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ORIENTAL WATCH HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(the “Company”)

(Stock Code: 398)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2021

The Board of Directors of Oriental Watch Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2021 together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2021

		(Unaudited)	
		Six months ended	
		30 September	30 September
		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	1,859,457	1,359,410
Cost of goods sold		(1,281,980)	(991,391)
Gross profit		577,477	368,019
Other income	4A	10,074	20,650
Other gains and losses	4B	(4,183)	(21,470)
Distribution and selling expenses			
— Expenses related to leases		(76,031)	(63,823)
— Other distribution and selling expenses		(172,705)	(133,905)
Administrative expenses		(89,311)	(66,433)
Finance costs		(5,148)	(5,372)
Share of results of associates		7,245	5,113
Share of result of a joint venture		345	(149)

		(Unaudited)	
		Six months ended	
		30 September	30 September
		2021	2020
	Notes	HK\$'000	HK\$'000
Profit before taxation	5	247,763	102,630
Income tax expense	6	<u>(80,646)</u>	<u>(45,022)</u>
Profit for the period		<u>167,117</u>	<u>57,608</u>
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
Change in fair value of equity instruments at fair value through other comprehensive income ("FVTOCI")		1,611	473
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		18,004	25,497
Change in fair value of debt instruments at FVTOCI		(81)	563
Release on redemption of debt instruments at FVTOCI		<u>17</u>	<u>(39)</u>
Other comprehensive income for the period		<u>19,551</u>	<u>26,494</u>
Total comprehensive income for the period		<u><u>186,668</u></u>	<u><u>84,102</u></u>
Profit (loss) for the period attributable to:			
Owners of the Company		166,615	58,096
Non-controlling interests		<u>502</u>	<u>(488)</u>
		<u><u>167,117</u></u>	<u><u>57,608</u></u>
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		186,125	84,586
Non-controlling interests		<u>543</u>	<u>(484)</u>
		<u><u>186,668</u></u>	<u><u>84,102</u></u>
Earnings per share	8		
— Basic and diluted		<u><u>34.19 HK cents</u></u>	<u><u>10.19 HK cents</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2021

		(Unaudited) 30 September 2021 HK\$'000	(Audited) 31 March 2021 HK\$'000
	Notes		
Non-current assets			
Property, plant and equipment	9	232,257	208,112
Right-of-use assets	9	360,394	334,082
Deposits for acquisition of property, plant and equipment		16,322	9,261
Interests in associates		74,614	66,362
Interest in a joint venture		26,601	26,256
Equity instruments at FVTOCI		6,136	4,525
Debt instruments at FVTOCI		1,604	8,645
Loan receivables	11	28,471	41,957
Deferred tax assets		3,138	4,015
Property rental deposits		30,740	25,539
		<u>780,277</u>	<u>728,754</u>
Current assets			
Inventories	10	511,893	622,768
Loan receivables	11	61,720	17,095
Trade and other receivables	12	226,018	286,023
Equity investments at fair value through profit or loss ("FVTPL")		4,413	6,036
Debt instruments at FVTOCI		5,661	—
Taxation recoverable		4,380	5,534
Bank balances and cash		1,334,548	1,061,320
		<u>2,148,633</u>	<u>1,998,776</u>
Current liabilities			
Trade and other payables	13	227,115	287,370
Contract liabilities	13	11,872	4,502
Dividend payable		190,070	—
Lease liabilities		105,225	85,651
Derivative financial instruments at FVTPL		18,292	14,000
Taxation payable		42,967	43,425
Bank loans	14	44,566	17,525
		<u>640,107</u>	<u>452,473</u>
Net current assets		<u>1,508,526</u>	<u>1,546,303</u>
Total assets less current liabilities		<u>2,288,803</u>	<u>2,275,057</u>

		(Unaudited) 30 September 2021 <i>HK\$'000</i>	(Audited) 31 March 2021 <i>HK\$'000</i>
	<i>Note</i>		
Non-current liabilities			
Deferred tax liabilities		22,749	18,797
Lease liabilities		278,907	265,711
		<u>301,656</u>	<u>284,508</u>
Net assets		<u>1,987,147</u>	<u>1,990,549</u>
Capital and reserves			
Share capital	15	48,736	48,736
Reserves		1,938,814	1,942,759
Equity attributable to owners of the Company		<u>1,987,550</u>	<u>1,991,495</u>
Non-controlling interests		<u>(403)</u>	<u>(946)</u>
Total equity		<u>1,987,147</u>	<u>1,990,549</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2021

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than additional in accounting policy resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2021 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2021.

2.1 Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 April 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform — Phase 2

As described below, the application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

Impact and accounting policies on application of Amendment to HKFRS 16 “Covid-19-Related Rent Concessions” and Amendment to HKFRS 16 “Covid-19-Related Rent Concessions beyond 30 June 2021”

The application of these amendments has had no material impact on the Group’s financial positions and performance in the current and prior periods as the Group opted not to apply the practical expedient, but applied the applicable requirements of HKFRS 16 “Leases” to account for rent concessions provided by certain lessors.

Impacts and accounting policies on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 “Interest Rate Benchmark Reform — Phase 2”

Accounting policies

Financial instruments

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (i.e. the basis immediately preceding the change).

For other changes made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first applies the practical expedient to the changes required by interest rate benchmark reform by updating the effective interest rate. The Group then applies the applicable requirements in HKFRS 9 “Financial Instruments” on modification of a financial asset or a financial liability to the additional changes to which the practical expedient does not apply.

Transition and summary of effects

As at 1 April 2021, the Group has bank loan amounted to HK\$15,858,000 which carries interest at London Interbank Offered Rate (“LIBOR”), the interest of which are indexed to benchmark rates that will or may be subject to interest rate benchmark reform.

The Group will apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank loans measured at amortised cost. The amendments have had no impact on the condensed consolidated financial statements as none of the above contracts has been transitioned to the relevant replacement rates during the interim period. The impacts on application of the amendments, if any, including additional disclosures, will be reflected in the Group’s consolidated financial statements for the year ending 31 March 2022.

2.2. Potential impact of application of the June 2021 International Financial Reporting Standards Interpretations Committee’s (the “Committee”) agenda decision — Costs necessary to sell inventories

In June 2021, the Committee, through its agenda decision, clarified the costs an entity should include as “estimated costs necessary to make the sale” when determining the net realisable value of inventories. In particular, whether such costs should be limited to those that are incremental to the sale. The Committee concluded that the estimated costs necessary to make the sale should not be limited to those that are incremental to a particular sale.

As at 30 September 2021, the Group is still in the process of assessing the potential impact and has yet to implement the change in accounting policy based on the Committee’s agenda decision. The impacts on such change, if any, will be disclosed in the Group’s future consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

The Group’s operation is principally sales of watches. The Group’s revenue represents consideration received or receivable from sales of watches.

Information reported to the executive directors of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance is analysed based on the geographical markets of the goods sold.

Specifically, the Group has four operating segments, being (a) Hong Kong, (b) People’s Republic of China (the “PRC”), (c) Macau and (d) Taiwan, which is also the basis of organisation of the Group for managing the business operations. During the current interim period, the business in Taiwan is discontinued and the discontinued operation is not presented as the management considers that the operating result from the discontinued operation is not significant to the Group.

Sales of watches (revenue recognised at a point in time)

For sales of watches, revenue is recognised when control of the goods has transferred, being at the point the customer purchases the goods at the retail shop. Payment of the transaction price is due immediately at the point the customer purchases the goods. A credit period of not more than 30 days is granted to department stores who receive the payment on behalf of the Group at the point the customer purchases the goods.

All sales contracts are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

The following is an analysis of the Group's segment revenue and results by operating segments:

	Segment revenue — recognised at a point in time Six months ended 30 September		Segment profit Six months ended 30 September	
	2021	2020	2021	2020
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	474,748	366,000	23,510	(11,991)
The PRC	1,302,116	953,914	246,597	127,210
Macau	82,593	39,402	14,315	(2,793)
Taiwan	—	94	(186)	(7,121)
	<u>1,859,457</u>	<u>1,359,410</u>	<u>284,236</u>	<u>105,305</u>
Unallocated other income			5,753	7,306
Unallocated other gains and losses			(4,334)	799
Unallocated corporate expenses			(45,200)	(15,685)
Interests on bank loans			(282)	(59)
Share of results of associates			7,245	5,113
Share of result of a joint venture			345	(149)
Profit before taxation			<u>247,763</u>	<u>102,630</u>

Segment profit represents the profit before taxation earned by each segment without allocation of interests, bank loans, share of results of associates and a joint venture and unallocated other income, unallocated other gains and losses and unallocated corporate expenses. Unallocated corporate expenses include auditor's remuneration and directors' remuneration. This is the measure reported to the chief operating decision maker of the Group for the purposes of resources allocation and performance assessment.

All segment revenue is generated from external customers for both periods.

The following is an analysis of the Group's assets and liabilities by operating segments:

	Segment assets		Segment liabilities	
	30 September 2021 HK\$'000	31 March 2021 HK\$'000	30 September 2021 HK\$'000	31 March 2021 HK\$'000
Hong Kong	866,992	904,781	402,087	388,913
The PRC	423,926	530,241	125,763	176,017
Macau	86,706	30,376	43,500	5,717
Taiwan	—	19,972	—	131
Segment total	1,377,624	1,485,370	571,350	570,778
Unallocated	1,551,286	1,242,160	370,413	166,203
Consolidated total	<u>2,928,910</u>	<u>2,727,530</u>	<u>941,763</u>	<u>736,981</u>

The segment assets by location are the same as by location of markets of the goods sold.

4A. OTHER INCOME

	Six months ended	
	30 September 2021 HK\$'000	30 September 2020 HK\$'000
Interest income from bank	3,620	7,306
Interest income from rental deposits	365	970
Government subsidies	—	10,834
Interest income from loan receivable at amortised cost	2,133	—
Others	3,956	1,540
	<u>10,074</u>	<u>20,650</u>

During the six months ended 30 September 2020, the Group recognised government subsidies of HK\$10,814,000 which mainly related to Employment Support Scheme provided by the Hong Kong government in respect of COVID-19-related subsidies and no such income is recognised during the six months ended 30 September 2021.

4B. OTHER GAINS AND LOSSES

	Six months ended	
	30 September 2021 HK\$'000	30 September 2020 HK\$'000
Changes in fair value of loans receivables at FVTPL	1,359	—
Reversal of (impairment loss) under expected credit loss model, net	846	(2,864)
Impairment loss recognised in respect of		
— Property, plant and equipment	—	(2,813)
— Right-of-use assets	—	(16,592)
Loss on disposal/written-off of property, plant and equipment	(695)	(1,189)
Net (loss) gain arising on financial assets at FVTPL	(450)	2,222
Net loss on derivative financial instruments at FVTPL	(4,292)	(218)
(Loss) gain on redemption of debt instruments at FVTOCI	(17)	39
Net foreign exchange losses	(934)	(55)
	<u>(4,183)</u>	<u>(21,470)</u>

5. PROFIT BEFORE TAXATION

	Six months ended	
	30 September 2021 HK\$'000	30 September 2020 HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	13,745	16,160
Depreciation of right-of-use assets	61,267	53,737
Allowance for slow-moving watches	410	8,060
Short-term lease payments	166	637
	<u>75,588</u>	<u>78,694</u>

6. INCOME TAX EXPENSE

	Six months ended	
	30 September 2021 HK\$'000	30 September 2020 HK\$'000
Current tax:		
Hong Kong	4,908	3,213
PRC Enterprise Income Tax	61,585	33,270
Other jurisdictions	1,784	—
Withholding tax on dividend income from associates	513	1,671
Withholding tax on dividend income from subsidiaries	6,893	6,043
	<u>75,683</u>	<u>44,197</u>
Deferred taxation charge	4,963	825
	<u>80,646</u>	<u>45,022</u>

Hong Kong Profits Tax for both periods is calculated at 16.5% of the estimated assessable profits for the period, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered profits tax rates regime. For this subsidiary, the first HK\$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods, after setting off of tax losses brought forward, if any.

Taxation in other jurisdictions is calculated at the rates prevailing pursuant to the relevant laws and regulations.

7. DIVIDEND

During the six months ended 30 September 2021, a final dividend of 12.0 HK cents per share, totalling HK\$58,483,000, in respect of the year ended 31 March 2021 (2020: 8.0 HK cents per share, totalling HK\$45,629,000) and a special dividend of 27.0 HK cents per share, totalling HK\$131,587,000, in respect of the year ended 31 March 2021 (2020: 5.0 HK cents per share, totalling HK\$28,518,000) were approved at the annual general meeting held on 8 September 2021 and paid on 11 October 2021.

On 24 November 2021, the directors resolved to declare an interim dividend of 8.6 HK cents per share, totalling HK\$41,913,000 in respect of the six months ended 30 September 2021 (2020: 2.8 HK cents per share, totalling HK\$13,646,000) and a special dividend of 25.8 HK cents per share, totalling HK\$125,738,000, in respect of the six months ended 30 September 2021 (2020: 9.2 HK cents per share, totalling HK\$44,837,000), to be paid in cash to those shareholders whose names appear on the Company's register of members on 10 December 2021.

8. EARNINGS PER SHARE

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

	Six months ended	
	30 September 2021	30 September 2020
	HK\$'000	HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	166,615	58,096
	Number of shares	
	30 September 2021	30 September 2020
Number of shares		
Number of ordinary shares	487,358,224	570,358,224

The diluted earnings per share for six months ended 30 September 2021 and 30 September 2020 had not included the effect from the Company's share options because the exercise prices of the share options are higher than the average market price of the shares of the Company.

9. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended 30 September 2021, the Group incurred expenditure of HK\$38,275,000 (six months ended 30 September 2020: HK\$20,150,000) to acquire property, plant and equipment for its operation. During the six months ended 30 September 2021, the Group wrote off of certain property, plant and equipment with carrying amount of HK\$695,000 (six months ended 30 September 2020: HK\$1,189,000) resulting in a loss on written-off of HK\$695,000 (six months ended 30 September 2020: HK\$1,189,000).

As at 30 September 2021, the Group has pledged certain land and buildings with an aggregate carrying value of HK\$80,930,000 (31 March 2021: HK\$82,100,000) to a bank to secure the bank loan facilities granted to the Group.

During the six months ended 30 September 2021, the Group entered into several new lease agreements for the use of retail shops and office premises with lease terms of 3 years (six months ended 30 September 2020: nil). The Group is required to make fixed payments. Upon entering into new lease agreements, the Group recognised right-of-use assets and related lease liabilities of HK\$35,154,000 (six months ended 30 September 2020: nil), which constitutes non-cash transactions. In addition, lease terms of certain leases were extended through modification and the Group recognised additions to right-of-use assets and related lease liabilities of HK\$51,883,000 (six months ended 30 September 2020: right-of-use assets of HK\$139,291,000 and lease liabilities of HK\$138,026,000) at the effective date of modification.

During the six months ended 30 September 2020, certain lessors of the retail shops provided rent concessions to the Group through rent reductions ranging from 1 month to 2 months (six months ended 30 September 2021: nil). The Group concluded the changes in lease payments constitute lease modifications. As a result, during the six months ended 30 September 2020, reduction of the Group's lease liabilities of HK\$7,883,000 and a corresponding adjustment of the same amount to the right-of-use assets were recognised (six months ended 30 September 2021: nil).

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the six months ended 30 September 2020, a retail shop had been renovated which is considered as triggering event resulting in an addition of the Group's lease liabilities of HK\$18,336,000 (six months ended 30 September 2021: nil), and a corresponding adjustment of the same amount to the right-of-use assets was recognised.

Impairment assessment

During the six months ended 30 September 2021, the global economy has been recovering despite the unstable Covid-19 pandemic situation, and the growing vaccination rates and relaxing social distancing measures have driven up domestic consumption in Hong Kong, Macau and the PRC where the Group operates and the management concluded there was no indication for impairment.

During the six months ended 30 September 2020, as a result of the changes in the current economic environment related to the Covid-19 pandemic, the Group was experiencing negative conditions for its operation in Hong Kong and Macau including decreased revenues that indicate that the relevant property, plant and equipment and right-of-use assets may be impaired. As certain retail shops in Hong Kong and Macau incurred operating losses, the management of the Group concluded there was an indication for impairment and conducted impairment assessment on recoverable amounts of property, plant and equipment

and right-of-use assets of relevant retail shops. The Group estimated the recoverable amount of these retail shops, each representing an individual cash generating unit (“CGU”), to which the asset belongs when it is not possible to estimate the recoverable amount individually. The recoverable amount of CGUs has been determined based on a value in use calculation. Based on the result of the assessment, the management of the Group determined that the recoverable amount of a CGU with impairment indication was lower than the respective carrying amount and as a result, an impairment loss of HK\$2,813,000 and HK\$16,592,000 had been recognised against the carrying amount of property, plant and equipment and right-of-use assets.

10. INVENTORIES

	30 September 2021 HK\$'000	31 March 2021 HK\$'000
Watches	490,375	603,763
Accessories and parts	21,518	19,005
	<u>511,893</u>	<u>622,768</u>

11. LOANS RECEIVABLES

	30 September 2021 HK\$'000	31 March 2021 HK\$'000
Loan receivable at amortised cost	44,090	41,957
Loans receivables at FVTPL	46,101	17,095
	<u>90,191</u>	<u>59,052</u>

The following is the maturity profile of the loans receivables at the end of the reporting period:

	30 September 2021 HK\$'000	31 March 2021 HK\$'000
Repayable after one year	28,471	41,957
Repayable within one year	61,720	17,095
	<u>90,191</u>	<u>59,052</u>

12. TRADE AND OTHER RECEIVABLES

	30 September 2021 HK\$'000	31 March 2021 HK\$'000
Trade receivables	203,467	265,217
Less: Allowance for credit losses	(4,374)	(4,690)
	<u>199,093</u>	<u>260,527</u>
Property rental and other deposits	21,735	16,368
Advances to suppliers	1,922	4,716
Other receivables and prepayment	<u>3,268</u>	<u>4,412</u>
	<u><u>226,018</u></u>	<u><u>286,023</u></u>

The Group maintains a general credit policy of not more than 30 days for its retail sales in department store and wholesale customers. Sales made to retail customers are mainly made on a cash basis. The following is an aged analysis of trade receivables net of allowance for credit losses presented based on the invoice date at the end of the reporting period:

	30 September 2021 HK\$'000	31 March 2021 HK\$'000
Age		
0 to 30 days	174,893	219,729
31 to 60 days	14,405	30,882
61 to 90 days	5,358	5,688
Over 90 days	<u>4,437</u>	<u>4,228</u>
	<u><u>199,093</u></u>	<u><u>260,527</u></u>

13. TRADE AND OTHER PAYABLES

	30 September 2021 <i>HK\$'000</i>	31 March 2021 <i>HK\$'000</i>
Trade payables	94,435	112,064
Payroll and welfare payables	46,797	87,499
Commission payables	22,379	30,553
Renovation work payables	13,090	2,506
PRC value-added tax and other taxes payables	26,516	28,133
Property rental fee payables	8,843	6,173
Other payables and accrued expenses	15,055	20,442
	<u>227,115</u>	<u>287,370</u>

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30 September 2021 <i>HK\$'000</i>	31 March 2021 <i>HK\$'000</i>
Age		
0 to 60 days	90,340	110,976
61 to 90 days	413	17
Over 90 days	3,682	1,071
	<u>94,435</u>	<u>112,064</u>

Contract liabilities

	30 September 2021 <i>HK\$'000</i>	31 March 2021 <i>HK\$'000</i>
Contract liabilities on sales of watches	<u>11,872</u>	<u>4,502</u>

Contract liabilities represent receipts in advance for sales of watches, giving rise to contract liabilities until revenue is recognised.

14. BANK LOANS

During the six months ended 30 September 2021, the Group obtained a bank loan amount of approximately HK\$28,708,000 (or equivalent to AUD5,000,000) (six months ended 30 September 2020: Nil). The loan carried interest at LIBOR + 2% and repayable in on demand. During the six months ended 30 September 2021, the Group made the repayments of bank loan amounting to HK\$1,667,000 (six months ended 30 September 2020: HK\$2,000,000).

15. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 April 2020, 30 September 2020, 1 April 2021 and 30 September 2021	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2020 and 30 September 2020	<u>570,358,224</u>	<u>57,036</u>
At 1 April 2021 and 30 September 2021	<u>487,358,224</u>	<u>48,736</u>

16. SHARE-BASED PAYMENT TRANSACTION

The Company has share option schemes for eligible directors, employees, consultants, customers, suppliers or advisors of the Company or a company in which the Company holds an interest or a subsidiary of such company.

(i) 2003 Share Option Scheme

Pursuant to an ordinary resolution passed at the Company's special general meeting held on 3 November 2003, the Company adopted a share option scheme (the "2003 Share Option Scheme"). The 2003 Share Option Scheme was valid for a period of ten years commencing on the adoption date on 3 November 2003.

Details of specific categories of options are as follows:

Date of grant	Number of share options granted	Exercisable period	Original exercise price per share	Adjusted exercise price per share
6 April 2011	32,300,000 (note a)	6 April 2011 to 5 April 2021	HK\$4.13	HK\$3.44 (note a)
29 August 2011	23,000,000	29 August 2011 to 28 August 2021	HK\$4.80	N/A

Note a: The number of shares under the outstanding options and the exercise price have been adjusted upon the bonus issue of shares in July 2011 on the basis of one new ordinary share for every five ordinary shares held.

The following tables disclose movements of the Company's share options held by directors, employees and consultants during the six months ended 30 September 2021 and 30 September 2020:

Share options granted on 6 April 2011

Categories of participants	Number of share options outstanding at 1 April 2020, 30 September 2020 and 31 March 2021	Expired during the period	Number of share options outstanding at 30 September 2021
Directors of the Company	11,520,000	(11,520,000)	—
Other employees	14,400,000	(14,400,000)	—
Consultants (<i>note b</i>)	2,640,000	(2,640,000)	—
Total	28,560,000	(28,560,000)	—

Share options granted on 29 August 2011

Categories of participants	Number of share options outstanding at 1 April 2020, 30 September 2020 and 31 March 2021	Expired during the period	Number of share options outstanding at 30 September 2021
Other employees	18,000,000	(18,000,000)	—
Consultants (<i>note b</i>)	5,000,000	(5,000,000)	—
Total	23,000,000	(23,000,000)	—

Note b: The share options were granted to consultants for services rendered in exploring investment opportunities for the Group.

The 2003 Share Option Scheme expired on 2 November 2013. The options could be exercised by the participants at any time during the option exercisable period and notwithstanding that the 2003 Share Option Scheme had expired.

No option was exercised under the 2003 Share Option Scheme during the six months ended 30 September 2021 and 30 September 2020. During the six months ended 30 September 2021, 51,560,000 options (six months ended 30 September 2020: 3,000,000 options were forfeited) under the 2003 Share Option Scheme were expired.

(ii) 2013 Share Option Scheme

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 13 August 2013, a new share option scheme was adopted with effect on 3 November 2013 (the “2013 Share Option Scheme”) after the expiry of the 2003 Share Option Scheme. The 2013 Share Option Scheme will remain in force until 2 November 2023.

No option was granted, exercised or lapsed under the 2013 Share Option Scheme during each of the six months ended 30 September 2021 and 30 September 2020 since its effective date on 3 November 2013 and there was no outstanding share option as at 30 September 2021.

During the six months ended 30 September 2021 and 30 September 2020, no share-based payment expense was recognised in relation to share options granted by the Company.

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of the Group’s financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group’s financial assets and financial liabilities are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 fair value measurements are based on quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

		Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
		30	31		
		September	March		
		2021	2021		
		HK\$'000	HK\$'000		
Financial assets					
(i)	Equity instruments at FVTOCI — equity securities listed in Hong Kong	—	27	Level 1	Quoted bid prices in an active market
(ii)	Equity instruments at FVTOCI — unlisted investments	6,136	4,498	Level 2	Quoted market prices provided by brokers which are financial institutions (note 1)
(iii)	Debt instruments at FVTOCI — listed debt securities in overseas	7,265	7,330	Level 1	Quoted bid prices in an active market
(iv)	Debt instruments at FVTOCI — unlisted debt securities	—	1,315	Level 2	Quoted market prices provided by brokers which are financial institutions (note 1)
(v)	Equity investments at FVTPL — listed investments, equity securities listed in Hong Kong and overseas	4,413	6,036	Level 1	Quoted bid prices in an active market
(vi)	Loans receivables at FVTPL	46,101	17,095	Level 2	Discounted cash flow. Future cash flow is estimated based on the contracted interest rates discounted at a rate that reflects the credit risk of counterparty

Financial liabilities

(i)	Derivate financial instruments at FVTPL	18,292	14,000	Level 3	Black-Scholes option pricing model with the following multiples Price to earning ratio and price to book value of selected comparable listed companies in similer business (<i>note 2</i>)
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Notes:

- (1) Quoted market prices provided by brokers which are financial institutions represent the fair values of the respective funds, based on the observable quoted prices of the underlying investments in active market.
- (2) The higher the applied multiples, the higher the fair value. In the opinion of the directors of the Company, no sensitivity analysis is prepared as the effect is considered insignificant.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate to their fair values.

Reconciliation of Level 3 fair value measurements

The only financial liability subsequently measured at FVTPL on Level 3 fair value measurement represents buy back option granted to the seller of the associates in relation to the acquisition of additional 20% interest over 力新鐘錶股份有限公司, 永新鐘錶股份有限公司 and 益新鐘錶股份有限公司.

During the six months ended 30 September 2021, fair value loss of HK\$4,292,000 relating to this buy back option has been recognised in profit or loss (six months ended 30 September 2020: Nil). As at 30 September 2021, the fair value of the derivative financial instruments at FVTPL is HK\$18,292,000 (31 March 2021: HK\$14,000,000).

18. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The key management personnel are the directors of the Company. The remuneration of directors during the period was as follows:

	Six months ended	
	30 September 2021 HK\$'000	30 September 2020 HK\$'000
Short-term benefits	44,200	13,852
Post-employment benefits	530	443
	<u>44,730</u>	<u>14,295</u>

The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

Financial guarantees given to banks in respect of banking facilities granted to associates

The Group and the other shareholders of the associates of the Company issued financial guarantees jointly and severally to certain banks in respect of banking facilities granted to associates. As at 30 September 2021, the aggregate amount that might be required to be paid is amounting to NT\$150,000,000 (equivalent to HK\$42,000,000) (31 March 2021: NT\$150,000,000 (equivalent to HK\$39,675,000)), if the guarantees would be called upon in entirety of which full amounts has been fully utilised by these associates. The Group considers the fair value of the financial guarantee contracts at the grant date is nil and the loss allowance at 31 March 2021 and 30 September 2021 are insignificant.

19. CAPITAL COMMITMENTS

	30 September 2021 HK\$'000	31 March 2021 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>4,080</u>	<u>16,975</u>

INTERIM DIVIDEND

The directors have proposed to pay an interim dividend of 8.6 HK cents per share (2020: 2.8 HK cents) and a special dividend of 25.8 HK cents per share (2020: 9.2 HK cents) in respect of the six months ended 30 September 2021, totalling HK\$167,651,000 (2020: HK\$58,483,000), to be paid in cash to the shareholders whose names appear on the register of the members of the Company on 10 December 2021. Dividend warrants will be sent to the shareholders on or before 23 December 2021.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 9 December 2021 to 10 December 2021 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend and special dividend above mentioned, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 8 December 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Results

On behalf of the Board of Directors (the "Board") of Oriental Watch Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group"), I hereby present the unaudited consolidated results of the Group for the six months ended 30 September 2021 (the "Period").

Since early 2021, the global economy has been recovering despite the unstable COVID-19 pandemic situation. While travel restrictions are still in place, the growing vaccination rates and relaxing social distancing measures have driven up domestic consumption in Hong Kong, Macau and the People's Republic of China (the "PRC") where the Group operates. During the Period, the Group's revenue increased by 36.8% year-on-year ("yoy") to HK\$1,859 million (2020: HK\$1,359 million), which was mainly attributable to the significant growth in revenue from the PRC market as consumers increased their spending locally due to travel restrictions caused by the pandemic, and improvement of the Group's business in Hong Kong and Macau as consumer sentiment improved with the pandemic situation much under control. In line with the increase in revenue, gross profit increased by 56.8% to HK\$577 million (2020: HK\$368 million), with gross profit margin increased by 3.9 percentage points to 31.0% (2020: 27.1%), and profit attributable to owners of the Company surged by 187.9% to HK\$167 million (2020: HK\$58 million).

Business Review

As at 30 September 2021, the Group operates 45 retail points (including associate retail stores) in the Greater China region and 1 online store in the PRC. Breakdown of retail points by geographic region is as follows:

	As at 30 September 2021
Hong Kong	11
Macau	1
The PRC	30
Taiwan	3
	<hr/>
Total	45
	<hr/> <hr/>

According to the latest statistics, the PRC's gross domestic product had recorded growth of 7.9% and 4.9% yoy for the second and third quarters in 2021 respectively. Private consumption contributed to 64.8% of the growth in the first three quarters of 2021, compared with 61.7% of growth contribution in the first half of 2021. Sales of gold, silver and jewelry recorded a 41.6% yoy growth from January to September. According to the Federation of the Swiss Watch Industry FH, the PRC was also the only market that recorded an over 45% growth in August (+55.3%) and September (+45.3%) alone, as compared with the same period in 2019, showing a strong recovery from the COVID-19 impact. With improving economic condition and strong local consumption due to travel restrictions, revenue from the Group's PRC operation increased by 36.5% to HK\$1,302 million (2020: HK\$954 million) while its profit contribution also increased substantially.

In Hong Kong, the luxury market has shifted its focus from mainly tourist consumption to domestic spending. As the pandemic situation stabilized and the labour market became more vibrant, Hong Kong's retail sales climbed for the seventh month straight in August 2021, increasing 11.9% yoy to HK\$28.6 billion. Sales of jewellery, watches, clocks and valuable gifts also recorded a 26.3% and 28.0% yoy growth in July and August 2021 respectively. As a result of such improved market condition, the revenue of the Group's Hong Kong operation for the Period increased by 29.8% to HK\$475 million (2020: HK\$ 366 million).

To further improve operating efficiency, the Group has implemented stringent cost control, especially on rent. The Group would periodically conduct regular internal assessment on retail store performances, and close down the high-rent yet non-performing stores. During the Period, the Company maintained constant communication with the landlords, and was able to receive certain concession on rental expenses during renewal. Yet, as the Group continued to grow its business in the PRC, there was an increase in variable lease payments due to improving financial performance. Hence, the Group's aggregated expenses related to leases increased to HK\$76 million, accounting for 22.2% of the overall operating expenses (2020: 23.7%). The Group will continue to closely monitor and review store performance, as well as review rental contracts from time to time, in order to expand margins.

The Group exercises strict inventory management to ensure stable cash flow and healthy financial position. We closely review and monitor the inventory level of high-ticket products, and purchase stocks only when existing inventory depletes to a pre-determined level. Riding on the dedicated and collaborated effort from various departments, the Group's inventory level has been maintained at a reasonable level. As at 30 September 2021, the Group's overall inventory amounted to HK\$512 million, decreasing by 17.8% from HK\$623 million as at 31 March 2021. To maintain stable sales performance and keep abreast of market trend, the Group would also continue to optimise its brand portfolio in the future.

Prospect

In terms of prospect, despite the uncertainties and new normal under the pandemic, the global watch market size is expected to grow at a compound annual growth rate of 2% during 2021-2025, reaching US\$8.31 billion. As the COVID-19 situation is expected to ease in the Greater China region, the management believes domestic consumption in the luxury watch market will further improve. The Group, being one of the largest watch retailers in the region, is well-positioned to take advantage of such opportunities. To maintain stable sales performance and to keep abreast of market trend, the Group will also continue to optimise its brand portfolio in the future. We will also strengthen our efforts on marketing, distribution, cost control and inventory management in order to increase our business sustainability.

On behalf of the Group, we would like to thank our customers, suppliers, staff and shareholders for their contribution, loyalty and unfailing support.

Liquidity and financial resources

At 30 September 2021, the Group's total equity reached HK\$1,987 million, compared with HK\$1,991 million as at 31 March 2021. The Group had net current assets of HK\$1,509 million, including bank and cash balances of HK\$1,335 million as at 30 September 2021 compared with balances of HK\$1,546 million and HK\$1,061 million respectively as at 31 March 2021. At 30 September 2021, the Group had bank loans of HK\$45 million (31 March 2021: HK\$18 million) and the gearing ratio (defined as total bank borrowing on total equity) was 0.022 (31 March 2021: 0.009).

Management considers that the financial position of the Group is healthy with adequate funds and unused banking facilities.

Foreign exchange exposure

The Group's sale and purchase transactions are primarily denominated in Hong Kong dollars and Renminbi. The Group did not have any significant risk from exposure to foreign exchange fluctuations.

STAFF AND EMPLOYMENT

As at 30 September 2021, our Group employed approximately 579 employees in Hong Kong, Macau, the PRC and Taiwan, of which approximately 63% were located in the PRC.

Our employees' compensation packages include basic salary, commission, annual bonus, medical insurance and other common benefits. They are structured by reference to the nature of their posts, experiences and performance, and are reviewed annually based on the Group's objective performance appraisal system.

The Group has allocated significant resources to provide training programmes to employees to improve their services to customers. The management team has used results of a "Mystery Shoppers Programme" conducted by an independent consultancy firm to tailor-made training programmes for specific shop and at individual level.

The Group has also developed a series of training programmes for senior executives with diverse topics ranging from leadership, personal development and effectiveness, task and team management. These programmes enable our senior executives to improve their management skills and help to bring in innovative ideas to the Group.

The Company has adopted a share option scheme relating to the grant of options to eligible persons including directors and employees of the Group to subscribe for shares of the Company. The share option scheme enables the Group to offer valuable incentive to attract and retain quality personnel and other persons to work to increase the value of the shares of the Company.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the consolidated financial statements of the Group for the six months ended 30 September 2021.

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

During the six months ended 30 September 2021, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

CORPORATE GOVERNANCE

The Company is committed to the establishment of good governance practices and procedures. The Company has met the code provisions set out in the Corporate Governance Code (the “CG Code”) in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the six months ended 30 September 2021 except the following deviations:

1. Under Code Provision A.2.1, the roles of the chairman and chief executive should be separated and should not be performed by the same individual. However, such roles have been taken up by Mr. Yeung Him Kit, Dennis since 10 February 2021 after Dr. Yeung Ming Biu, the Company’s former chairman, passed away as the Board considers that he is the most suitable person with the necessary experience to provide leadership to the Board as well as to manage the day-to-day operations of the Group.
2. Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. However, the independent non-executive directors of the Company were not appointed for a specific term but are subject to retirement by rotation in annual general meeting of the Company at least once every three years.
3. Code Provisions A5.1 to A5.4 provide for the establishment of a nomination committee. The Board has not established a nomination committee as it considers that all directors of the Company should be involved in performing the duties set out in such Code Provisions.
4. Code provision E.1.5 relates to disclosure of dividend policy. The Company does not have a dividend policy and the Board will decide on the declaration/recommendation of any future dividends after taking into consideration a number of factors, including the prevailing market conditions, the Group’s operating results, business plans and prospects, financial position and working capital requirements, and other factors that the Board considers relevant.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors’ securities transactions. Enquiry has been made with all directors of the Company and all directors have confirmed that they had complied with the required standard set out in the Model Code during the six months ended 30 September, 2021.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive directors of the Company. Terms of reference of the Audit Committee have been updated in compliance with the CG Code.

The Audit Committee, together with the management of the Company, has reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of audited consolidated financial statements for the six months ended 30 September 2021.

PUBLICATION OF INTERIM RESULTS AND DESPATCH OF INTERIM REPORT

This interim results announcement is published on the websites of The Stock Exchange of Hong Kong Limited at (www.hkex.com.hk) and the Company at (www.orientalwatch.com). The 2021 interim report containing all information required by the Listing Rules will be despatched to the Company's shareholders and available on the above websites in due course in accordance with the Listing Rules.

MEMBERS OF THE BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Yeung Him Kit, Dennis (Chairman), Madam Yeung Man Yee, Shirley and Mr. Lam Hing Lun Alain as executive directors; and Dr. Sun Ping Hsu, Samson, Dr. Li Sau Hung, Eddy and Mr. Choi Man Chau, Michael as independent non-executive directors.

By order of the Board
Yeung Him Kit, Dennis
Chairman

Hong Kong, 24 November 2021