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ERNEST BOREL HOLDINGS LIMITED

依波路控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

ISSUE OF 10% GUARANTEED CONVERTIBLE BOND IN THE PRINCIPAL AMOUNT OF HK\$100,000,000 DUE 2019

ISSUE OF CONVERTIBLE BOND

The Board is pleased to announce that, on 5 January 2017 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company conditionally agreed to issue the Convertible Bond in the principal amount of HK\$100,000,000 to the Subscriber. The net proceeds from the Subscriptions will be used by the Group to fund the day-to-day operations of the business as operated by the Group and to expand its sales network.

The Convertible Bond will bear interest at the rate of 10% per annum on the outstanding principal amount of the Convertible Bond and the Subscriber will have the right, but not the obligation, to convert all or any part of the outstanding principal amount of the Convertible Bond at any time before the Maturity Date. The initial Conversion Price will be HK\$2.00 per Conversion Share, subject to any adjustment from time to time.

In relation to the Convertible Bond, Mr. Sit agreed to irrevocably and unconditionally guarantee the performance by the Company of all of its obligation under the Transaction Documents.

Assuming the outstanding principal amount of the Convertible Bond is HK\$100,000,000, upon full exercise of the conversion rights attaching to the Convertible Bond at the Conversion Price of HK\$2.00 per Share, the Subscriber will receive approximately 50,000,000 Shares, representing approximately 14.39% of the existing issued share capital of the Company and approximately 12.58% of the issued share capital of the Company as enlarged by 50,000,000 Conversion Shares to be issued upon full conversion of the Convertible Bond.

GENERAL

The obligation of the Subscriber to subscribe the Convertible Bond is conditional on, among others, the Listing Committee of the Stock Exchange having granted its approval regarding the listing of, and a permission to deal in, all the possible Conversion Shares. The Conversion Shares will be issued and allotted under the General Mandate granted to the Directors by the Shareholders.

No application will be made for the listing of any of the Convertible Bond on the Stock Exchange or any other stock exchange.

Shareholders and potential investors should note that the Subscription is subject to conditions and may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

INTRODUCTION

The Board is pleased to announce that, on 5 January 2017 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber, pursuant to which the Company conditionally agreed to issue the Convertible Bond, each in the principal amount of HK\$100,000,000 to the Subscriber. The net proceeds from the Subscriptions will be used by the Group to fund the day-to-day operations of the business as operated by the Group and to expand its sales network.

The Convertible Bond will bear interest at the rate of 10% per annum on the outstanding principal amount of the Convertible Bond and the Subscriber will have the right, but not the obligation, to convert all or any part of the outstanding principal amount of the Convertible Bond at any time before the Maturity Date. The initial Conversion Price will be HK\$2.00 per Conversion Share, subject to any adjustment from time to time.

In relation to the Convertible Bond, Mr. Sit agreed to irrevocably and unconditionally guarantee the performance by the Company of all of its obligation under the Transaction Documents.

To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, the Subscriber and its ultimate beneficial owner are independent of the Company and its connected persons (as defined in the Listing Rules).

Assuming the outstanding principal amount of the Convertible Bond is HK\$100,000,000, upon full exercise of the conversion rights attaching to the Convertible Bond at the Conversion Price of HK\$2.00 per Share, the Subscriber will receive approximately 50,000,000 Shares, representing approximately 14.39% of the existing issued share capital of the Company and approximately 12.58% of the issued share capital of the Company as enlarged by 50,000,000 Conversion Shares to be issued upon full conversion of the Convertible Bond.

THE SUBSCRIPTION AGREEMENT

The principal terms of the Subscription Agreement are as follows:

Date

5 January 2017

Parties

- (a) The Company;
- (b) Phoenix Green Limited (the “**Subscriber**”)

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, the Subscriber and its ultimate beneficial owner(s) are third parties independent of and are not connected persons (as defined under the Listing Rules) of the Company.

Subscription

Subject to the fulfilment of the conditions precedent set out below, the Subscriber shall subscribe for, and the Company shall issue, the Convertible Bonds in the aggregate principal amount of HK\$100,000,000 and the said amount shall be satisfied in cash.

Conditions Precedent

Completion of the Subscription of the Convertible Bonds shall be conditional upon:

- (a) the execution and delivery of the Transaction Documents;
- (b) the Warranties made by the Company being true, complete and accurate and not misleading in any material respect when made and shall be true, complete and accurate, and not misleading in any material respect within one (1) Business Day from the date on which the conditions precedent contained in the Subscription Agreement being fulfilled or waived (or such other date as the parties may agree in writing);
- (c) all corporate and other proceedings in connection with the transactions contemplated hereby and under the other Transaction Documents and all documents and instruments incidental to such transactions shall be satisfactory in substance and form to the Subscriber, and the Subscriber shall have received all copies of such documents as it may request;
- (d) the Company is not in breach of any terms of this Subscription Agreement or the convertible Bond;

- (e) the current listing of the Shares on the Stock Exchange shall not have been cancelled or withdrawn and neither the Stock Exchange nor the SFC have indicated that it will or may qualify, object to, suspend, cancel or withdraw such listing and/or dealings in the Shares; and
- (f) the Stock Exchange have granted the listing of, and the permission to deal in, the Conversion Shares with respect to the convertible Bonds, and all requirements, if any, imposed by the Stock Exchange and SFC, in connection with the contemplated transactions under the Transaction Documents, shall have been obtained and/or complied with in full.

(the “**Conditions Precedent**”)

Completion of the issue of the Convertible Bonds

Subject to the fulfilment of the Conditions Precedent, the Subscription of the Convertible Bonds shall be completed on the Completion Date. On the Completion Date, the Company shall issue to the Subscriber, the Convertible Bonds and the Subscriber shall make payment for the principal amount of the Convertible Bonds being subscribed.

PRINCIPAL TERMS OF THE CONVERTIBLE BOND

The terms of the Convertible Bond have been negotiated between the Company and the Subscriber on an arm’s length basis. The principal terms of the Convertible Bond are summarized below:

Issuer:	the Company
Principal Amount:	HK\$100,000,000
Issue Price:	HK\$100,000,000
Interest:	10% per annum and every three months
Form and denomination:	The Convertible Bond will be issued in registered form and in a minimum denomination of HK\$10,000,000 and integral multiples thereof
Maturity Date:	The date falling on the expiry of the second anniversary the Issue Date
Conversion period:	The Conversion Period will commence from the date of the Issue Date up to the date which is 15 Business Days before the Maturity Date (both days inclusive)

Conversion right: The holder of the Convertible Bond may at any time during the Conversion Period require the Company to convert the whole or any part of the principal amount outstanding (in minimum amount of HK\$10,000,000 or whole multiple thereof) under the Convertible Bond into Shares

Transferability: The Convertible Bond may be transferred in whole or in part in multiples of HK\$10,000,000, provided that they may not be transferred to any person which is not a subsidiary or holding company of the Subscriber without the prior written consent of the Company.

Conversion Price: The initial Conversion Price of HK\$2.00 per Conversion Share represents:

- (a) a premium of 13.64% to the closing price of the Share of HK\$1.76 as quoted on the Stock Exchange on the Last Trading Day;
- (b) a premium of 13.64% to the average closing price of the Share of HK\$1.76 for the last five consecutive Trading Days up to and including the Last Trading Day;
- (c) a premium of 12.99% to the average closing price of the Share of HK\$1.77 for the last ten consecutive Trading Days up to and including the Last Trading Day; and
- (d) a premium of 13.64% to the average closing price of the Share of HK\$1.76 for the last 20 consecutive Trading Days up to and including the Last Trading Day.

The Conversion Price of HK\$2.00 per Conversion Share was determined on an arm's length basis between the Company and the Subscriber with reference to, among other things, the performance of the Shares on the Stock Exchange.

Adjustments to Conversion Price: The Conversion Price will be subject to adjustments upon the occurrence of the following events:

- (i) consolidation or sub-division of Shares;
- (ii) capitalisation of profits or reserves (other than in lieu of a cash dividend);

- (iii) making any capital distribution to Shareholders;
- (iv) if and whenever the Company shall offer to holders of Shares new Shares for subscription by way of rights, or shall grant to holders of Shares any options or warrants to subscribe for new Shares, at a price which is less than the Market Price at the date of the announcement of the terms of the offer or grant;
- (v) if and whenever the Company shall issue wholly for cash any securities which by their terms are convertible into or exchangeable for or carry rights of subscription for new Shares, and the effective price initially receivable for such securities is less than the Current Market Price at the date of the announcement of the terms of issue of such securities;
- (vi) the modification of the rights of conversion or exchange or subscription attached to any such securities as mentioned in (v) above so that effective price initially receivable for such securities shall be less than the Current Market Price at the date of announcement of the proposal to modify such rights of conversion or exchange or subscription;
- (vii) issue wholly for cash any Shares at a price per Share which is less than the Market Price at the date of the announcement of the terms of such issue; or
- (viii) issue Shares for the acquisition of any asset at the effective price which is less than the Market Price at the date of the announcement of the terms of such issue.

Conversion Shares:

Based on the initial Conversion Price of HK\$2.00 per Conversion Share, a maximum number of 50,000,000 Conversion Shares may fall to be allotted and issued upon exercise of the conversion rights attached to the Convertible Bond in full, which represent approximately 14.39% of the existing issued share capital of the Company and approximately 12.58% of the issued share capital of the Company as enlarged by 50,000,000 Conversion Shares to be issued upon full conversion of the Convertible Bond;

Ranking: The Conversion Shares will rank pari passu with the Shares then in issue, including the right to receive all dividends and distributions which may thereafter be declared, made or paid from time to time, and all other (if any) shares or stock resulting from any subdivision, consolidation or re-classification thereof;

Redemption:

(1) Redemption at maturity Unless previously redeemed, converted or purchased and cancelled, the Company shall redeem all the outstanding Convertible Bond held by a CB Holder on the Maturity Date at an amount equal to the aggregate principal amount of such outstanding Convertible Bond held by such CB Holder plus accrued and unpaid interests.

(2) Redemption after 1 year The Group may at any time after the first (1st) anniversary of the Issue Date and from time to time, upon the Company giving thirty (30) days prior written notice CB Holder, the Company may redeem all or any such Bonds at the outstanding principal amount plus accrued and unpaid interests on such date as specified therein.

(3) Default Redemption Upon the occurrence of an event of default (the “**Event of Default**”) and if (i) the Event of Default is incapable of remedy; or (ii) the Company is unable to remedy the relevant Event of Default to the satisfaction of the CB Holder within the 5 Business Days of the occurrence of the Event of Default, the CB Holder may elect to require the Company to redeem such Convertible Bond held by the CB Holder at an amount equal to the aggregate of:

- (a) the aggregate principal amount of such Convertible Bond;
- (b) any accrued but unpaid interest on such Convertible Bond; and
- (c) an amount that would yield an internal rate of return of 25% on the aggregate principal amount of such Convertible Bond calculated from the Issue Date until the date of redemption.

Event of Default: The occurrence of any of the following events, among others, shall constitute an event of default under the CB Terms & Conditions:

- (a) The Company or Mr. Sit fails to pay on the due date any amount payable pursuant to any Transaction Document (to which it is a party), including interest on the convertible Bond when due;

- (b) any representation or statement made or deemed to be made by the Company or Mr. Sit in the Transaction Documents or any other document delivered by or on behalf of the Company or Mr. Sit under or in connection with any Transaction Documents is or proves to have been incorrect or misleading when made or deemed to be made;
- (c) (i) any financial indebtedness of any member of the Group is not paid when due nor within any originally applicable grace period; (ii) any financial indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described); (iii) any commitment for any financial indebtedness of any member of the Group is cancelled or suspended by a creditor of any member of the Group as a result of an event of default (however described); (iv) any creditor of any member of the Group becomes entitled to declare any financial indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described), provided that no event of default will occur under the Transaction Documents if the aggregate amount of financial indebtedness or commitment for financial indebtedness falling within the Transaction Documents above is less than HK\$10,000,000 (or its equivalent in any other currency or currencies);
- (d) any event or circumstance occurs which has or is reasonably likely to have a material adverse effect of the business of the Company;
- (e) the listing of the Shares (as a class) on the Stock Exchange is suspended for a continuous period of fifteen (15) days on each of which the Stock Exchange is generally open for trading save as any suspension in relation to the clearance of any announcement, circular or other documents pursuant to the Listing Rules or the Takeovers Code;
- (f) Mr. Sit ceases to be the chairman or an executive director of the Company;

- (g) the Company fails to perform or observe any of its obligations under the conditions contained in the CB Terms & Conditions;
- (h) if the Personal Guarantee ceases to be, or is claimed by Mr. Sit not to be, in full force and effect;
- (i) a receiver, manager, judicial manager, administrator or other similar official is appointed in relation to the Company or any member of the Group, or an order is made or an effective resolution is passed for winding up of the Company or any member of the Group except in the case of winding up for the purpose of the reorganisation of the group structure of the Group, or an order for bankruptcy of Mr. Sit is passed; or
- (j) an encumbrancer takes possession or a receiver, manager or other similar officer is appointed of the whole or any substantial part of the undertaking, property, assets or revenues of the Company.

Voting Rights: The holder of the Conversion Shares will not be entitled to receive notices of, attend or vote at any meetings of the Company by reason only of it being the holder of the Conversion Shares.

Listing: No application will be made for listing of any of the Convertible Bond on the Stock Exchange or any other stock exchange.

Status of the Convertible Bond: The Convertible Bond shall constitute general, unsubordinated, direct, unconditional and unsecured obligations of the Company and shall at all times rank equally among themselves and pari passu with all present and future unsecured and unsubordinated obligations of the Company except for obligations accorded preference by mandatory provisions of applicable law.

GUARANTEE OF THE TRANSACTION DOCUMENTS

On or prior to the Completion Date, Mr. Sit as personal guarantor shall enter into the Personal Guarantee in favour of the Subscriber, pursuant to which Mr. Sit will agree to irrevocably and unconditionally guarantee the performance by the Company of all of its obligation under the Transaction Documents.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SUBSCRIPTION AGREEMENT, THE ISSUE OF THE CONVERTIBLE BOND AND THE USE OF PROCEEDS

The Directors consider the entering into of the Subscription Agreement and the issue of the Convertible Bond by the Company to obtain financing and serves as an appropriate means of raising capital for the Group since it will not have an immediate dilution effect on the shareholding of the existing Shareholders. The Directors are of the view that the terms of each of the Subscription Agreement and the CB Terms & Conditions is fair and reasonable on normal commercial terms and in the best interests of the Company and the Shareholders as a whole.

The net proceeds of the issue of the Convertible Bond is estimated to be HK\$97,600,000.

The net proceeds from the Subscription will be used by the Group to fund the day-to-day operations of the business as operated by the Group and to expand its sales network.

ISSUE OF CONVERSION SHARES UNDER THE GENERAL MANDATE

Based on the principal amount of HK\$100,000,000 of the Convertible Bond and the Conversion Price of HK\$2.00, the Company will issue up to 50,000,000 Conversion Shares upon exercise of the conversion right attaching to the Convertible Bond.

The Conversion Shares will be issued and allotted under the General Mandate granted to the Directors by the Shareholders at the Company's annual general meeting held on 17 June 2016 to issue, allot and deal with not more than 69,487,400 Shares.

Application will be made by the Company to the Stock Exchange to approve the issue of the Convertible Bond and to the Listing Committee of the Stock Exchange for the granting of the approval for the listing of, and permission to deal in, the Conversion Shares, to be issued upon the exercise of the Convertible Bond.

FUND RAISING ACTIVITIES IN THE PAST TWELVE MONTHS

The Company has not raised any funds on any issue of equity securities in the past twelve months immediately before the date of this announcement.

INFORMATION ON THE GROUP AND THE SUBSCRIBER

The Company is principally engaged in the design, production, marketing and sale of mechanical and quartz premium watches.

The Subscriber is a limited liability company incorporated in the British Virgin Islands.

EFFECT ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table shows the shareholding structure immediately before and after the exercise in full of the conversion rights attaching to the Convertible Bond at the initial Conversion Price of HK\$2.00 per Share, assuming the outstanding aggregate principal amount of the Convertible Bond is HK\$100,000,000.

Shareholders	(i) as of the date of this announcement		(ii) Immediately after full conversion of the Convertible Bond at the initial Conversion Price of HK\$2.00	
	<i>Number of shares</i>	<i>%</i>	<i>Number of shares</i>	<i>%</i>
Sense Control International Limited	99,755,000	28.71%	99,755,000	25.10%
Top One Global Holdings Limited	68,800,000	19.80%	68,800,000	17.31%
Prime Route Investment Limited	37,935,000	10.92%	37,935,000	9.55%
Dragon Cloud Holdings Limited	33,720,000	9.71%	33,720,000	8.48%
Subscriber	–	0.00%	50,000,000	12.58%
Other public Shareholders	<u>107,227,000</u>	<u>30.86%</u>	<u>107,227,000</u>	<u>26.98%</u>
Total	<u>347,437,000</u>	<u>100.00%</u>	<u>397,437,000</u>	<u>100.00%</u>

GENERAL

Shareholders and potential investors should note that the Subscription is subject to conditions and may or may not proceed. Shareholders and potential investors are advised to exercise caution when dealing in the Shares.

DEFINITIONS

Unless the context requires otherwise, the following words and phrases used in this announcement have the following meanings:

“Board”	The board of Directors
“Business Day”	a day (other than a Saturday) on which banks in Hong Kong are open for business
“CB Holder(s)”	the person who is for the time being the holder(s) of the Convertible Bond

“CB Terms & Conditions”	the convertible bond instrument to be executed by the Company pursuant to the Subscription Agreement constituting the Convertible Bond
“Company”	Ernest Borel Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Main Board of the Stock Exchange
“Completion Date”	a day within one (1) Business Day from the date on which the Conditions Precedent being fulfilled or waived (or such other date as the parties may agree in writing)
“Conversion Price”	The price at which the Conversion Shares will be issued upon conversion of the Convertible Bond
“Conversion Shares”	Shares fall to be allotted and issued upon the exercise of the conversion rights attaching to the Convertible Bond
“Convertible Bond”	HK\$100,000,000 10% guaranteed convertible Bond of the Company due 2019 constituted by the CB Terms & Conditions, or as the context may require, any portion of it
“Current Market Price”	the average of the closing prices of a Share on the Stock Exchange for each of the last thirty (30) days on which dealings in the Shares on the Stock Exchange took place ending on the last such dealing day immediately preceding the day on or as of which the market price is to be determined
“Directors”	the directors of the Company
“General Mandate”	The general mandate granted to the Directors by the Shareholders at the resolutions of the shareholders passed on 17 June 2016 to allot, issue or otherwise deal with Shares up to a maximum of 20% of the total number of the issued Shares of the Company as at 17 June 2016, being the date of such shareholders resolutions
“Group”	the Company and its subsidiaries from time to time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Issue Date”	date of the issue of the Bonds

“Last Trading Day”	5 January 2017, being the date of the Subscription Agreement
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	The date falling on the expiry of the second anniversary from the date of issue
“Mr. Sit”	Mr. Sit Yau Chiu, an executive Director, the chairman and a substantial Shareholder of the Company
“Personal Guarantee”	the individual guarantee to be given by the Mr. Sit in favour of the Subscriber in relation to the Convertible Bond
“SFC”	the Hong Kong Securities and Futures Commission
“Shareholder(s)”	holder(s) of the issued Share(s)
“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Phoenix Green Limited
“Subscription”	the subscription and issue of the Convertible Bond pursuant to the Subscription Agreement
“Subscription Agreement(s)”	the conditional subscription agreement dated 5 January 2017 and entered into between the Company as issuer and the Subscriber as subscriber in respect of the issue of the Convertible Bond
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers and Share Repurchases
“Trading Day(s)”	a day when the Stock Exchange is open for dealing business, provided that no closing price is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of dealing days
“Transaction Documents”	collectively, the Subscription Agreement, the CB Terms & Conditions, the Personal Guarantee and the certificates of the Convertible Bond

“Warranties” the representations, warranties and undertakings contained in the Subscription Agreement

“%” per cent

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

Hong Kong, 5 January 2017

As at the date of this announcement, the directors of the Company are:

Executive directors: Mr. Sit Yau Chiu, Mr. Xiong Wei and Ms. Liu Libing

Non-executive directors: Mr. Chan Kwan Pak Gilbert, Mr. Pan Di and Ms. Lou Liuqing

Independent non-executive directors: Mr. Lo Chi Chiu, Mr. Choi Tze Kit Sammy and Mr. To Chun Kei