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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 2023

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 2023 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 2023

		(Unaudited)	
		Six months ended	
	<i>NOTES</i>	30 September 2023	30 September 2022
		HK\$'000	HK\$'000
Revenue	3	1,848,126	1,673,846
Cost of goods sold		(1,275,941)	(1,137,087)
Gross profit		572,185	536,759
Other income	4A	19,652	13,614
Other gains and losses	4B	(184)	(1,710)
Distribution and selling expenses			
— Expenses related to leases		(91,316)	(74,553)
— Other distribution and selling expenses		(175,693)	(154,562)
Administrative expenses		(116,425)	(111,388)
Finance costs		(7,239)	(5,867)
Share of results of associates		13,904	10,568
Share of result of a joint venture		(208)	(274)

		(Unaudited)	
		Six months ended	
	<i>NOTES</i>	30 September 2023	30 September 2022
		<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	5	214,676	212,587
Income tax expense	6	<u>(75,972)</u>	<u>(61,326)</u>
Profit for the period		<u>138,704</u>	<u>151,261</u>
Other comprehensive (expense) income			
<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”)		(740)	(667)
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		(67,461)	(108,032)
Change in fair value of debt instruments at FVTOCI		—	(57)
Release on redemption of debt instruments at FVTOCI		—	18
Other comprehensive expense for the period		<u>(68,201)</u>	<u>(108,738)</u>
Total comprehensive income for the period		<u>70,503</u>	<u>42,523</u>
Profit for the period attributable to:			
Owners of the Company		138,041	151,241
Non-controlling interests		<u>663</u>	<u>20</u>
		<u>138,704</u>	<u>151,261</u>
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		69,900	42,617
Non-controlling interests		<u>603</u>	<u>(94)</u>
		<u>70,503</u>	<u>42,523</u>
Earnings per share	8		
— Basic and diluted		<u>28.32 HK cents</u>	<u>31.03 HK cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2023

		(Unaudited) 30 September 2023 HK\$'000	(Audited) 31 March 2023 HK\$'000
Non-current assets			
Property, plant and equipment	9	241,722	246,635
Right-of-use assets	9	211,664	314,213
Investment properties		9,279	8,261
Deposits for acquisition of property, plant and equipment		360	2,400
Interests in associates		67,822	81,552
Interest in a joint venture		23,771	24,430
Equity instruments at FVTOCI		38,362	13,359
Financial assets at fair value through profit or loss (“FVTPL”)	11	65,572	15,007
Loan receivables	12	—	20,038
Deferred tax assets		6,044	4,503
Property rental deposits		30,606	32,169
		695,202	762,567
Current assets			
Inventories	10	404,189	422,202
Loan receivables	12	21,013	41,364
Trade and other receivables	13	273,127	295,359
Financial assets at FVTPL	11	13,112	14,664
Taxation recoverable		4,763	4,319
Bank balances and cash		1,175,925	1,078,783
		1,892,129	1,856,691
Current liabilities			
Trade and other payables	14	303,422	277,713
Contract liabilities	14	12,256	20,677
Dividend payable		143,771	—
Lease liabilities		110,856	121,724
Taxation payable		36,892	46,654
		607,197	466,768
Net current assets		1,284,932	1,389,923
Total assets less current liabilities		1,980,134	2,152,490

		(Unaudited)	(Audited)
		30 September	31 March
	<i>NOTE</i>	2023	2023
		HK\$'000	HK\$'000
Non-current liabilities			
Deferred tax liabilities		25,191	26,162
Lease liabilities		132,280	230,397
		<u>157,471</u>	<u>256,559</u>
Net assets		<u>1,822,663</u>	<u>1,895,931</u>
Capital and reserves			
Share capital	<i>15</i>	48,736	48,736
Reserves		1,772,138	1,846,009
Equity attributable to owners of the Company		1,820,874	1,894,745
Non-controlling interests		1,789	1,186
Total equity		<u>1,822,663</u>	<u>1,895,931</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2023

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 accounting policy resulting from application of new and 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 2023 are the same as those presented in the Group’s annual financial statements for the year ended 31 March 2023.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on 1 April 2023 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform — Pillar Two Model Rules

The application of the new and 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.

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, which is also the basis of organisation of the Group for managing the business operations.

Specifically, the Group had three operating segments, being (a) Hong Kong, (b) People's Republic of China (the "PRC") and (c) Macau. 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 including those sales through department stores. 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	
	2023	2022	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	482,655	503,779	13,607	42,751
The PRC	1,302,486	1,101,462	220,096	189,858
Macau	62,985	68,605	7,728	12,923
	<u>1,848,126</u>	<u>1,673,846</u>	241,431	245,532
Unallocated other income			15,985	6,349
Unallocated other gains and losses			(763)	(962)
Unallocated corporate expenses			(55,673)	(47,727)
Interest on bank loan			—	(899)
Share of results of associates			13,904	10,568
Share of result of a joint venture			(208)	(274)
Profit before taxation			<u>214,676</u>	<u>212,587</u>

Segment profit represents the profit before taxation earned by each segment without allocation of interest on bank loan, share of results of associates and a joint venture, unallocated other income, unallocated other gains and losses and unallocated corporate expenses. Unallocated corporate expenses include auditor's remuneration, directors' remuneration, expenses of the Group's headquarter which are unallocated between the operating segments 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 2023 HK\$'000	31 March 2023 HK\$'000	30 September 2023 HK\$'000	31 March 2023 HK\$'000
Hong Kong	554,774	661,075	235,867	354,847
The PRC	530,236	565,555	113,745	129,931
Macau	76,440	86,072	55,929	64,896
Segment total	1,161,450	1,312,702	405,541	549,674
Unallocated	1,425,881	1,306,556	359,127	173,653
Consolidated total	<u>2,587,331</u>	<u>2,619,258</u>	<u>764,668</u>	<u>723,327</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 2023 HK\$'000	30 September 2022 HK\$'000
Interest income from bank	9,841	4,739
Interest income from rental deposits	456	438
Government subsidies (<i>note</i>)	—	1,617
Interest income from loan receivable at amortised cost	2,467	1,610
Others	6,888	5,210
	<u>19,652</u>	<u>13,614</u>

Note: During the six months ended 30 September 2022, the Group recognised government subsidies of HK\$1,594,000 which was related to Employment Support Scheme provided by Hong Kong government in respect of COVID-19-related subsidies (Six months ended 30 September 2023: Nil).

4B. OTHER GAINS AND LOSSES

	Six months ended	
	30 September	30 September
	2023	2022
	HK\$'000	HK\$'000
Change in fair value of loan receivables at FVTPL	—	917
Change in fair value of financial assets at FVTPL	1,509	(2,673)
Impairment loss recognised under expected credit loss model, net	(1,779)	(155)
Loss on written-off of property, plant and equipment	(412)	(315)
Loss on redemption of debt instruments at FVTOCI	—	(18)
Net exchange gain	199	534
Others	299	—
	<u>(184)</u>	<u>(1,710)</u>

5. PROFIT BEFORE TAXATION

	Six months ended	
	30 September	30 September
	2023	2022
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	23,904	20,887
Depreciation of right-of-use assets	57,532	64,622
Allowance for (reversal of allowance for) slow-moving watches	3,482	(22,032)
Short-term lease payments	2,404	920
	<u>2,404</u>	<u>920</u>

6. INCOME TAX EXPENSE

	Six months ended	
	30 September 2023	30 September 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Hong Kong	2,449	1,643
PRC Enterprise Income Tax	61,999	48,788
Other jurisdictions	2,358	2,126
Withholding tax on dividend income from associates	2,337	2,555
Withholding tax on dividend income from subsidiaries	9,430	11,521
	<u>78,573</u>	<u>66,633</u>
Deferred taxation credit	<u>(2,601)</u>	<u>(5,307)</u>
	<u><u>75,972</u></u>	<u><u>61,326</u></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 mainly represents Macau SAR Complementary Tax, which is calculated at the rate of 12% on the estimated assessable profits.

7. DIVIDEND

During the six months ended 30 September 2023, a final dividend of 7.5 HK cents per share, totalling HK\$36,552,000, in respect of the year ended 31 March 2023 (2022: 10.0 HK cents per share, totalling HK\$48,736,000) and a special dividend of 22.0 HK cents per share, totalling HK\$107,219,000, in respect of the year ended 31 March 2023 (2022: 30.5 HK cents per share, totalling HK\$148,644,000) were declared and approved by the shareholders of the Company at the annual general meeting held on 23 August 2023 and the amount was subsequently paid to the shareholders of the Company on 26 October 2023.

On 22 November 2023, the directors resolved to declare an interim dividend of 7.0 HK cents per share, totalling HK\$34,115,000 in respect of the six months ended 30 September 2023 (2022: 7.8 HK cents per share, totalling HK\$38,014,000) and a special dividend of 21.5 HK cents per share, totalling HK\$104,782,000, in respect of the six months ended 30 September 2023 (2022: 23.5 HK cents per share, totalling HK\$114,529,000), to be paid in cash to those shareholders whose names appear on the Company's register of members on 24 January 2024.

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
	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	<u>138,041</u>	<u>151,241</u>
	Number of shares	
	30 September	30 September
	2023	2022
Number of shares		
Number of ordinary shares	<u>487,358,224</u>	<u>487,358,224</u>

For the six-month ended 30 September 2023 and 2022, no diluted earnings per share as there was no potential ordinary shares outstanding during the period.

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

During the six months ended 30 September 2023, the Group incurred expenditure of HK\$21,651,000 (six months ended 30 September 2022: HK\$32,445,000) to acquire property, plant and equipment for its operation. During the six months ended 30 September 2023, the Group has written-off of certain property, plant and equipment with carrying amount of HK\$412,000 (six months ended 30 September 2022: HK\$315,000) resulting in a loss on written-off of HK\$412,000 (six months ended 30 September 2022: HK\$315,000).

During the six months ended 30 September 2023, the Group did not enter into any new lease agreement or lease renewal agreement for the use of shops and office premises (six months ended 30 September 2022: entered into several new lease agreements and lease renewal agreements for the use of shops and office premises with lease terms ranging from 1 to 3 years). The Group is required to make fixed payments. The Group recognised no additions to right-of-use assets (six months ended 30 September 2022: HK\$15,178,000) and lease liabilities (six months ended 30 September 2022: HK\$14,975,000) upon commencement of leases, which constitutes non-cash transactions. In addition, lease terms of certain leases were extended through modification and during the six-month ended 30 September 2023, before the commencement of the extension period of a lease, the Group had entered into a renewal agreement with the term of years shorter than the term of years per extension option and accordingly, the Group recognised reduction to right-of-use assets as the lease was considered modified (six months ended 30 September 2022: Nil). The Group recognised reduction from right-of-use assets of HK\$43,266,000 (six months ended 30 September 2022: addition of HK\$27,541,000) and lease liabilities of HK\$44,133,000 (six months ended 30 September 2022: addition of HK\$27,541,000) at the effective date of modification.

During the six months ended 30 September 2022, a lessor of a retail shop provided rent concession to the Group through rent reduction of 50% over two months. The Group opts not to apply the practical expedient on application of Amendment to HKFRS 16 “COVID19-related rent concession”. Changes in lease payments were assessed under the general requirement of HKFRS 16 and accounted for as lease modifications. The relevant rent concessions resulted in the reduction of the Group’s carrying amount of right-of-use assets and related lease liabilities of HK\$341,000 with the combined effect of revised lease payments from the rent concessions and the reduction in the revised incremental borrowing rates determined upon the date of modification. During the six months ended 30 September 2023, no such rent concession is granted to the Group.

10. INVENTORIES

	30 September 2023 HK\$'000	31 March 2023 HK\$'000
Watches	396,010	411,148
Accessories and parts	8,179	11,054
	<u>404,189</u>	<u>422,202</u>

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 September	31 March
	2023	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
Listed investments		
Equity securities listed in Hong Kong	12,000	13,436
Equity securities listed in overseas	1,112	1,228
	13,112	14,664
Unlisted investments	65,572	15,007
	78,684	29,671
Analysed as:		
Current portion	13,112	14,664
Non-current portion	65,572	15,007
	78,684	29,671

The amount of the Group's financial assets at FVTPL denominated in currencies other than functional currencies of the relevant group's entities is set out below:

	30 September	31 March
	2023	2023
	<i>HK\$'000</i>	<i>HK\$'000</i>
US\$	66,684	16,235

12. LOAN RECEIVABLES

	30 September 2023 <i>HK\$'000</i>	31 March 2023 <i>HK\$'000</i>
Loan receivables at FVTPL	21,013	61,402

13. TRADE AND OTHER RECEIVABLES

	30 September 2023 <i>HK\$'000</i>	31 March 2023 <i>HK\$'000</i>
Trade receivables	261,909	267,161
Less: Allowance for credit losses	(6,112)	(4,653)
	255,797	262,508
Property rental and other deposits	10,008	21,198
Advances to suppliers	3,627	6,772
Others	3,695	4,881
	273,127	295,359

The Group maintains a general credit policy of not more than 30 days for its retail sales in department store. 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 2023 <i>HK\$'000</i>	31 March 2023 <i>HK\$'000</i>
Age		
0 to 30 days	136,111	217,860
31 to 60 days	21,838	20,246
61 to 90 days	15,945	17,708
Over 90 days	81,903	6,694
	255,797	262,508

14. TRADE AND OTHER PAYABLES AND CONTRACT LIABILITIES

	30 September 2023 <i>HK\$'000</i>	31 March 2023 <i>HK\$'000</i>
Trade payables	48,317	38,184
Payroll and welfare payables	164,872	120,174
Commission payables	27,138	42,330
Renovation work payables	6,221	5,610
PRC value added tax and other taxes payables	21,660	43,886
Property rental fee payables	10,568	13,130
Others	24,646	14,399
	<u>303,422</u>	<u>277,713</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 2023 <i>HK\$'000</i>	31 March 2023 <i>HK\$'000</i>
Age		
0 to 60 days	36,181	35,557
61 to 90 days	12	—
Over 90 days	12,124	2,627
	<u>48,317</u>	<u>38,184</u>

Contract liabilities

	30 September 2023 <i>HK\$'000</i>	31 March 2023 <i>HK\$'000</i>
Contract liabilities on sales of watches	<u>12,256</u>	<u>20,677</u>

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

15. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 April 2022, 30 September 2022, 1 April 2023 and 30 September 2023	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2022, 30 September 2022, 1 April 2023 and 30 September 2023	<u>487,358,224</u>	<u>48,736</u>

16. SHARE-BASED PAYMENT TRANSACTION

The Company has share option scheme 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 and share award scheme for eligible directors and employees of the Company or its subsidiaries.

a. 2013 Share Option Scheme

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 13 August 2013, a share option scheme was adopted with effect on 3 November 2013 (the “2013 Share Option Scheme”).

The total number of shares available for issue under the 2013 Share Option Scheme both as at 1 April 2023 and 30 September 2023 was 57,061,022 shares.

The 2013 Share Option Scheme expired on 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 2023 and 30 September 2022, and since its effective date on 3 November 2013 and there was no outstanding share option as at 30 September 2023.

b. 2022 Share Award Scheme

On 27 June 2022 (the “Adoption Date”), the Company has adopted the employees’ share award scheme (the “2022 Share Award Scheme”). Pursuant to the 2022 Share Award Scheme, it shall be valid and effective for a term of 10 years commencing from the Adoption Date.

Under the 2022 Share Award Scheme, any employee, executive, officer, or directors of the Company or of any subsidiary are eligible for participation in the scheme. The purposes and objectives of the 2022 Share Award Scheme are to recognise and motivate the contributions by certain eligible persons and to provide them with incentives in order to retain them for the continual operation and development of the Group and to help the Group in attracting and recruiting suitable personnel as additional employees to further the operation and development of the Group, and to provide the eligible persons with a direct economic interest in attaining the long-term business objectives of the Group. The board of directors shall not make any further award which will result in: (i) the number of Shares awarded by the board under the scheme exceeding 10% of the issued share capital of the Company as at the Adoption Date; or (ii) the number of the Shares held by public shareholders falls below the minimum percentage as prescribed under the Listing Rules. The maximum number of shares which may be awarded to each selected person under the scheme shall not exceed 1% of the issued share capital of the Company as at the Adoption Date.

For further details of the principal terms of the 2022 Share Award Scheme, please refer to the Company’s announcement on 27 June 2022.

No award was granted under the 2022 Share Award Scheme during the six months ended 30 September 2023, and since the Adoption Date to 30 September 2023 and 30 September 2022.

The total number of awards available for grant under the 2022 Share Award Scheme was 48,735,822 shares both as at 1 April 2023 and 30 September 2023.

During the six months ended 30 September 2023 and 30 September 2022, no share-based payment expense was recognised in relation to the 2013 Share Option Scheme and the 2022 Share Award Scheme.

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 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			
		30	31		
		September	March	Fair value	Valuation technique(s) and
		2023	2023	hierarchy	key input(s)
		HK\$'000	HK\$'000		
Financial assets					
(i)	Equity instruments at FVTOCI — unlisted investments	38,362	13,359	Level 2	Quoted market prices provided by brokers which are financial institutions (<i>note</i>)
(ii)	Financial assets at FVTPL — listed investments, equity securities listed in Hong Kong and overseas	13,112	14,664	Level 1	Quoted bid prices in an active market
(iii)	Financial assets at FVTPL — unlisted investments	14,829	15,007	Level 2	Quoted market prices provided by brokers which are financial institutions (<i>note</i>)
		50,743	–	Level 2	Recent transaction price
(iv)	Loan receivables at FVTPL	21,013	61,402	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

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.

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

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 financial assets subsequently measured at fair value on Level 3 fair value measurement represent equity instruments at FVTOCI. During the six months ended 30 September 2023, fair value loss of HK\$740,000 relating to these equity instruments has been recognised in other comprehensive income (six months ended 30 September 2022: fair value loss of HK\$667,000). As at 30 September 2023, the fair value of the equity instruments at FVTOCI is HK\$38,362,000 (31 March 2023: HK\$13,359,000).

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 2023 <i>HK\$'000</i>	30 September 2022 <i>HK\$'000</i>
Short-term benefits	53,936	44,300
Post-employment benefits	590	490
	<u>54,526</u>	<u>44,790</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 2023, the aggregate amount that might be required to be paid is amounting to NT\$210,000,000 (equivalent to HK\$52,542,000) (31 March 2023: NT\$150,000,000 (equivalent to HK\$39,060,000)), 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 at initial recognition and the loss allowance at 30 September 2023 and 31 March 2023 are insignificant.

19. CAPITAL COMMITMENTS

	30 September	31 March
	2023	2023
	<i>HK\$'000</i>	<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	240	2,215

DIVIDENDS

The directors have resolved to pay an interim dividend of 7.0 HK cents per share (2022: 7.8 HK cents) and a special dividend of 21.5 HK cents per share (2022: 23.5 HK cents) in respect of the six months ended 30 September 2023, totalling HK\$138,897,000 (2022: HK\$152,543,000), to shareholders whose names appear on the register of the members of the Company on 9 January 2024. Dividend warrants will be sent to shareholders on or before 24 January 2024.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8 January 2024 to 9 January 2024 (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 17th Floor, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on 5 January 2024.

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 you the unaudited consolidated results of the Group for the six months ended 30 September 2023 (the "Period").

With the pandemic finally coming to an end earlier this year, both the Chinese and Hong Kong governments made concerted efforts to revitalise consumption and drive economic growth. In the case of Mainland China, that was supported by a comprehensive set of measures from the National Development and Reform Commission, aiming to stabilise high-value goods consumption, promote new consumer trends, and enhance residents' living standards. The Hong Kong government, on the other hand, launched initiatives such as consumer vouches and "Hello Hong Kong" in an attempt to attract tourists and drive consumption.

Yet, macro challenges such as interest rate hikes, supply chain disruption and escalating geographical tensions continued to have an adverse impact on customer sentiment, leading to a slower-than-expected recovery across both markets. Compounded by the limited financial visibility and worsening returns from different asset classes, consumers were generally more cautious in making purchasing decisions, especially on high-end fashion items. Meanwhile, there was also growing competition as a result of the easing border restrictions in both Hong Kong and Mainland China.

In spite of such operating environment, the Company was able to deliver a set of satisfactory results, thanks to its complementary strategies and rising brand profile in Hong Kong and Mainland China. During the Period, the Group achieved a revenue of HK\$1,848 million (2022: HK\$1,674 million), representing an increase of 10.4% year-on-year (“yoy”). In line with the increase in revenue, gross profit increased by 6.5% to HK\$572 million (2022: HK\$537 million), with gross profit margin slightly decrease by 1.1 percentage points to 31.0% (2022: 32.1%). Operating profit also increased by 0.9% to HK\$ 215 million (2022: HK\$213 million), highlighting the Company’s business resilience. Yet, affected by the rise in effective tax rate as a result of the increase in segment profit from the Mainland China market and full utilisation of tax credit in Hong Kong last year, net profit reported a decrease of 7.9% yoy to HK\$139 million (2022: HK\$151 million).

Business Review

As at 30 September 2023, the Group operated 43 retail points (including associate retail stores) in the Greater China region, along with 1 online store in each of Mainland China and Hong Kong respectively. Breakdown of retail points by geographic region is as follows:

	As at 30 September 2023
Hong Kong	11
Macau	1
Mainland China	29
Taiwan	<u>2</u>
Total	<u><u>43</u></u>

For the Mainland China market, the market has shown a gradual recovery in the second and third quarter of 2023. In the third quarter, it reported a GDP growth of 4.9%, beating market estimates, yet representing a drop from 6.3% of the previous quarter. There was an increase in the sales of gold, silver, and jewellery, with the segment reporting a year-on-year growth of 4.8% from April to September 2023. According to the Federation of the Swiss Watch Industry FH, the amount of Swiss watch exports to the PRC also recorded an increase of 10.4% yoy to CHF1,404 million during the same period. Riding on the improving market sentiment and the absence of quarantine measures when comparing to last year, revenue from the Group’s Mainland China operation increased by 18.3% yoy to HK\$1,302 million (2022: HK\$1,101 million).

In Hong Kong, the GDP performance for the second and third quarters fell short of market expectations. The second quarter GDP rose by 1.5%, while the third quarter only delivered a 4.1% growth, versus 5.2% as projected. High interest rates, growing financial uncertainties, and slow recovery from travellers all contributed to the cause, and consumer spending was weak, especially on higher-value products. As a result, the Group's Hong Kong operation recorded a revenue of HK\$483 million (2022: HK\$504 million), representing a decrease of 4.2% yoy.

Operationally, the Group is always finding ways to enhance efficiency and competitiveness. During the Period, the Group strategically shifted from a stringent rental cost control approach to a proactive store relocation strategy, aiming to secure greater presence in prime locations in face of growing competition. Despite the associated higher rental costs, the Group believes this strategy would rejuvenate the brand and attract more young and millennial customers, who will be essential to the Group's future performance. Together with the increase in variable lease payment in the Mainland China due to improving business performance, the Group's aggregated expenses related to lease increased by 21.3% yoy to HK\$97 million, accounting for 24.8% of the overall operating expenses (2022: 23.1%). The Group will closely monitor new store operations, and renew the rental contracts from time to time to maximise profitability.

During the Period, the Group also employed stringent inventory policies to ensure stable cash flow and healthy financial position. The Group closely monitored the inventory level of high-ticket products, and purchased stocks only when existing inventories exhaust to a pre-determined level. Thanks to the dedicated efforts from all staff, the Group's overall inventory level has decreased to HK\$404 million as at 30 September 2023, representing a drop of 4.3% from HK\$422 million as at 31 March 2023.

Prospects

Mainland China and Hong Kong have been stepping up its effort to boost consumption, but their progress was hindered by factors such as heightened interest rates, growing geopolitical tensions, worsening investment returns and slower-than-expected economic recovery. In the case of Hong Kong, in November 2023, Financial Secretary Paul Chan Mo-po stated that Hong Kong's annual GDP would be lower than its previous expectation, pointing towards weak underlying demand and poor investment appetite. The financial contributions from international tourists also remain uncertain, with Hong Kong seeing a recovering number of visitors, yet at the expense of a growing number of travellers leaving the city.

Despite recovering market sentiment, there remains fluctuation and unpredictability in China market performance. In October 2023, the International Monetary Fund (IMF) reduced its growth forecast on China from 5.2% to 5.0% for 2023, and from 4.5% to 4.2% for 2024. Yet, revision was made again in November 2023 to 5.4% for 2023 and to 4.6% for 2024 based on better-than-expected sequential performance. Nonetheless, this highlights the unpredictable and fast-changing nature of the market, which in turn, forcing companies to be more agile and flexible in dealing with future markets.

Amidst the prevailing uncertainties, the Group will maintain its prudent approach while closely monitoring market opportunities. As one of the largest watch retailers renowned for its reputation and service quality, the Group will carry on its latest brand rejuvenating effort to strengthen its brand awareness. It will also actively explore collaboration opportunities with branded partners, establishing more boutique stores and optimising current product mix to cater the latest customer needs. It will also maintain its stringent cost control, and will maintain a satisfactory dividend policy to yield better returns to our valued stakeholders.

Liquidity and financial resources

At 30 September 2023, the Group's total equity reached HK\$1,823 million, compared with HK\$1,896 million as at 31 March 2023. The Group had net current assets of HK\$1,285 million, including bank and cash balances of HK\$1,176 million as at 30 September 2023 compared with balances of HK\$1,390 million and HK\$1,079 million respectively as at 31 March 2023. The Group had no bank loan as at 30 September 2023 and 31 March 2023 and the gearing ratio (defined as total bank borrowing on total equity) was nil.

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 2023, our Group employed approximately 586 employees in Hong Kong, Macau, the Mainland China and Taiwan, of which approximately 62% were located on the Mainland China.

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 (i) 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 (which expired on 2 November 2023); and (ii) a share award scheme relating to award of shares of the Company purchased by the trustee or the administration committee of such scheme out of fund paid by the Company to eligible persons including directors and employees of the Group with a view 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 UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the unaudited consolidated financial statements of the Group for the six months ended 30 September 2023.

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

During the six months ended 30 September 2023, 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 Part 2 of 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 2023 except the following deviations:

1. Under code provision C.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 Bui, 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. Code provision F.1.1 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 2023.

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 unaudited consolidated financial statements for the six months ended 30 September 2023.

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 2023 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 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. Li Sau Hung, Eddy, Mr. Choi Man Chau, Michael and Mr. Sun Dai Hoe, Harold as independent non-executive directors.

By order of the Board
Yeung Him Kit, Dennis
Chairman

Hong Kong, 22 November 2023