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ESTD 1954

# SINCERE WATCH (HONG KONG) LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 444)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2018

**FINANCIAL HIGHLIGHTS**

- Revenue for the six months ended 30 September 2018 ("H1 FY2019") increased by 40.4% from HK$160,862,000 to HK$225,795,000 when compared with the corresponding period of last year ("H1 FY2018").

- Gross margin increased from 30.7% to 39.7%. Gross profit for the six months ended 30 September 2018 increased from HK$49,349,000 to HK$89,737,000.

- Loss for the six months ended 30 September 2018 increased to HK$65,299,000 (H1 FY2018: HK$51,955,000), mainly due to increased fair value loss of investments in equity instruments, the effects of which being immediately recognised in profit or loss in accordance with the requirements of Hong Kong Financial Reporting Standard 9 newly adopted in this period.

- Loss per share was 1.1 HK cents in H1 FY2019 (H1 FY2018: 1.0 HK cents).

- The Board has resolved not to pay interim dividend for H1 FY2019 (H1 FY2018: Nil).

**INTERIM RESULTS**

The board (the "Board") of directors (the "Directors") of Sincere Watch (Hong Kong) Limited (the "Company") announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2018 together with the unaudited comparative figures for the corresponding six months ended 30 September 2017.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the six months ended 30 September 2018*

| | | **For the six months ended 30 September** | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(unaudited)** | (unaudited) |
| Revenue | *3* | **225,795** | 160,862 |
| Cost of sales | | **(136,058)** | (111,513) |
| Gross profit | | **89,737** | 49,349 |
| Other income | | **963** | 2,273 |
| Gain on disposal of available-for-sale investments | | **–** | 3,648 |
| Impairment on available-for-sale investments | | **–** | (17,818) |
| Provision for impairment loss on property, plant and equipment | | **(2,326)** | (486) |
| Selling and distribution costs | | **(43,379)** | (42,832) |
| General and administrative expenses | | **(52,803)** | (46,914) |
| Finance costs | | **(2,091)** | – |
| Loss before taxation, exchange gain/(loss), fair value change of investment properties and financial assets at fair value through profit or loss and (loss)/gain on fair value change of derivative financial instruments | | **(9,899)** | (52,780) |
| Realised exchange gain/(loss) | | **1,453** | (2,670) |
| Unrealised exchange (loss)/gain | | **(7,954)** | 2,061 |
| Fair value change of investment properties | *9* | **130** | 47 |
| Fair value change of financial assets at fair value through profit or loss | | **(42,836)** | – |
| (Loss)/gain on fair value change of derivative financial instruments | | **(5,376)** | 1,813 |
| Loss before taxation | | **(64,482)** | (51,529) |
| Income tax expense | *4* | **(817)** | (426) |
| Loss for the period | *5* | **(65,299)** | (51,955) |

| | Notes | For the six months ended 30 September 2018 HK$'000 (unaudited) | 2017 HK$'000 (unaudited) |
|---|---|---|---|
| Other comprehensive (expenses)/income, net of tax | | | |
| Items that will not be reclassified to profit or loss | | | |
| — Change in fair value of equity instruments at fair value through other comprehensive income | | **(12,600)** | – |
| Items that may be subsequently reclassified to profit or loss | | | |
| — Exchange differences arising from translation of foreign operations | | **(62,557)** | 11,607 |
| — Fair value loss on available-for-sale investments | | **–** | (2,287) |
| — Release of investments revaluation reserve to profit or loss upon disposal of available-for-sale investments | | **–** | (3,648) |
| — Release of investments revaluation reserve to profit or loss for impairment loss on available-for-sale investments | | **–** | 8,080 |
| Other comprehensive (expense)/income for the period | | **(75,157)** | 13,752 |
| Total comprehensive expenses for the period | | **(140,456)** | (38,203) |
| Loss per share — basic and diluted | *7* | **(1.1) HK cents** | (1.0) HK cents |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
*As at 30 September 2018*

| | *Notes* | **30 September 2018** *HK$'000* **(unaudited)** | 31 March 2018 *HK$'000* (audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | *8* | **2,954** | 5,121 |
| Investment properties | *9* | **711,805** | 375,857 |
| Available-for-sale investments | *10* | **–** | 63,000 |
| Financial assets at fair value through profit or loss | *11* | **48,071** | 46,950 |
| Financial assets at fair value through other comprehensive income | *12* | **50,400** | – |
| Deposit paid for acquisition of subsidiary | | **–** | 35,000 |
| | | **813,230** | 525,928 |
| Current assets | | | |
| Inventories | | **421,218** | 379,949 |
| Trade and other receivables | *13* | **91,750** | 74,073 |
| Amounts due from related parties | *15* | **202** | 204 |
| Derivative financial instruments | | **–** | 1,360 |
| Available-for-sale investments | *10* | **–** | 136,788 |
| Financial assets at fair value through profit or loss | *11* | **95,991** | – |
| Bank balances and cash | | **93,679** | 194,027 |
| | | **702,840** | 786,401 |
| Current liabilities | | | |
| Trade and other payables | *14* | **255,048** | 235,669 |
| Amounts due to related parties | *15* | **440** | 3,359 |
| Derivative financial instruments | | **3,342** | 1,556 |
| Taxation payable | | **1,476** | 1,066 |
| | | **260,306** | 241,650 |
| Net current assets | | **442,534** | 544,751 |
| Total assets less current liabilities | | **1,255,764** | 1,070,679 |
| Non-current liabilities | | | |
| Long term liabilities | *16* | **141,882** | – |
| Deferred tax liabilities | | **2,010** | 2,166 |
| | | **143,892** | 2,166 |
| Net assets | | **1,111,872** | 1,068,513 |
| Capital and reserves | | | |
| Share capital | *17* | **120,879** | 99,640 |
| Reserves | | **990,993** | 968,873 |
| Total equity | | **1,111,872** | 1,068,513 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 September 2018*

| | Share capital HK$'000 | Share premium HK$'000 | Available-for-sale investment reserve HK$'000 | FVOCI reserve HK$'000 | Special reserve HK$'000 (Note) | Translation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|
| At 1 April 2017 (audited) | 99,640 | 800,932 | 36,489 | – | 801 | (16,333) | 180,162 | 1,101,691 |
| Exchange difference arising from translation of foreign operations | – | – | – | – | – | 11,607 | – | 11,607 |
| Fair value gain on available-for-sale investments | – | – | (2,287) | – | – | – | – | (2,287) |
| Release to profit or loss upon disposal of available – for-sale investments | – | – | (3,648) | – | – | – | – | (3,648) |
| Release to profit or loss for impairment loss on available-for-sale investments | – | – | 8,080 | – | – | – | – | 8,080 |
| Loss for the period | – | – | – | – | – | – | (51,955) | (51,955) |
| Total comprehensive expenses for the period | – | – | 2,145 | – | – | 11,607 | (51,955) | (38,203) |
| **As 30 September 2017 (unaudited)** | **99,640** | **800,932** | **38,634** | **–** | **801** | **(4,726)** | **128,207** | **1,063,488** |
| At 1 April 2018 as original presented (audited) | 99,640 | 800,932 | 30,892 | - | 801 | 16,058 | 120,190 | 1,068,513 |
| Initial application of HKFRS 15 *(note 2)* | – | – | – | – | – | – | – | – |
| Initial application of HKFRS 9 *(note 2)* | – | – | (30,892) | 14,350 | – | – | 16,497 | (45) |
| Restated balances at 1 April 2018 | 99,640 | 800,932 | – | 14,350 | 801 | 16,058 | 136,687 | 1,068,468 |
| Exchange difference arising from translation of foreign operations | – | – | – | – | – | (62,557) | – | (62,557) |
| Fair value loss on financial assets at FVOCI | – | – | – | (12,600) | – | – | – | (12,600) |
| Loss for the period | – | – | – | – | – | – | (65,299) | (65,299) |
| Total comprehensive expenses for the period | – | – | – | (12,600) | – | (62,557) | (65,299) | (140,456) |
| Placing of shares *(note 17)* | 21,239 | 162,621 | – | – | – | – | – | 183,860 |
| At 30 September 2018 (unaudited) | 120,879 | 963,553 | – | 1,750 | 801 | (46,499) | 71,388 | 1,111,872 |

*Note:* The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the reorganisation during its listing in The Stock Exchange of Hong Kong Limited in 2005.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 30 September 2018*

| | For the six months ended 30 September | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Net cash used in operating activities | **(52,364)** | (35,475) |
| Investing activities | | |
| Purchase of property, plant and equipment | **(2,737)** | (886) |
| Purchase of financial assets measured at fair value through profit or loss | **(30,000)** | – |
| Net cash outflow from purchase of investment properties | **(38,384)** | – |
| Other long term investment | **–** | (45,313) |
| Interest received | **565** | 1,375 |
| Proceeds from disposal of available-for-sale investments | **–** | 40,128 |
| Proceeds from disposal of financial assets measured at fair value through profit or loss | **26,839** | – |
| Net cash used in investing activities | **(43,717)** | (4,696) |
| Net decrease in cash and cash equivalents | **(96,081)** | (40,171) |
| Cash and cash equivalents at beginning of the period | **194,027** | 238,807 |
| Effect of foreign exchange rate changes | **(4,267)** | 1,065 |
| Cash and cash equivalents at end of the period, represented by bank balances and cash | **93,679** | 199,701 |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

These interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure provisions of Main Board Listing Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The unaudited interim condensed consolidated financial statements are presented in Hong Kong dollars "HK$", which is also the functional currency of the Company.

## 2. PRINCIPAL ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared on the historical cost basis except for the derivative financial instruments, financial assets at fair value through other comprehensive income, financial assets at fair value through profit or loss and investment properties which are measured at fair value.

Except as described below, the accounting policies and methods of computation used in the unaudited interim condensed consolidated financial statements for the six months ended 30 September 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2018.

The HKICPA has issued a number of new or amended Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group:

- HKFRS 9, Financial Instruments
- HKFRS 15, Revenue from Contracts with Customers
- HK(IFRIC)-Interpretation 22, Foreign Currency Transactions and Advance Considerations
- Amendments to HKFRS 2, Classification and Measurement of Share-based Payment Transactions
- Amendments to HKFRS 4, Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
- Amendments to HKAS 28 included in Annual Improvements to HKFRSs 2014-2016 Cycle, Investments in Associates and Joint Ventures
- Amendments to HKAS 40, Transfers of Investment Property
- Amendments to HKFRS 1 included in Annual Improvements to HKFRSs 2014-2016 Cycle, First-time Adoption of Hong Kong Financial Reporting Standards

**HKFRS 9 Financial Instruments ("HKFRS 9")**

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 April 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the condensed consolidated interim financial statements.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVTPL"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new expected credit losses rules are therefore not reflected in the consolidated statement of financial position as at 31 March 2018, but are recognised in the consolidated statement of financial position on 1 April 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained profits and reserves as at 1 April 2018. Accordingly, the information presented for the year ended 31 March 2018 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

**HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")**

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained profits at the date of initial application (that is, 1 April 2018). As a result, the financial information presented for the year ended 31 March 2018 has not been restated.

The other new or amended HKFRSs that are effective from 1 January 2018 did not have any material impact on the group's accounting policies.

## 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, which are analysed based on business and geographic locations of the revenue. The Group has two business operations, which are the distribution of branded luxury watches, timepieces and accessories, dining business and property investment.

Segment results represent the profit before taxation earned by each segment and excluding unallocated other income and unallocated expenses. Unallocated expenses mainly included directors' salaries, staff costs, depreciation, rental expenses, commissions paid to staff and suppliers, advertising and promotion expenses, impairment losses, and other centralised administrative cost. 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 locations of the Group's revenue from external customers.

**For the six months ended 30 September 2018**

| | **Watch distribution and dining business** | | | **Property investment** | |
|---|---|---|---|---|---|
| | **Hong Kong** *HK$'000* **(unaudited)** | **Mainland China and Macau** *HK$'000* **(unaudited)** | **Other Asian locations** *HK$'000* **(unaudited)** | **Mainland China** *HK$'000* **(unaudited)** | **Consolidated** *HK$'000* **(unaudited)** |
| REVENUE | | | | | |
| External sales | **110,735** | **77,767** | **23,249** | **14,044** | **225,795** |
| RESULT | | | | | |
| Segment results | **29,592** | **37,648** | **8,453** | **14,044** | **89,737** |
| Realised exchange gain | | | | | **1,453** |
| Unrealised exchange loss | | | | | **(7,954)** |
| Fair value change of investment properties | | | | | **130** |
| Fair value change of FVTPL | | | | | **(48,212)** |
| Unallocated expenses | | | | | **(100,599)** |
| Unallocated income | | | | | **963** |
| Loss before taxation | | | | | **(64,482)** |

**For the six months ended 30 September 2017**

| | Watch distribution and dining business | | | Property investment | |
|---|---|---|---|---|---|
| | Hong Kong *HK$'000* (unaudited) | Mainland China and Macau *HK$'000* (unaudited) | Other Asian locations *HK$'000* (unaudited) | Mainland China *HK$'000* (unaudited) | Consolidated *HK$'000* (unaudited) |
| REVENUE | | | | | |
| External sales | 96,771 | 49,521 | 6,394 | 8,176 | 160,862 |
| RESULT | | | | | |
| Segment results | 13,677 | 25,139 | 2,357 | 8,176 | 49,349 |
| Realised exchange loss | | | | | (2,670) |
| Unrealised exchange gain | | | | | 2,061 |
| Fair value change of investment properties | | | | | 47 |
| Gain on fair value change of derivative financial instruments | | | | | 1,813 |
| Unallocated expenses | | | | | (108,050) |
| Unallocated income | | | | | 5,921 |
| Loss before taxation | | | | | (51,529) |

## 4. INCOME TAX EXPENSE

| | **For the six months ended 30 September** **2018** *HK$'000* **(unaudited)** | 2017 *HK$'000* (unaudited) |
|---|---|---|
| The charge comprises: | | |
| Current tax | | |
| Hong Kong profits tax | **–** | – |
| Other jurisdictions | **(784)** | (415) |
| | **(784)** | (415) |
| Deferred tax | | |
| Current period | **(33)** | (11) |
| Reversal | **–** | – |
| | **(817)** | (426) |

Hong Kong profits tax is calculated at 16.5% (30 September 2017: 16.5%) of the estimated assessable profits for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## 5. LOSS FOR THE PERIOD

| | For the six months ended 30 September | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Loss for the period has been arrived at after charging: | | |
| Directors' remuneration | **9,025** | 9,556 |
| Other staff costs | **25,743** | 17,905 |
| Other staff's retirement benefits scheme contributions | **554** | 450 |
| Total staff costs | **35,322** | 27,911 |
| Depreciation of property, plant and equipment | **2,414** | 3,225 |
| Minimum lease payments in respect of rented premises | **35,729** | 35,702 |
| Cost of inventories recognised as an expense (including write-down of inventories HK$6,623,000 (2017: HK$15,931,000)) | **136,058** | 111,513 |
| and after crediting: | | |
| Interest income | **565** | 1,922 |

## 6. DIVIDEND

The directors of the Company have decided not to declare the payment of any interim dividend for the six months ended 30 September 2018 (30 September 2017: Nil).

No final dividend for the year ended 31 March 2018 was declared and paid during the period (31 March 2017: Nil).

## 7. 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:

| | For the six months ended 30 September | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Loss for the purpose of basic and diluted earnings per share | **(65,299)** | (51,955) |

| | For the six months ended 30 September | |
|---|---|---|
| | **2018** | 2017 |
| | ***Number of shares*** | *Number of shares* |
| | **(unaudited)** | (unaudited) |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **5,875,662,842** | 4,982,000,000 |

Diluted loss per share for the six months ended 30 September 2018 and 2017 are the same as the basic loss per share as there were no potential dilutive ordinary shares outstanding during the period.

## 8. PROPERTY, PLANT AND EQUIPMENT

During the period, additions to the Group's property, plant and equipment amounted to approximately HK$2,737,000 (30 September 2017: HK$886,000) which mainly included the additions to leasehold improvements amounting to approximately HK$2,489,000 (30 September 2017: HK$632,000) for renovation of shops.

The Group performed an impairment assessment on property, plant and equipment of the Group's watches segments, in accordance with the accounting policy on impairment of non-financial assets. Based on the assessment, an impairment loss of HK$2,326,000 (30 September 2017: HK$486,000) was recognised and charged to the interim condensed consolidated statement of profit or loss and other comprehensive income for the 6-month period ended 30 September 2018. The recoverable amounts of these property, plant and equipment using value in use calculation were determined by the discounted cash flows generated from each segment based on a management budget plan and a pre-tax discount rate of 10%.

## 9. INVESTMENT PROPERTIES

| | *HK$'000* |
|---|---|
| At 1 April 2017 | 338,489 |
| Fair value change | 614 |
| Exchange realignment | 36,754 |
| At 31 March 2018 (audited) | 375,857 |
| Additions | 401,441 |
| Fair value change | 130 |
| Exchange realignment | (65,623) |
| At 30 September 2018 (unaudited) | 711,805 |

The Group's investment properties are measured using the fair value model and are leased to third parties under operating leases to earn rental income.

During the six months ended 30 September 2018, the Group acquired a target group with investment properties situated in the PRC at a consideration of HK$350 million. As at completion of acquisition on 30 April 2018, the fair value of investment properties was RMB323,873,000 (equivalent to HK$401,441,000).

The fair value of the Group's investment properties as at 30 September 2018 has been derived from valuation carried out by Jones Lang LaSalle Corporate Appraisal and Advisory Limited ("JLL") on 13 November 2018. JLL is an independent qualified professional valuer. It has appropriate qualifications and recent experiences in the valuation of properties in the PRC.

The valuation of the investment properties as at 30 September 2018 is determined by using the Income Approach (31 March 2018: Income Approach), by capitalising the rental income derived from the existing tenancies with due provision for the reversionary income potential of the properties.

The fair value of acquired investment properties of the Group is Level 3 recurring fair value measurement as at 30 September 2018 and 31 March 2018.

There was no transfer into or out of level 3 during the period. A reconciliation of the opening and closing level 3 fair value balance is provided below:

| | |
|---|---|
| | *HK$'000* |
| At 1 April 2017 (level 3 recurring fair value) | 338,489 |
| Change in fair value recognised in profit or loss | 614 |
| Exchange realignment | 36,754 |
| At 31 March 2018 (audited) (level 3 recurring fair value) | 375,857 |
| Acquired during the year | 401,441 |
| Change in fair value recognised in profit or loss | 130 |
| Exchange realignment | (65,623) |
| At 30 September 2018 (unaudited) (level 3 recurring fair value) | 711,805 |

The fair value measurement is based on the highest and best use of the investment properties, which does not differ from their actual use.

Rental income of HK$14,044,000 was recognised during the period ended 30 September 2018 (30 September 2017: HK$8,176,000).

## 10. AVAILABLE-FOR-SALE INVESTMENTS

| | **30 September 2018** | 31 March 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) |
| Listed equity securities in Hong Kong | **–** | 199,788 |
| Classified as | | |
| Non-current asset | **–** | 63,000 |
| Current asset | **–** | 136,788 |
| | **–** | 199,788 |

Under HKFRS 9, the investments are reclassified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income as stated in notes 11 and 12 respectively.

## 11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | *Note* | **30 September 2018** ***HK$'000*** **(unaudited)** | 31 March 2018 *HK$'000* (audited) |
|---|---|---|---|
| Other long term investment | *(a)* | **48,071** | 46,950 |
| Listed equity securities in Hong Kong | *(b)* | **95,991** | – |
| Classified as | | | |
| Non-current asset | | **48,071** | 46,950 |
| Current asset | | **95,991** | - |
| | | **144,062** | 46,950 |

*Notes:*

(a) On 23 May 2017, the Group entered into a cooperation agreement ("Cooperation Agreement") with Aquamen Entertainment LLC ("Aquamen") to invest HK$45 million in a film project being developed by Aquamen. The investment is classified as financial assets at fair value through profit or loss.

Based on the terms of the Cooperation Agreement, Aquamen will return the full amount of the investment amount of HK$45 million to the Group between 31 December 2019 and 31 March 2020. Furthermore, the Group will receive an investment return from Aquamen on or before 30 September 2020 at the higher of proportionate sharing of profit or 15% of the investment amount.

(b) 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 suspended by the Securities and Futures Commission (the "Suspended Shares"). The fair values of Suspended Shares were determined with reference to the valuations performed by an independent professional valuer.

## 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | **30 September 2018** ***HK$'000*** **(unaudited)** | 31 March 2018 *HK$'000* (audited) |
|---|---|---|
| Listed equity securities in Hong Kong | **50,400** | – |

At 1 April 2018, the Group made an irrevocable election to designate this investment at fair value through other comprehensive income. This option is only applicable to instruments that (i) are not held for trading; (ii) do not give rise on specific dates to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding; and (iii) are not derivatives.

## 13. TRADE AND OTHER RECEIVABLES

| | **30 September 2018** | 31 March 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) |
| Trade receivables | **40,619** | 33,285 |
| Other receivables, deposits and prepayments | **51,131** | 40,788 |
| | **91,750** | 74,073 |

The following is an aged analysis of trade receivables based on the invoice dates at the end of the reporting period:

| | ***HK$'000*** | *HK$'000* |
|---|---|---|
| Within 30 days | **25,191** | 22,831 |
| 31–90 days | **15,263** | 10,096 |
| 91–120 days | **–** | 358 |
| Over 120 days | **165** | – |
| | **40,619** | 33,285 |

The Group generally allows a credit period ranging from 30 to 90 days to its trade customers.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK$165,000 (31 March 2018: HK$358,000) which are past due at the end of the reporting period for which the Group has not provided impairment loss. These relate to a number of customers and default risk of these trade receivables is considered insignificant. Accordingly, no impairment provision is necessary in respect of these receivables.

## 14. TRADE AND OTHER PAYABLES

| | **30 September 2018** | 31 March 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (audited) |
| Trade payables | **162,720** | 139,820 |
| Other payables and accrued charges | **92,328** | 95,849 |
| | **255,048** | 235,669 |

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

| | ***HK$'000*** | *HK$'000* |
|---|---|---|
| Within 90 days | **71,455** | 76,222 |
| 91–365 days | **91,242** | 63,595 |
| Over 365 days | **23** | 3 |
| | **162,720** | 139,820 |

## 15. AMOUNTS DUE FROM/TO RELATED PARTIES

As at 30 September 2018, amounts due from/to related parties were unsecured, non-interest bearing and repayable within 1 year.

## 16. LONG TERM LIABILITIES

On 13 February 2018, the Group entered into a sale and purchase agreement ("Agreement") with Allied Crown Investment Limited ("Vendor") to acquire a target group with investment properties. The total consideration was HK$350 million. A promissory note with principal amount of HK$150 million was issued to the Vendor on the Completion date of 30 April 2018 as partial settlement of the consideration for the Acquisition.

| | **30 September 2018** *HK$'000* **(unaudited)** | 31 March 2018 *HK$'000* (audited) |
|---|---|---|
| Note payable | **141,882** | - |

Based on the terms of the promissory note, the Group may redeem the promissory note on or before the maturity date on 30 April 2020 if certain criteria are met. The promissory note is unsecured and non-interest bearing. It is measured at amortised cost using the effective interest method.

## 17. SHARE CAPITAL

| | **Number of Shares** | **Share capital** *HK$'000* |
|---|---|---|
| Authorised: | | |
| — Ordinary shares of HK$0.02 each | 20,000,000,000 | 400,000 |
| Issued and fully paid: | | |
| At 1 April 2017, 31 March 2018 and 1 April 2018 | | |
| — Ordinary shares of HK$0.02 each | 4,982,000,000 | 99,640 |
| Issue of shares *(Note)* | 1,061,950,000 | 21,239 |
| At 30 September 2018 | 6,043,950,000 | 120,879 |

*Note:* On 13 February 2018, the Company entered into the Agreement to acquire the entire issued share capital of Allied Champion Development Limited. Upon completion of the Acquisition on 30 April 2018, 1,061,950,000 new shares were allotted and issued by the Company at the Issue Price of HK$0.113 per share to the Vendor as partial settlement of the consideration for the Acquisition.

## 18. RELATED PARTY TRANSACTIONS

During the period, the Group had the following major transactions with the following related parties:

| | For the six months ended 30 September | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Sales to a related company | **336** | 170 |
| Regional branding support income from a related company | **70** | 68 |
| Purchases from a related company | **5,097** | 5,723 |
| Financial advisory fee paid to a related company | **177** | – |
| Brokerage fee paid to a related company | **142** | 100 |
| Administrative service fee paid to a related company | **120** | 120 |
| Printing fees paid to a related company | **–** | 196 |

## 19. APPROVAL OF UNAUDITED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the Board on 29 November 2018.

## MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

The Group's revenue for the six months ended 30 September 2018 increased from HK$160.9 million to HK$225.8 million by 40.4% over the same period last year.

Gross profit increased from HK$49.3 million to HK$89.7 million by 81.9% over the same period last year. The gross margin increased from 30.7% to 39.7% mainly due to the better inventory management in H1 FY2019.

Selling and distribution costs in H1 FY2019 remained comparable to the same period last year. General and administrative expenses increased over the same period last year mainly due to the increase in staff costs and professional fees.

Realised exchange gain amounting to HK$1.5 million was recorded by the Group in H1 FY2019 whereas realised exchange loss of HK$2.7 million was recorded in the same period last year. HK$1.8 million fair value gain on derivative financial instruments was recorded in H1 FY2018 when compared to HK$5.4 million loss in H1 FY2019.

Unrealised exchange difference arose from trade payables denominated in foreign currencies, which were translated at the exchange rates prevailing at the balance sheet dates and any differences in valuation were then recognised in the income statement as unrealised gains or losses. Unrealised exchange loss of HK$8.0 million was recorded in H1 FY2019 while unrealised exchange gain of HK$2.1 million was recorded in H1 FY2018.

Excluding the realised and unrealised exchange differences, the change in fair value of investment properties, the change in fair value of financial assets at fair value through profit and loss and the change in fair value of derivative financial instruments, the Group's loss before taxation was HK$9.9 million, against HK$52.8 million for H1 FY2018.

In H1 FY2019, applying HKFRS 9, the Group recognised HK$42.8 million net fair value loss for financial assets at fair value through profit or loss, of which HK$44.0 million fair value loss related to investments in equity instruments. In H1 FY2018, according to the requirements of HKAS 39, fair value changes of the Group's investments in equity instruments classified as available-for-sale investments did not affect profit or loss, except for a HK$3.7 million gain recognised on disposal and a HK$17.8 million loss on impairment.

Net loss for H1 FY2019 was HK$65.3 million against HK$52.0 million in the same period of the last financial year, mainly due to fair value loss on investments in equity instruments which was recognised immediately through profit or loss as required by HKFRS 9.

Loss per share was 1.1 HK cents in H1 FY2019 against 1.0 HK cents in H1 FY2018. Net asset value per share was 18.4 HK cents as at 30 September 2018 against 21.4 HK cents as at 31 March 2018.

### Performance by business operations and geographical markets

***Watch distribution and dining business***

Hong Kong, Mainland China and Macau remained the key revenue drivers, contributing together HK$188.5 million which accounted for 83.5% of the Group's total revenue in H1 FY2019.

*Hong Kong*

Hong Kong continues to be the Group's major market, taking up 49.0% of the Group's revenue for the six months ended 30 September 2018. Sales in this market improved by 14.4% from H1 FY2018 to HK$110.7 million in H1 FY2019.

*Mainland China and Macau*

Mainland China and Macau accounted for about 34.4% of the Group's revenue in H1 FY2019. Sales in this region showed an increase of 57.0% from HK$49.5 million to HK$77.8 million compared with the same period last year.

*Other Asian locations*

Revenue from other Asian territories (i.e. Taiwan, Korea and Singapore) improved from HK$6.4 million in the previous corresponding period to HK$23.2 million in H1 FY2019. Sales in H1 FY2019 of the new boutique added in Korea in December 2017 amounted to HK$5.7 million, equivalent to 24.6% of the segment's revenue.

***Property investment***

*Mainland China*

Rental income of HK$14.0 million (H1 FY2018: HK$8.2 million) was recognised for H1 FY2019 from the Group's investment properties located in the PRC. During the period under review, the Group acquired investment property in Beijing which contributed to the increase in rental income.

## BUSINESS REVIEW

The Group is the sole distributor of FRANCK MULLER watches and accessories in Hong Kong, Macau, Taiwan and Mainland China. The Group also represents five other luxury brands — de GRISOGONO, CVSTOS, Pierre Kunz, European Company Watch and Backes & Strauss.

### Distribution network and market penetration

The Group has established its distribution network with 49 retail points of sales and 11 boutiques, making a total of 60 points (60 as at the end of March 2018).

Other than the 10 boutiques run by the Group, the remaining 50 watch retail outlets in the regions are run by 22 independent watch dealers throughout our key markets in Hong Kong, Macau, Taiwan and Mainland China.

### Brand enhancement activities

The Group aims not only to create but also sustain brand value among our discerning customers. As such, we have undertaken a number of brand enhancement activities to reinforce the brand leadership with 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. These included unique events in our key markets with the aims of increasing brand exposure and extending brand networking.

To celebrate Mother's Day this year, clients were invited to the FRANCK MULLER boutiques in Hong Kong for a splendid afternoon tea to discover the Crazy Hours 15th Anniversary Asia Exclusive alongside with the latest Vanguard novelties. A preserved floral arrangement was given as an exclusive gift upon any purchase of timepieces during the event period.

In September 2018, Prince Jewellery & Watch Company gathered 13 notable watch brands and successfully hosted the 9th edition of World Brand Piazza at the Hong Kong Watch & Clock Fair. A dedicated exhibition area was honoured to FRANCK MULLER to display the first to be seen Vanguard 2018 novelties. The highlight models including the Vanguard Yachting S6 Skeleton, a meticulous skeletonized design inspired by the seafaring yacht; alongside with the Vanguard Lady Gravity, a skeletonized tourbillon tribute to the ladies who appreciate the high-end watchmaking.

## PROSPECTS

In April 2018, the Group further expanded its property investment business in China through acquisition of an investment property situated in a prime location in Beijing. Apart from their potential for capital growth, the investment properties held by the Group are a source of stable rental income.

The Group will continue its efforts in exploring appropriate investment opportunities in order to diversify its sources of income.

The watch distribution business is facing many challenges, and the Group will continue to look for ways to enhance its business.

## LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 30 September 2018, the Group maintained cash and bank balances of HK$93.7 million when compared with its cash and bank balances of HK$194.0 million as at 31 March 2018. In April 2018, upon completion of the acquisition of the entire issued share capital of Allied Champion Development Limited, HK$45.0 million was paid in cash while a zero-coupon promissory note with principal amount of HK$150 million maturing in 2 years was issued to the vendor as partial settlement of the consideration for the acquisition. Details of the above transaction were disclosed in the announcements of the Company dated 13 February 2018 and 30 April 2018; and the circular of the Company dated 6 April 2018. At 30 September 2018, the Group's gearing ratio (debt divided by equity) was 12.8%. The Group has no outstanding bank loan.

As at 30 September 2018, details of the Group's investments in equity instruments were as below:

| | | At 30 September 2018 | | H1 FY2019 | |
|---|---|---|---|---|---|
| **Stock Code** | **Stock Name** | **No. of shares held** | **Fair value** | **Change in fair value recognised in statement of profit or loss** | **Change in fair value recognised in statement of other comprehensive income** |
| | | | *HK$'000* | *HK$'000* | *HK$'000* |
| 3823 | Tech Pro Technology Development Ltd. | 36,760,000 | 1,985 | 74 | – |
| 938 | Man Sang International Ltd. | 20,000,000 | 9,600 | 500 | – |
| 3886 | Town Health International Medical Group Ltd. | 6,600,000 | 3,901 | 271 | – |
| 376 | Yunfeng Financial Group Ltd. | 1,196,000 | 4,784 | (239) | – |
| 2066 | Shengjing Bank Co., Ltd. — H Shares | 500,000 | 1,870 | (1,060) | – |
| 8172 | Lajin Entertainment Network Group Ltd. | 18,800,000 | 3,854 | (2,726) | – |
| 36 | Far East Holdings International Ltd. | – | – | (8,563) | – |
| 627 | Fullsun International Holdings Group Co., Ltd. | 15,845,000 | 12,834 | (11,238) | – |
| 663 | King Stone Energy Group Ltd. | 350,000,000 | 50,400 | – | (12,600) |
| 1003 | Huanxi Media Group Ltd. | 13,760,000 | 23,254 | (2,890) | – |
| 1622 | Redco Properties Group Ltd. | 3,000,000 | 11,940 | (6,932) | – |
| 1076 | Imperial Pacific International Holdings Ltd. | 337,980,000 | 21,969 | (11,154) | – |
| Total | | | 146,391 | (43,957) | (12,600) |

These investments were listed securities measured at fair value. As at 30 September 2018, investments in equity instruments amounted to HK$146.4 million.

In H1 FY2019, a net fair value loss of HK$44.0 million was charged to profit or loss directly while HK$12.6 million was charged to other comprehensive income to reflect the overall decrease in fair value of the investments in equity instruments.

During the period 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 the trading in the shares of Tech Pro Technology Development Limited and Town Health International Medical Group Limited have remained suspended since 9:00 a.m. on 9 November 2017 and 9:00 a.m. on 27 November 2017 respectively.

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 minimize the negative impact of any under-performing investment on the overall return of the investment portfolio of the Group. The performance of the available-for-sale investments 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 from HK$544.8 million as at 31 March 2018 to HK$442.5 million as at 30 September 2018. Total net assets increased to HK$1,111.9 million as at 30 September 2018 from HK$1,068.5 million at 31 March 2018. The Directors believe that the Group's existing financial resources are sufficient to fulfil its commitments and current working capital requirements.

## CAPITAL STRUCTURE AND FOREIGN EXCHANGE EXPOSURE

As at 30 September 2018, the total number of issued shares of the Company was 6,043,950,000. During the period ended 30 September 2018, 1,061,950,000 new shares were allotted and issued by the Company as partial settlement of the consideration for acquisition of a subsidiary.

The Group recorded a realised exchange gain of HK$1.5 million in H1 FY2019 compared with HK$2.7 million loss in H1 FY2018. In addition, the Group booked an unrealised exchange loss of HK$8.0 million in H1 FY2019 against HK$2.1 million gain in H1 FY2018. There was a HK$5.4 million loss on fair value change of derivative financial instruments recorded in H1 FY2019 while HK$1.8 million gain was booked in H1 FY2018.

The Group pursued a prudent policy on financial risk management and the management of foreign currencies and interest rate. 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 HKAS 21 "The Effects of Changes in Foreign Exchange Rates".

## CHARGE ON ASSETS

The Group did not have any material charge on its assets as at 30 September 2018 (31 March 2018: No material charge).

## CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 September 2018 (31 March 2018: Nil).

## EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2018, the Group's work force stood at 166 including Directors (31 March 2018: 173). Employees were paid at market rates with discretionary bonus and medical benefits and 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 that it stays competitive with market practice.

## COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2018.

## 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 during the six months ended 30 September 2018.

## REVIEW OF INTERIM RESULTS

The interim results of the Group for the six months ended 30 September 2018 have not been audited, but have been reviewed by the Group's independent auditor, BDO Limited, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. The report on review of condensed consolidated financial statements by the auditor will be included in the interim report for the six months ended 30 September 2018.

The Audit Committee has also reviewed the Group's unaudited financial statements for the six months ended 30 September 2018.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the shares of the Company during the six months ended 30 September 2018.

## PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.sincerewatch.com.hk).

The interim report of the Company for the six months ended 30 September 2018 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and available on the above websites in due course.

By Order of the Board
**Sincere Watch (Hong Kong) Limited**
**Chu Yuet Wah**
*Chairman*

Hong Kong, 29 November 2018

*As at the date of this announcement, the Executive Directors of the Company are Mrs. Chu Yuet Wah (Chairman), Mr. Zhang Xiaoliang (Deputy Chairman and Chief Executive Officer), Mr. Chu, Kingston Chun Ho, Mr. Yang Guangqiang and Mr. An Muzong; and the Independent Non-executive Directors of the Company are Ms. Lo Miu Sheung, Betty, Mr. Yu Zhenxin, Mr. Zong Hao and Mr. Chiu Sin Nang, Kenny.*