**Favre Leuba AG, Zug**

# Report of the Statutory Auditor on the Limited Statutory Examination to the General Meeting of Shareholders

Financial Statements 2017/2018

KPMG AG
*Zug, May 10, 2018*
Ref. WAT

**KPMG AG**
**Audit Central Switzerland**
Landis + Gyr-Strasse 1
CH-6300 Zug

PO Box
CH-6302 Zug

Telephone +41 58 249 74 74
Fax +41 58 249 50 00
Internet www.kpmg.ch

Report of the Statutory Auditor on the Limited Statutory Examination to the General Meeting of Shareholders of

**Favre Leuba AG, Zug**

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As statutory auditors, we have examined the financial statements (balance sheet, income statement and notes) of Favre Leuba AG for the year ended March 31, 2018. The financial statements of Favre Leuba AG for the year ended March 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on May 18, 2017.

These financial statements are the responsibility of the Board of Directors. Our responsibility is to perform a limited statutory examination on these financial statements. We confirm that we meet the licensing and independence requirements as stipulated by Swiss law.

We conducted our examination in accordance with the Swiss Standard on the Limited Statutory Examination. This standard requires that we plan and perform a limited statutory examination to identify material misstatements in the financial statements. A limited statutory examination consists primarily of inquiries of company personnel and analytical procedures as well as detailed tests of company documents as considered necessary in the circumstances. However, the testing of operational processes and the internal control system, as well as inquiries and further testing procedures to detect fraud or other legal violations, are not within the scope of this examination.

Based on our limited statutory examination, nothing has come to our attention that causes us to believe that the financial statements does not comply with Swiss law and the company's articles of incorporation.

Furthermore, we draw attention to the fact that half of the share capital and legal reserves are no longer covered (article 725 paragraph 1 CO).

KPMG AG

Toni Wattenhofer
*Licensed Audit Expert*
*Auditor in Charge*

Michael Arnold
*Licensed Audit Expert*

Zug, May 10, 2018

*Enclosure:*
- Financial statements (balance sheet, income statement and notes)

| **Balance Sheet as of March 31,** | **Notes** | **2017/18** | **2016/17** |
|---|---|---|---|
| | | CHF | CHF |
| ASSETS | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 130'334.96 | 13'197.55 |
| Trade accounts receivable | | | |
| - due from third parties | | 1'582'930.78 | 1'221'008.60 |
| - due from group companies | | 151'989.00 | 0.00 |
| Other short-term receivables | | | |
| - due from third parties | | 1'045'476.58 | 748'343.65 |
| Inventories | 2.1 | 3'300'647.01 | 1'502'044.07 |
| Prepaid expenses and accrued income | | 24'999.35 | 24'763.35 |
| | | 6'236'377.68 | 3'509'357.22 |
| **Non-current assets** | | | |
| Deposits | | 23'060.60 | 19'112.85 |
| Investments | 2.2 | 1'200.29 | 1'200.29 |
| Property, plant and equipment | 2.3 | 764'981.85 | 696'415.21 |
| Intangible assets | 2.4 | 1'434'405.55 | 1'748'533.55 |
| | | 2'223'648.29 | 2'465'261.90 |
| | | 8'460'025.97 | 5'974'619.12 |

| **Balance Sheet as of March 31,** | **Notes** | **2017/18** | **2016/17** |
|---|---|---|---|
| | | CHF | CHF |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| **Short-term liabilities** | | | |
| Trade accounts payable | | | |
| - due to third parties | | 694'713.80 | 624'763.95 |
| Other short-term liabilities | | | |
| - due to third parties | | 278'293.38 | 72'325.35 |
| - due to pension fund | | 37'246.35 | 0.00 |
| Accrued expenses and deferred income | 2.5 | 1'012'540.38 | 117'342.95 |
| | | 2'022'793.91 | 814'432.25 |
| **Long-term liabilities** | | | |
| Other long-term liabilities | | 21'465.65 | 0.00 |
| | | 2'044'259.56 | 814'432.25 |
| **Shareholders' equity** | | | |
| Share capital | 2.6 | 11'526'000.00 | 7'026'000.00 |
| Legal capital reserves | | | |
| - Reserves from capital contributions | | 10'230'304.58 | 5'916'802.68 |
| Accumulated losses brought forward | | -7'782'615.81 | -3'475'149.19 |
| Loss for the year | | -7'557'922.36 | -4'307'466.62 |
| | | 6'415'766.41 | 5'160'186.87 |
| | | 8'460'025.97 | 5'974'619.12 |

| **Income statement** | **Notes** | **2017/18** | **2016/17** |
|---|---|---|---|
| | | CHF | CHF |
| Revenue from sale of goods and services | 1.3 | 920'210.38 | 1'268'387.74 |
| **Total operating income** | | 920'210.38 | 1'268'387.74 |
| Raw materials and supplies | | -527'191.02 | -640'593.39 |
| Personnel expenses | | -1'599'066.92 | -1'502'186.05 |
| Other operating expenses | 2.7 | -5'606'325.63 | -2'828'671.10 |
| Depreciation on non-current assets | | -656'358.00 | -559'691.00 |
| **Total operating expenses** | | -8'388'941.57 | -5'531'141.54 |
| **Operating result** | | -7'468'731.19 | -4'262'753.80 |
| Financial expenses | | -13'149.87 | -44'665.62 |
| Prior period expenses | 2.8 | -65'174.00 | 0.00 |
| **Loss for the year before taxes** | | -7'547'055.06 | -4'307'419.42 |
| Direct taxes | | -10'867.30 | -47.20 |
| **Loss for the year** | | -7'557'922.36 | -4'307'466.62 |

## Notes

### 1. Principles

#### 1.1 General aspects

These financial statements were prepared according to the principles of the Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations). Where not prescribed by law, the significant accounting and valuation principles applied are described below. It should be noted that to ensure the company's going concern, the company's financial statements may be influenced by the creation and release of hidden reserves.

In order to ensure the comparability with the current year financial statements certain prior year figures have been reclassified and adapted to the new presentation.

#### 1.2 Inventories

Inventories are recorded at acquisition or manufacturing costs: If the net realizable value at the balance sheet date is lower than acquisition or manufacturing costs, net realizable values are used. Acquisition costs are calculated using the weighted average cost method, manufacturing costs using standard costs.

#### 1.3 Revenue recognition

Sales revenues are recorded when Favre Leuba AG has transferred the significant risks and rewards of ownership for the products sold to the customer and the recoverability of the receivables is reasonably assured. As a rule, this is when the goods are handed over to the customer (ex-works).

#### 1.4 Property, plant and equipment

Property, plant and equipment (PPE) is valued at acquisition or manufacturing costs less accumulated depreciation and impairment losses. PPE is depreciated using the straightline method. As soon as there are indicators that book values may be overstated, these are reviewed and, if necessary, adjusted.

The antique watches for representation purpose only (so called "non depreciable assets") are valued at acquisition cost. There are no regular depreciation of these assets.

#### 1.5 Intangible assets

The trade marks are valued at acquisition cost. The depreciation is recognised on a systematic basis over 10 years (straight line and indirect method).

#### 1.6 Leases

Leasing and rental contracts are recognised based on legal ownership. Therefore, any leasing or rental expenses are recognised as expenses in the period they are incurred; however, the leased or rented objects themselves are not recognised in the balance sheet.

| Notes | 2017/18 | 2016/17 |
|---|---|---|
| | CHF | CHF |

## 2. Disclosure on balance sheet and income statement items

### 2.1 Inventories

| | 2017/18 | 2016/17 |
|---|---|---|
| Finished trade goods | 3'003'659.17 | 1'331'438.05 |
| Marketing and promotional material | 296'987.84 | 170'606.02 |
| | 3'300'647.01 | 1'502'044.07 |

### 2.2 Investments

**Direct investments**

| Company name, domicile | Voting and capital rights in % | | Capital in CHF | |
|---|---|---|---|---|
| 10'000 ordinary shares of HKD 1 each in Titan Watch Company Ltd., Hongkong | 100 | 100 | 1'200.29 | 1'200.29 |

### 2.3 Property, plant and equipments, net

| | 2017/18 | 2016/17 |
|---|---|---|
| Machinery, devices | 55'720.35 | 60'226.35 |
| Tools | 284'209.03 | 166'611.42 |
| Furniture, installations | 26'404.53 | 22'976.72 |
| IT, communications technology | 143'093.47 | 64'611.20 |
| Exhibition stand | 212'297.95 | 338'733.00 |
| Antique watches | 43'256.52 | 43'256.52 |
| | 764'981.85 | 696'415.21 |

### 2.4 Intangible assets, net

| | 2017/18 | 2016/17 |
|---|---|---|
| Trade mark | 1'364'405.55 | 1'608'533.55 |
| Advertising film | 70'000.00 | 140'000.00 |
| | 1'434'405.55 | 1'748'533.55 |

| **Notes** | **2017/18** | **2016/17** |
|---|---|---|
| | CHF | CHF |
| **2.5 Accrued expenses and deferred income** | | |
| Accruals for advertising and PR | 879'988.00 | 0.00 |
| Other accrued expenses | 132'552.38 | 117'342.95 |
| | 1'012'540.38 | 117'342.95 |
| **2.6 Equity** | | |
| Share capital | 11'526'000.00 | 7'026'000.00 |
| Legal capital reserves | | |
| - Reserves from capital contributions | 10'230'304.58 | 5'916'802.68 |

During the financial year 2017/2018 there were two capital increases by cash injection. On November 14, 2017, the company increased its share capital by CHF 7,000k (par value CHF 3,500k, reserves from capital contributions CHF 3,500k). On March 21, 2018 the company increased its share capital by CHF 2,000k (par value CHF 1,000k, reserves from capital contributions CHF 1,000k). The issuing costs were not treated as an expense but deducted from the share premium (reserves from capital contributions).

As at March 31, 2018, the share capital consists of 1,152,600 registered shares at a par value of CHF 10 each.

The financial statements have been prepared on the assumptions of going concern. The Directors are aware, that the ability to continue as going concern is dependent on the continued financial support from the shareholder during the ramp-up phase of the business. The shareholder and the Board of Directors have approved the six year business plan from financial year 2018/19 until 2023/24 as well as the ongoing financial support by the Titan Company Limited at the meeting on May 10, 2018.

If for any reason the shareholder would not support the Company as described above and as a result the Company is unable to continue with the current working capital base, it could have an impact on the Company's ability to realise its assets at their recognised values and to extinguish liabilities in the normal course of business at the amounts stated in the financial statements.

| Notes | 2017/18 | 2016/17 |
| --- | --- | --- |
| | CHF | CHF |
| **2.7 Other operating expenses** | | |
| Premises' expenses | 46'630.54 | 45'616.09 |
| Repair and maintenance | 21'049.75 | 4'655.69 |
| Vehicles expenses | 19'486.09 | 26'012.43 |
| Insurances, duties, fees | 8'798.84 | 3'698.97 |
| Energy and waste disposal | 2'019.61 | 6'095.50 |
| Administrative expenses | 117'032.55 | 181'571.03 |
| IT expenses | 106'276.55 | 82'686.28 |
| Pubilicty | 2'791'793.06 | 1'748'166.10 |
| Research and Development expenses | 2'477'557.78 | 729'586.06 |
| Other expenses | 15'680.86 | 582.95 |
| | 5'606'325.63 | 2'828'671.10 |

**2.8 Prior period expenses**

The purchase of components of Soprod SA took place in 2015 and was considered as a down payment instead of an expense. The expenses are recognised in the income statement 2017/18 and are considered as prior period expense.

| Notes | 2017/18 | 2016/17 |
|---|---|---|
| | CHF | CHF |

**3.1 Ownership**

Favre Leuba AG is a wholly-owned subsidiary of Titan Company Limited, India.

**3.2 Full-time equivalents**

The annual average number of full-time equivalents for the reporting year, as well as the previous year, did not exceed 10.

**3.3 Leasing obligations**

The maturity of leasing obligations which have a residual maturity of more than twelve months or which cannot be cancelled within the next twelve months is as follows:

| | 2017/18 | 2016/17 |
|---|---|---|
| Up to 1 year | 13'674.60 | 13'674.60 |
| 1 - 5 year | 12'535.05 | 25'070.10 |
| | 26'209.65 | 38'744.70 |

These amounts include payments related to rental or leasing contracts up to the end of their contract.