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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)

2016 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 2016, together with the comparative figures for the year ended 31 December 2015.

FINANCIAL AND OPERATION HIGHLIGHTS

- Turnover for the financial year ended 31 December 2016 ("**FY2016**") decreased from HK$414.3 million to HK$248.9 million when compared with last year ("**FY2015**").
- Gross margin for FY2016 decreased from 57.5% to 38.9%. Gross profit for FY2016 decreased from HK$238.2 million to HK$96.8 million.
- Loss after tax for FY2016 was HK$145.0 million (FY2015: HK$11.9 million), mainly due to (i) decrease in turnover of approximately 39.9% from HK$414.3 million for FY2015 to HK$248.9 million for FY2016, and (ii) foreign exchange loss of approximately HK$10.1 million mainly arising from the depreciation of the Renminbi ("**RMB**") against Hong Kong dollars.
- Loss per share was HK41.74 cents for FY2016 (FY2015: HK3.43 cents).
- The Board has resolved not to recommend any payment of a final dividend for FY2016 (FY2015: Nil).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2016

	NOTES	2016 HK$'000	2015 HK$'000
Revenue	3	**248,883**	414,315
Cost of sales		**(152,097)**	(176,121)
Gross profit		**96,786**	238,194
Other gains and losses		**(14,387)**	(13,184)
Other income		**1,081**	1,216
Distribution expenses		**(158,699)**	(161,985)
Administrative expenses		**(59,693)**	(66,452)
Finance costs		**(7,673)**	(4,542)
Loss before tax	4	**(142,585)**	(6,753)
Income tax expense	5	**(2,426)**	(5,163)
Loss for the year attributable to owners of the Company		**(145,011)**	(11,916)
Other comprehensive income (expense), net of tax			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit scheme		**1,440**	(1,352)
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(4,763)**	(1,545)
Other comprehensive expense for the year		**(3,323)**	(2,897)
Total comprehensive expense for the year		**(148,334)**	(14,813)
LOSS PER SHARE			
— Basic and diluted (Hong Kong cents)	7	**(41.74)**	(3.43)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016

	NOTES	**2016** ***HK$'000***	2015 *HK$'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**70,964**	76,398
Deposits placed for life insurance policies		**17,579**	17,023
Deferred tax assets		**8,449**	8,277
		96,992	101,698
CURRENT ASSETS			
Inventories		**500,629**	556,196
Derivative financial instruments		**–**	769
Trade and other receivables	*8*	**71,143**	127,885
Amount due from a related party		**50**	143
Tax recoverable		**7,071**	8,607
Pledged bank deposits		**1,022**	3,832
Bank balances and cash		**18,272**	62,325
		598,187	759,757
CURRENT LIABILITIES			
Trade and other payables	*9*	**46,754**	38,341
Tax payable		**1,263**	9
Bank borrowings		**57,246**	164,089
		105,263	202,439
NET CURRENT ASSETS		**492,924**	557,318
TOTAL ASSETS LESS CURRENT LIABILITIES		**589,916**	659,016
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**12,102**	11,521
Pension obligation		**4,744**	6,091
Note payable		**80,000**	–
		96,846	17,612
NET ASSETS		**493,070**	641,404
CAPITAL AND RESERVES			
Share capital		**3,474**	3,474
Reserves		**489,596**	637,930
TOTAL EQUITY		**493,070**	641,404

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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")

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 IFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to IAS 1	Disclosure Initiative
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to IAS 16 and IAS 41	Agriculture: Bearer Plants
Amendments to IFRS 10, IFRS 12 and IAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to IFRSs	Annual Improvements to IFRSs 2012 – 2014 Cycle

The application of the above 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 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 amendments to IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments[1]
IFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
IFRS 16	Leases[2]
IFRIC 22	Foreign Currency Transactions and Advance Consideration[1]
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to IAS 7	Disclosure Initiative[4]
Amendments to IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to IAS 40	Transfers of Investment Property[1]
Amendments to IFRSs	Annual Improvements to IFRS Standards 2014-2016 Cycle[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 a date to be determined
4 Effective for annual periods beginning on or after 1 January 2017
5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate

IFRS 9 "Financial Instruments"

IFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of IFRS 9 which are relevant to the Group are:

- 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 2016, 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.

In 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of IFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of IFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

IFRS 16 "Leases"

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under the IFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by IFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$27,967,000 (2015: HK$37,284,000). A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete 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:

	2016	2015
	HK$'000	*HK$'000*
Mechanical watches	**172,271**	300,355
Quartz watches	**75,005**	112,406
Others	**1,607**	1,554
	248,883	414,315

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	
	2016	2015
	HK$'000	*HK$'000*
The People's Republic of China (the "**PRC**")	**193,109**	311,958
Hong Kong and Macau	**25,355**	70,304
Southeast Asia	**23,616**	24,297
Others	**6,803**	7,756
	248,883	414,315

	Non-current assets	
	2016	2015
	HK$'000	*HK$'000*
PRC	**34,310**	35,357
Hong Kong	**5,765**	6,717
Switzerland	**30,889**	34,324
	70,964	76,398

Information about major customers

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

	2016	2015
	HK$'000	*HK$'000*
Customer A	**25,545**	42,235
Customer B	**–**[1]	72,074

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

4. LOSS BEFORE TAX

	2016	2015
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging:		
Auditors' remuneration	**1,260**	3,869
Allowance for inventories	**7,808**	3,622
Cost of inventories recognised as expenses	**142,778**	152,932
Depreciation of property, plant and equipment	**43,756**	39,703
Directors' emoluments	**4,830**	5,096
Other staff costs		
— salaries and other benefits	**60,534**	65,614
— equity-settled share-based payment	**–**	1,024
— retirement benefits scheme contributions	**5,125**	5,605
Total staff costs	**70,489**	77,339
Operating lease rental in respect of rented premises	**27,892**	27,278

5. INCOME TAX EXPENSE

	2016	2015
	HK$'000	*HK$'000*
Current tax:		
Hong Kong Profits Tax *(note i)*	**–**	–
Switzerland Income Tax *(note ii)*	**2,122**	1,758
PRC Enterprise Income Tax *(note iii)*	**–**	–
	2,122	1,758
(Overprovision) underprovision in prior years:		
PRC Enterprise Income Tax	**–**	253
Switzerland Income Tax	**(57)**	–
	(57)	253
Deferred tax charge	**361**	3,152
Income tax expense for the year	**2,426**	5,163

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% (2015: 8.5%) and Cantonal Communal Tax("**CCT**") calculated at 16.37% (2015: 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%.

6. DIVIDEND

	2015
	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 the year ended 31 December 2016 and 2015, 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 2016 is based on the loss attributable to the owners of the Company of HK$145,011,000 (2015: HK$11,916,000) and on the weighted average number of 347,437,000 (2015: 347,437,000) ordinary shares in issue during the year.

The computation of diluted loss per share for the year ended 31 December 2015 and 2016 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 both years.

8. TRADE AND OTHER RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**57,390**	107,109
Less: allowance for doubtful debts	**(725)**	(2,837)
	56,665	104,272
Other receivables	**2,610**	1,413
Other tax recoverable	**1,569**	3,019
Prepayment	**5,172**	13,301
Deposits	**5,127**	5,880
	14,478	23,613
	71,143	127,885

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:

	2016	2015
	HK$'000	*HK$'000*
0-90 days	**37,510**	87,985
91-180 days	**13,221**	8,660
181-270 days	**887**	3,133
Over 270 days	**5,047**	4,494
	56,665	104,272

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 2016, included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$37,068,000 (2015: HK$53,129,000) 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

	2016	2015
	HK$'000	*HK$'000*
Overdue for		
Within 90 days	**26,461**	41,523
91 to 180 days	**6,455**	6,710
Over 180 days	**4,152**	4,896
	37,068	53,129

Movement in the allowance for doubtful debts

	2016	2015
	HK$'000	*HK$'000*
Balance at beginning of the year	**2,837**	1,259
Impairment losses recognised	**–**	1,625
Amounts written off as uncollectible	**(2,099)**	–
Exchange realignment	**(13)**	(47)
Balance at end of the year	**725**	2,837

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$725,000 (2015: HK$2,837,000) at 31 December 2016. 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

	2016	2015
	HK$'000	*HK$'000*
Overdue for		
91 to 180 days	**–**	56
More than 180 days	**725**	2,781
	725	2,837

9. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**12,785**	19,353
Other payables	**24,043**	8,339
Accruals	**9,926**	10,649
	46,754	38,341

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

	2016	2015
	HK$'000	*HK$'000*
1-30 days	**2,738**	7,072
31-60 days	**3,738**	8,479
Over 60 days	**6,309**	3,802
	12,785	19,353

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:

	2016	2015
	HK$'000	*HK$'000*
Denominated in USD	**96**	353
Denominated in CHF	**237**	–

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 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 2016, the Group has a total of 922 points of sale (“**POS**”).

Due to further deterioration of the premium watches retail market in PRC and Hong Kong in 2016 leading to a decrease in orders placed by watch retailers and authorized distributors, Ernest Borel recorded a revenue of HK$248.9 million (2015: HK$414.3 million), representing a year-on-year decrease of approximately 39.9%, and gross profit and gross profit margins declined to HK$96.8 million (2015: HK$238.2 million) and 38.9% (2015: 57.5%) respectively. During the year under review, the Group recorded a foreign exchange loss of approximately HK$10.1 million, mainly attributable to the depreciation of Renminbi against Hong Kong dollar. Consequently, loss attributable to equity holders amounted to HK$145.0 million.

The PRC Market

The PRC remains the core market of the Group. As at 31 December 2016, the Group had 765 POS in the country. Revenue from the PRC segment declined from HK$312.0 million for the year ended 31 December 2015 to HK$193.1 million for the year ended 31 December 2016, accounting for approximately 77.6% of total revenue.

Hong Kong, Macau and Southeast Asia Markets

As at 31 December 2016, the Group had 133 POS in Hong Kong, Macau and Southeast Asia Markets. Sales in these markets decreased by approximately 48.2% from HK$94.6 million for FY2015 to HK$49.0 million for FY2016, accounting for approximately 19.7% of total revenue.

EVENTS AFTER THE REPORTING PERIOD

On 5 January 2017, the Company has entered into a subscription agreement with a subscriber, Phoenix Green Limited, pursuant to which the Company conditionally agreed to issue the convertible bond in the principal amount of HK$100,000,000.

Assuming full conversion of the bonds at the initial conversion price of HK$2.00, the bonds will be convertible into approximately 50,000,000 shares in aggregate, representing approximately 14.39% of the total issued share capital of the Company as at the date of the agreement and approximately 12.58% of the issued share capital of the Company as enlarged by 50,000,000 conversion shares.

The estimated net proceeds of the issue of the convertible bonds, after deduction of expenses, are approximately HK$97,600,000. The net proceeds are all intended to 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 issuance of convertible bonds was completed on 11 January 2017. The directors of the Company is in the process of assessing the financial impact on the convertible bonds.

FINANCIAL REVIEW

Revenue and segment information

Our revenue decreased by HK$165.4 million, or approximately 39.9% from HK$414.3 million for FY2015 to HK$248.9 million for FY2016. The decrease in revenue of mechanical watches and quartz watches were mainly due to deterioration of the premium watch retail market in the PRC and Hong Kong as compared to FY2015 leading to a decrease in orders placed by watch retailers.

Performance by major products

	2016	2015	Changes	
	HKD'000	*HKD'000*	*HKD'000*	*%*
Mechanical watches	**172,271**	300,355	(128,084)	(42.6)
Quartz watches	**75,005**	112,406	(37,401)	(33.3)
Total	**247,276**	412,761	(165,485)	(40.1)

Mechanical watches

Revenue from sales of mechanical watches decreased by approximately 42.6% from HK$300.4 million for FY2015 to HK$172.3 million for FY2016.

Quartz watches

Revenue from sales of quartz watches decreased by approximately 33.3% from HK$112.4 million for FY2015 to HK$75.0 million for FY2016.

Performance by geographical locations

	2016	2015	Changes	
	HKD'000	*HKD'000*	*HKD'000*	*%*
PRC Market	**193,109**	311,958	(118,849)	(38.1)
Hong Kong, Macau and Southeast Asia Markets	**48,971**	94,601	(45,630)	(48.2)
Other Markets mainly in United States and Europe	**6,803**	7,756	(953)	(12.3)
Total	**248,883**	414,315	(165,432)	(39.9)

The PRC market

The PRC continues to be our major market, representing approximately 77.6% of our revenue for FY2016. Sales in this region showed a decrease of approximately 38.1% from HK$312.0 million for FY2015 to HK$193.1 million for FY2016 due to the deterioration of the premium watch retail market in the PRC as compared to FY2015 leading to a decrease in orders placed by watch retailers.

Hong Kong, Macau and Southeast Asia markets

Hong Kong, Macau and Southeast Asia markets accounted for approximately 19.7% of our total revenue for FY2016. Sales in these markets decreased by approximately 48.2% from HK$94.6 million for FY2015 to HK$49.0 million for FY2016. The decrease was mainly attributable to the decline in number of tourists and 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$7.8 million FY2015 to HK$6.8 million for FY2016.

Cost of Sales

Cost of sales decreased by approximately 13.6% from approximately HK$176.1 million for FY2015 to approximately HK$152.1 million for FY2016. The decrease was mainly attributable to the decline in sales quantities in 2016.

Gross profit

Our gross profit decreased by HK$141.4 million or approximately 59.4% from HK$238.2 million for FY2015 to HK$96.8 million for FY2016, while the gross profit margin decreased to approximately 38.9% for FY2016 from approximately 57.5% for FY2015. The decrease in gross profit margin was primarily due to the shift in sales quantities to lower gross profit margin models under the current weakened consumer sentiment, and the inventory provision increased by HK$7.8 million from HK$11.8 million for FY2015 to HK$19.6 million for FY2016.

Other gains and losses

We recorded other losses of HK$14.4 million for FY2016 as compared to HK$13.2 million for FY2015. This was primarily due to the exchange net loss of HK$10.1 million mainly arising from depreciation of the RMB against the Hong Kong dollar, impairment recognized on property, plant and equipment amounting to HK$2.9 million, and loss on disposal of property, plant and equipment from HK$0.3 million for FY2015 to HK$1.7 million for FY2016.

Distribution costs

Our selling and distribution costs decreased by HK$3.3 million or approximately 2.0% from HK$162.0 million for FY2015 to HK$158.7 million for FY2016, representing approximately 63.8% of our total revenue for 2016 (2015: approximately 39.1%). The decrease was primarily attributable to a decrease in advertising and marketing expenses from HK$68.8 million for FY2015 to HK$57.1 million for FY2016 as we reduced the scale of our marketing and advertising activities, which was partially offset by the increase in commission to retailer expenses from HK$6.2 million for FY2015 to HK$9.3 million for FY2016 and the depreciation for display counter from HK$32.4 million for FY2015 to HK$37.9 million for FY2016.

Administrative expenses

Our administrative expenses decreased to HK$59.7 million for FY2016 from HK$66.5 million for FY2015, representing a decrease of HK$6.8 million or approximately 10.2%. The decrease in administrative expenses was primarily due to a decrease in professional fee from HK$9.5 million for FY2015 to HK$4.7 million for FY2016 and a decrease in depreciation from HK$7.3 million for FY2015 to HK$5.9 million for FY2016.

Finance costs

Our finance costs increased by HK$3.2 million or approximately 71.1% from HK$4.5 million for FY2015 to HK$7.7 million for FY2016 as a result of an increase in the interest rate of both bank borrowings and other borrowings for the year ended 31 December 2016.

Taxation

Our income tax decreased from HK$5.2 million for FY2015 to HK$2.4 million for FY2016, representing an decrease of HK$2.8 million or approximately 53.8%. This decrease was primarily attributable to the increase in loss before tax from HK$6.8 million for FY2015 to loss of HK$142.6 million for FY2016.

Loss for the year attributable to owners of our Company

Our net loss for FY2016 increased from 11.9 million for FY2015 to HK$145.0 million for FY2016 was mainly due to decrease in revenue of approximately 39.9% from HK$414.3 million for FY2015 to HK$248.9 million for FY2016, and foreign exchange loss of HK$10.1 million as a result of the depreciation in RMB during the year.

Inventory

Inventory was approximately HK$500.6 million as at 31 December 2016, representing a decrease of HK$55.6 million, or around 10.0%, from HK$556.2 million as at 31 December 2015.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK$127.9 million and approximately HK$71.1 million as at 31 December 2015 and 2016 respectively. Such decrease in trade and other receivables was attributable to a decrease in revenue in 2016.

The Group's trade and other payables increased from approximately HK$38.3 million as at 31 December 2015 to approximately HK$46.8 million as at 31 December 2016 resulting primarily from an increase in other payables due to the increase in display counter expenses that we paid to display counter manufacturers.

Liquidity, financial resources and capital structure

As at 31 December 2016, we had non-pledged cash and bank balances of HK$18.3 million (2015: HK$62.3 million). Based on the borrowings of HK$137.2 million (2015: HK$164.1 million) and shareholders' equity of HK$493.1 million (2015: HK$641.4 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 27.8% (2015: approximately 25.6%).

As at 31 December 2016, part of our borrowing amounting to HK$93.0 million was repayable over one year and the remaining balance amounting to HK$44.2 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$1.0 million (2015: HK$3.8 million);

(b) charges over deposits placed for a life insurance policy with a carrying amount of HK$17.6 million (2015: HK$17.0 million); and

(c) charges over inventories with a carrying amount of HK$244.5 million (2015: HK$Nil).

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during FY2016.

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 2016.

Contingent liabilities

The group did not have any contingent liabilities as at 31 December 2016 (2015: Nil).

Employees and Remuneration Policies

As at 31 December 2016, the Group had a total of 273 full-time employees, representing a decrease of 16.3% compared to 326 employees as at 31 December 2015. Total staff costs for 2016 decreased to approximately HK$70.5 million from approximately HK$77.3 million for 2015, mainly due to the decrease in salaries and other benefits from HK$60.5 million in 2015 to HK$60.5 million in 2016.

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 FY2016.

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 2016, there were capital commitments in the amount of HK$1.0 million which represented the balance payment in relation to the acquisition of a parcel of land in Switzerland for our new production facility (2015: HK$1.1 million).

Prospects

Looking ahead to 2017, the Group expects operation in the overall retail market and the premium watch market segment to remain challenging.

Despite the challenges in the operating environment, the Group is still prudently optimistic and 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. By virtue of our professional marketing team, the Group aimed at increasing its exposure in the PRC, Europe and Southeast Asia by advertising in different media, engaging celebrities as ambassadors and conducting various and diverse promotional activities, such as more than 120 road shows and the Basel exhibition. The Group will constantly strive to boost its competitiveness by increasing design capabilities in medium-high end watches and devising pricing strategies by taking into account prevailing market price of watches of competitors and the overall economy in the PRC. These strategic directions are aimed at penetrating the mid-range-to-high-end consumer segment to meet the different preferences of customers so as to drive stable business development and gradually expand the Group's market share. The Group maintains more than 900 POSs globally and is planning to develop new POSs in the second-to-fourth-tier cities in the PRC, Europe and Southeast Asia. The Group will strengthen our E-commerce team and increase promotion on all E-commerce platforms to provide more diverse and convenient shopping channels to our customers.

In addition, the Group will keep cost-control strategies and an effective resources utilisation plan constantly in sales and distribution and administration expenses, manage and control the logistics and inventory to maintain high operating efficiency and reduce inventory costs. The Group will keep proactively addressing the market dynamics and adopt appropriate measures with the aim to improve overall operating efficiency and maintain market competitiveness. Moreover, the Group is also exploring other business and investment opportunities to widen the source of income and return.

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. Choi Tze Kit Sammy and Mr. To Chun Kei, 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 FY2016 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 was unable to attend the Company's annual general meeting held on 17 June 2016 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 2016.

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 2016.

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

During the year ended 31 December 2016, 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 FY2016 (2015: Nil).

AGM

The annual general meeting of the Company (the "**AGM**") will be held in Hong Kong on Friday, 26 May 2017. 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, 23 May 2017 to Friday, 26 May 2017, 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, 22 May 2017.

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 FY2016 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, 29 March 2017

As at the date of this announcement, the Directors 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