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SINCERE WATCH (HONG KONG) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 444)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2023 AND RESUMPTION OF TRADING

FINANCIAL HIGHLIGHTS

- Revenue of the Group for the financial year ended 31 March 2023 ("FY2023") decreased by 34% from HK$148,719,000 to HK$98,212,000 when compared with last financial year ("FY2022") mainly due to decrease in revenue in Mainland China.
- Loss for FY2023 increased by 76% to HK$275,579,000 (FY2022: HK$156,819,000), mainly due to increase in provision for slow moving inventories and provision for impairment on property, plant and equipment during the year.
- Loss per share was 4.54 HK cents for FY2023 (FY2022: 2.59 HK cents).
- The Board does not recommend the payment of a final dividend for FY2023 (FY2022: Nil).

Reference is made to the announcement of Sincere Watch (Hong Kong) Limited (the "Company") dated 30 June 2023 in relation to the unaudited annual results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2023 (the "2023 Unaudited Annual Results Announcement").

AUDITED FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") of the Company announces that the Group's auditor, BDO Limited, has completed its audit of the consolidated financial statements of the Group for the year ended 31 March 2023 ("2023") in accordance with Hong Kong Standard on Auditing issued by Hong Kong Institute of Certified Public Accountants.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2023

	NOTES	**2023** *HK$'000*	2022 *HK$'000*
Revenue	*3*	**98,212**	148,719
Cost of sales		**(118,934)**	(91,880)
Gross (loss)/profit		**(20,722)**	56,839
Other income and other net gains and losses	*4*	**3,718**	1,633
Provision for impairment on property, plant and equipment		**(41,705)**	(11,074)
Selling and distribution costs		**(28,833)**	(34,992)
General and administrative expenses		**(110,585)**	(71,731)
Expected credit losses on financial assets		**(714)**	(1,285)
Reversal of expected credit losses on financial assets		**1,686**	222
Finance costs	*5*	**(20,293)**	(21,102)
Loss before taxation, exchange (loss)/gain, fair value changes of investment properties and financial assets at fair value through profit or loss		**(217,448)**	(81,490)
Realised exchange (loss)/gain		**(198)**	526
Unrealised exchange loss		**(3,122)**	(270)
Fair value change of investment properties	*10*	**(54,620)**	(74,730)
Fair value change of financial assets at fair value through profit or loss ("FVTPL")	*11*	**(135)**	1,172
Loss before taxation		**(275,523)**	(154,792)
Income tax expense	*6*	**(56)**	(2,027)
Loss for the year	*7*	**(275,579)**	(156,819)

	NOTE	2023 HK$'000	2022 HK$'000
Other comprehensive income, net of tax			
Item that will not be reclassified to profit or loss:			
Fair value change of financial assets measured at fair value through other comprehensive income ("FVOCI")		**507**	(41,561)
Item that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations		**(30,915)**	19,614
Other comprehensive income for the year		**(30,408)**	(21,947)
Total comprehensive income for the year		**(305,987)**	(178,766)
Loss for the year attributable to:			
Owners of the Company		**(274,500)**	(156,819)
Non-controlling interests		**(1,079)**	–
		(275,579)	(156,819)
Total comprehensive income attributable to:			
Owners of the Company		**(305,044)**	(178,766)
Non-controlling interests		**(943)**	–
Total comprehensive income for the year, net of income tax		**(305,987)**	(178,766)
Loss per share			
— basic and diluted	9	**(4.54 HK cents)**	(2.59 HK cents)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2023

	NOTES	**2023** **HK$'000**	2022 *HK$'000*
Non-current assets			
Property, plant and equipment		**29,903**	44,437
Investment properties	*10*	**428,550**	522,366
Financial assets at FVOCI	*12*	**8,401**	7,894
Other receivables	*14*	**24,730**	8,957
Deferred tax assets		**94**	94
		491,678	583,748
Current assets			
Inventories	*13*	**178,130**	280,810
Trade and other receivables	*14*	**39,529**	62,458
Financial assets at FVTPL	*11*	**1,333**	1,468
Bank balances and cash	*15*	**65,475**	89,723
		284,467	434,459
Current liabilities			
Trade and other payables	*16*	**159,055**	101,342
Contract liabilities		**4,397**	1,181
Lease liabilities		**26,931**	28,135
Loans and borrowings		**63,197**	13,649
Loan from a shareholder		**16,566**	24,326
Taxation payable		**47**	1,579
		270,193	170,212
Net current assets		**14,274**	264,247
Total assets less current liabilities		**505,952**	847,995

	NOTES	2023 HK$'000	2022 HK$'000
Non-current liabilities			
Loans and borrowings		**145,136**	171,755
Note payable	*17*	**24,000**	23,792
Loan from a shareholder		**45,045**	61,611
Lease liabilities		**50,327**	43,958
		264,508	301,116
Net assets		**241,444**	546,879
Capital and reserves			
Share capital	*18*	**120,879**	120,879
Reserves		**120,956**	426,000
		241,835	546,879
Non-controlling interest		**(391)**	–
Total equity		**241,444**	546,879

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2023

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 21 July 2004 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company acts as an investment holding company. The principal activities of the Group are distribution of branded luxury watches, timepieces and accessories in Hong Kong, Macau, Taiwan, Korea and the People's Republic of China (the "PRC") and property investment.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") which is also the functional currency of the Company.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs — effective 1 April 2022

In the current year, the Group has applied the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time.

Amendments to HKAS 37	Onerous Contracts — Costs of Fulfilling a Contract
Amendments to Hong Kong Accounting Standards ("HKAS") 16	Property, Plant and Equipment — Proceeds before Intended Use
Amendments to HKAS 41, HKFRS 1, HKFRS 9 and HKFRS 16	Annual Improvements to HKFRSs 2018–2020
Amendments to HKFRS 3	Reference to the Conceptual Framework

The adoption of the new or revised HKFRSs that are effective for the annual period beginning on or after 1 April 2022 did not have any significant impact on the Group's accounting policies, financial position and performance for the current and prior years, and/or the disclosures set out in the consolidated financial statements.

Amendments to HKAS 37, Onerous Contracts — Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (e.g. direct labour and materials) or an allocation of other costs that relate directly to fulfilling contracts (e.g. the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Amendments to HKAS 16, Property, Plant and Equipment — Proceeds before Intended Use

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, the proceeds from selling such items, and the cost of producing those items, is recognised in profit or loss.

Amendments to HKAS 41, HKFRS 1, HKFRS 9 and HKFRS 16, Annual Improvements to HKFRSs 2018–2020

The annual improvements amends a number of standards, including:

— HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, which permit a subsidiary that applies paragraph D16(a) of HKFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to HKFRSs.

— HKFRS 9, Financial Instruments, which clarify the fees included in the '10 per cent' test in paragraph B3.3.6 of HKFRS 9 in assessing whether to derecognise a financial liability, explaining that only fees paid or received between the entity and the lender, including fees paid or received by either the entity or the lender on other's behalf are included.

— HKFRS 16, Leases, which amend Illustrative Example 13 to remove the illustration of reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

— HKAS 41, Agriculture, which remove the requirement to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique.

Amendments to HKFRS 3, Reference to the Conceptual Framework

The amendments update HKFRS 3 so that it refers to the revised Conceptual Framework for Financial Reporting 2018 instead of the version issued in 2010. The amendments add to HKFRS 3 a requirement that, for obligations within the scope of HKAS 37, an acquirer applies HKAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of HK(IFRIC)-Int 21 Levies, the acquirer applies HK(IFRIC)-Int 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendments also add an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination.

(b) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's consolidated financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[2]
Amendments to HKAS 1	Non-current Liabilities with Covenants[2]
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies[1]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangement[2]
Amendments to HKAS 8	Definition of Accounting Estimates[1]
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules[1]
HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[2]
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction[1]

1 Effective for annual periods beginning on or after 1 January 2023

2 Effective for annual periods beginning on or after 1 January 2024

3 The amendments shall be applied prospectively to the sale or contribution of assets occurring in annual periods beginning on or after a date to be determined.

Amendments to HKAS 1, Classification of Liabilities as Current or Non-current and HK Interpretation 5 (2020), Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability and explain that rights are in existence if covenants are complied with at the end of the reporting period. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

HK Int 5 (2020) was revised as a consequence of the Amendments to HKAS 1 issued in August 2020. The revision to HK Int 5 (2020) updates the wordings in the interpretation to align with the Amendments to HKAS 1 with no change in conclusion and do not change the existing requirements.

Amendments to HKAS 1, Non-current Liabilities with Covenants

The amendments address the concerns raised by stakeholders on the effects of the amendments to HKAS 1 Classification of Liabilities as Current or Non-current related to classification of liabilities with covenants. Under the amendments, a covenant affects whether right to defer settlement exists at the end of the reporting period if compliance with the covenant is required on or before the end of the reporting period.

Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosure of Accounting Policies

The key amendments to HKAS 1 include:

- Requiring companies to disclose their material accounting policies rather than their significant accounting policies;

- Clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and

- Clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

Amended HKFRS Practice Statement 2 includes guidance and two additional examples on the application of materiality to accounting policy disclosures.

Amendments to HKAS 7 and HKFRS 7, Supplier Finance Arrangement

The amendments are about the presentation requirements for liabilities and associated cash flows arising out of supply chain financing arrangements and related disclosures.

Amendments to HKAS 8, Definition of Accounting Estimates

The amendments introduce a new definition for accounting estimates: clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

Amendments to HKAS 12, International Tax Reform — Pillar Two Model Rules

The amendments introduce a temporary exception to entities from the recognition and disclosure of information about deferred tax assets and liabilities related to Pillar Two model rules. The amendments also provide for additional disclosure requirements with respect to an entity's exposure to Pillar Two income taxes.

HKFRS 17, Insurance Contracts and the related Amendments

The new standard establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes HKFRS 4, Insurance Contracts. The standard outlines a 'General Model', which is modified for insurance contracts with direct participation features, described as the 'Variable Fee Approach'. The General Model is simplified if certain criteria are met by measuring the liability for remaining coverage using the Premium Allocation Approach.

Amendments to HKFRS 10 and HKAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. When the transaction with an associate or joint venture that is accounted for using the equity method, any gains or losses resulting from the loss of control of a subsidiary that does not contain a business are recognised in the profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, any gains or losses resulting from the remeasurement of retained interest in any former subsidiary (that has become an associate or a joint venture) to fair value are recognised in the profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Amendments to HKFRS 16, Lease liability in a Sale and Leaseback

The amendments impact how a seller-lessee accounts for variable lease payments that arise in a sale-and-leaseback transaction. The amendments introduce a new accounting model for variable payments and will require seller-lessees to reassess and potentially restate sale-and-leaseback transactions entered into since 2019.

Amendments to HKAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied prospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

The directors of the Company do not anticipate the application of these new/revised HKFRSs in future will have any significant impact on the Group's consolidated financial statements.

3. SEGMENT INFORMATION

The Group determines its operating segments based on the internal reports reviewed by the Executive Directors of the Company, who are the chief operating decision maker, that are used to allocate resources and assess performance. The Group has two business operations, being the watch distribution and property investment, which are for the analysis based on the geographical locations of the sales.

(a) Segment revenue and results

Segment results represent the loss before taxation by each segment and excluding interest income, other income, finance costs, depreciation of property, plant and equipment, provision for impairment on property, plant and equipment, ECLs on financial assets, reversal of ECLs on financial assets, fair value changes of investment properties and financial assets at FVTPL. Unallocated segment results mainly represent directors' remunerations, staff costs and professional fees. Unallocated assets mainly included right-of-use assets, financial assets at FVTPL and financial assets at FVOCI. Unallocated liabilities mainly included note payable and accruals. This is the measure reported to the Executive Directors for the purpose of resource allocation and assessment of segment performance.

The following tables set out information about the business and geographical location of the Group's revenue from external customers.

Year ended 31 March 2023

	Watch distribution				Property investment	Unallocated	
	Hong Kong *HK$'000*	Mainland China and Macau *HK$'000*	Other locations *HK$'000*	Sub-total *HK$'000*	Mainland China *HK$'000*	*HK$'000*	Total *HK$'000* *(Note)*
REVENUE							
External sales	47,484	30,671	10,552	88,707	9,366	139	98,212
RESULT							
Segment result	(103,701)	(4,162)	(5,337)	(113,200)	(15,431)	(8,224)	(136,855)
Interest income							159
Other income							3,559
Finance costs							(20,293)
Deprecation of property, plant and equipment							(26,605)
Provision for impairment on property, plant and equipment							(41,705)
ECLs on financial assets							(714)
Reversal of ECLs on financial assets							1,686
Fair value change of investment properties							(54,620)
Fair value change of financial assets at FVTPL							(135)
Loss before taxation							(275,523)
Income tax expense							(56)
Loss for the year							(275,579)
Segment assets	93,120	26,076	16,950	136,146	607,563	–	743,709
Unallocated assets	–	–	–	–	–	32,436	32,436
Total assets	93,120	26,076	16,950	136,146	607,563	32,436	776,145
Segment liabilities	(155,909)	(32,254)	(1,820)	(189,983)	(235,402)	–	(425,385)
Unallocated liabilities	–	–	–	–	–	(109,316)	(109,316)
Total liabilities	(155,909)	(32,254)	(1,820)	(189,983)	(235,402)	(109,316)	(534,701)
Additions to non-current assets	11,628	7,801	1,478	20,907	4,790	28,711	54,408

Year ended 31 March 2022

	Watch distribution				Property investment	Unallocated	
	Hong Kong *HK$'000*	Mainland China and Macau *HK$'000*	Other locations *HK$'000*	Sub-total *HK$'000*	Mainland China *HK$'000*	*HK$'000*	Total *HK$'000* *(Note)*
REVENUE							
External sales	55,824	68,669	11,923	136,416	12,303	–	148,719
RESULT							
Segment result	(5,152)	(1,253)	(5,397)	(11,802)	(8,867)	1,927	(18,742)
Interest income							667
Other income							966
Finance costs							(21,102)
Deprecation of property, plant and equipment							(30,886)
Provision for impairment on property, plant and equipment							(11,074)
ECLs on financial assets							(1,285)
Reversal of ECLs on financial assets							222
Fair value change of investment properties							(74,730)
Fair value change of financial assets at FVTPL							1,172
Loss before taxation							(154,792)
Income tax expense							(2,027)
Loss for the year							(156,819)
Segment assets	268,601	86,787	36,796	392,184	613,954	–	1,006,138
Unallocated assets	–	–	–	–	–	12,069	12,069
Total assets	268,601	86,787	36,796	392,184	613,954	12,069	1,018,207
Segment liabilities	(113,225)	(41,141)	(1,148)	(155,514)	(202,965)	–	(358,479)
Unallocated liabilities	–	–	–	–	–	(112,849)	(112,849)
Total liabilities	(113,225)	(41,141)	(1,148)	(155,514)	(202,965)	(112,849)	(471,328)
Additions to non-current assets	21,373	10,724	531	32,628	26	–	32,654

Note: Revenue generated from sales of Franck Muller products which were accounted for 88.4%, 91.2% and 93.2% of total revenue of the Group for the year ended 31 March 2023, 2022 and 2021 respectively.

(b) Disaggregation of revenue

In the following table, revenue is disaggregated by primary geographical markets, major products and service lines and timing on revenue recognition. The table also includes a reconciliation of the disaggregated revenue with the Group's reportable segment.

For the year ended 31 March 2023

	Watch distribution *HK$'000*	Property investment *HK$'000*	Others *HK$'000*	Total *HK$'000*
Primary geographical markets				
Hong Kong	**47,484**	**–**	**–**	**47,484**
Mainland China and Macau	**30,671**	**9,366**	**139**	**40,176**
Other locations *(Note)*	**10,552**	**–**	**–**	**10,552**
	88,707	**9,366**	**139**	**98,212**
Major products and services				
Wholesales of watch	**48,527**	**–**	**–**	**48,527**
Retail sales of watch	**36,831**	**–**	**–**	**36,831**
Repair of watch	**3,349**	**–**	**–**	**3,349**
Rental income	**–**	**9,366**	**–**	**9,366**
Others	**–**	**–**	**139**	**139**
	88,707	**9,366**	**139**	**98,212**
Timing of revenue recognition				
At a point in time	**88,707**	**–**	**139**	**88,846**
Revenue from contracts with customers	**88,707**	**–**	**139**	**88,846**
Leases	**–**	**9,366**	**–**	**9,366**
	88,707	**9,366**	**139**	**98,212**

For the year ended 31 March 2022

	Watch distribution HK$'000	Property investment HK$'000	Total HK$'000
Primary geographical markets			
Hong Kong	55,824	–	55,824
Mainland China and Macau	68,669	12,303	80,972
Other locations *(Note)*	11,923	–	11,923
	136,416	12,303	148,719
Major products and services			
Wholesales of watch	43,889	–	43,889
Retail sales of watch	88,687	–	88,687
Repair of watch	3,840	–	3,840
Rental income	–	12,303	12,303
	136,416	12,303	148,719
Timing of revenue recognition			
At a point in time	136,416	–	136,416
Revenue from contracts with customers	136,416	–	136,416
Leases	–	12,303	12,303
	136,416	12,303	148,719

Note: Other locations include Taiwan and other.

Information about major customers

Revenue for major customers, each of whom amounted to 10% or more of the Group's revenue for the years ended 31 March 2023 and 2022, is set out below:

	2023 ***HK$'000***	2022 *HK$'000*
Customer A[1]	**11,427**	–[2]

[1] Revenue from Customer A is attributable to watch distribution business.

[2] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

Other segment information

The information of the Group's non-current assets other than financial instruments and deferred tax assets by geographical location is detailed below:

	2023	2022
	HK$'000	*HK$'000*
Hong Kong	**–**	7,794
Mainland China and Macau	**458,453**	558,367
Other locations	**–**	642
	458,453	566,803

4. OTHER INCOME AND OTHER NET GAINS AND LOSSES

	2023	2022
	HK$'000	*HK$'000*
Interest income	**159**	667
Rent concession *(Note (a))*	**1,428**	1,006
Loss on modification of note payable *(note 17)*	**–**	(1,931)
Government subsidy *(Note (b))*	**1,613**	194
Others	**518**	1,697
	3,718	1,633

Note:

(a) Rent concession represents the change in lease payment occurred as a direct consequence of COVID-19-related rent concession of HK$1,428,000 (2022: HK$1,006,000).

(b) During the year ended 31 March 2023, the Group applied for a government support program introduced in response to the global pandemic. Included in profit or loss is HK$1,613,000 of government grants obtained relating to supporting the payroll of the Group's employees. The Group had to commit to spending the assistance on payroll expenses, and not reducing employee head count below prescribed levels for a specified period of time. The Group does not have any unfulfilled obligations relating to this program.

5. FINANCE COSTS

	2023	2022
	HK$'000	*HK$'000*
Interest on note payable	**208**	1,029
Interest on lease liabilities	**4,697**	4,801
Interest on loan from a shareholder	**4,403**	5,135
Interest on loans and borrowings	**10,985**	10,137
	20,293	21,102

6. INCOME TAX EXPENSE

	2023	2022
	HK$'000	*HK$'000*
The charge comprises:		
Current tax		
Hong Kong	**–**	–
Other jurisdictions	**–**	–
	–	–
Under provision in prior years:		
Hong Kong	**–**	–
Other jurisdictions	**56**	2,027
	56	2,027
Deferred tax charge		
Current year	**–**	–
	56	2,027

Under the two-tiered profits tax rates regime of Hong Kong Profits Tax, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. All the Group's subsidiaries in Hong Kong did not have any assessable profits for both years ended 31 March 2023 and 2022.

The subsidiaries in the PRC and Macau are subject to the enterprise income tax and complementary tax respectively.

Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

7. LOSS FOR THE YEAR

Loss before taxation is arrived at after charging/(crediting):

	2023	2022
	HK$'000	*HK$'000*
Directors' remuneration	**3,753**	4,739
Other staff costs	**34,481**	31,772
Other staff's retirement benefits scheme contributions	**1,324**	1,142
Total staff costs	**39,558**	37,653
Auditor's remuneration	**1,780**	1,100
Depreciation of property, plant and equipment	**26,605**	30,886
Short-term lease expenses *(Note (a))*	**330**	863
Rent concession *(Note 4)*	**(1,428)**	(1,006)
Loss on modification of note payable *(Note 17)*	**–**	1,931
Cost of inventories recognised as an expense (including write-down of inventories HK$35,446,000 (2022: HK$2,479,000))	**118,934**	91,880
Direct operating expenses arising from investment property that generated rental income during the year	**643**	896
Provision for impairment of property, plant and equipment	**41,705**	11,074
ECLs on financial assets	**714**	1,285
Reversal of ECLs on financial assets	**(1,686)**	(222)

Notes:

(a) The short-term lease expenses in respect of rented premises excluded contingent rent of HK$259,000 for the year ended 31 March 2023 (2022: HK$1,808,000). Contingent rent was charged by the lessors if certain percentage of turnover of the related boutiques reached the minimum levels as stated in the tenancy agreements.

8. DIVIDEND

During the year ended 31 March 2023, no final dividend for the year ended 31 March 2022 was declared and paid (2022: no final dividend declared and paid in respect of the year ended 31 March 2021).

The Board does not propose the payment of a final dividend for the years ended 31 March 2023 and 31 March 2022.

9. LOSS PER SHARE

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

	2023	2022
	HK$'000	*HK$'000*
Loss for the year attributable to owners of the Company	**(274,500)**	(156,819)

	2023	2022
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**6,043,950**	6,043,950

Diluted loss per share for the years ended 31 March 2023 and 2022 are the same as the basic loss per share as there were no dilutive potential ordinary shares outstanding during both years.

10. INVESTMENT PROPERTIES

	2023	2022
	HK$'000	*HK$'000*
At 1 April	**522,366**	574,622
Fair value change	**(54,620)**	(74,730)
Exchange realignment	**(39,196)**	22,474
At 31 March	**428,550**	522,366

The fair value of the Group's investment properties as at 31 March 2023 have been arrived on the basis of valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL"). JLL is an independent qualified professional valuer to the Group. It has appropriate qualifications and recent experiences in the valuation of properties in the PRC.

The valuation of the investment properties as at 31 March 2023 is determined using the Income Approach by taking into account the net rental income of a property derived from its existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalised to determine the fair value at an appropriate capitalisation rate. Where appropriate, reference has also been made to the comparable sale transactions as available in the relevant market.

Rental income of HK$9,366,000 from investment properties was recognised during the year ended 31 March 2023 (2022: HK$12,303,000).

As at 31 March 2023 and 31 March 2022, the Group's investment properties are pledged to banks to secure bank loans of RMB138,800,000 (equivalent to HK$158,621,000) and RMB150,100,000 (equivalent to HK$185,404,000) to the Group respectively.

11. FINANCIAL ASSETS AT FVTPL

	Notes	2023 HK$'000	2022 HK$'000
Listed equity securities in Hong Kong			
Listed equity securities in Hong Kong	*(a)*	**157**	145
Delisted equity securities in Hong Kong	*(a)*	**1,176**	1,323
Total financial assets at FVTPL		**1,333**	1,468
Classified as			
Current asset		**1,333**	1,468

Notes:

(a) The fair values of listed equity securities are based on quoted market prices, except for certain listed equity securities whose trading on the Stock Exchange has been delisted by the Stock Exchange (the "Delisted Shares"). The fair values of Delisted Shares were determined with reference to the valuations performed by an independent professional valuer.

The movement in listed equity securities are summarised as follows:

	HK$'000
As at 1 April 2021	4,256
Disposal during the year	(3,960)
Fair value change of financial assets measured at FVTPL	1,172
As at 31 March 2022 and 1 April 2022	1,468
Fair value change of financial assets measured at FVTPL	(135)
As at 31 March 2023	1,333

12. FINANCIAL ASSETS AT FVOCI

	2023	2022
	HK$'000	*HK$'000*
Listed equity securities in Hong Kong	**8,401**	7,894

The Group designated its investment at FVOCI, as it is held for strategic purpose. No dividends were received on this investment during the year (2022: Nil).

The movement in listed equity securities are summarised as follows:

	HK$'000
As at 1 April 2021	49,455
Fair value change of financial assets measured at FVOCI	(41,561)
As at 31 March 2022 and 1 April 2022	7,894
Fair value change of financial assets measured at FVOCI	507
As at 31 March 2023	8,401

13. INVENTORIES

All inventories are finished goods at the end of both reporting periods. As at 31 March 2023, Franck Muller products accounted for approximately 99.5% of the Group's total inventories. During the year ended 31 March 2023, an allowance for inventories of HK$35,446,000 (2022: HK$2,479,000) was made for write-down of obsolete and slow-moving inventories.

Under the Exclusive Distributor Agreement ("EDA") signed between Multicontinental Distribution (Asia) DMCC ("Multicontinental") and Sincere Brand Management Limited ("SBML"), a wholly-owned subsidiary of the Group, the Group has to purchase not less than CHF40 million (equivalent to HK$344 million) worth of Franck Muller watches annually ("minimum purchase").

For the year ended 31 March 2023, the Group did not meet the minimum purchase amount by CHF37.7 million (equivalent to HK$324.4 million). As at 31 March 2023, the cumulative shortfall in minimum purchase since 1 April 2019 amounted to CHF134.6 million (equivalent to HK$1,123.6 million).

As a matter of Swiss law, any potential loss of profit in shortfall of minimum purchase should be calculated on the basis of the net profit which Multicontinental would have made, had the minimum purchases been complied with by SBML.

14. TRADE AND OTHER RECEIVABLES

	2023	2022
	HK$'000	*HK$'000*
Current assets		
Trade receivables	**24,001**	36,216
Less: ECLs of trade receivables *(Note (a))*	**(15,301)**	(16,787)
Trade receivables *(Note (a))*	**8,700**	19,429
Non-current assets		
— Other receivables *(Note (c))*	**6,578**	988
— Rental deposits	**5,347**	8,217
— Prepayment *(Note (d))*	**14,578**	–
Current assets		
— Other receivables *(Note (c))*	**10,375**	23,772
— Rental, utility and other deposits	**6,149**	8,126
— Prepayments *(Note (d))*	**15,476**	14,378
	58,503	55,481
Less: ECLs of other receivables *(Note (b))*	**(2,944)**	(3,495)
Other receivables, deposits and prepayments	**55,559**	51,986
Total trade and other receivables	**64,259**	71,415
Classified as		
Non-current assets		
— Other receivables	**4,805**	740
— Deposits	**5,347**	8,217
— Prepayment	**14,578**	–
	24,730	8,957
Current assets		
— Trade receivables	**8,700**	19,429
— Other receivables	**9,204**	20,525
— Deposits	**6,149**	8,126
— Prepayments	**15,476**	14,378
	39,529	62,458
Total trade and other receivables	**64,259**	71,415

Note (a): The Group generally 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 allowances) based on the invoice dates at the end of the reporting period, which approximate the respective revenue recognition dates:

	2023	2022
	HK$'000	*HK$'000*
Within 30 days	**8,047**	17,510
31–90 days	**2**	1,274
Over 90 days	**651**	645
	8,700	19,429

Management closely monitors the credit quality of trade and other receivables and considers trade and other receivables that are neither past due nor impaired are of good credit quality.

As at 31 March 2023, loss allowances of HK$15,301,000 (2022: HK$16,787,000) were made against the gross amount of trade receivables.

Movement in the loss allowances amount in respect of trade receivables during the year is as follows:

	Credit — impaired	**Not Credit — impaired**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Balance as at 1 April 2021	15,499	222	15,721
ECLs recognised during the year	–	652	652
Reversal of ECLs recognised	–	(222)	(222)
Exchange realignment	636	–	636
Balance as at 31 March 2022 and 1 April 2022	**16,135**	**652**	**16,787**
ECLs recognised during the year	**–**	**373**	**373**
Reversal of ECLs recognised	**–**	**(652)**	**(652)**
Exchange realignment	**(1,207)**	**–**	**(1,207)**
Balance as at 31 March 2023	**14,928**	**373**	**15,301**

Note (b): As at 31 March 2023, loss allowances of HK$2,944,000 (2022: HK$3,495,000) were made against the gross amount of other receivables.

Movement in the loss allowances amount in respect of other receivables during the year is as follows:

	HK$'000
Balance as at 1 April 2021	2,820
ECLs recognised during the year	633
Exchange realignment	42
Balance as at 31 March 2022 and 1 April 2022	**3,495**
ECLs recognised during the year	**341**
Reversal of ECLs recognised	**(1,034)**
Exchange realignment	**142**
Balance as at 31 March 2023	**2,944**

Note (c): As at 31 March 2023, other receivables including loans to independent third parties of HK$8,149,000 (2022: HK$17,739,000) at interest rates ranging from 0.3% to 12% (2022: ranging from 0.3% to 12%) per annum, in which HK$3,200,000 (2022: HK$3,459,000) are secured by personal guarantee and corporate guarantee. Except the amount of HK$6,578,000 (2022: HK$1,371,000) with 2 years repayment terms, all of the other receivables are expected to be recovered within one year.

Note (d): As at 31 March 2023, prepayment to independent third parties of HK$3,954,000 and HK$14,578,000 (2022: HK$4,274,000 and nil) are related to the purchase of goods for trading purpose and leasehold improvement for non-current assets respectively.

15. BANK BALANCES AND CASH

	2023	2022
	HK$'000	*HK$'000*
Cash at bank	**51,434**	71,199
Pledged bank deposits *(Note)*	**13,714**	14,822
Restricted bank deposits *(Note)*	**327**	3,702
Bank balances and cash	**65,475**	89,723

Bank balances and cash comprise cash at bank, pledged bank deposits and restricted bank deposits. Cash at bank is held by the Group at prevailing market interest rates ranging from 0.3% to 2.25% (2022: 0.3% to 2.25%) per annum.

At 31 March 2023, cash at bank of HK$17,000 (2022: HK$17,000) was deposited in the security accounts of a related party which is a company engaged in dealing and advising in securities services.

Note: At 31 March 2023, bank deposits are pledged as collateral against the Group's bank borrowing.

16. TRADE AND OTHER PAYABLES

	2023	2022
	HK$'000	*HK$'000*
Trade payables	**57,960**	31,139
Accrued charges	**50,509**	51,097
Other payables	**25,093**	19,106
Provision on legal and professional fee *(Note)*	**25,493**	–
	159,055	101,342

Note: A provision on legal and professional fee regarding to the Arbitration of HK$25,493,000 is recognised for the year (2022: Nil). Details of the Arbitration are set out in Note 19.

The credit period on purchase from suppliers is generally ranging from 30 to 270 days.

The following is an aged analysis based on the invoice dates of trade payables:

	2023	2022
	HK$'000	*HK$'000*
Within 90 days	**6,060**	13,445
91 days–365 days	**29,235**	16,265
Over 365 days	**22,665**	1,429
	57,960	31,139

The Group's trade payables that are denominated in Swiss franc ("CHF"), Euro ("EUR") and Renminbi ("RMB"), which are currencies other than functional currency of the relevant group entities are set out below:

	2023	2022
	HK$'000	*HK$'000*
Denominated in CHF	**49,372**	30,918
Denominated in EUR	**50**	221
Denominated in RMB	**8,538**	–

17. NOTE PAYABLE

The promissory note is unsecured and non-interest bearing and repayable on 30 June 2023. It is measured at amortised cost using the effective interest method of 3.6%.

	2023	2022
	HK$'000	*HK$'000*
Classified as		
Non-current liabilities	**24,000**	23,792

On 16 October 2019, the holder of the promissory note entered into a Deed of Assignment with the Company and an independent third party to assign the promissory note to the independent third party with the principal amount and the terms remained the same.

On 29 April 2020, the Company obtained a deed of undertaking from the holder of the promissory note who has agreed not to demand for repayment of the promissory note before 31 August 2020. On 18 May 2020, the Company entered into Supplementary Deed of Assignment with the independent third party and the holder of the promissory note to extend the maturity date of the promissory note to 31 August 2020.

On 22 June 2020, the Company obtained a deed of undertaking from the holder of the promissory note who has agreed not to demand for repayment of the promissory note before 30 June 2021.

On 31 March 2021, the Group, Aquamen, the Guarantor and holder of the promissory note entered into a Deed of Assignment. Based on the terms of the Deed of Assignment, the Group agreed to execute the Deed of Assignment and assigned to holder of the promissory note all its rights, title and interests in relation to the other long term investment with principal amount of HK$45,000,000 and related investment return (together classified as financial assets at FVTPL) for partial settlement of the promissory note in the amount of HK$54,000,000 without recourse.

On 31 March 2021 and after the Deed of Assignment was signed, the Company further obtained a deed of undertaking from the holder of the promissory note who has agreed not to demand for repayment of the promissory note before 30 June 2022. All other terms in the promissory note shall remain valid and in force.

The Deed of Assignment and deed of undertaking are linked arrangement and a gain on modification of note payable amounted to HK$4,179,000 was recognised in other income and other net gains and losses for the year ended 31 March 2021.

On 20 April 2021, the Group and the holder of promissory note entered into a Power of Attorney. Base on the terms of the Power of Attorney, the Group agreed to repay amounting to RMB60,000,000 (equivalent to HK$72,000,000) for partial repayment of the promissory note. All other terms in the promissory note remain valid and in force. A loss on modification of note payable amounted to HK$1,931,000 (note 4) was recognised in other income and other net gains and losses for the year ended 31 March 2022.

On 30 March 2022, the Company further obtained an extension letter from the holder of the promissory note who has agreed not to demand for repayment of the promissory note before 30 June 2023. All other terms in the promissory note shall remain valid and in force.

On 31 March 2023, the Company further obtained an extension letter from the holder of the promissory note who has agreed not to demand for repayment of the promissory note before 30 June 2024. All other terms in the promissory note shall remain valid and in force.

18. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Authorised:		
At 1 April 2022/2021 and 31 March 2023/2022		
— Ordinary shares of HK$0.02 each	20,000,000,000	400,000
Issued and fully paid:		
At 1 April 2022/2021 and 31 March 2023/2022		
— Ordinary shares of HK$0.02 each	6,043,950,000	120,879

19. ARBITRATION AND CONTINGENT LIABILITIES

The Company published announcements on 7 December 2022, 20 January 2023 and 7 March 2023, in relation to an arbitration (the "Arbitration") concerning a dispute between Sincere Brand Management Limited ("SBML", an indirect wholly-owned subsidiary of the Company) (as claimant) and Multicontinental Distribution (Asia) DMCC ("Multicontinental") and GFM Watchland SA (collectively, the "Respondents") on the alleged termination by Multicontinental of SBML's exclusive distributorship of Franck Muller timepieces and watch accessories and spare parts in the PRC, Hong Kong, Macau and Taiwan (the "Exclusive Territory") under an Exclusive Distributor Agreement dated 15 June 2018 and entered into between SBML and the Respondents (the "EDA").

SBML seeks remedies including but not limited to: (i) declaration that all notices of termination of the EDA were null and void and ineffective; (ii) declaration that the EDA is still valid and is not terminated; or, alternatively, damages for wrongful termination of contract to be assessed; (iii) damages for wrongful intervention of SBML's business within the Exclusive Territory; (iv) costs incurred for any interim proceedings; and (v) all costs and legal fees on a full-indemnity basis plus interest.

On the other hand, Multicontinental sought declarations in relation to the termination of the EDA and damages sustained due to, including but not limited to, SBML's failure to meet the guaranteed minimum annual purchases and certain consignment goods held by the Group.

In the Arbitration, Multicontinental asserted the monetary counterclaims against SBML at the amount of approximately CHF 71.4 million (equivalent to approximately HK$613.8 million) for potential loss corresponding to SBML's failure to meet annual minimum purchases for the years 2021 and 2022 under the EDA, which allegedly constituted a breach of the EDA and SBML disputes Multicontinental's counterclaim challenging all grounds relied upon by the Multicontinental on the basis of the negative detrimental impact of parallel imports in the market and the Covid-19 pandemic. On the other hand, while the counterclaim in the Arbitration only concerns years 2021 and 2022, it cannot be precluded that Multicontinental may claim against SBML for the potential loss to unfulfilled annual minimum purchases for the years 2019 and 2020 under the EDA. The Company intends to vigorously defend all counterclaim(s) concerning the minimum purchase amount for years 2019 and 2020 based on the same grounds as stated above. Taking into consideration the Swiss legal advice, the directors of the Company consider that it is more likely that no present obligation to compensate the potential loss to unfulfilled annual minimum purchases for years 2019 and 2020 exists as at 31 March 2023 since such claim would be a belated claim.

The directors of the Company were advised by the Company's Swiss legal advisers that the termination of the EDA was wrongful and without legal basis. Base on Swiss legal advice, the directors of the Company consider that Multicontinental has caused and is still causing substantial damage and losses to SBML arisen from the termination of the EDA. The Company has also sought an expert report from a prominent Swiss law professor who specializes in contract law. The conclusion reached by the Swiss law expert is that SBML has a prima facie case regarding the merits of the dispute.

Based on the Swiss legal advice and expert report mentioned above, the directors of the Company are of the view that SBML has a prima facie case to succeed on the merits of the dispute, and, therefore, it is more likely that the Group has no present obligation to compensate the alleged loss. Notwithstanding this, should SBML fails the Arbitration, it is anticipated that the compensation for potential loss would not be the full amount of the counterclaims asserted by Multicontinental in the Arbitration. The directors of the Company estimate the potential loss to be amounted to approximately CHF14 million (equivalent to HK$118 million) by applying net profit margin in the range of 3.71% to 14.58% in the cumulative shortfall in minimum purchase since 1 April 2019 (refer to Note 13) is not a probable outcome of the Arbitration. The above range of net profit margin was determined with reference to the valuation performed by an independent professional valuer.

In addition, in the Arbitration, Multicontinental demands for the return of consignment goods of approximately CHF77.1 million (equivalent to HK$663.3 million) which are held by SBML as at 31 March 2023. At the same time Multicontinental's possesses of repair watches owned by SBML at substantial amounts. SBML exercises a lien on the consignment goods due to unresolved issues regarding the unrecovered repair watches, establishing a complex legal dynamic between the parties. In the opinion of the directors of the Company, it is not practicable to estimate the financial effect as at 31 March 2023.

Multicontinental also counterclaims a 5% interest on the outstanding invoices of CHF4.9 million (equivalent to approximately HK$42.3 million) payable by SBML. The estimated interest of CHF0.2 million (equivalent to approximately HK$2.1 million) is recognised and included in provision on legal and professional fee (Note 16).

The Company has obtained financial facility from third parties of which would provide sufficient financial support to the Company to settle its financial obligations, if any.

Except as disclosed in Note 13 and above, the Group had no other material contingent liabilities as at 31 March 2023.

MATERIAL DIFFERENCES BETWEEN 2023 AUDITED ANNUAL RESULTS AND 2023 UNAUDITED ANNUAL RESULTS ANNOUNCEMENT

Since the financial information contained in the 2023 Unaudited Annual Results Announcement was not audited by the Auditor as at the date of its publication and subsequent adjustments have been made to such information upon completion of the auditing process, shareholders of the Company and potential investors are advised to pay attention to the following differences between the financial information of the audited annual results of the Group for the year ended 31 March 2023 (the "2023 Audited Annual Results") disclosed in this announcement and that disclosed in the 2023 Unaudited Annual Results Announcement.

Set forth below are details and reason for the material differences in such financial information in accordance with Rule 13.49(3)(ii)(b) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

Financial items	2023 Audited Annual Results disclosure in this announcement	Disclosure in 2023 Unaudited Annual Results Announcement	Difference Increase/ (Decrease)	Reason
	HK$'000	*HK$'000*	*HK$'000*	
Consolidated Statement of Profit or Loss				
Costs of sales	118,934	79,778	39,156	*(a)*
Provision for impairment on property, plant and equipment	41,705	16,368	25,337	*(b)*
General and administrative expenses	110,585	84,994	25,591	*(c)*
Consolidated Statement of Financial Position				
Non-current assets				
Property, plant and equipment	29,903	55,240	(25,337)	*(b)*
Other receivables	24,730	10,152	14,578	*(d)*
Current assets				
Inventories	178,130	217,286	(39,156)	*(a)*
Trade and other receivables	39,529	54,107	(14,578)	*(d)*
Current liabilities				
Trade and other payables	159,055	133,464	25,591	*(c)*

Notes:

(a) Increase in provision for slow moving inventories

(b) Increase in provision for impairment of property, plant and equipment

(c) Increase mainly due to provision for legal and professional fee

(d) Reclassification of prepayment from current assets to non-current assets

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue for the year ended 31 March 2023 decreased by 34.0% from HK$148.7 million to HK$98.2 million when compared with last financial year. It was mainly attributable to decrease in revenue in watch distribution due to the reduction in number of tourists and weaker local consumption attributable to pandemic preventive measures implemented by Mainland China, Hong Kong and Macau governments and weakened consumer sentiment amidst economic downturn.

Gross loss of the Group is HK$20.7 million in FY2023 compared with gross profit of HK$56.8 million in FY2022, representing a gross loss margin of 21.1% in FY2023 compared with a gross profit margin of 38.2% in FY2022. The increase in loss was mainly due to increase in provision of slow moving inventory during the year.

Selling and distribution costs decreased by 17.6% from HK$35.0 million last year to HK$28.8 million, mainly due to savings from rental expenses for boutiques. General and administrative expenses increased by 54.2% from HK$71.7 million last year to HK$110.6 million, mainly due to increase in provision for legal and professional fee related to Arbitration.

Realised foreign exchange loss of the Group was HK$0.2 million in FY2023 as compared with a gain of HK$0.5 million in FY2022. Unrealised exchange loss was HK$3.1 million in FY2023 as compared with a loss of HK$0.3 million in FY2022. Loss on fair value change of investment properties was HK$54.6 million in FY2023 as compared with HK$74.7 million in FY2022. There was a loss of HK$0.1 million on fair value change of financial assets at fair value through profit or loss ("FVTPL") in FY2023 as compared with a gain of HK$1.2 million in FY2022.

Unrealised exchange difference arose from receivables and payables denominated in foreign currencies, which were translated at the exchange rates prevailing at the balance sheet dates. Any differences in valuation were then recognised in the consolidated statement of profit or loss as unrealised gains or losses.

Excluding the realised and unrealised exchange differences, fair value changes of investment properties and financial assets at FVTPL, the Group's loss before taxation was HK$217.4 million in FY2023 against HK$81.5 million in FY2022.

Net loss was HK$275.6 million in FY2023 as compared to HK$156.8 million in FY2022, primarily attributable to increase in provision for slow moving inventories and provision for impairment in property, plant and equipment due to impairment loss of right-of-use assets in respect of leased boutiques and offices.

Loss per share was 4.54 HK cents in FY2023 against 2.59 HK cents in FY2022. Net asset value per share was 4.0 HK cents as at 31 March 2023 against 9.0 HK cents as at 31 March 2022.

Trade receivables decreased from HK$19.4 million as at 31 March 2022 to HK$8.7 million as at 31 March 2023.

BUSINESS REVIEW

The Group is the sole distributor of FRANCK MULLER luxury watches and accessories in Hong Kong, Macau, Taiwan and Mainland China pursuant to the Exclusive Distribution Agreement. The Group also represents three other luxury brands — CVSTOS, Pierre Kunz and European Company Watch.

Distribution network and market penetration

The Group has established its distribution network with 50 retail points of sales and 11 boutiques, making a total of 61 points (31 March 2022: 59).

Other than the 5 boutiques operated by the Group, the remaining 56 watch retail outlets are operated by 26 independent watch dealers throughout our key markets such as Hong Kong, Macau, Taiwan and Mainland China.

Brand enhancement activities

The Group aims not only to create but also to sustain brand value among our discerning customers. As such, we have undertaken a number of brand enhancement activities to reinforce the brand leadership with premium product imagery and focused product placements in relevant media.

The Group has also consistently embarked on niche marketing initiatives to build its image and desirability as one of the leading international watch brands. This included several unique events in our key markets with the aims of increasing brand exposure and extending brand networking.

Mainland China

16–19 June 2022

FRANCK MULLER Hangzhou Tower Boutique Opening

FRANCK MULLER unveiled the new concept boutique in Hangzhou Tower, a prime shopping location in the landmark of Hangzhou City with excellent visibility and accessibility. Upholding the brand's pioneering design aesthetics, the concept boutique strives to lead guests to delve deeper into the world of Haute Horlogerie. A branded colorful popcorn stand was displayed at the shop front together with complimentary summer drinks for clients to enjoy while welcoming them for a horological journey at the new FRANCK MULLER boutique.

30 July 2022

Chinese Valentine's Day — Shenyang Mix C Boutique

To celebrate the Qixi Festival, VIPs were invited to attend this special event hosted at Shenyang Mix C Mall VIP lounge. Guests were pleased to kick off the event with watch presentation to reveal the latest collection, followed by a DIY Aroma Plaster workshop to customize the scents that suits their own taste.

10–11 December 2022

FRANCK MULLER Shenzhen Mix C VIP event

Upholding the brand's pioneering design aesthetics, the Shenzhen Mix C concept boutique strives to lead guests to delve deeper into the world of Haute Horlogerie. Guests were pleased to kick off the event with watch presentation to reveal the latest collection, followed by a crafty painting workshop to customize the watch drawing that suits their own color preference.

17–18 December 2022

Christmas — Xiamen Mix C Boutique

To tie-in with Christmas, esteemed guests were invited to FRANCK MULLER boutique to reveal the Cintrée Curvex collection. Guests enjoyed discovering the luxury timepieces while participating in a portrait painting by an illustrator.

Hong Kong

5–7, 11–14 May 2022

Exclusive Premium Skincare and Floral Workshop

To tie-in with Mother's Day, esteemed guests were invited to the FRANCK MULLER flagship boutique in Central to reveal the latest Vanguard Aqua Bleu and Cintrée Curvex Two-tone Collection. Guests were pleased to customize their own preserved roses with dazzled iconic numerals, followed by a prestige hand massage by premium skincare brand, AMOREPACIFIC to experience the reactivation of clock gene. Guests enjoyed a splendid afternoon tea while admiring the latest fascinating ladies' collection.

21 June 2022

FRANCK MULLER x Yes Watch VIP Dinner

Together with the prestige retail partner Yes Watch and the exceptional Speyside single malt whisky brand, The Glenrothes, FRANCK MULLER hosted a VIP dinner at the Central flagship boutique to unveil the latest Vanguard Aqua Bleu Collection. The esteemed guests enjoyed a scrumptious menu prepared by The Mandarin Oriental, while revealing the latest timepiece collection. The co-hosted event tributes to clients with refined taste who appreciate exceptional quality and fine craftsmanship.

8–12 September 2022

World Brand Piazza 2022

Prince Jewellery & Watch Company gathered 12 world renowned watch brands and successfully hosted the 12th edition of World Brand Piazza at the Hong Kong Watch & Clock Fair. Dedicated exhibition areas were honoured to FRANCK MULLER and CVSTOS to display the latest novelties. FRANCK MULLER presented the hero piece, The Skafander, bestowed with a tonneau-shaped case as well as an innovative solution to adjust the dive bezel, while CVSTOS unveiled Sealiner Sapphire showcased in a sophisticated full sapphire crystal case that combines timeless elegance with visual fascination.

September 2022

2022 Miss Hong Kong Pageant

Once again, FRANCK MULLER is pleased to be one of the official sponsors for Miss Hong Kong Pageant in 2022. The brand has contributed its refined luxury timepieces as prizes to the 6 winners including Miss Hong Kong, 1st runner up, 2nd runner up, Miss Photogenic, Miss International Goodwill and Miss Friendship. The prize presentation was held at FRANCK MULLER Central flagship boutique, the new Miss Hong Kong 2022, Miss Denice Lam was presented with the latest bejewelled Vanguard Lady Heart Skeleton diamond timepiece with 7 superimposed hearts positioned throughout the dial over a skeletonized mechanical movement.

16 October 2022

Oriental Watch — Sha Tin Trophy "Gentlemen's Bow Tie" Raceday

Oriental Watch Company presented 10 breathtaking horse races at Shatin Racecourse, in which 8 horse races were named after 8 international watch brands. FRANCK MULLER once again participated in the annual event and sponsored the iconic Vanguard Automatic as "The Best Bow Tie Attire Award" to the charming rising star, Mr. Archie Sin. A catwalk show was staged in the Winner's Enclosure, where the model showcased the bejeweled timepiece of Vanguard Aqua Bleu.

10 November 2022

FRANCK MULLER x Global Timepieces VIP Dinner

Together with the prestige retail partner Global Timepieces and the exceptional Speyside single malt whisky brand, The Glenrothes, FRANCK MULLER hosted a VIP dinner at the Central flagship boutique to unveil the latest Vanguard Racing Skeleton collection. The esteemed guests enjoyed a scrumptious menu prepared by The Mandarin Oriental, while revealing the latest timepiece collection. The co-hosted event tributes to clients with refined taste who appreciate exceptional quality and fine craftsmanship.

Performance by business operations and geographical markets

Watch distribution

Hong Kong, Mainland China and Macau remained the key revenue drivers, contributing together HK$78.2 million which accounted for 79.6% of the Group's total revenue in FY2023.

Hong Kong

Hong Kong continues to be the Group's major market, accounting for 48.3% of the Group's revenue in FY2023. Performance in this market recorded a decrease in revenue by 14.9% from HK$55.8 million in the previous year to HK$47.5 million this year.

Mainland China and Macau

The percentage contribution of Mainland China and Macau to the Group's total revenue decreased from 46.2% in FY2022 to 31.2% in FY2023. Sales in this region showed a decrease of 55.3% to HK$30.7 million from HK$68.7 million last year.

Other locations

The Group's other locations' (i.e. Taiwan and other) segment recorded a revenue of HK$10.6 million in FY2023, being 10.9% lower than HK$11.9 million last year.

Property investment

Revenue from property investment in Mainland China amounted to HK$9.4 million in FY2023, being 23.6% lower than HK$12.3 million in FY2022 due to decrease in occupancy rate. During the year, the Group did not acquire or dispose of any investment property.

Loss for the year

As a result of the foregoing, the Group's loss for the year increased by HK$118.8 million, or 75.8%, from HK$156.8 million for the year ended 31 March 2022 to HK$275.6 million for the year ended 31 March 2023.

PROSPECTS

In early 2023, Mainland China, Hong Kong and Macau have opened up their borders, and with the lifting of all pandemic preventive measures and governments' implementation of measures to stimulate local consumption, business and economic activities in Mainland China, Hong Kong and Macau are in the process of recovery. With a robust foundation established over twenty years in watch brand management, the Group is not only equipped to navigate this new landscape but is also expected to play a lead role in the industry's future.

Despite challenges arising from our dispute with Franck Muller, the Group is under normal operation and there is currently nothing which prevents the Group from distributing "Franck Muller" branded watches. Presently, our Company maintains ample inventory to sustain our operations through our current sales channels. Further, our commitment to a seamless supply of goods remains strong.

While our association with the distribution of Franck Muller has always been recognized, future strategies have been devised to expand even further. Mainland China, Hong Kong, Macau, and Taiwan will soon see a stronger presence of our sales network, illustrating our ambition to embrace a diversified brand portfolio. The Group is crafted strategies to expand our horizons, highlighting our resilience. These strategies focus on sourcing premium watch and jewelry brands from Europe, in particular, the Group was negotiating with a renowned Swiss watchmaker for the exclusive distributorship of the timepieces of the Swiss watchmaker, reflecting our commitment to offering diverse and high-quality products to our discerning customers.

The Company has entered into a non-disclosure and confidentiality agreement with the owner/distributor of a renowned Swiss watch brand to facilitate discussions concerning distribution rights. The Group is currently in negotiation with a group of brand owners/distributors in relation to memorandum of understanding(s) (the "MOU(s)") for distribution rights with respect to three premium European timepiece brands. The terms and conditions of the MOUs are expected to include, amongst others, the Group's distribution rights in Hainan and Macau SAR, purchase price and brand management covenants, delivery arrangements, undertakings as to purchase orders and term of distributorship, etc. The MOUs are expected to be consummated by the end of 2023.

Reference is made to the announcement of the Company dated 9 March 2023 in relation to a non-binding memorandum of understanding entered into between Club Sincere Limited (a wholly-owned subsidiary of the Company), Shanghai Star Moon Biotechnology Co., Ltd.* (上海華星曜月生物科技有限公司) and Hainan Juniu Technology Development Co., Ltd.* ("Hainan Juniu", 海南聚紐科技發展有限公司) pursuant to which the parties agreed to form a joint venture (the "JV") with the intention of tapping into the Hainan timepiece and jewellery market by selling, distributing and promoting the products and brand names of internationally renowned high-end timepiece and jewellery brands through the Duty Paid & Duty Free Channels.

Club Sincere Limited and Hainan Juniu entered into a purchase contract for distribution in March 2023 (the "Hainan Sub-distribution Agreement"), pursuant to which (1) the Group has agreed to appoint Hainan Juniu as a duty free and duty paid distributor/operator in China to distribute and sell branded timepiece products in Hainan Juniu's duty free shops in Hainan and duty paid stores in other parts of China; and (2) Hainan Juniu has agreed to, subject to subsequent orders, purchase timepiece products in the value of HK$150 million during the contract term commencing from the date of the Hainan Sub-distribution Agreement and ending on 31 March 2028. The contract term shall be automatically renewed for contractual periods of one year unless three months' prior notice of termination has been given by either party. It was also agreed that the JV will be formed subject to a separate agreement being entered into between the parties.

Our partnership with Hainan's strategic partner will be a key pillar for our growth. This collaboration in order to tap into the Hainan timepiece and jewelry market by selling, distributing and promoting the products and brand names of internationally renowned high-end timepiece and jewelry brands in the Duty Paid & Duty Free Channels ensure that an enriched range of watch and jewelry brands will be introduced to Hainan's extensive Duty Free network across 15 airports and 17 major cities of Mainland China. The shopping experience in Hainan is projected to undergo a transformation, and in this change, our role is envisioned to be central. Our global brand affiliations are set to be more pronounced and influential.

The collaboration with Hainan Duty Free ("HDF") brings together the Group and HDF as an association striving to promote branded timepiece and accessory products in Hainan (the "Hainan Project"). While the parties have been proactively and responsively negotiating and carrying the project forward, more time is needed for the parties to finalize the details of and devise an action plan for the Hainan Project. As the Hainan Project encompasses various areas such as procurement, operations, and business development in the watch and jewellery segment, the parties are now working closely in preparation for the requisite procedures to roll out the new business endeavour. It is envisaged that the Hainan Project will gain momentum in year 2023 and further develop in 2024.

Our partnerships and collaborations will be more dynamic in the coming years. Through our major subsidiary of the Group, top watch brands will be showcased more prominently in duty-free outlets across China. With local government backing, a broader and more impactful sales strategy will be rolled out, strengthening the visibility and prestige of associated brands.

Moving forward, the Group aims to strengthen its distribution network in Mainland China, Hong Kong and Macau and takes a cautious but proactive approach in its future expansion. This includes forming strategic alliance with major duty-free operators, expanding its watch business with addition of global brands aggressively expanding online sales, fostering deeper collaborations with third party distributors, establishing new dealers' shops and exploring untapped markets in other Asian countries.

Additionally, the Group will assess the occupancy and rental levels of its investment properties in the PRC to enhance rental yield.

Leveraging its more than twenty years of brand management experience in the watch market, professional management team and vast in-market resources, in particular, our Company boasts an extensive retailer network for luxury watches and jewelry within the Greater China market. Our marketing team possesses a wealth of experience in orchestrating marketing events for luxury timepieces. In this era of new media, we actively manage the Instagram, Facebook, and Weibo accounts for the promotion of Franck Muller brands in the Greater China region. Furthermore, our sales team is highly trained, equipped with exceptional knowledge, and proficient in providing top-tier customer service. All in all, the Group is committed to increasing its financial strength, and actively seeking appropriate business opportunities to diversify its income sources aiming to maximise value to its shareholders in the long-run.

KEY PERFORMANCE INDICATORS: INVENTORY TURNOVER AND CURRENT RATIO

Inventories as at 31 March 2023 decreased by 36.6% to HK$178.1 million when compared with HK$280.8 million as at 31 March 2022. Inventory Turnover Period, which is calculated by Inventories balance divided by Cost of Sales, decreased from 1,116 days to 547 days in FY2023. As the Company increased three retail points of sales in the Mainland China, Macau and Taiwan during the year, it is expected that inventory turnover will be significantly boosted.

Our Current Ratio, which is calculated by Current Assets divided by Current Liabilities, was 1.1 as at 31 March 2023 (31 March 2022: 2.6). The decrease in Current Ratio is mainly attributable to increase in other borrowings in Mainland China and decrease in inventories during the year.

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 31 March 2023, the Group had cash and bank balances totaling HK$65.5 million when compared with HK$89.7 million as at 31 March 2022. At 31 March 2023, the Group's gearing ratio (net debt divided by equity) was 122.5% and the Group has outstanding loans and borrowings at the amount of HK$208.3 million.

At 31 March 2023, details of the Group's investments in equity instruments were as below:

		At 31 March 2023		FY2023	
Stock Code	**Stock Name**	**No. of shares held**	**Fair value**	**Change in fair value recognised in consolidated statement of profit or loss**	**Change in fair value recognised in consolidated statement of other comprehensive income**
			HK$'000	*HK$'000*	*HK$'000*
3823	Tech Pro Technology Development Ltd. (delisted)	36,760,000	1,176	(147)	–
627	Fullsun International Holdings Group Co., Ltd.	12,065,000	157	12	–
663	King Stone Energy Group Ltd.	31,700,000	8,401	–	507
Total			9,734	(135)	507

These investments were listed and delisted securities which were measured at fair value. As at 31 March 2023, investments in equity instruments amounted to HK$9.7 million.

In FY2023, a net fair value loss of HK$0.1 million was charged to the consolidated statement of profit or loss directly while a net fair value gain of HK$0.5 million was charged to consolidated statement of other comprehensive income to reflect the overall increase in fair value of the investments in equity instruments.

During the year under review, the Hong Kong equity market experienced fluctuations with various composite indices showing negative returns. The performance of the Group's investments in equity instruments had been in line with market performance.

It was noted that trading in the shares of Tech Pro Technology Development Limited has been suspended since 9:00 a.m. on 9 November 2017, details of which are referred to in the announcement made by Tech Pro Technology Development Limited on 9 November 2017. It was further noted that the shares of Tech Pro Technology Development Limited was delisted starting from 9:00 a.m. on 2 March 2020, details of which are referred to in the announcement issued by the Stock Exchange on 26 February 2020 on its official website.

The Directors will continue to monitor the performance of the above investments, and will assess and then adjust the investment strategies in the future so as to minimise the negative impact of any under-performing investment on the overall return of the investment portfolio of the Group. The performance of the investments in equity instruments of the Group will be affected by the degree of volatility in the Hong Kong stock market and subject to other external factors that may affect their values.

The Group's net current assets decreased to HK$14.3 million as at 31 March 2023 from HK$264.2 million as at 31 March 2022. Net assets reduced to HK$241.4 million as at 31 March 2023 as compared to HK$546.9 million as at 31 March 2022. The Directors believe that the Group's existing financial resources are sufficient to fulfil its commitments and current working capital requirements.

CAPITAL STRUCTURE AND PRINCIPAL RISK: FOREIGN EXCHANGE EXPOSURE

As at 31 March 2023, the total number of issued shares of the Company was 6,043,950,000 shares. There was no change in the number of issued shares of the Company during the year ended 31 March 2023.

The Group recorded a realised exchange loss of HK$0.2 million in FY2023 compared to a gain of HK$0.5 million in FY2022. In addition, the Group booked an unrealised exchange loss of HK$3.1 million in FY2023 against a loss of HK$0.3 million in FY2022. There was a loss of HK$54.6 million on fair value change of investment properties in FY2023 while a loss of HK$74.7 million in FY2022. There was HK$0.1 million loss on fair value change of financial assets at FVTPL in FY2023 as compared to a gain of HK$1.2 million in FY2022.

The Group pursued a prudent policy on financial risk management and the management of foreign currencies and interest rates. The Group continues to benefit from favourable payment terms from its suppliers that may result in unrealised gains or losses from time to time in applying Hong Kong Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates".

CHARGE ON ASSETS

As at 31 March 2023, (i) investment properties at fair value of RMB375.0 million (equivalent to HK$428.6 million), (ii) certain account receivables of rental income generated from the pledged investment properties, (iii) pledged bank deposit of RMB12.0 million (equivalent to HK$13.7 million), (iv) restricted banks deposit of RMB0.3 million (equivalent to HK$0.3 million), and (v) entire equity interest of a subsidiary of the Company were pledged to a bank as collateral for the Group's banking facility of outstanding balance of bank borrowing of RMB138.8 million (equivalent to HK$158.6 million) (2022: RMB150.1 million (equivalent to HK$185.4 million)).

CAPITAL COMMITMENT

As at 31 March 2023, the Group had contracted, but not provided for capital expenditure of HK$0.6 million (31 March 2022: HK$0.8 million) in respect of acquisition of property, plant and equipment.

CONTINGENT LIABILITIES

Except as disclosed in note 19 to the consolidated financial statements set out in this announcement, the Group had no other material contingent liabilities as at 31 March 2023 (31 March 2022: Nil).

EMPLOYEES

Employees are one of the most important assets and stakeholders of the Group. Their contribution and support are valued at all times. As at 31 March 2023, the Group's work force stood at 115 including Directors (31 March 2022: 123). Employees were paid at market rates with discretionary bonus and medical benefits, and were covered under the mandatory provident fund scheme. The Company has adopted a share option scheme which aims to provide incentive or rewards to staff.

The Group is constantly reviewing its staff remuneration to ensure it stays competitive with market practice.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with all code provisions set out in Part 2 of the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the year ended 31 March 2023, except for the following deviations.

In respect of code provision C.2.1 of the CG Code, the roles of the chairman and the chief executive officer should be separate and should not be performed by the same individual. During the year, Mr. Zhang Xiaoliang is the Chairman and the Chief Executive Officer of the Company. The Group has been streamlining its operations, including business development, operation efficiency and financial management to overcome the unfavourable market condition and the challenges ahead. The Board considers that it would be in the best interest of the shareholders of the Company that the roles of the Chairman and the Chief Executive Officer of the Company be combined to enable a strong and dedicated leadership to reposition the Company and implement effective measures to improve shareholders' value especially when the business prospects remain fairly challenging. The Company will review the current structure when and as it becomes appropriate.

In respect of code provision C.5.1 of the CG Code, the board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals. During the year, the Board held three regular Board meetings. The significant matters concerning the business activities and operation of the Group had been either duly reported, discussed and resolved at the three regular Board meetings or dealt with by the Board by way of written resolutions for expeditious commercial decisions making purposes.

In respect of code provision C.5.3 of the CG Code, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. During the year, a regular Board meeting was convened with less than 14 days' notice to enable the Board members to react timely and make expeditious decision in respect of transactions which were of significance to the Group's business. The Board will do its best endeavours to meet the requirement of this code provision in the future.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 March 2023.

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

During the year ended 31 March 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the listed securities of the Company.

EVENTS AFTER THE REPORTING PERIOD

Injunction proceeding against third parties in Hong Kong

In May 2023, SBML commenced an injunction proceeding in the High Court of Hong Kong SAR against third parties for injunctive relief in relation to alleged wrongful actions interfering with and infringing SBML's rights as the exclusive distributor in Hong Kong, Macau, Mainland China and Taiwan pursuant to the EDA. After hearing submission by both parties, the Court was in the view that an injunction at the material time was not necessary, therefore rejected our application. In June 2023, SBML commenced a civil claim against the same parties for damages and injunction of the alleged wrong actions. The civil proceeding is still ongoing as at the date of this announcement.

Pledged equity interest for other borrowing

On 30 June 2023, Sanya Qingfeiniao Tourism Industry Investment Company Limited* (三亞青飛鳥旅遊產業投資有限公司), a wholly-owned subsidiary of the Company (the "Borrower"), entered into a loan agreement (the "Loan Agreement") and a nominee agreement (the "Nominee Agreement") with Beijing Jingtaishenghui Property Management Company Limited* (北京景泰昇輝物業管理有限公司) (the "Lender").

According to the Loan Agreement, (i) the Lender shall lend RMB125 million (equivalent to HK$143 million) to the Borrower for a term of five years at the interest of 6% per annum; and (ii) the Borrower shall pledge 100% of the equity interest in its subsidiary, Sanya Qingniao Tourism Industry Investment Company Limited* (三亞青鳥旅遊產業投資有限公司) ("Sanya Qingniao") as security (the "Pledged Equity Interest") for the loan.

According to the Nominee Agreement (i) the Lender shall hold the Pledged Equity Interest as a nominee for and on behalf of the Borrower; (ii) the shareholder's right and controlling interest of Sanya Qingniao are held by the Borrower; and (iii) the Lender does not have any rights of disposal or transfer of the Pledged Equity Interest to third parties unless obtained the Borrower's consent.

On 25 July 2023, the Borrower entered a supplementary loan agreement with the Lender which stated the borrowing amount changed from RMB125 million to RMB132 million. A letter of authorisation was signed by both parties on the same day, which stated the Borrower authorised the Lender to pledge 100% of the equity interest of Sanya Qingniao to a bank to borrow RMB132 million to the Lender.

On 10 August 2023, the Borrower received RMB132 million (equivalent to HK$151 million) from the Lender.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 March 2023 as set out in this announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance conclusion has been expressed by BDO Limited on this announcement.

EXTRACTS FROM INDEPENDENT AUDITOR'S REPORT

The following is extracted from the independent auditor's report on the consolidated financial statements of the Group for the year ended 31 March 2023.

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group. Because of the potential interaction of the multiple uncertainties and their possible cumulative effect on the consolidated financial statements as described in the "Basis for Disclaimer of Opinion" section of our report, it is not possible for us to form an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

Multiple Uncertainties Relating to Going Concern

During the year ended 31 March 2023, the loss for the year ended 31 March 2023 amounted to HK$275,579,000. As disclosed in Note 37(b)(iii), the Group had an undiscounted cash outflows that are on demand or have a contractual maturities within one year of HK$256,102,000 related to its financial liabilities as at 31 March 2023, while the Group maintained cash at bank of HK$51,434,000 (Note 21) as of the same date. Moreover, as disclosed in Note 39, a group company, namely Sincere Brand Management Limited ("SBML") has entered into the Arbitration (as defined in Note 39) with the Multicontinental Distribution (Asia) DMCC (the "Multicontinental") and GFM Watchland SA (the "GFM") since January 2023 in relation to (i) the alleged termination of SBML's exclusive distributorship of Franck Muller timepieces and watch accessories and spare parts in the Mainland of China, Hong Kong, Macau and Taiwan ("Exclusive Territory") under the exclusive distribution agreement entered into between SBML and the Multicontinental in 2018 (the "EDA"); and thereby (ii) the seeking of damages from the Group for the losses of CHF71.4 million (equivalent to HK$613.8 million) arising from the Group's failure to meet the minimum purchases as stipulated in the EDA; (iii) the repayment of all outstanding payables (amounting to HK$49,331,000 as at 31 March 2023 and included in trade payables as disclosed in Note 22) plus penalty interest (estimated to be HK$2,115,000 up to the date of approval of these consolidated financial statements); and (iv) the return of all consignment stock of HK$663.3 million as at 31 March 2023. From November 2022, the Multicontinental stopped supplying Franck Muller timepieces and watch accessories to the Group.

The above events or conditions indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern. In view of the above, the directors of the Company have prepared an eighteen-month cash flow forecast (the "Forecast") from the year end date and given careful considerations to the impact of the current and anticipated future liquidity of the Group and also to the plans and measures as set out in Note 3(c) to the consolidated financial statements. The directors of the Company, after due and careful enquiry and after taking into account the above plans and measures, and the financial resources available to the Group, including cash flows from operating activities and available facilities, and based on the assumptions that the plans and measures as set out in Note 3(c) to the consolidated financial statements would materialise, are of the opinion that the Group will have sufficient working capital over the eighteen-month forecast period. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

However, the appropriateness of the consolidated financial statements prepared on a going concern basis largely depends on whether those plans and measures as detailed in Note 3(c) can be successfully implemented and which are subject to multiple uncertainties, including:

(a) whether the expected outcome of the Arbitration can be achieved so that the Group does not need to pay for the compensation as claimed by the Multicontinental, can generate expected revenue by selling Franck Muller timepieces and watch accessories and the Group would be able to continue the EDA;

(b) whether the Group can successfully negotiate with the third party to conclude the HK$1,000 million facility based on the terms stated on the non-legally binding memorandum of understanding;

(c) whether the Group can successfully expand its business and revenue sources through the newly established joint venture; and

(d) whether the Group can successfully conclude the exclusive distribution right with the Swiss watchmaker by entering into a distribution agreement.

Should the Group fail to achieve the above-mentioned plans and measures, it might not be able to continue as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets as current assets. The effects of these adjustments have not been reflected in the consolidated financial statements.

The Board's response to the Auditor's Opinion

In regard to the matters described in the section headed "Basis for Disclaimer of Opinion" in the Independent Auditors' Report, the Board would like take this opportunity to provide the Board's response and other relevant information, as well as measures taken or to be taken by management of the Company for information purpose.

The Board's response to the basis for disclaimer of opinion

The Directors have been undertaking measures to improve the Group's liquidity and financial position, which are set out in note 3 to the consolidated financial statements.

The Directors have given careful consideration to the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as going concern. The following plans and measures are formulated to mitigate the liquidity pressure and to improve the financial position of the Group.

(i) The directors of the Company considered that it is more likely that the Group has no present obligation to compensate the alleged losses suffered by the Multicontinental. Notwithstanding this, should SBML fail the Arbitration, it is anticipated by the directors of the Company that the compensation would not be the full amount of counterclaims asserted by Multicontinental in the Arbitration. The Group can generate expected revenue by selling Franck Muller timepieces and watch accessories and the Group would be able to continue the EDA;

(ii) The shareholder providing the shareholder's loan to the Group has agreed not to recall the shareholder loan upon maturities until the Group has ability to repay;

(iii) On 30 June 2023, an indirect wholly owned subsidiary of the Company had entered into a loan agreement with a third party for an amount of RMB125 million (equivalent to HK$143 million) for a term of five years to provide working capital for the Group. The loan amount was subsequently raised to RMB132 million (equivalent to HK$151 million) based on a supplementary agreement on 25 July 2023, and the full amount was drawdown in August 2023;

(iv) The management actively negotiate with the third party to conclude the HK$1,000 million loan facility based on the terms stated on the non-legally binding memorandum of understanding to provide working capital to the Group and financial support for business development of the Group;

(v) The Group had formed a joint venture with Shanghai Star Moon Biotechnology Co., Ltd. and Hainan Juniu Technology Development Co., Ltd. (“Hainan Juniu”) in order to tap into the Hainan timepiece and jewelry market by selling, distributing and promoting the products and brand names of internationally renowned high-end timepiece and jewelry brands in the Duty Paid & Duty Free Channels and Hainan Juniu had entered into a separate purchase agreement with the Group for the purchase of timepiece of excess of RMB100 million;

(vi) The management actively broadening the Group’s product range by seeking to introduce additional European watch brands. The Group was negotiating with a renowned Swiss watchmaker for the exclusive distributorship of the timepieces of the Swiss watchmaker in Hainan province and Macau and the management is working with the counterparty in the hope of closing the deal;

(vii) The management closely monitors the Group’s financial performance and liquidity position. The management has been implementing measures to improve profitability, control operating costs and contain capital expenditures in order to improve the Group’s operating performance and alleviate its liquidity risk. These measures include negotiating with the landlords for rental reduction and rent cut. The management believes that these measures will result in improvement in operating profitability and the resulting cash flows.

AUDIT COMMITTEE

The Group’s consolidated financial statements for the year ended 31 March 2023 have been reviewed by the Audit Committee of the Company (the “Audit Committee”), which comprises four Independent Non-executive Directors, namely Mr. Hong Sze Lung (Chairman of the Audit Committee), Mr. Zong Hao, Mr. Yu Zhenxin and Mr. Cheng Sing Kau Colman before submission to the Board for approval.

Communications have been conducted between the Audit Committee and the Auditor to discuss the disclaimer of opinion and the audit procedures during the audit. The Audit Committee has reviewed the facts and circumstances leading to the conclusion of the management of the Company and fully understood the reasons leading to the disclaimer of opinion for FY2023. The members of the Audit Committee have no disagreement with the basis of such disclaimer of opinion and the management’s position concerning the disclaimer of opinion as set out in this announcement.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sincerewatch.com.hk). The annual report of the Company for the year ended 31 March 2023 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and available on the above websites before 30 September 2023.

RESUMPTION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended with effect from 10:33 a.m. on 29 June 2023. Application has been made by the Company to the Stock Exchange for the resumption of trading in the shares of the Company on the Stock Exchange with effect from 9:00 a.m. on 18 September 2023.

By Order of the Board
Sincere Watch (Hong Kong) Limited
Zhang Xiaoliang
Chairman and Chief Executive Officer

Hong Kong, 15 September 2023

As at the date of this announcement, the Executive Directors of the Company are Mr. Zhang Xiaoliang (Chairman and Chief Executive Officer), Mr. Yang Guangqiang and Mr. An Muzong; and the Independent Non-executive Directors of the Company are Mr. Yu Zhenxin, Mr. Zong Hao, Mr. Cheng Sing Kau Colman and Mr. Hong Sze Lung.

* *For identification purposes only*