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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 2020

FINANCIAL HIGHLIGHTS

- Revenue from continuing operations for the six months ended 30 September 2020 (“H1 FY2021”) decreased by 67.7% from HK\$154,425,000 to HK\$49,843,000 when compared with the corresponding period of last year (“H1 FY2020”).
- Loss for the six months ended 30 September 2020 increased by 25.4% from HK\$59,479,000 to HK\$74,613,000. The loss for H1 FY2021 is mainly attributable to much weakened market sentiment during the period.
- Loss per share from continuing operations was 1.22 HK cents in H1 FY2021 (H1 FY2020: 0.96 HK cents).
- The Board has resolved not to pay interim dividend for H1 FY2021 (H1 FY2020: 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 2020 together with the unaudited comparative figures for the corresponding six months ended 30 September 2019.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2020

		For the six months ended 30 September	
	Notes	2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited) (re-presented)
Continuing operations			
Revenue	3	49,843	154,425
Cost of sales		(49,058)	(100,240)
Gross profit		785	54,185
Other income		20,631	678
Provision for impairment loss on property, plant and equipment		(1,874)	(29,705)
Selling and distribution costs		(20,375)	(40,316)
General and administrative expenses		(28,101)	(46,514)
Reversal of/(provision for) expected credit losses on financial assets		94	(7,779)
Finance costs		(3,813)	(5,730)
Loss before taxation, exchange gain/(loss), fair value change of investment properties, financial assets at fair value through profit or loss and derivative financial instruments		(32,653)	(75,181)
Realised exchange gain		104	194
Unrealised exchange gain/(loss)		2,932	(7,887)
Fair value change of investment properties	9	(59,317)	(5,076)
Fair value change of financial assets at fair value through profit or loss (“FVTPL”)		649	30,723
Fair value change of derivative financial instruments		–	(394)
Loss before taxation		(88,285)	(57,621)
Income tax credit/(expense)	4	14,596	(500)
Loss for the period from continuing operations	5	(73,689)	(58,121)
Discontinued operation			
Loss for the period from discontinued operation	5	(924)	(1,358)
Loss for the period		(74,613)	(59,479)

		For the six months ended	
		30 September	
		2020	2019
		HK\$'000	HK\$'000
		(unaudited)	(unaudited)
			(re-presented)
Other comprehensive income, net of tax			
Items that will not be reclassified to profit or loss			
— Fair value change of financial assets at fair value through other comprehensive income (“FVOCI”)		6,340	(5,007)
Items that may be subsequently reclassified to profit or loss			
— Exchange differences on translation of foreign operations		25,967	(41,867)
Other comprehensive income for the period		32,307	(46,874)
Total comprehensive income for the period		(42,306)	(106,353)
Loss per share from continuing and discontinued operations			
— basic and diluted		7 (1.23) HK cents	(0.98) HK cents
Loss per share from continuing operations			
— basic and diluted		7 (1.22) HK cents	(0.96) HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

		30 September 2020 <i>HK\$'000</i> (unaudited)	31 March 2020 <i>HK\$'000</i> (audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	8	54,397	51,004
Investment properties	9	624,292	657,318
Financial assets at FVTPL	10	–	7,407
Financial assets at FVOCI	11	23,459	17,119
Other receivables	12	3,746	5,431
Deferred tax assets		20,315	4,876
		<u>726,209</u>	<u>743,155</u>
Current assets			
Inventories		334,098	364,536
Trade and other receivables	12	53,764	42,753
Amounts due from related parties	14	–	258
Financial assets at FVTPL	10	52,167	44,111
Bank balances and cash		44,437	43,616
		<u>484,466</u>	<u>495,274</u>
Current liabilities			
Trade and other payables	13	116,703	125,966
Contract liabilities		3,182	1,074
Lease liabilities		44,244	52,119
Note payable	15	150,000	149,581
Amounts due to related parties	14	2,378	1,919
Loan from a shareholder		42,000	15,000
Taxation payable		100	379
		<u>358,607</u>	<u>346,038</u>
Net current assets		<u>125,859</u>	<u>149,236</u>
Total assets less current liabilities		<u>852,068</u>	<u>892,391</u>

		30 September 2020	31 March 2020
	<i>Notes</i>	HK\$'000 (unaudited)	HK\$'000 (audited)
Non-current liabilities			
Lease liabilities		<u>36,769</u>	<u>34,786</u>
		<u>36,769</u>	<u>34,786</u>
Net assets		<u>815,299</u>	<u>857,605</u>
Capital and reserves			
Share capital	16	120,879	120,879
Reserves		<u>694,420</u>	<u>736,726</u>
Total equity		<u>815,299</u>	<u>857,605</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2020

	Share capital HK\$'000	Share premium HK\$'000	FVOCI reserve HK\$'000	Special reserve HK\$'000 (Note)	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 April 2019 (audited)	120,879	963,553	(8,400)	801	(28,972)	13,856	1,061,717
Exchange differences on translation of foreign operations	-	-	-	-	(41,867)	-	(41,867)
Fair value change of financial assets at FVOCI	-	-	(5,007)	-	-	-	(5,007)
Loss for the period	-	-	-	-	-	(59,479)	(59,479)
Total comprehensive income for the period	-	-	(5,007)	-	(41,867)	(59,479)	(106,353)
As 30 September 2019 (unaudited)	120,879	963,553	(13,407)	801	(70,839)	(45,623)	955,364
At 1 April 2020 (audited)	120,879	963,553	(26,947)	801	(71,180)	(129,501)	857,605
Exchange differences on translation of foreign operations	-	-	-	-	25,967	-	25,967
Fair value change of financial assets at FVOCI	-	-	6,340	-	-	-	6,340
Loss for the period	-	-	-	-	-	(74,613)	(74,613)
Total comprehensive income for the period	-	-	6,340	-	25,967	(74,613)	(42,306)
At 30 September 2020 (unaudited)	120,879	963,553	(20,607)	801	(45,213)	(204,114)	815,299

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 2020

	For the six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash used in operating activities	<u>(5,649)</u>	<u>(45,832)</u>
Investing activities		
Purchase of property, plant and equipment	(11,204)	(911)
Interest received	159	298
Proceeds from disposal of financial assets	–	54,579
Proceeds from disposal of property, plant and equipment	<u>85</u>	<u>–</u>
Net cash (used in)/generated from investing activities	<u>(10,960)</u>	<u>53,966</u>
Financing activities		
Proceeds from short-term loan from a shareholder	27,000	–
Repayment of principal portion of lease liabilities	(9,634)	(19,714)
Interest paid	<u>(3,170)</u>	<u>(2,808)</u>
Net cash generated from/(used in) financing activities	<u>14,196</u>	<u>(22,522)</u>
Net decrease in cash and cash equivalents	(2,413)	(14,388)
Cash and cash equivalents at beginning of the period	43,616	81,776
Effect of foreign exchange rate changes	<u>3,234</u>	<u>(1,570)</u>
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u><u>44,437</u></u>	<u><u>65,818</u></u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS AND SIGNIFICANT EVENTS

These interim condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provision 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 interim condensed consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

Significant events

The World Health Organisation declared Novel Coronavirus (“COVID-19”) a global health emergency on 30 January 2020. The significant events and transactions that have occurred since 31 March 2020 relating to the adverse effects of the global pandemic on the Group’s interim condensed consolidated financial statements for the six months ended 30 September 2020 are summarised as follows.

(a) *Significant loss on revenue*

Due to the pandemic of COVID-19 which have adversely impacted the retail and tourism industries. The number of tourists visiting Hong Kong, and among whom those from Mainland China, has significantly decreased. The Group’s revenue for the six months ended 30 September 2020 decreased by 67.7% to approximately HK\$49.8 million (30 September 2019: approximately HK\$154.4 million).

(b) *Government grants*

The Group applied for various government support programs introduced in response to the global pandemic in Hong Kong.

Included in profit or loss is HK\$3.1 million of government grants obtained relating to supporting the payroll of the Group’s employees and watch distribution business. The Group has elected to present this government grant separately, rather than reducing the related expense. The Group had to commit to spending the assistance on payroll expenses, and not reduce employee head count below prescribed levels for a specified period of time. The Group does not have any unfulfilled obligations relating to this program.

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 these interim condensed consolidated financial statements for the six months ended 30 September 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2020.

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:

- Amendments to HKFRS 3, Definition of a Business
- Amendments to HKAS 1 and HKAS 8, Definition of Material

The adoption of these new/revised HKFRSs has no significant impact on the Group’s unaudited interim condensed 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 dining business, and property investment, which are for the analysis based on the geographical locations of the sales. The Group ceased dining business during the year ended 31 March 2020 and reclassified as discontinued operation for the periods ended 30 September 2020 and 2019.

Segment revenue and results

Segment results represent the loss before taxation by each segment and excluding fair value change of investment properties and financial assets at FVTPL, provision for impairment on property, plant and equipment, unallocated expenses and unallocated income. Unallocated expenses mainly included depreciation of property, plant and equipment, finance costs and expected credit losses on financial assets. 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 2020

	Continuing operations						Discontinued operation		
	Watch distribution				Property investment	Unallocated		Dining business	
	Mainland		Other		Mainland				
	Hong Kong	China and	locations	Sub-total	China		Sub-total	Hong Kong	Total
	HK\$'000	Macau	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
								(Note)	
REVENUE									
External sales	19,674	20,046	5,828	45,548	4,295	-	49,843	-	49,843
RESULT									
Segment results	(18,783)	(2,507)	795	(20,495)	819	(5,475)	(25,151)	(924)	(26,075)
Fair value change of investment properties							(59,317)	-	(59,317)
Fair value change of financial assets at FVTPL							649	-	649
Provision for impairment on property, plant and equipment							(1,874)	-	(1,874)
Unallocated expenses							(23,223)	-	(23,223)
Unallocated income							20,631	-	20,631
Loss before taxation							(88,285)	(924)	(89,209)
Income tax credit							14,596	-	14,596
Loss for the period							(73,689)	(924)	(74,613)

For the six months ended 30 September 2019 (re-presented)

	Continuing operations						Discontinued operation		
	Watch distribution				Property investment	Unallocated		Dining business	
	Hong Kong	Mainland China and	Other		Mainland				
	HK\$'000	Macau	locations	Sub-total	China		Sub-total	Hong Kong	Total
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
								(Note)	
REVENUE									
External sales	64,882	65,087	13,526	143,495	10,930	–	154,425	802	155,227
RESULT									
Segment results	(14,775)	14,973	(3,023)	(2,825)	(2,685)	(10,347)	(15,857)	(1,357)	(17,214)
Fair value change of investment properties							(5,076)	–	(5,076)
Fair value change of financial assets at FVTPL							30,329	–	30,329
Provision for impairment on property, plant and equipment							(29,705)	(1)	(29,706)
Unallocated expenses							(37,990)	–	(37,990)
Unallocated income							678	–	678
Loss before taxation							(57,621)	(1,358)	(58,979)
Income tax expense							(500)	–	(500)
Loss for the period							(58,121)	(1,358)	(59,479)

Note: The dining business has been reclassified as discontinued operation for the periods ended 30 September 2020 and 2019 and the segment information has been re-presented.

4. INCOME TAX CREDIT/(EXPENSE)

	For the six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The charge comprises:		
Current tax		
Hong Kong profits tax	–	–
Other jurisdictions	(234)	(356)
	(234)	(356)
Deferred tax		
Current period	14,830	(180)
Reversal	–	36
	14,596	(500)

Hong Kong Profits Tax is calculated at 16.5% (30 September 2019: 16.5%) of the estimated assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

5. LOSS FOR THE PERIOD

(a) Continuing operations

Loss for the period has been arrived at after charging/(crediting):

	For the six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (re-presented)
Directors' remuneration	2,987	5,719
Other staff costs	12,275	22,121
Other staff's retirement benefits scheme contributions	305	444
Total staff costs	15,567	28,284
Depreciation of property, plant and equipment	19,503	24,402
Interest on lease liabilities	2,408	3,159
Short-term leases expenses	363	13,487
Variable lease payments	499	416
Rent concession	(15,707)	–
Provision for impairment loss on property, plant and equipment	1,874	29,705
(Reversal of)/provision for expected credit losses on financial assets	(94)	7,779
Cost of inventories recognised as an expense (including write-down of inventories HK\$8,739,000 (2019: HK\$9,576,000))	49,218	100,240
Government subsidy	(3,148)	–
Interest income	(159)	(298)

(b) Discontinued operation

On 19 January 2020, the Group closed the dining business upon the expiry of its tenancy agreement. The financial performance during the period ended 30 September 2020 are as follows:

	1 April 2020 to 31 May 2020 HK\$'000 (unaudited)	1 April 2019 to 30 September 2019 HK\$'000 (unaudited)
Turnover	–	802
Expenses	(924)	(2,160)
Loss before taxation	(924)	(1,358)
Income tax expense	–	–
Loss for the period from discontinued operation	(924)	(1,358)

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 2020 (30 September 2019: Nil).

No final dividend for the year ended 31 March 2020 was declared and paid during the period (31 March 2019: Nil).

7. LOSS PER SHARE

From continuing and discontinued operations

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 2020 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)
Loss for the purpose of basic and diluted earnings per share	(74,613)	(59,479)
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	6,043,950,000	6,043,950,000

Diluted loss per share for the six months ended 30 September 2020 and 2019 are the same as the basic loss per share as there were no potential dilutive ordinary shares outstanding during the periods.

From continuing operations

	For the six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the purpose of basic and diluted earnings per share	<u>(73,689)</u>	<u>(58,121)</u>
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>6,043,950,000</u>	<u>6,043,950,000</u>

From discontinued operation

	For the six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the purpose of basic and diluted earnings per share	<u>(924)</u>	<u>(1,358)</u>
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	<u>6,043,950,000</u>	<u>6,043,950,000</u>

8. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group entered into leases for shops with right-of-use assets amounted to approximately HK\$13,291,000 (30 September 2019: HK\$33,092,000) recognised.

During the period, additions to the Group's property, plant and equipment amounted to approximately HK\$11,204,000 (30 September 2019: HK\$911,000) which mainly included the additions to leasehold improvements amounting to approximately HK\$9,124,000 (30 September 2019: HK\$814,000) for renovation of shops.

The Group performed an impairment assessment on property, plant and equipment in accordance with the accounting policy on impairment of non-financial assets. Based on the assessment, an impairment loss of HK\$1,874,000 (30 September 2019: HK\$29,706,000) was recognised and charged to the interim condensed consolidated statement of profit or loss and other comprehensive income for the 6 months period ended 30 September 2020. 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 17%.

Right-of-use assets amounted to HK\$42,644,000 and other property, plant and equipment amounted to HK\$11,753,000 were recognised as at 30 September 2020.

9. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
At 1 April 2019	728,544
Fair value change	(25,205)
Exchange realignment	(46,021)
	<hr/>
At 31 March 2020 (audited)	657,318
Fair value change	(59,317)
Exchange realignment	26,291
	<hr/>
At 30 September 2020 (unaudited)	<u>624,292</u>

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.

The fair value of the Group's investment properties as at 30 September 2020 has been derived from the 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 30 September 2020 is determined by using the Income Approach (31 March 2020: 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 investment properties of the Group is derived by Level 3 recurring fair value measurement as at 30 September 2020 and 31 March 2020.

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:

	<i>HK\$'000</i>
At 1 April 2019 (Level 3 recurring fair value)	728,544
Change in fair value recognised in profit or loss	(25,205)
Exchange realignment	(46,021)
	<hr/>
At 31 March 2020 (audited) (Level 3 recurring fair value)	657,318
Change in fair value recognised in profit or loss	(59,317)
Exchange realignment	26,291
	<hr/>
At 30 September 2020 (unaudited) (Level 3 recurring fair value)	<u>624,292</u>

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\$4,295,000 was recognised during the period ended 30 September 2020 (30 September 2019: HK\$10,930,000).

10. FINANCIAL ASSETS AT FVTPL

		30 September 2020	31 March 2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(audited)
			(re-presented)
Other long term investment	(a)	48,125	46,933
Listed equity securities in Hong Kong	(b)	652	1,195
Suspended and delisted equity securities in Hong Kong	(b)	3,390	3,390
		52,167	51,518
Classified as			
Non-current assets		–	7,407
Current assets		52,167	44,111
		52,167	51,518

Notes:

- (a) On 23 May 2017, a wholly-owned subsidiary of the Company (“Party A”), Aquamen Entertainment LLC (“Party B”) and Mr. Zhang Xiaoliang (the “Guarantor”) entered into a cooperation agreement (“Cooperation Agreement”), pursuant to which Party A would invest HK\$45 million in a film project being developed by Party B. The investment is classified as financial assets at fair value through profit or loss.

On 30 May 2019, Party A, Party B and the Guarantor entered into a supplemental agreement (the “Supplemental Agreement”). Based on the terms of the Cooperation Agreement and the Supplemental Agreement, Party B would return the investment amount of HK\$45 million to Party A on or before 31 March 2021. Furthermore, Party A shall receive an investment return from Party B on or before 30 September 2021 at the higher of proportionate sharing of net profit or 20% of the investment amount.

- (b) The fair value 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 or delisted by the Securities and Futures Commission (the “Suspended and Delisted Shares”).

11. FINANCIAL ASSETS AT FVOCI

	30 September 2020	31 March 2020
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Listed equity securities in Hong Kong	23,459	17,119

12. TRADE AND OTHER RECEIVABLES

The Group's trade and other receivables, net of expected credit loss allowances, are as follows:

	30 September 2020 HK\$'000 (unaudited)	31 March 2020 HK\$'000 (audited)
Trade receivables	11,690	6,025
Other receivables, deposits and prepayments	45,820	42,159
	57,510	48,184
Classified as		
Non-current assets		
— Other receivables	3,746	5,431
Current assets		
— Trade receivables	11,690	6,025
— Other receivables, deposits and prepayments	42,074	36,728
	53,764	42,753
	57,510	48,184

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	9,492	4,881
31–90 days	2,198	1,095
91–120 days	–	49
	11,690	6,025

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

As at 30 September 2020, loss allowances of HK\$339,000 were made against the gross amount of trade receivables (31 March 2020: HK\$14,479,000).

As at 30 September 2020, loss allowances of HK\$2,267,000 were made against the gross amount of other receivables (31 March 2020: HK\$2,462,000).

13. TRADE AND OTHER PAYABLES

	30 September 2020 HK\$'000 (unaudited)	31 March 2020 HK\$'000 (audited)
Trade payables	42,108	37,816
Other payables and accrued charges	74,595	88,150
	<u>116,703</u>	<u>125,966</u>

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

	HK\$'000	HK\$'000
Within 90 days	6,261	11,760
91–365 days	28,783	22,378
Over 365 days	7,064	3,678
	<u>42,108</u>	<u>37,816</u>

14. AMOUNT DUE FROM/TO RELATED PARTIES

As at 30 September 2020, amounts due from/to related parties were unsecured, non-interest bearing and repayable within 1 year.

15. NOTE PAYABLE

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

	30 September 2020 HK\$'000 (unaudited)	31 March 2020 HK\$'000 (audited)
Classified as		
Current liability	<u>150,000</u>	<u>149,581</u>

The promissory note is unsecured and non-interest bearing. It is measured at amortised cost using the effective interest method. During the year ended 31 March 2020, the Vendor assigned the promissory note to an independent third party with the principal amount and the terms remained the same.

On 29 April 2020, the Company and the holder of the Promissory Note consented to extension of the maturity date under the Promissory Note from 30 April 2020 to 31 August 2020 (by executing a Deed of Extension which serves as a supplemental to the Promissory Note). 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 unless the Company has adequate capital resources before 30 June 2021. All other terms in the Promissory Note shall remain valid and in force.

16. 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 2019, 31 March 2020, 1 April 2020 and 30 September 2020		
— Ordinary shares of HK\$0.02 each	6,043,950,000	120,879

17. 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	
	2020	2019
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Sales to related companies	245	1,196
Purchases from a related company	1,521	2,513
Administrative service fee paid to a related company	120	120
Financial advisory fee paid to a related company	—	179
Brokerage fee paid to a related company	—	137
Regional branding support income from a related company	67	69
Interest paid to a shareholder	986	—
Rental and other related expenses paid to a related company	3,576	4,306

A shareholder of the Company is also a director and shareholder of the related company.

18. APPROVAL OF UNAUDITED FINANCIAL STATEMENTS

The unaudited interim condensed consolidated financial statements were approved and authorised for issue by the Board on 27 November 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue from continuing operations in H1 FY2021 decreased by 67.7% from HK\$154.4 million to HK\$49.8 million over the same period last year. The decrease was caused by the unprecedented COVID-19 pandemic and the associated combating measures.

Gross profit from continuing operations in H1 FY2021 decreased by 98.6% from HK\$54.2 million to HK\$0.8 million over the same period last year. Gross margin decreased from 35.1% to 1.6% due to the global pandemic of the COVID-19 virus and provision of slow-moving inventories during the period.

Other income in H1 FY2021 was HK\$20.6 million as compared to HK\$0.7 million in H1 FY2020. The increase was mainly due to rent concession of HK\$15.7 million (H1 FY2020: Nil) and receipt of government subsidies under the Employment Support Scheme and Retail Sector Subsidy Scheme under the Anti-epidemic Fund provided by the local government of HK\$3.1 million (H1 FY2020: Nil).

Selling and distribution costs and general and administrative expenses decreased by 49.5% and 39.6% respectively in H1 FY2021. The decrease was mainly due to reduction of boutiques rental, sales commission and staff cost.

Provision for impairment loss on property, plant and equipment in H1 FY2021 was HK\$1.9 million against HK\$29.7 million in H1 FY2020. Loss before taxation, exchange differences, fair value change of investment properties, financial assets at fair value through profit or loss and derivative financial instruments in H1 FY2021 was HK\$32.7 million as compared to HK\$75.2 million in H1 FY2020.

Realised and unrealised foreign exchange gain in H1 FY2021 were HK\$0.1 million and HK\$2.9 million respectively, as compared to realised gain of HK\$0.2 million and unrealised loss of HK\$7.9 million in H1 FY2020. 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 consolidated statement of profit or loss as unrealised gains or losses.

Fair value loss of investment properties in H1 FY2021 was HK\$59.3 million as compared to HK\$5.1 million in H1 FY2020. Fair value gain of financial assets at FVTPL in H1 FY2021 was HK\$0.6 million as compared to HK\$30.7 million in H1 FY2020.

Loss from continuing operations and discontinued operation in H1 FY2021 were HK\$73.7 million and HK\$0.9 million, as compared to HK\$58.1 million and HK\$1.4 million respectively in H1 FY2020.

Loss per share was 1.23 HK cents in H1 FY2021 (H1 FY2020: 0.98 HK cents). Net asset value per share was 13.49 HK cents as at 30 September 2020 against 14.2 HK cents as at 31 March 2020.

BUSINESS REVIEW

The Group is the sole distributor of FRANCK MULLER luxury watches and accessories in Hong Kong, Macau, Taiwan and Mainland China. The Group also represents four other luxury brands — 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 10 boutiques, making a total of 59 points (61 as at the end of March 2020).

Other than the 7 boutiques operated by the Group, the remaining 52 watch retail outlets are operated by 22 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 market with the aims of increasing brand exposure and extending brand networking.

Mainland China

25 July 2020

FRANCK MULLER VIP Cocktail Reception

An exclusive and private opening cocktail was hosted at FRANCK MULLER Shenyang Mix C boutique, the prestige guests were gathered for a simple lighting ceremony oscillated by the senior management to unveil the opening of the new boutique. A branded cart was displayed at the boutique façade to offer guests mini bouquet or candies as a giveaway to celebrate the occasion.

22 August 2020

FRANCK MULLER Chinese Valentine's Day Event

An exclusive cocktail was hosted respectively at FRANCK MULLER West Nanjing Road, Zheng Zhou and Shenyang Mix C boutiques, the VIP guests were invited by private appointment, presented to the latest Vanguard Crazy Hours Asia Exclusive collection, while they were welcomed to create their own personalized table garden as a souvenir which was exclusively offered at the event only.

5 September 2020

FRANCK MULLER Exclusive High Tea

Together with a prestige VIP membership partner, Self Shero, a private VIP event was hosted at KEE CLUB, Shanghai with esteemed guests for a splendid afternoon tea to discover the new Vanguard Crazy Hours Asia Exclusive collection, the most iconic collection displaying a unique way of telling time- the hour hand leaps across the dial at the top of every hour. A branded scented candle set was given as an exclusive gift at the event only.

Performance by business operations and geographical markets

Watch distribution

Hong Kong, Mainland China and Macau remained the key revenue drivers, contributing together HK\$39.7 million, which accounted for 79.7% of the Group's total revenue, in H1 FY2021.

Mainland China and Macau

Mainland China and Macau have taken over Hong Kong as the Group's major markets and contributed 40.2% of the Group's revenue in H1 FY2021. Revenue in this region was HK\$20.0 million in H1 FY2021 as compared to HK\$65.1 million in the same period last year.

Hong Kong

Hong Kong contributed 39.5% of the Group's revenue in H1 FY2021. Revenue in this region decreased by 69.7% to HK\$19.7 million in H1 FY2021.

Other locations

Revenue from other locations decreased by 56.9% from HK\$13.5 million to HK\$5.8 million in H1 FY2021.

Property investment

Revenue from investment properties was derived from two properties located in Mainland China. Their rental income decreased from HK\$10.9 million to HK\$4.3 million in H1 FY2021 as a result of lower occupancy rate. In view of the decrease in occupancy and market rent level, revaluation loss of HK\$59.3 million on the investment properties was recognised in H1 FY2021 as compared to HK\$5.1 million in the same period last year.

PROSPECTS

The COVID-19 pandemic that broke out in early 2020 has seriously affected the global economy. It is still affecting the business and economic activities worldwide until the spread of COVID-19 can be effectively contained. The COVID-19 has increased uncertainty to the Group in respect of its future operating performance which currently is difficult to predict. The Group will keep continuous attention on the change of situation, make timely response and adjustments in the future and control the risk matters.

Going forward, the Group will move to further strengthen its distribution network in Hong Kong, Macau and Mainland China including the opening up of a new flagship store in Central, as well as explore new markets in other Asian countries. In addition, the Group will review the tenancy situation including occupancy and rental level of our investment properties in the PRC so as to improve the rental yield to the Group in the year of 2021.

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

LIQUIDITY, FINANCIAL RESOURCES AND GEARING RATIO

As at 30 September 2020, the Group maintained the cash and bank balances of HK\$44.4 million when compared with its cash and bank balances of HK\$43.6 million as at 31 March 2020. Gearing ratio (net debt divided by total equity) was 18.1% at 30 September 2020 (31 March 2020: 14.1%). The Group has no outstanding bank loan.

At 30 September 2020, details of the Group's investments in equity instruments were as below:

Stock code	Stock name	At 30 September 2020		H1 FY2021	
		No. of shares held	Fair value HK\$'000	Change in fair value recognised in statement of profit or loss HK\$'000	Change in fair value recognised in statement of other comprehensive income HK\$'000
3823	Tech Pro Technology Development Ltd.	36,760,000	1,235	–	–
3886	Town Health International Medical Group Ltd.	6,600,000	2,155	–	–
627	Fullsun International Holdings Group Co., Ltd.	12,065,000	652	(542)	–
663	King Stone Energy Group Ltd.	317,020,000	23,459	–	6,340
Total			27,501	(542)	6,340

These investments were listed and delisted securities which were measured at fair value. As at 30 September 2020, investments in equity instruments amounted to approximately HK\$27.5 million.

During the period under review, the Group's portfolio of equity instruments was able to contribute a net fair value gain. A net fair value loss of approximately HK\$0.5 million was charged to the statement of profit or loss while a net fair value gain of approximately HK\$6.3 million was recognised in the statement of other comprehensive income.

It was noted that trading in the shares of Tech Pro Technology Development Limited and Town Health International Medical Group Limited has been suspended since 9:00 a.m. on 9 November 2017 and 9:00 a.m. on 27 November 2017 respectively, details of which are referred to in the announcement made by Tech Pro Technology Development Limited on 9 November 2017 and the announcement made by Town Health International Medical Group Limited on 27 November 2017 respectively. It was further noted that the shares of Tech Pro Technology Development Limited were 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 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\$149.2 million as at 31 March 2020 to HK\$125.9 million as at 30 September 2020. Net assets stood at HK\$815.3 million as at 30 September 2020 as compared to HK\$857.6 million as at 31 March 2020. 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 2020, the total number of issued shares of the Company was 6,043,950,000 (31 March 2020: 6,043,950,000). There was no change in the capital structure of the Company during the six months ended 30 September 2020.

The Group recorded a realised exchange gain of HK\$0.1 million in H1 FY2021 as compared with HK\$0.2 million in H1 FY2020. In addition, the Group booked an unrealised exchange gain of HK\$2.9 million in H1 FY2021 against a loss of HK\$7.9 million in H1 FY2020. There was no fair value change of derivative financial instruments recorded in H1 FY2021 against a loss of HK\$0.4 million in H1 FY2020.

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 Hong Kong Accounting Standard 21 "The Effects of Changes in Foreign Exchange Rates".

CHARGE ON ASSETS

The Group did not have any charge on its assets as at 30 September 2020 (31 March 2020: Nil).

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 September 2020 (31 March 2020: Nil).

EMPLOYMENT AND REMUNERATION POLICY

As at 30 September 2020, the Group's work force stood at 132 including Directors (31 March 2020: 134). 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 that it stays competitive with market practice.

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 securities of the Company during the six months ended 30 September 2020.

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 2020.

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 2020.

AUDIT COMMITTEE

The Audit Committee was established on 19 September 2005. The Audit Committee consists of four independent non-executive Directors, being Ms. Lo Miu Sheung, Betty, Mr. Yu Zhenxin, Mr. Zong Hao and Mr. Chiu Sin Nang, Kenny (the chairman of the Audit Committee). It is responsible for reviewing and overseeing the financial reporting system, risk management and internal control systems of the Company and providing advice and comments to the Board.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2020.

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 2020 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, 27 November 2020

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.