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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 2020

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, 2020 together with the comparative figures for the corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2020

		(Unaudited)	
		Six months ended	
		30 September	30 September
		2020	2019
	Notes	HK\$'000	HK\$'000
Revenue	3	1,359,410	1,167,795
Cost of goods sold		<u>(991,391)</u>	<u>(849,601)</u>
Gross profit		368,019	318,194
Other income	4A	20,650	16,335
Other gains and losses	4B	(21,470)	(8,825)
Distribution and selling expenses			
— Expenses related to leases		(63,823)	(74,566)
— Other distribution and selling expenses		(133,905)	(112,178)
Administrative expenses		(66,433)	(57,480)
Finance costs		(5,372)	(7,869)
Share of results of associates		5,113	3,410
Share of result of a joint venture		<u>(149)</u>	<u>292</u>

		(Unaudited)	
		Six months ended	
		30 September	30 September
		2020	2019
	<i>Notes</i>	HK\$'000	HK\$'000
Profit before taxation	5	102,630	77,313
Income tax expense	6	(45,022)	(16,883)
Profit for the period		57,608	60,430
Other comprehensive income (expense)			
<i>Item that will not be reclassified to profit or loss:</i>			
Change in fair value of equity instruments at fair value through other comprehensive income ("FVTOCI")		473	(675)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		25,497	(40,837)
Change in fair value of debt instruments at FVTOCI		563	30
Release on redemption of debt instruments at FVTOCI		(39)	20
Other comprehensive income (expense) for the period		26,494	(41,462)
Total comprehensive income for the period		84,102	18,968
Profit (loss) for the period attributable to:			
Owners of the Company		58,096	61,724
Non-controlling interests		(488)	(1,294)
		57,608	60,430
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		84,586	20,264
Non-controlling interests		(484)	(1,296)
		84,102	18,968
Earnings per share	8		
— Basic		10.19 HK cents	10.82 HK cents
— Diluted		10.19 HK cents	10.82 HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2020

		(Unaudited) 30 September 2020	(Audited) 31 March 2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	9	213,716	213,034
Right-of-use assets	9	365,532	287,779
Deposits for acquisition of property, plant and equipment		—	3,591
Interests in associates		61,833	63,981
Interest in a joint venture		25,097	24,239
Equity instruments at FVTOCI		3,676	3,211
Debt instruments at FVTOCI		9,973	9,680
Deferred tax assets		10,885	5,153
Property rental deposits		20,702	24,186
		<u>711,414</u>	<u>634,854</u>
Current assets			
Inventories	10	704,033	798,693
Trade and other receivables	11	219,677	112,755
Financial assets at fair value through profit or loss ("FVTPL")		2,548	15,871
Debt instruments at FVTOCI		3,375	7,486
Taxation recoverable		7,330	7,330
Bank balances and cash		1,101,930	936,632
		<u>2,038,893</u>	<u>1,878,767</u>
Current liabilities			
Trade and other payables	12	198,575	86,774
Contract liabilities	12	6,383	4,366
Lease liabilities		90,316	101,663
Taxation payable		30,392	12,237
Bank loans	13	3,667	5,667
		<u>329,333</u>	<u>210,707</u>
Net current assets		<u>1,709,560</u>	<u>1,668,060</u>
Total assets less current liabilities		<u>2,420,974</u>	<u>2,302,914</u>

		(Unaudited)	(Audited)
		30 September	31 March
		2020	2020
	<i>Note</i>	HK\$'000	HK\$'000
Non-current liabilities			
Deferred tax liabilities		9,421	2,864
Lease liabilities		307,321	205,773
Derivative financial instruments at FVTPL		10,991	10,991
		<u>327,733</u>	<u>219,628</u>
Net assets		<u>2,093,241</u>	<u>2,083,286</u>
Capital and reserves			
Share capital	<i>14</i>	57,036	57,036
Reserves		<u>2,037,014</u>	<u>2,026,575</u>
Equity attributable to owners of the Company		2,094,050	2,083,611
Non-controlling interests		<u>(809)</u>	<u>(325)</u>
Total equity		<u>2,093,241</u>	<u>2,083,286</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

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.

1A. SIGNIFICANT EVENTS AND TRANSACTIONS IN THE CURRENT INTERIM PERIOD

The outbreak of the 2019 Novel Coronavirus (“COVID-19”) and the subsequent quarantine measures and travel restrictions imposed in worldwide countries in early 2020 have had negative impact to the global economy, business environment and directly and indirectly affect the operations of the Group.

Regarding the business of the Group in Hong Kong and Macau, with the travel restrictions imposed, number of tourists visiting Hong Kong recorded as notably drop during the current interim period and retail sales has been hit hard by the COVID-19 outbreak. On the other hand, The Government of Hong Kong Special Administrative Region (the “Government”) has announced some financial measures and support for corporates to overcome the impact arising from the pandemic. As such, the financial positions and performance of the Group were affected in different aspects, including decrease in revenue in Hong Kong and Macau, and increase in government grants in respect of COVID-19-related subsidies as disclosed in the relevant notes.

While the retail market in the People’s Republic of China (the “PRC”) has rebounded rapidly, especially in the luxury industry, since the second quarter of 2020. The increase in demand from the PRC market, has created greater business opportunities for the Group, resulting in higher revenue in the current interim period.

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 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standard and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the Company's annual period beginning on or after 1 April 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current 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 of application on Amendments to HKAS 1 and HKAS 8 "Definition of Material"

The amendments provide a new definition of material that states "information is material if omitting misstating or obscuring it could reasonably be expected to influence decisions that the general purpose financial statements make on the basis of those financial statements, which information about a specific reporting entity." The amendments also clarify that materiality nature or magnitude of information, either individually or in combination with other information context of the financial statements taken as a whole.

The application of the amendments in the current period had no impact on the condensed consolidation financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 March 2021.

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.

Since the year ended 31 March 2020, with the growth in the businesses of the Group in the PRC and Macau, the operating results of these jurisdictions are separately reported to the management. Prior period segment information have been represented to conform with the current period's presentation.

Specifically, the Group has four operating segments, being (a) Hong Kong, (b) the PRC, (c) Macau and (d) Taiwan, which is also the basis of organisation of the Group for managing the business operations. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of 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.

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		Segment profit	
	Six months ended 30 September		Six months ended 30 September	
	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	366,000	621,484	(11,991)	71,442
The PRC	953,914	458,785	127,210	32,115
Macau	39,402	83,377	(2,793)	9,010
Taiwan	94	4,149	(7,121)	(31,823)
	<u>1,359,410</u>	<u>1,167,795</u>	<u>105,305</u>	<u>80,744</u>
Unallocated other income			7,306	8,209
Unallocated other gains and losses			799	(1,210)
Unallocated corporate expenses			(15,685)	(13,359)
Interest on bank loans			(59)	(773)
Share of results of associates			5,113	3,410
Share of result of a joint venture			(149)	292
Profit before taxation			<u>102,630</u>	<u>77,313</u>

Segment profit represents the profit before taxation earned by each segment without allocation of finance costs from 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, directors' remuneration and operating expenses of inactive companies. 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 2020 <i>HK\$'000</i>	31 March 2020 <i>HK\$'000</i>	30 September 2020 <i>HK\$'000</i>	31 March 2020 <i>HK\$'000</i>
Hong Kong	989,339	977,166	431,469	311,958
The PRC	440,489	351,958	132,947	51,049
Macau	76,609	85,570	23,334	24,431
Taiwan	17,223	24,984	550	668
Segment total	<u>1,523,660</u>	<u>1,439,678</u>	<u>588,300</u>	<u>388,106</u>
Unallocated	<u>1,226,647</u>	<u>1,073,943</u>	<u>68,766</u>	<u>42,229</u>
Consolidated total	<u><u>2,750,307</u></u>	<u><u>2,513,621</u></u>	<u><u>657,066</u></u>	<u><u>430,335</u></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 2020 <i>HK\$'000</i>	30 September 2019 <i>HK\$'000</i>
Interest income from bank	7,306	8,209
Interest income from rental deposits	970	1,110
Government subsidies	10,834	4,548
Others	<u>1,540</u>	<u>2,468</u>
	<u><u>20,650</u></u>	<u><u>16,335</u></u>

During the current interim period, 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. In addition, the Group recognised government subsidies of HK\$20,000 (six months ended 30 September 2019: HK\$3,438,000) in respect of unconditional subsidies received for subsidising the Group's business in the PRC.

4B. OTHER GAINS AND LOSSES

	Six months ended	
	30 September 2020 HK\$'000	30 September 2019 HK\$'000
Impairment loss under expected credit loss model, net of reversal	(2,864)	(616)
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	(1,189)	(6,301)
Net gain (loss) arising on financial assets at FVTPL	2,222	(1,576)
Net (loss) gain arising on derivative financial instruments at FVTPL	(218)	386
Gain on redemption of debt instruments at FVTOCI	39	20
Net foreign exchange losses	(55)	(738)
	<u>(21,470)</u>	<u>(8,825)</u>

5. PROFIT BEFORE TAXATION

	Six months ended	
	30 September 2020 HK\$'000	30 September 2019 HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	16,160	11,900
Depreciation of right-of-use assets	53,737	66,282
Allowance for slow-moving watches	8,060	46,248
Short-term lease payments	637	6,735
	<u>78,604</u>	<u>125,165</u>

6. INCOME TAX EXPENSE

	Six months ended	
	30 September 2020 HK\$'000	30 September 2019 HK\$'000
Current tax:		
Hong Kong	3,213	11,236
PRC Enterprise Income Tax	33,270	3,332
Other jurisdictions	—	1,142
Withholding tax on dividend income from associates	1,671	420
Withholding tax on dividend income from a subsidiary	6,043	—
	<u>44,197</u>	<u>16,130</u>
Deferred taxation charge	825	753
	<u>45,022</u>	<u>16,883</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “Bill”) which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%, after setting off of tax losses brought forward, if any.

Hong Kong Profits Tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits for the qualifying group entity and at 16.5% on the estimated assessable profits above HK\$2 million for both periods.

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.

Under the EIT Law, withholding tax with tax rate of 5% or 10% is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. As at 30 September 2020, deferred tax liabilities of HK\$7,162,000 (31 March 2020: Nil) had been provided for in full in respect of the temporary difference arising from the undistributed profits earned by the PRC subsidiaries from 1 January 2008 onwards as the directors of the Company consider that these subsidiaries will continue to distribute dividend in the foreseeable future. As at 31 March 2020, deferred tax had not been provided for in respect of temporary differences arising from the undistributed profits earned by the PRC subsidiaries of HK\$168,748,000 as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

7. DIVIDEND

During the current interim period, a final dividend of 8.0 HK cents per share, totalling HK\$45,629,000, in respect of the year ended 31 March 2020 (2019: 8.0 HK cents per share, totalling HK\$45,629,000) and a special dividend of 5.0 HK cents per share, totalling HK\$28,518,000, in respect of the year ended 31 March 2020 (2019: 13.5 HK cents per share, totalling HK\$76,998,000) were approved at the annual general meeting held on 21 August 2020.

On 25 November 2020, the directors resolved to declare an interim dividend of 2.8 HK cents per share, totalling HK\$13,646,000 in respect of the six months ended 30 September 2020 (2019: 2.8 HK cents per share, totalling HK\$15,970,000) and a special dividend of 9.2 HK cents per share, totalling HK\$44,837,000, in respect of the six months ended 30 September 2020 (2019: 8.7 HK cents per share, totalling HK\$49,621,000), to be paid in cash to those shareholders whose names appear on the Company’s register of members on 11 December 2020. The total amounts of dividend is determined based on the number of ordinary shares after share-bought back as disclosed in note 19.

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	30 September
	2020	2019
	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)	<u>58,096</u>	<u>61,724</u>
	Number of shares	
	30 September	30 September
	2020	2019
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings per share	<u>570,358,224</u>	<u>570,358,224</u>

The diluted earnings per share for both periods has 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 2020, the Group incurred expenditure of HK\$20,150,000 (six months ended 30 September 2019: HK\$36,813,000) to acquire property, plant and equipment for its operation. During the six months ended 30 September 2020, the Group disposed of certain property, plant and equipment with carrying amount of HK\$1,189,000 (six months ended 30 September 2019: HK\$6,301,000) resulting in a loss on disposal/written-off of HK\$1,189,000 (six months ended 30 September 2019: HK\$6,301,000).

As at 30 September 2020, the Group has pledged certain land and buildings with an aggregate carrying value of HK\$83,243,000 (31 March 2020: HK\$84,340,000) to a bank to secure the bank loan facilities granted to the Group.

During the six months ended 30 September 2020, the Group entered into several new lease agreements and lease renewal for the use of shops and office premises with lease terms ranging from 1 to 6 years. The Group is required to make fixed payments. Upon entering into new lease agreement, the Group recognised right-of-use assets of HK\$139,291,000 (six months ended 30 September 2019: HK\$51,891,000) and lease liabilities of HK\$138,026,000 (six months ended 30 September 2019: HK\$51,545,000), which constitutes non-cash transactions.

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 and 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 2019: 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 and a corresponding adjustment of the same amount to the right-of-use assets was recognized (six months ended 30 September 2019: Nil).

Impairment assessment

As a result of the changes in the current economic environment related to the COVID-19 pandemic, the Group is 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. During the six months ended 30 September 2020, 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 estimates 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, management of the Group determined that the recoverable amount of a retail shop is lower than the carrying amount. As a result, an impairment loss of HK\$2,813,000 and HK\$16,592,000 has been recognised related to property, plant and equipment and right-of-use assets, respectively of that retail shop (six months ended 30 September 2019: Nil).

10. INVENTORIES

	30 September 2020	31 March 2020
	<i>HK\$'000</i>	<i>HK\$'000</i>
Watches	683,325	780,556
Accessories and parts	20,708	18,137
	<u>704,033</u>	<u>798,693</u>

11. TRADE AND OTHER RECEIVABLES

	30 September 2020 HK\$'000	31 March 2020 HK\$'000
Trade receivables	194,097	83,835
<i>Less: Allowance for credit losses</i>	(5,949)	(2,959)
	188,148	80,876
Property rental and other deposits	23,300	17,566
PRC value-added tax recoverable	2,311	2,528
Advances to other suppliers	2,568	6,790
Other receivables and prepayment	3,350	4,995
	219,677	112,755

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 2020 HK\$'000	31 March 2020 HK\$'000
Age		
0 to 30 days	182,462	61,106
31 to 60 days	5,453	19,770
61 to 90 days	131	—
Over 90 days	102	—
	188,148	80,876

12. TRADE AND OTHER PAYABLES

	30 September 2020 <i>HK\$'000</i>	31 March 2020 <i>HK\$'000</i>
Trade payables	88,207	26,168
Payroll and welfare payables	20,973	15,648
Commission payables	31,490	25,886
Renovation work payables	6,060	1,430
PRC value-added tax and other taxes payables	24,948	1,230
Advertising fee payables	73	613
Property rental fee payables	5,235	1,916
Other payables	13,959	10,883
Accrued expenses	7,630	3,000
	<u>198,575</u>	<u>86,774</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 2020 <i>HK\$'000</i>	31 March 2020 <i>HK\$'000</i>
Age		
0 to 60 days	87,809	25,088
61 to 90 days	144	52
Over 90 days	254	1,028
	<u>88,207</u>	<u>26,168</u>

Contract liabilities

	30 September 2020 <i>HK\$'000</i>	31 March 2020 <i>HK\$'000</i>
Contract liabilities on sales of watches	<u>6,383</u>	<u>4,366</u>

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

13. BANK LOANS

During the six months ended 30 September 2020, the Group had no new bank loan raised (six months ended 30 September 2019: HK\$Nil) and made the repayments of bank loan amounting to HK\$2,000,000 (six months ended 30 September 2019: HK\$36,083,000).

14. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 April 2019, 30 September 2019, 1 April 2020 and 30 September 2020	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2019 and 30 September 2019, 1 April 2020 and 30 September 2020	<u>570,358,224</u>	<u>57,036</u>

15. 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 <i>(note a)</i>	6 April 2011 to 5 April 2021	HK\$4.13	HK\$3.44 <i>(note a)</i>
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 2020 and 30 September 2019:

Share options granted on 6 April 2011

Categories of participants	Number of share options outstanding at 1 April 2019	Forfeited during the period	Number of share options outstanding at 30 September 2019, 31 March 2020 and 30 September 2020
Directors of the Company	11,520,000	—	11,520,000
Other employees	14,400,000	—	14,400,000
Consultants (<i>note b</i>)	<u>5,640,000</u>	<u>(3,000,000)</u>	<u>2,640,000</u>
Total	<u><u>31,560,000</u></u>	<u><u>(3,000,000)</u></u>	<u><u>28,560,000</u></u>

Share options granted on 29 August 2011

Categories of participants	Number of share options outstanding at 1 April 2019, 30 September 2019, 31 March 2020 and 30 September 2020
Other employees	18,000,000
Consultants (<i>note b</i>)	<u>5,000,000</u>
	<u><u>23,000,000</u></u>

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 2020 and 30 September 2019. During the six months ended 30 September 2019, 3,000,000 options (six months ended 30 September 2020: Nil) under the 2003 Share Option Scheme were forfeited.

(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 2020 and 30 September 2019 since its effective date on 3 November 2013 and there was no outstanding share option as at 30 September 2020.

During the six months ended 30 September 2020 and 30 September 2019, no share-based payment expense was recognised in relation to share options granted by the Company.

16. 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 those derived from 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 September	31 March		
		2020	2020		
		HK\$'000	HK\$'000		
Financial assets					
(i)	Equity instruments at FVTOCI — equity securities listed in Hong Kong	—	36	Level 1	Quoted bid prices in an active market
(ii)	Equity instruments at FVTOCI — unlisted investments	3,676	3,175	Level 2	Quoted market prices provided by brokers which are financial institutions (note)
(iii)	Debt instruments at FVTOCI — listed debt securities in overseas	9,281	10,926	Level 1	Quoted bid prices in an active market
(iv)	Debt instruments at FVTOCI — unlisted debt securities	4,067	6,240	Level 2	Quoted market prices provided by brokers which are financial institutions (note)
(v)	Financial assets at FVTPL — listed investments, equity securities listed in Hong Kong and overseas	2,548	15,871	Level 1	Quoted bid prices in an active market
Financial liabilities					
(i)	Derivate financial instruments at FVTPL	10,991	10,991	Level 3	Black-Scholes option pricing model and significant unobservable input: Volatility of 28% Dividend yield at 4.49%

Note: 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.

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 fair value 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. No gain or loss for the current interim period (six months ended 30 September 2019: Nil) relating to this buy back option has been recognised in profit or loss.

17. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	Six months ended	
	30 September 2020 <i>HK\$'000</i>	30 September 2019 <i>HK\$'000</i>
Short-term benefits	13,852	10,697
Post-employment benefits	443	534
	<u>14,295</u>	<u>11,231</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 issued financial guarantees to banks in respect of banking facilities granted to associates. As at 30 September 2020, the aggregate amount that might be required to be paid if the guarantees would be called upon in entirety amounting to NT\$150,000,000 (equivalent to HK\$39,300,000) (31 March 2020: NT\$150,000,000 (equivalent to HK\$38,775,000)), which was fully utilised by these associates. The fair value of the financial guarantee contracts at the grant date is not significant and in the opinion of the directors, the default risk of associates at 31 March 2020 and 30 September 2020 is considered as low.

18. CAPITAL COMMITMENTS

	30 September 2020 <i>HK\$'000</i>	31 March 2020 <i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>—</u>	<u>8,378</u>

19. EVENT AFTER REPORTING PERIOD

On 14 September 2020, the Company proposed a conditional cash offer to the shareholders of the Company to buy-back up to 83,000,000 shares of the Company, being the maximum number, at the price of HK\$3.00 per share, for cancellation, subject to the fulfilment of the conditions. On 16 October 2020, the Company has issued circular in relation to the conditional cash offer in relation to the share buy-back. On 5 November 2020, the conditions are being fulfilled in full. As the total number of accepted shares under the conditional cash offer exceeds the maximum number, a total of 83,000,000 shares, were bought-back by the Company and cancelled on 20 November 2020. Further details of this transaction are set out in the Company's announcements and circular.

INTERIM DIVIDEND

The directors have proposed to pay an interim dividend of 2.8 HK cents per share (2019: 2.8 HK cent) and a special dividend of 9.2 HK cents per share (2019: 8.7 HK cents) in respect of the six months ended 30 September 2020, totalling HK\$58,483,000 (2019: HK\$65,591,000), to be paid in cash to the shareholders whose names appear on the register of the members of the Company on 11 December 2020. Dividend warrants will be sent to the shareholders on or before 23 December 2020.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 10 December 2020 to 11 December 2020 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed interim dividend which will be payable on 23 December, 2020, 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 4:00 p.m. on 9 December 2020.

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 2020 (the "Period").

Since February 2020, Hong Kong tourism industry and retail sales have been hit hard by the COVID-19 outbreak. With travel restrictions imposed, the number of tourists visiting Hong Kong recorded a very substantial drop compared with the same period last year, leading to a continuing 19-month downward trajectory to Hong Kong retail sales, with August 2020 retail sales plunging 13.1% to HK\$25.6 billion year on year ("yoy") according to the Census and Statistics Department (<https://www.statistics.gov.hk/pub/B10800032020MM08B0100.pdf>). The Group's Hong Kong business had inevitably suffered during the Period. On the other hand, the People's Republic of China (the "PRC") retail market recovered and rebounded rapidly, especially for luxury products,

in the second and third quarters of 2020, boosting the Group’s sales there. As such, the Group’s turnover for the Period slightly increased by 16.4% to HK\$1,359 million (2019: HK\$1,167.8 million). Gross profit increased by 15.7% to HK\$368 million (2019: HK\$318.2 million) while gross profit margin remained at 27%, which was mainly due to the Group’s positioning at the high-end luxurious market where our long-term clients maintain strong purchasing power, as well as our effective effort in cost control on rent and inventory. The Group’s net profit attributable to owners of the Company recorded a mild decrease of 5.8% to HK\$58.1 million (2019: HK\$61.7 million), demonstrating the resilience of the Group’s business despite the challenging time.

Business Review

As at 30 September 2020, the Group operated 57 retail and wholesale points (including associate retail stores) in the Greater China region. Breakdown by geographic region is as follows:

	As at 30 September 2020
Hong Kong	10
Macau	1
The PRC	43
Taiwan	3
	<hr/>
Total	<u><u>57</u></u>

China’s gross domestic product (“GDP”) has recorded a growth of 3.2% and 4.9% yoy for the second and third quarters of 2020 calendar year, respectively, as compared to 6.8% contraction in the first quarter. This showed signs of recovery from the COVID-19 pandemic. According to China’s National Bureau of Statistics, retail sales expanded for the first time this year in August, with a yoy growth of 0.5%. While overseas shopping trips were restricted, the Group’s target customers splurged on high-end goods domestically. Benefitting from improving market sentiment, the Group’s revenue in such market surged by 107.8% to HK\$954 million (2019: HK\$459 million). Profit contribution of the PRC operation increased significantly, which was principally attributable to the reversal of provision on the inventory made in previous years and higher profit margin of in-demand watch products. In August and September 2020 alone, while all the other countries recorded a loss in Swiss watch export values, China was the only market which registered a remarkable growth of 44.9% and 78.7% to CHF211.6 million (approximately HK\$1.80 billion) and CHF289.7 million (approximately HK\$2.47 billion) of export value, respectively, as stated by the Federation of the Swiss Watch Industry FH. The Group will continue to strengthen our foothold and seek greater presence in the PRC going forward.

For the Hong Kong market, retail sector was still clouded by the economic uncertainties and impacts of COVID-19 pandemic and corresponding travel restriction. Revenue decreased by 41.1% to HK\$366.0 million (2019: HK\$621.5 million) for the Period. Meanwhile, business showed a gradual recovery with sales recorded a growth of 6% yoy in September 2020.

The Group has implemented stringent cost control measures, especially on rental cost control. For the Period, the Group's aggregate expenses related to leases decreased to HK\$63.8 million, accounting for 23.7% of the Group's overall operating expenses (2019: 29.6%). In addition, we conduct regular assessment on the performance of all retail stores and close down non-performing ones to improve resources allocation. The Group will continue to closely monitor our store performance as well as rental contracts in order to improve efficiency and cost structure.

The Group continues to employ policies on inventory management to ensure a stable cash flow and a healthy financial position. The Group closely monitors the inventory level and purchases stocks only when existing inventory depletes to a pre-determined level. With the implementation of such measures, the Group's overall inventory level amounted to HK\$704 million as at 30 September 2020, which decreased by 11.9% from approximately HK\$799 million as at 31 March 2020. The Group has also continued to step up efforts in adjusting and optimising brand portfolio in order to stabilise our overall sales performance and keep abreast of market trend. The Group will continue to maintain inventory at optimal level for a healthy cash flow and pursue a sustainable growth in future.

Looking forward, it is expected that the ongoing COVID-19 pandemic will continue to affect the Group's business. Even though the PRC market has been showing a substantial recovery as well as the gradual improvement in Hong Kong, without a readily available vaccine for the virus, the risk of COVID-19 pandemic is still high. The unknown will continue to place pressure on the performance of the Group in the foreseeable future. As a watch retailer with a long history offering high quality products, the Group will continue to take prudent strategies to improve the performance of our outlets, optimize cost and inventory management, as well as diversify our product portfolio in order to enhance the Group's business.

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 2020, the Group's total equity reached HK\$2,093 million, compared with HK\$2,083 million as at 31 March 2020. The Group had net current assets of HK\$1,710 million, including bank and cash balances of HK\$1,102 million as at 30 September 2020 compared with balances of HK\$1,668 million and HK\$937 million respectively as at 31 March 2020. At 30 September 2020, the Group had bank loans of HK\$4 million (31 March 2020: HK\$6 million). At 30 September 2020, the gearing ratio (defined as total bank borrowing on total equity) was 0.002 (31 March 2020: 0.003).

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 face any significant risk from exposure to foreign exchange fluctuations.

STAFF AND EMPLOYMENT

As at 30 September 2020, our Group employed approximately 569 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 2020.

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

During the six months ended 30 September 2020, 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 2020 except the following deviations from the code provisions of the CG Code:

1. Under the 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.
2. 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.
3. 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, 2020.

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, have 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 2020.

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 2020 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 Dr. Yeung Ming Biu, Mr. Yeung Him Kit, Dennis, 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 Ming Biu
Chairman

Hong Kong, 25 November 2020