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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1856)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2023

References are made to the announcements of Ernest Borel Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 21 November 2022, 8 December 2022, 1 February 2023, 29 March 2023 and 19 April 2023 (the "**Announcements**"), the Circular dated 13 March 2023 (the "**Circular**") and the annual report (the "**Annual Report**") for the year ended 31 December 2023 (the "**Reporting Period**"). Unless otherwise defined, capitalised terms used in this announcement shall bear the same meanings as those defined in the Announcements, Circular and Annual Report. The Board of Directors of the Company (the "**Board**" or the "**Directors**") would like to provide additional information in relation to the Announcements, Circular and Annual Report.

THE CALCULATION OF THE PROFIT COMPENSATION

Pursuant to the Sales and Purchase Agreement dated 21 November 2022 and the supplemental agreement ("**Agreement**") dated 8 December 2022, the Purchaser, a direct wholly-owned subsidiary of the Company, and the Vendor entered into the Agreement, pursuant to which the Purchaser conditionally agreed to acquire, and the Vendor conditionally agreed to sell, the Sale Shares (representing the entire issued share capital of the Target Company) at the Consideration in accordance with the terms and conditions of the Agreement. The Consideration of HK$140 million shall be satisfied as to (i) HK$100 million by way of the allotment and issue of the Consideration Shares to the Vendor; and (ii) HK$40 million in cash, subject to the satisfaction of the Profit Guarantee.

Pursuant to the Agreement, the Vendor guarantees to the Purchaser that the consolidated net Profit after tax of the Target Company and its subsidiaries ("**Gold Vantage Group**") for each of the financial years ending 31 December 2023, 31 December 2024 and 31 December 2025 shall not be less than HK$30 million (the "**Profit Guarantee**"). If the net Profit after tax stated in the Annual Financial Statements falls short of the Profit Guarantee in any such year, an amount equal to 1.5 times the amount by which the actual net Profit after tax is less than the Profit Guarantee ("**Profit Compensation**") shall be payable by the Vendor to the Purchaser.

For the year ended 31 December 2023, Gold Vantage Group recorded a consolidated net loss for the year of approximately HK$0.5 million. As compared with the guaranteed profit of HK$30 million for the year ended 31 December 2023 ("**2023 Guaranteed Profit**") as stated in the Sales and Purchase Agreement, there was a shortfall of approximately HK$30.5 million. In accordance with the terms of the Agreement, the Vendor needs to compensate the Company 1.5 times of the shortfall to the Company. The amount of the 2023 Profit Compensation is approximately HK$45.8 million, i.e. HK$30.5 million times 1.5 multiple (HK$30.5m x 1.5 times = HK$45.8 million).

THE SETTLEMENT OF THE PROFIT COMPENSATION

Pursuant to the terms of Agreement, the sequence of offsetting the 2023 Profit Compensation shall be firstly compensated by way of issuance of approximately 12.8 million shares of the Company (the "**Share Consideration**") and then; secondly compensated by the deduction of outstanding cash consideration of the first installment of HK$13.33 million. If there is still an outstanding balance, Vendor will pay in cash.

Pursuant to the Agreement, the consideration for acquisition regardless the share consideration or cash consideration is required to by the Company according to the agreed timeframe. However, the amount of consideration paid could be adjusted subject to the performance of Gold Vantage Group.

All the conditions precedent to Completion under the Agreement had been fulfilled on 31 March 2023, and Completion took place on 19 April 2023 (the "**Completion Date**"). Upon Completion, the Gold Vantage Group has become an indirect wholly-owned subsidiary of the Company and the financial results of the Gold Vantage Group are consolidated into the Group's financial statements. Pursuant to the Agreement, the Company will allot and issue an aggregate of 38,461,538 Consideration Shares as partial settlement of the Consideration. The Company allotted and issued 12,820,512 Consideration Shares at the Issue Price as the first instalment of the Consideration Shares to the Vendor on 27 April 2023, representing approximately 3.56% of the enlarged issued share capital of the Company immediately after the allotment and issuance of the first instalment of the Consideration Shares. The remaining Consideration Shares (subject to adjustment pursuant to the Profit Guarantee) will be allotted and issued by the Company to the Vendor over the next two years. Please refer to the Company's announcement dated 19 April 2023 for the details.

As agreed by the Company and the Vendor on the offsetting, Profit Compensation firstly compensated by the deduction of outstanding cash consideration of the first installment of HK$13.3 million in late of March 2024. For the remaining balance, the amount shall be set off against (i) HK$5.3 million advance cash from the Vendor to the Company during the year of 2023, (ii) HK$10.0 million advance cash from the Vendor to the Company in January 2024, and (iii) and the current account with a fellow subsidiary (whose owed certain balances to the Vendor) of HK$17.2 million. As such, all settlement arrangements have been completed in the late of March 2024.

The timing and settlement are summarized as below:

Date	**Item**	**Amount** *(HK$ mil)*
March 2024	Offset against the first installment of cash considerations	13.3
Year of 2023	Offset against the cash advance from the Vendor	5.3
January 2024	Offset against the cash advance from the Vendor	10.0
March 2024	Offset against the amount due from a fellow subsidiary of the Company	17.2
	2023 Profit Compensation	45.8

IN VIEW OF THE BOARD OF DIRECTORS

Pursuant to the Agreement, the Profit Compensation shall be payable by the Vendor. In the event that Gold Vantage Group recorded loss in its consolidated financial statements, the Vendor shall still compensate the Company 1.5 times of the difference between the net loss after tax and HK$30 million. The Profit Compensation shall be satisfied by the reduction of the outstanding consideration shares for the instalment and then the balance of the Profit Compensation shall be reduced by the outstanding cash consideration for the instalment. If the unpaid instalment is not sufficient to set off the Profit Compensation, the difference between the Profit Compensation and the unpaid instalment shall be paid in cash to the Company within 30 business days after the issuance of the annual financial statements of Gold Vantage Group for the respective financial year.

Regarding the 2023 Profit Compensation, the Vendor has been firstly compensated the shortfall by the deduction of the outstanding cash consideration of the first installment of HK$13.3 million. The remaining balance has been set off with the cash advances from the Vendor and the current account with a fellow subsidiary. Referring to the disclosures above, the Company is compensated in 1.5 times of the Profit Guarantee. The settlement is in line with the terms of the Agreement. The Board of Directors are of the view that the Company has been compensated according to the Agreement.

According to the Agreement, no such option to sell the Gold Vantage Group back to the Vendor or other rights it held under the terms of the guarantee. However, in the terms of the Profit Compensation, there is no cap on the amount of the Profit Compensation. In case that Gold Vantage Group recorded loss in its consolidated financial statements, the Vendor shall compensate the Purchaser 1.5 times difference between the net loss after tax and HK$30 million. The Directors is of the opinion that the fact of "no cap on the amount of the Profit Compensation" and "1.5 times of the difference between the net loss after tax and HK$30 million" is fair and reasonable and of the best interest of the Company as a whole.

The Directors have taken into consideration that (i) the smart watch market has promising growth potential and strong market demand; (ii) the business prospect of Gold Vantage Group has synergy effect with the business of the Company as Gold Vantage Group can supply the necessary watch cases and other components for the watch manufacturing of the Group, and it has extensive experience in manufacturing and sales of smart watches cases. Taken into the overall above considerations, the Directors are of view that is fair and reasonable.

The following factors lead to the significant shortfall of the Profit Guarantee:

a) After the completion date of the acquisition, the Company's largest customer, which is expected to contribute approximately 60% of total forecasted annual revenue has delayed orders due to macroeconomics uncertainties and geopolitical tensions in the Greater China Region. The customer is one of the world's leading manufacturers of notebook PCs, LCD products and smart devices with its headquarter in Taiwan. Due to the geopolitical tension in the Greater China Region, the customer rescheduled their placing order schedule and delivery time.

   The customer didn't notify Gold Vantage Group in advance until Gold Vantage Group chase them to placing the order as usual, the customer inform Gold Vantage Group the order will be rescheduled. after the Completion Date, i.e. 19 April 2023. The customer has long term strategic relationship with Gold Vantage Group. Gold Vantage Group's management will keep communication with the customer and follow up the status of the sales order with the customer continuously and proactively.

b) The remaining customers, accounted for approximately 40% of the remaining total forecasted revenue, confirmed the terms of order in the first quarter of 2023 and it is expected that mass production will start in the second quarter of 2023. However, those customers delayed the sales orders due to macroeconomics uncertainties and geopolitical tensions those customers are small size company. Small companies are always more sensitive to the consumer market. They follow the order trends of large companies to adjust their market layout, thus reducing the order volume and suspend as well, Gold Vantage Group will follow up with those customers accordingly.

As a result of above reasons, the profit of Gold Vantage Group recorded a shortfall of approximately HK$30 million as compared with the expected profit forecast estimated before the acquisition.

The management is of the view that the consumption was and will continue to be subdued in 2024, with retail sales expanding below the pre-pandemic average pace as consumer confidence remained weak. As the principal activity of Gold Vantage Group is manufacturing the components of smart watch, which is a part of consumer goods, it is expected the order quantity remain low due to consumer confidence is still weak.

THE RECOGNITION OF THE IMPAIRMENT

During the management review of the business performance in or around December 2023, the management is of the view that the 2023 Guaranteed Profit is unlikely to achieve by Gold Vantage Group. In accordance with the financial statements of Gold Vantage Group for the year ended 31 December 2023, Gold Vantage Group incurred a net loss for the year of approximately HK$0.5 million, which is well short of the 2023 Guaranteed Profit. Pursuant to the requirement of the accounting standards, the goodwill arising from business combination shall be tested for impairment annually. The Directors engaged an independent valuation firm, Asset Appraisal Limited, (the "**Valuer**") to assist them in evaluating the recoverable amount of Gold Vantage Group. Based on the result of the valuation as prepared by the Valuer, the recoverable amount of Gold Vantage Group is lower than the carrying amount. As a result, an impairment loss on goodwill of approximately HK$13.39 million has been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2023.

DETAILS OF THE VALUE OF INPUTS USED FOR THE VALUATION TOGETHER WITH THE BASES AND ASSUMPTIONS

The Valuer searched for 6 companies with similar business operation in the market and used their financial data such as Cost of debt, Tax rate, Beta (volatility of returns for a business), cost of Equity and Cost of debt to calculate the weighted average cost of capital ("**WACC**") of Gold Vantage Group. The Valuer summaries all parameters used in determining the data as below table:

Indicated Risk Free Rate	2.561%
Risk Premium	10.526%
Estimated leveraged Beta	0.6368 (based on debt-to-equity ratio of 40.36% and tax rate of 25%)
Cost of Equity	20.09% (allowing size premium of 5.16%)
Cost of Debt	5.040%
WACC	15.40%

Taking into account the analysis as mentioned above, the Valuer conclude that a post-tax discount rate of 15.40% or a pre-tax discount rate of 20.15% is appropriate for valuing the recoverable amount of Gold vantage Group through value-in-use ("**VIU**") by using the discounted cash flow model.

Based on the orders forecast and the estimated cost expenditures provided by the customers, Valuer formulated the free cash flows in next 5 years of Gold Vantage Group.

(RMB'000)	**2024**	**2025**	**2026**	**2027**	**2028**
Revenue	182,227	164,004	155,804	148,014	140,613
Gross Profit	52,846	47,561	45,183	42,924	40,778
Profit after taxation	20,876	16,310	12,678	9,983	7,299
Discounted Free cash flow	26,299	19,058	12,925	9,545	6,847

Remarks:

1. The Revenue is the order forecasts provided by the customers.

2. The Gross profit is obtained by deducting cost of goods sold from Revenue.

3. The Profit after taxation is obtained by deducting all company expenses (increasing by 5% every year based on historical expenses) from Gross profit.

In discounting the projected free cash flows mentioned above and the terminal value as deduced by Gordon model using the aforesaid discount rate, the business enterprise value of Gold Vantage Group is calculated at HK$127,345,000, the valuation result of Gold Vantage Group is calculated at HK$94.7 million.

REASONS FOR ANY SIGNIFICANT CHANGES IN THE VALUE OF THE INPUTS AND ASSUMPTIONS FROM THE METHOD PREVIOUSLY ADOPTED

At the acquisition stage of Gold Vantage Group, The company has the responsibility to investigating the history, operation and prospects of the business of Gold Vantage Group (including but not limited to review the certain financial data, analysis of the industry and competitive environment, analysis of historical and prospective financial results, analysis of comparable transaction, operating statistics and other due diligence documents.) to ensure the acquisition is the best of the interest of the Company and shareholders. In order to achieve this goal the Valuer adopted the Market Approach to determines the value of Gold Vantage Group. After the acquisition, due to the Gold Vantage Group didn't fulfill the guaranteed profit HK$30 million a year of the Company, the Valuer observed that there is a possibility of impairments losses due to shortfall. Based on this reason, the Valuer according to the International Accounting Standards "Impairment of Assets" ("**IAS 36**") to determine the fair value of Gold Vantage Group. Under IAS 36, if the recoverable amount (i.e. the greater of fair value less cost of disposal and Value in use ("**VIU**") of cash generating unit ("**CGU**") is estimated to be less than its carrying amount, the carrying amount of CGU is reduced to the recoverable amount. The written down amount would be impairment loss. At a result HK$13.39 million to be counted in impairment loss.

VALUATION METHOD AND REASONS FOR USING THAT METHOD

Based on the assertion of the fair value, the valuer determines VIU by using Discounted Cash Flow ("**DCF**") to assert the recoverable amount of the Gold Vantage Group, the basis of this method are as followings:

1. To estimate the future economic benefits to its present worth of the Gold Vantage Group, the valuer using VIU which is the income producing capability of an asset of the Gold Vantage Group and comply with the discount rate for the calculation.

2. The basis and assumption of VIU's method is through the analysis the economic benefit received over the useful life of the assets of the target Company, to better understanding the future economic benefits to those assets its present worth to Gold Vantage Group.

3. To better understanding the future cash flow of Gold Vantage Group, the Valuer using the Discounted Cash Flow ("**DCF**") for estimation. DCF is the best way to arrive at the opinion of value, which is subtraction from revenue from the operations, operating expenses, general and administrative expenses in the computation of cash flow.

4. The basis and assumption of DCF's method is through the indication of value which is developed by the discounting future debt free cash flows attributable to the assets to their present worth at market-derived rates of return appropriate for the risks.

In conclusion, the reason for determining VIU using by DCF is because based on the actual situation of the Gold Vantage Group, (a) only DCF's method can access the future value of the Gold Vantage Group; and (b) only this method can comply with the accounting standard.

Having considered that the macroeconomic factors and the uncertain market performance of the watch industry, the Directors were more cautious about expected earnings returns of the Gold Vantage Group. The Company will make further disclosures in respect of the fulfilment of the Profit Guarantee for the Second Profit Guarantee Period in the next annual report of the Company in accordance with the Listing Rules as and when appropriate.

Save as disclosed above, all other information contained in the Announcements, Circular and Annual Report remained unchanged.

By Order of the Board of
Ernest Borel Holdings Limited
Teguh Halim
Chairman

Hong Kong, 23 August 2024

As at the date of this announcement, the Board comprises of the following members:

Executive Directors:	Mr. Teguh Halim and Ms. Lam Lai
Non-executive Director:	Mr. Xiong Ying
Independent Non-executive Directors:	Mr. Yu Chi Kit, Ms. Chan Lai Wa and Mr. Zhang Bin