company incorporated in Switzerland for both 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%.

## 6. DIVIDEND

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividend recognised as distribution: | | |
| — 2014 Final, paid — HK8 cents per share | **27,795** | – |

No dividend has been or proposed for ordinary shareholders of the Company during 2015, nor has any dividend been proposed since the end of the reporting period.

## 7. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(Loss) earnings** | | |
| (Loss) earnings of the Company for the purposes of basic and diluted (loss) earnings per share ((loss) profit for the year attributable to owners of the Company) | **(11,916)** | 58,811 |

| | **2015** | 2014 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share on the assumption that subdivision of shares and capitalisation issue have been effective on 1 January 2013 *(note i)* | **347,437** | 312,554 |
| Effect of dilutive potential ordinary shares on share options *(note ii)* | **–** | 887 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **347,437** | 313,441 |

*Notes:*

(i) The number of ordinary shares for the purpose of basic (loss) earnings per share for both years has taken into account the 281,000,000 ordinary shares in issue which have been retrospectively adjusted to reflect the share subdivision on 24 June 2014 and capitalisation issue on 11 July 2014.

(ii) The computation of diluted loss per share for the year ended 31 December 2015 does 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 the year ended 31 December 2015.

For the year ended 31 December 2014, diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

(iii) There were no potential ordinary shares outstanding during the year ended 31 December 2015 and as at 31 December 2015.

## 8. TRADE AND OTHER RECEIVABLES

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade receivables | **107,109** | 123,348 |
| Less: allowance for doubtful debts | **(2,837)** | (1,259) |
| | **104,272** | 122,089 |
| Other receivables | **1,413** | 3,338 |
| Other tax recoverable | **3,019** | 10,840 |
| Prepayment | **13,301** | 13,839 |
| Deposits | **5,880** | 6,741 |
| | **23,613** | 34,758 |
| | **127,885** | 156,847 |

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

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0–90 days | **87,985** | 110,438 |
| 91–180 days | **8,660** | 10,997 |
| 181–270 days | **3,133** | 654 |
| Over 270 days | **4,494** | – |
| | **104,272** | 122,089 |

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 2015, included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$53,129,000 (2014: HK$40,500,000) 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.

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

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Overdue for** | | |
| Within 90 days | **41,523** | 38,900 |
| 91 to 180 days | **6,710** | 946 |
| Over 180 days | **4,896** | 654 |
| | **53,129** | 40,500 |

**Movement in the allowance for doubtful debts**

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Balance at beginning of the year | **1,259** | 1,151 |
| Impairment losses recognised | **1,625** | 243 |
| Exchange realignment | **(47)** | (135) |
| Balance at end of the year | **2,837** | 1,259 |

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$2,837,000 (2014: HK$1,259,000) at 31 December 2015. 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**

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Overdue for** | | |
| 91 to 180 days | **56** | 226 |
| More than 180 days | **2,781** | 1,033 |
| | **2,837** | 1,259 |

## 9. TRADE AND OTHER PAYABLES

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables | **19,353** | 39,424 |
| Other payable | **8,339** | 9,165 |
| Accruals | **10,649** | 18,640 |
| | **38,341** | 67,229 |

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

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 1–30 days | **7,072** | 30,908 |
| 31–60 days | **8,479** | 3,562 |
| Over 60 days | **3,802** | 4,954 |
| | **19,353** | 39,424 |

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:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Denominated in USD | **353** | 479 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning nearly 160 years. Throughout the course of its history and across its operations, the Group has upheld the principles of producing high precision "Swiss-made" products and implemented stringent quality controls. Under its own brand "Ernest Borel", the Group 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 2015, the Group has a total of 1,026 points of sale ("**POS**").

In 2015, the global economies fluctuated and consumer sentiment has been affected by the continuous slowdown in the economic growth of PRC. Hence, the Group has operated amidst a difficult economic environment. Due to the sluggish overall economy and the weakened consumer sentiment, as well as the continuous slowdown of the retail market, the volume of orders placed by watch retailers and authorised distributors declined, thereby putting pressure on the Group's overall sales. Due to the above reasons, Ernest Borel recorded a revenue of HK$414.3 million (2014: HK$602.6 million), representing a year-on-year decrease of approximately 31.2%, and gross profit and gross profit margins declined to HK$238.2 million (2014: HK$366.7 million) and 57.5% (2014: 60.9%) respectively. During the year under review, the Group recorded a foreign exchange loss of approximately HK$13.9 million, mainly attributable to the depreciation of Renminbi against Hong Kong dollar. Consequently, loss attributable to equity holders amounted to HK$11.9 million.

### The PRC Market

The PRC remains as the core market of the Group. As a result of the slowdown in economic growth, segment revenue of the PRC market dropped by 30.7% to HK$312.0 million (2014: HK$450.0 million). In view of the challenging economic and marketing environment, the Group has adopted counter measures and expanded its watch product mix by stepping up efforts to develop and launch a number of mid-range and mid-range-to-high-end watches.

As at 31 December 2015, the Group had 817 points of sales operated by more than 180 watch retailers across 23 provinces, autonomous regions and municipalities in the PRC (2014: 852 points of sales) in the PRC market.

**Hong Kong, Macau and Southeast Asia Markets**

In the second half of 2015, the less favourable PRC economic environment as well as the fluctuations in the PRC and Hong Kong stock markets spurred more cautious consumer spending. Meanwhile, as revenue in the luxury goods retail industry in Hong Kong and Macau is partially derived from the middle-class visitors from the PRC, the visitors numbers as well as visitations to Hong Kong under the Individual Visit Scheme have declined, hence revenue of the Hong Kong and Macau business for the year ended 31 December 2015 decreased by 38.5% to HK$70.3 million (2014: HK$114.4 million).

## EVENTS AFTER THE REPORTING PERIOD

The Group did not have any significant events since the end of 2015 and up to the date of this announcement.

## FINANCIAL REVIEW

### Revenue and segment information

Our revenue decreased by HK$188.3 million, or approximately 31.2% from HK$602.6 million for FY2014 to HK$414.3 million for FY2015. The decrease in revenue of mechanical watches and quartz watches was mainly due to slow-down in the economic growth in the PRC, weakened consumer sentiment and reduced volume of orders placed by watch retailers and authorised distributors.

### Performance by major products

| | **2015** | 2014 | Changes | |
|---|---|---|---|---|
| | ***HKD'000*** | *HKD'000* | *HKD'000* | *%* |
| Mechanical watches | **300,355** | 427,028 | (126,673) | (29.7) |
| Quartz watches | **112,406** | 174,408 | (62,002) | (35.6) |
| Total | **412,761** | 601,436 | (188,675) | (31.4) |

*Mechanical watches*

Revenue from sales of mechanical watches decreased by approximately 29.7% from HK$427.0 million for FY2014 to HK$300.4 million for FY2015.

*Quartz watches*

Revenue from sales of quartz watches decreased by approximately 35.6% from HK$174.4 million for FY2014 to HK$112.4 million for FY2015.

**Performance by geographical locations**

| | 2015 | 2014 | Changes | |
|---|---|---|---|---|
| | ***HKD'000*** | *HKD'000* | *HKD'000* | *%* |
| PRC Market | **311,958** | 449,986 | (138,028) | (30.7) |
| Hong Kong, Macau and Southeast Asia Markets | **94,601** | 141,858 | (47,257) | (33.3) |
| Other Markets mainly in United States and Europe | **7,756** | 10,780 | (3,024) | (28.1) |
| Total | **414,315** | 602,624 | (188,309) | (31.2) |

*The PRC market*

The PRC continues to be our major market, representing approximately 75.3% of our revenue for FY2015. Sales in this region showed a decrease of approximately 30.7% from HK$450.0 million for FY2014 to HK$312.0 million for FY2015 due to slowdown in economic growth.

*Hong Kong, Macau and Southeast Asia markets*

Hong Kong, Macau and Southeast Asia markets accounted for approximately 22.8% of our total revenue for FY2015. Sales in these markets decreased by approximately 33.3% from HK$141.9 million for FY2014 to HK$94.6 million for FY2015. The decrease was mainly attributable to the decline in number of tourists and further deterioration of the retail market in Hong Kong.

*Other markets*

Revenue from other markets, namely markets in the United States and Europe recorded a decrease from HK$10.8 million FY2014 to HK$7.8 million for FY2015.

**Cost of Sales**

Cost of sales decreased by approximately 25.3% from approximately HK$235.9 million for FY2014 to approximately HK$176.1 million for FY2015. The main reason which led to the decrease was a decrease in sales quantities in 2015.

**Gross profit**

Our gross profit decreased by HK$128.5 million or approximately 35.0% from HK$366.7 million for FY2014 to HK$238.2 million for FY2015, while the gross profit margin decreased to approximately 57.5% for FY2015 from approximately 60.9% for FY2014. The decrease in gross profit and gross profit margin was primarily due to a decrease of HK$188.3 million in our revenue, or approximately 31.2% from HK$602.6 million for FY2014 to HK$414.3 million for FY2015.

**Other gains and losses**

We recorded other losses of HK$13.2 million for FY2015 as compared to other losses of HK$9.1 million for FY2014. This was primarily due to the exchange net loss of HK$13.9 million mainly arising from depreciation of the RMB against the Hong Kong dollar despite fair value gain on derivative financial instruments of HK$2.6 million.

**Distribution costs**

Our selling and distribution costs decreased by HK$24.9 million or approximately 13.3% from HK$186.9 million for FY2014 to HK$162.0 million for FY2015, representing approximately 39.1% of our total revenue for 2015 (2014: approximately 31.0%). The decrease was primarily attributable to (i) a decrease in advertising and marketing expenses from HK$88.6 million for FY2014 to HK$68.8 million for FY2015 as we reduced the scale of our marketing and advertising activities, and (ii) a decrease in commission to retailer expenses from HK$9.1 million for FY2014 to HK$6.2 million for FY2015 due to decrease in revenue in 2015.

**Administrative expenses**

Our administrative expenses increased to HK$66.5 million for FY2015 from HK$65.9 million for FY2014, representing an increase of HK$0.6 million or approximately 0.9%. The increase in administrative expenses was primarily due to an increase in professional fee from HK$5.1 million for FY2014 to HK$9.5 million for FY2015 and an increase in other general office and utilities expenses from HK$11.3 million for FY2014 to HK$12.1 million for FY2015, which was partially offset by a decrease in staff salaries from HK$29.5 million for FY2014 to HK$25.1 million for FY2015.

**Listing expenses**

No listing expenses were incurred for FY2015 (FY2014: HK$22.0 million).

Our listing expenses decreased from HK$22.0 million for FY2014 to HK$Nil for FY2015. This decrease was primarily due to no professional fees being incurred during 2015 in relation to the global offering of the Shares as the Company had already been listed on the main board of the Stock Exchange on 11 July 2014.

**Finance costs**

Our finance costs decreased slightly by HK$0.5 million or approximately 10.0% from HK$5.0 million for FY2014 to HK$4.5 million for FY2015.

**Taxation**

Our income tax decreased from HK$20.2 million for FY2014 to HK$5.2 million for FY2015, representing an decrease of HK$15.0 million or approximately 74.3%. This decrease was primarily attributable to decrease in profit before tax from HK$79.1 million for FY2014 to loss of HK$6.8 million for FY2015.

### Loss for the year attributable to owners of our Company

The decrease in gross profit by HK$128.5 million was mainly due to decrease in revenue by 31.2% and foreign exchange loss of HK$13.9 million as a result of the depreciation in Renminbi during the year. Our net loss for FY2015 was HK$11.9 million (FY2014: profit of HK$58.8 million).

### Inventory

Inventory was approximately HK$556.2 million as at 31 December 2015, representing an increase of HK$58.2 million, or around 11.7%, from HK$498.0 million as at 31 December 2014.

The increase in inventory was mainly attributable to three main reasons. Firstly, an increase in watch movement reserves for contingency purposes in the event that one of our watch suppliers decided to withhold the supply of mechanical movements to third parties. Secondly, we had an increased number of work-in-progress and finished goods as we added new models during 2015 to better cater to the tastes and preference of our end customers in different markets which warranted a correspondingly increase of stocks. Lastly, average inventories turnover days are longer for premium branded watches as compared to branded watches to end customers because premium brands rarely offer discounts for the purpose of maintaining their brand images.

### Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK$156.9 million and approximately HK$127.9 million as at 31 December 2014 and 2015 respectively. Such decrease in trade and other receivables was attributable to a decrease in revenue in 2015 and other tax recoverable in the current year.

The Group's trade and other payables decreased from approximately HK$67.2 million as at 31 December 2014 to approximately HK$38.3 million as at 31 December 2015 resulting primarily from a decrease in purchases of watch components in 2015.

### Liquidity, financial resources and capital structure

As at 31 December 2015, we had non-pledged cash and bank balances of HK$62.3 million (2014: HK$141.3 million). Based on the borrowings of HK$164.1 million (2014: HK$128.7 million) and shareholders' equity of HK$641.4 million (2014: HK$682.5 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 25.6% (2014: approximately 18.9%).

As at 31 December 2015, part of our borrowing amounting to HK$46.6 million was repayable over one year and the remaining balance amounting to HK$117.5 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 of our trade receivables, other receivables and deposits, bank balances, other payables and accrued expenses, and bank borrowings 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$3.8 million (2014: HK$6.0 million); and

(b) charges over deposits placed for a life insurance policy with a carrying amount of HK$17.0 million (2014: HK$9.5 million).

**Material acquisition and disposal of subsidiaries or associated companies**

No material acquisition or disposal of any subsidiaries or associated companies was made during FY2015.

**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 31 December 2015.

**Contingent liabilities**

The group did not have any contingent liabilities as at 31 December 2015 (2014: Nil).

**Employees and Remuneration Policies**

As at 31 December 2015, the Group had a total of 320 full-time employees, representing a decrease of 1.8% compared to 326 employees as at 31 December 2014. Total staff costs for 2015 decreased to approximately HK$77.3 million from approximately HK$82.0 million for 2014, mainly due to decrease in equity-settled share-based payment from HK$3.6 million in 2014 to HK$1.5 million in 2015, and a decrease in salaries and other benefits from HK$73.4 million in 2014 to HK$70.1 million in 2015.

All of our full-time employees are paid a fixed salary and may be granted other allowances, based on their positions. Members of the sales staff are also eligible for commissions based on their ability to meet sales targets. In addition, year-end bonuses may also be awarded to the employees at our discretion and based on employee performance. Yearly performance appraisals are conducted to ensure that the employees receive feedback on their performance. Our Company has adopted a pre-IPO share option scheme 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 FY2015.

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

**Capital commitment**

As at 31 December 2015, there were capital commitments in the amount of HK$1.1 million which represented the balance payment in relation to the acquisition of a parcel of land in Switzerland for our new production facility (2014: HK$1.2 million).

**Prospects**

Looking ahead to 2016, in light of the continuous uncertain economic environment, the Group expects operation in the overall retail market and specifically the premium watch market segment to remain challenging. However, given the economic stimulus measures to be launched by the PRC government and the sound fundamentals of the overall retail industry in the PRC, the Group is still prudently optimistic about the prospects of the PRC premium watch market.

Despite the challenges in the operating environment, Ernest Borel will continue to focus on the PRC market and actively reinforce its position in the country's premium watch market while enhancing its brand image around the world. The Group will constantly strive to boost its competitiveness and adjust the product design as well as enhance the product mix based on the market sentiment and consumers' spending patterns. These strategic directions are aimed at penetrating the mid-range-to-high-end consumer segment to meet the different preferences of a wide swath of customers so as to drive stable business development and gradually expand the Group's market share. The Group will also mainly focus its efforts on brand building in the first-tier cities while gradually expanding its distribution network in the second-to fourth-tier cities.

Moreover, the Group will implement a series of cost-control strategies, including implementation of an effective resources utilisation plan, manage and control the logistics and inventory to cut costs, maintain high operating efficiency and reduce inventory costs. Furthermore, the Group will expand its online retail channels for consumer products, conduct brand promotion through online marketing and continue the sale of our products throughout the official flagship watch store on an online shopping platform, we will also embark on activities to enhance and increase brand awareness. At the same time, the Group will continue to work with other e-commerce platforms to provide more diverse and convenient shopping channels and increase the brand penetration to different customers. We will also explore the Asian markets by carefully identifying favourable locations for establishing points of sales in all countries in southeast Asia to enlarge our market footprint in Asia.

The Group will proactively address the market dynamics and adopt appropriate measures with the aim to improve overall operating efficiency and maintain market competitiveness, and to realise potential when the market conditions improves.

## 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 (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. Lo Chi Chiu (who is also the chairman of the Audit Committee), Mr. Cheung Kam Min Mickey and Dr. Yau Bun, all being independent non-executive Directors (the "**INEDs**").

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and the Group's audited results for FY2015 with the Company's management. The Audit Committee has also met and discussed with the Group's independent auditors, Deloitte Touche Tohmatsu, 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, a non-executive Director, and Mr. Cheung Kam Min Mickey, an independent non-executive Director were unable to attend the Company's annual general meeting held on 12 June 2015 due to other business engagements.

Save as disclosed above, the Board is of the view that the Company has complied with all code provisions as set out in the Corporate Governance Code for the year ended 31 December 2015.

## 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 2015.

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

During the year ended 31 December 2015, 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 FY2015 (2014: HK8 cents per share).

## AGM

The annual general meeting of the Company (the "**AGM**") will be held in Hong Kong on Friday, 17 June 2016. 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 on Thursday, 16 June 2016 and Friday, 17 June 2016, 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 Wednesday, 15 June 2016.

## PUBLICATION OF RESULTS ANNOUNCEMENT/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 FY2015 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**
**Su Da**
*Executive Director and Chairman*

Hong Kong, 30 March 2016

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

| | |
|---|---|
| *Executive Directors:* | *Mr. Su Da (Chairman), Mr. Wong Pong Chun James and Ms. Liu Libing* |
| *Non-executive Directors:* | *Mr. Chan Kwan Pak Gilbert and Mr. Pan Di* |
| *Independent Non-executive Directors:* | *Mr. Lo Chi Chiu, Mr. Cheung Kam Min Mickey and Dr. Yau Bun* |