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CITYCHAMP WATCH & JEWELLERY GROUP LIMITED

冠城鐘錶珠寶集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 256)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

INTERIM RESULTS

The board of directors (the “Board”) of Citychamp Watch & Jewellery Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended 30 June 2021 together with comparative figures for the corresponding period in 2020.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

| | | Six months ended 30 June | |
|---|--------------|---------------------------------|--------------------|
| | <i>Notes</i> | 2021 | 2020 |
| | | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Unaudited) |
| Interest income from banking business | | 69,711 | 91,674 |
| Interest expenses from banking business | | (23,243) | (17,463) |
| Net interest income from banking business | 4a | 46,468 | 74,211 |
| Service fees and commission income from banking business | | 145,046 | 132,473 |
| Service fees and commission expenses from banking business | | (30,841) | (32,183) |
| Net service fees and commission income from banking business | 4b | 114,205 | 100,290 |
| Trading income from banking business | 4c | 7,540 | 20,693 |
| Service fees and commission income from financial business | 4d | 1,351 | 3,891 |
| Interest income from financial business | 4d | 232 | 26 |
| Sales of goods from non-banking and financial businesses | 4e | 818,019 | 592,947 |
| Rental income from non-banking and financial businesses | 4e | 6,770 | 4,056 |
| Total revenue | | 994,585 | 796,114 |
| Cost of sales from non-banking and financial businesses | | (364,330) | (290,027) |
| Other ordinary income and other net gains or losses | 5 | 29,496 | 44,641 |
| Selling and distribution expenses | | (280,908) | (255,956) |
| Administrative expenses | | (346,067) | (332,622) |
| Share of loss of joint ventures | | (26) | (348) |
| Share of profit/(loss) of associates | | 20 | (1,071) |
| Finance costs | 6 | (39,000) | (46,825) |
| Loss before income tax | 7 | (6,230) | (86,094) |
| Income tax expense | 8 | (21,291) | (6,381) |
| Loss for the period | | (27,521) | (92,475) |

| | | Six months ended 30 June | |
|---|--------------|---------------------------------|-----------------------|
| | | 2021 | 2020 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | (Unaudited) | (Unaudited) |
| Other comprehensive income | | | |
| Items that will not be subsequently reclassified to profit or loss | | | |
| – Change in fair value of financial assets at fair value through other comprehensive income | 12 | (7,094) | (64,316) |
| – Remeasurement of net defined benefit obligation | | <u>645</u> | <u>525</u> |
| | | <u>(6,449)</u> | <u>(63,791)</u> |
| Item that may be subsequently reclassified to profit or loss | | | |
| – Exchange differences on translation to presentation currency | | (96,790) | 275 |
| – Release of exchange reserve upon disposal of a subsidiary | | <u>–</u> | <u>(405)</u> |
| | | <u>(96,790)</u> | <u>(130)</u> |
| Other comprehensive income for the period | | <u>(103,239)</u> | <u>(63,921)</u> |
| Total comprehensive income for the period | | <u>(130,760)</u> | <u>(156,396)</u> |
| (Loss)/Profit for the period attributable to: | | | |
| Owners of the Company | | (27,396) | (100,846) |
| Non-controlling interests | | <u>(125)</u> | <u>8,371</u> |
| | | <u>(27,521)</u> | <u>(92,475)</u> |
| Total comprehensive income for the period attributable to: | | | |
| Owners of the Company | | (123,821) | (164,749) |
| Non-controlling interests | | <u>(6,939)</u> | <u>8,353</u> |
| | | <u>(130,760)</u> | <u>(156,396)</u> |
| Loss per share attributable to owners of the Company for the period | | | |
| – Basic | 10 | <u>(HK0.63 cent)</u> | <u>(HK2.32 cents)</u> |
| – Diluted | | <u>(HK0.63 cent)</u> | <u>(HK2.32 cents)</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

| | | 30 June 2021 | 31 December 2020 |
|--|--------------|--------------------------------|------------------------------|
| | <i>Notes</i> | <i>HK\$'000</i> (Unaudited) | <i>HK\$'000</i> (Audited) |
| Assets | | | |
| Cash and deposits | | 7,317,405 | 5,612,645 |
| Due from clients | | 2,625,106 | 2,463,225 |
| Due from banks | | 3,811,678 | 5,466,260 |
| Trading portfolio investments | 11 | 67,876 | 80,310 |
| Financial assets at fair value through other comprehensive income | 12 | 457,749 | 470,794 |
| Derivative financial assets | | 39,712 | 29,224 |
| Trade receivables | 13 | 42,938 | 391,747 |
| Other financial assets at amortised cost | 14 | 2,017,760 | 1,449,886 |
| Inventories | 15 | 358,614 | 2,255,553 |
| Income tax recoverable | | – | 2,299 |
| Interests in joint ventures | | 576 | 602 |
| Interests in associates | | – | 113,176 |
| Property, plant and equipment | | 527,498 | 1,270,726 |
| Investment properties | | 134,594 | 195,427 |
| Intangible assets | 16 | 51,531 | 54,415 |
| Goodwill | 17 | 473,506 | 1,144,071 |
| Deferred tax assets | | 13,638 | 13,961 |
| Other assets | | 71,777 | 370,874 |
| Assets of disposal groups classified as held for sale | 18 | 4,169,647 | – |
| Total assets | | 22,181,605 | 21,385,195 |

| | | 30 June | 31 December |
|---|--------------|--------------------------|--------------------------|
| | | 2021 | 2020 |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| | | (Unaudited) | (Audited) |
| Liabilities | | | |
| Due to banks | | 7,769 | 2,639 |
| Due to clients | | 15,074,245 | 13,965,477 |
| Derivative financial liabilities | | 10,366 | 31,334 |
| Trade payables | 19 | 69,744 | 360,624 |
| Contract liabilities | | 1,365 | 13,824 |
| Income tax payables | | 34,022 | 36,799 |
| Borrowings | 20 | 913,136 | 1,564,822 |
| Provisions | | 325 | 368 |
| Lease liabilities | | 35,995 | 57,570 |
| Deferred tax liabilities | | 31,913 | 55,377 |
| Due to a shareholder | | 12,000 | 12,000 |
| Due to directors | | 17,000 | 21,233 |
| Due to a related company | | 79,000 | – |
| Other liabilities | | 255,236 | 526,901 |
| Liabilities of disposal groups classified as held for sale | 18 | <u>1,106,501</u> | <u>–</u> |
| Total liabilities | | <u>17,648,617</u> | <u>16,648,968</u> |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 435,189 | 435,189 |
| Reserves | | <u>3,837,875</u> | <u>3,983,490</u> |
| | | 4,273,064 | 4,418,679 |
| Non-controlling interests | | <u>259,924</u> | <u>317,548</u> |
| Total equity | | <u>4,532,988</u> | <u>4,736,227</u> |
| Total liabilities and equity | | <u>22,181,605</u> | <u>21,385,195</u> |

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the six months ended 30 June 2021

1. BASIS OF PREPARATION

The unaudited condensed interim financial information (“the Unaudited Interim Financial Information”) has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure provisions in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Unaudited Interim Financial Information is presented in Hong Kong Dollars (“HK\$”), which is also the functional currency of the Company and all values are rounded to the nearest thousand (“HK\$’000”) unless otherwise stated.

The Unaudited Interim Financial Information for the six months ended 30 June 2021 was approved for issue by the board of directors of the Company on 30 August 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Unaudited Interim Financial Information has been prepared in accordance with the accounting policies and method of computation used in the 2020 Annual Financial Statements, except for the adoption of the new or amended Hong Kong Financial Reporting Standards (“HKFRSs”), which include individual HKFRSs, HKAS and Interpretations. The Group has not early adopted any new HKFRSs that have been issued but are not yet effective. The Unaudited Interim Financial Information should be read in conjunction with the 2020 Annual Financial Statements.

3. SEGMENT INFORMATION

The chief operating decision-maker is identified as executive directors. The executive directors have identified the Group’s product and service lines as operating segments as follows:

- (a) manufacture and distribution of watches and timepieces;
- (b) property investments; and
- (c) banking and financial businesses.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

| | Six months ended 30 June 2021 | | | | |
|--|--|---|---|---|---|
| | Watches and timepieces <i>HK\$'000</i> (Unaudited) | Property investments <i>HK\$'000</i> (Unaudited) | Banking and financial businesses <i>HK\$'000</i> (Unaudited) | Unallocated <i>HK\$'000</i> (Unaudited) | Total <i>HK\$'000</i> (Unaudited) |
| Segment revenue: | | | | | |
| Net interest income from banking business | - | - | 46,468 | - | 46,468 |
| Net service fees and commission income from banking business | - | - | 114,205 | - | 114,205 |
| Trading income from banking business | - | - | 7,540 | - | 7,540 |
| Service fees and commission income from financial business | - | - | 1,351 | - | 1,351 |
| Interest income from financial business | - | - | 232 | - | 232 |
| Sales of goods from non-banking and financial businesses | 818,019 | - | - | - | 818,019 |
| Rental income from non-banking and financial businesses | - | 6,770 | - | - | 6,770 |
| Total revenue | 818,019 | 6,770 | 169,796 | - | 994,585 |
| Segment results | | | | | |
| Unallocated corporate income and expenses, net | 45,162 | 6,142 | 13,706 | - | 65,010 |
| Share of loss of joint ventures | - | - | - | (32,234) | (32,234) |
| Share of profit of associates | - | - | - | 20 | 20 |
| Finance costs | (19,372) | - | (55) | (19,573) | (39,000) |
| Profit/(loss) before income tax | 25,790 | 6,142 | 13,651 | (51,813) | (6,230) |
| Income tax expense | (15,253) | 54 | (5,598) | (494) | (21,291) |
| Profit/(loss) for the period | 10,537 | 6,196 | 8,053 | (52,307) | (27,521) |

| | Six months ended 30 June 2020 | | | | |
|--|--|---|---|---|---|
| | Watches and timepieces <i>HK\$'000</i> (Unaudited) | Property investments <i>HK\$'000</i> (Unaudited) | Banking and financial businesses <i>HK\$'000</i> (Unaudited) | Unallocated <i>HK\$'000</i> (Unaudited) | Total <i>HK\$'000</i> (Unaudited) |
| Segment revenue: | | | | | |
| Net interest income from banking business | – | – | 74,211 | – | 74,211 |
| Net service fees and commission income from banking business | – | – | 100,290 | – | 100,290 |
| Trading income from banking business | – | – | 20,693 | – | 20,693 |
| Service fees and commission income from financial business | – | – | 3,891 | – | 3,891 |
| Interest income from financial business | – | – | 26 | – | 26 |
| Sales of goods from non-banking and financial businesses | 592,947 | – | – | – | 592,947 |
| Rental income from non-banking and financial businesses | – | 4,056 | – | – | 4,056 |
| Total revenue | 592,947 | 4,056 | 199,111 | – | 796,114 |
| Segment results | | | | | |
| Unallocated corporate income and expenses, net | (46,277) | 3,252 | 36,835 | – | (6,190) |
| Share of loss of joint ventures | – | – | – | (31,660) | (31,660) |
| Share of loss of associates | – | – | – | (1,071) | (1,071) |
| Finance costs | (14,783) | – | (170) | (31,872) | (46,825) |
| (Loss)/profit before income tax | (61,060) | 3,252 | 36,665 | (64,951) | (86,094) |
| Income tax expense | (2,743) | (77) | (3,094) | (467) | (6,381) |
| (Loss)/profit for the period | (63,803) | 3,175 | 33,571 | (65,418) | (92,475) |

4. REVENUE

The Group is principally engaging in manufacture and distribution of watches and timepieces, property investments and banking and financial businesses.

For banking and financial businesses, revenue mainly comprises net interest income, net service fees and commission income and net trading income. For non-banking and financial businesses, revenue mainly represents the net invoiced value of goods sold, after allowance for returns and trade discounts and rental income received and receivables.

Revenue recognised during the period is as follows:

(a) **Net interest income from banking business**

| | Six months ended 30 June | |
|--|---------------------------------|--------------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Interest income from banking business arising from: | | |
| Interest income – due from banks | 30,250 | 58,050 |
| Interest income – due from clients | 18,741 | 12,376 |
| Interest income from trading portfolio investments | 927 | – |
| Interest income from mortgage loans | 10,209 | 9,377 |
| Interest income from debt instruments | 9,762 | 9,664 |
| Interest income from money market papers | (178) | 532 |
| Negative interest income on due to clients | – | 1,675 |
| | 69,711 | 91,674 |
| Interest expenses from banking business arising from: | | |
| Interest expense on due to banks | (21,835) | (14,625) |
| Interest expense on due to clients | (1,247) | (2,655) |
| Negative interest income on due from banks and clients | (161) | (183) |
| | (23,243) | (17,463) |
| Net interest income from banking business | 46,468 | 74,211 |

(b) Net service fees and commission income from banking business

| | Six months ended 30 June | |
|---|--------------------------|-----------------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Service fees and commission income from banking business arising from: | | |
| Commission income from loans | 3,322 | 1,804 |
| Brokerage fees | 23,717 | 28,757 |
| Custody account fees | 14,089 | 11,986 |
| Commission on investment advice and asset management | 55,153 | 45,227 |
| Commission income from service fees | 22,271 | 20,289 |
| Commission income from fiduciary fees | 227 | 238 |
| Commission income from retrocession | 2,177 | 2,659 |
| Other commission income | 24,090 | 21,513 |
| | <u>145,046</u> | <u>132,473</u> |
| Service fees and commission expenses from banking business | <u>(30,841)</u> | <u>(32,183)</u> |
| Net service fees and commission income from banking business | <u>114,205</u> | <u>100,290</u> |

(c) Trading income from banking business

| | Six months ended 30 June | |
|---|--------------------------|----------------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Debt instruments | 1 | – |
| Equity instruments | 123 | – |
| Forex and precious metals | 18,554 | 20,693 |
| Funds | (11,138) | – |
| | <u>7,540</u> | <u>20,693</u> |
| Trading income from banking business | <u>7,540</u> | <u>20,693</u> |

(d) Revenue from financial business

| | Six months ended 30 June | |
|--|--------------------------|---------------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Service fees and commission income | 1,351 | 3,891 |
| Interest income | 232 | 26 |
| | <u>1,583</u> | <u>3,917</u> |
| Revenue from financial business | <u>1,583</u> | <u>3,917</u> |

(e) Revenue from non-banking and financial businesses

| | Six months ended 30 June | |
|--|--------------------------|----------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Sale of goods | 818,019 | 592,947 |
| Rental income | 6,770 | 4,056 |
| | <hr/> | <hr/> |
| Revenue from non-banking and financial businesses | 824,789 | 597,003 |
| | <hr/> <hr/> | <hr/> <hr/> |

5. OTHER ORDINARY INCOME AND OTHER NET GAINS OR LOSSES

| | Six months ended 30 June | |
|---|--------------------------|---------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Exchange gain, net | 8,185 | – |
| Gain on fair value changes in trading portfolio investments, net | 632 | 19,857 |
| Bank and other interest income from non-banking and financial business | 2,432 | 745 |
| Dividend income from trading portfolio investments | – | 57 |
| Dividend income from financial asset at fair value through other comprehensive income (“FVOCI”) (note 12) | 9,050 | 8,815 |
| Gain on disposal of property, plant and equipment | 861 | – |
| Government subsidies | 3,323 | 3,668 |
| Other sundry income | 5,013 | 11,499 |
| | <hr/> | <hr/> |
| | 29,496 | 44,641 |
| | <hr/> <hr/> | <hr/> <hr/> |

6. FINANCE COSTS

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Interests on lease liabilities | 1,091 | 1,758 |
| Interests charged on bank borrowings and bank overdrafts | 37,909 | 45,006 |
| Margin loan interest | – | 61 |
| | <hr/> | <hr/> |
| | 39,000 | 46,825 |
| | <hr/> <hr/> | <hr/> <hr/> |

7. LOSS BEFORE INCOME TAX

The Group's loss before income tax was arrived at after charging:

| | Six months ended 30 June | |
|---|--------------------------|---------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Depreciation of property, plant and equipment | 56,697 | 69,000 |
| Amortisation of intangible assets | 372 | 835 |
| | <u>56,697</u> | <u>69,835</u> |

8. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|------------------------------------|--------------------------|----------------|
| | 2021 | 2020 |
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Unaudited) |
| Current tax for the period | | |
| PRC | 15,466 | 7,602 |
| Liechtenstein | 6,433 | 3,756 |
| Switzerland | 964 | 680 |
| Deferred tax for the period | <u>(1,572)</u> | <u>(5,657)</u> |
| Total income tax expense | <u>21,291</u> | <u>6,381</u> |

For both the six months ended 30 June 2021 and 2020, no provision for Hong Kong profits tax has been made as the Group has no assessable profits arising in Hong Kong. The subsidiaries established in the PRC are subject to income taxes at tax rates ranging between 15% and 25% (six months ended 30 June 2020: between 15% and 25%). Overseas tax is calculated at the rates applicable in the respective jurisdictions.

The Group is subject to PRC withholding tax at the rate of 5% or 10% in respect of its PRC sourced income earned, including rental income from properties in PRC and dividend income derived from PRC incorporated company.

9. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the period ended 30 June 2021 (six months ended 30 June 2020: Nil).

10. LOSS PER SHARE

The calculations of the basic and diluted loss per share attributable to owners of the Company are based on the following data:

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2021 HK\$'000 (Unaudited) | 2020 HK\$'000 (Unaudited) |
| Loss attributable to owners of the Company for the purpose of calculating basic and diluted loss per share | <u>(27,396)</u> | <u>(100,846)</u> |

| | Number of shares Six months ended 30 June | |
|---|--|-----------------------------|
| | 2021 '000 (Unaudited) | 2020 '000 (Unaudited) |
| Weighted average number of shares for the purpose of calculating basic and diluted loss per share | <u>4,351,889</u> | <u>4,351,889</u> |

11. TRADING PORTFOLIO INVESTMENTS

| | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|---|--|--|
| Equity instruments | | |
| Listed equity instruments in Hong Kong at market value | 583 | 649 |
| Listed equity instruments outside Hong Kong at market value | <u>8,456</u> | <u>4,522</u> |
| Total equity instruments | <u>9,039</u> | <u>5,171</u> |
| Debt instruments | | |
| Unlisted debt instruments of financial institutions | <u>6,012</u> | <u>12,938</u> |
| Investment fund units | | |
| Unlisted investments fund units | <u>46,403</u> | <u>55,843</u> |
| Investments in other financial products | <u>6,422</u> | <u>6,358</u> |
| Total trading portfolio investments | <u>67,876</u> | <u>80,310</u> |

The investments under trading portfolio investments are held for trading purposes.

There is no transfer under the fair value hierarchy classification for the six months ended 30 June 2021 and 2020.

The fair value gain during the period was amounted to HK\$632,000 (six months ended 30 June 2020: fair value gain of HK\$19,857,000), which has been recognised in the condensed consolidated statement of comprehensive income as “other ordinary income and other net gains or losses” (note 5) for six months ended 30 June 2021.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 30 June 2021 | 31 December 2020 |
|---|-------------------------|---------------------|
| | HK\$'000 | HK\$'000 |
| | (Unaudited) | (Audited) |
| Listed equity instruments in Hong Kong (<i>note (a)</i>) | 334,970 | 333,207 |
| Listed equity instruments outside Hong Kong (<i>note (b)</i>) | 122,779 | 131,636 |
| Unlisted equity investments | – | 5,951 |
| | <hr/> | <hr/> |
| Total | 457,749 | 470,794 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes:

- (a) As at 30 June 2021 and 31 December 2020, the listed equity investments in Hong Kong represented 14.76% equity interest in Min Xin Holdings Limited (“Min Xin Shares”). As at 30 June 2021 and 31 December 2020, the Group held 88,150,000 Min Xin Shares. A dividend income totaling HK\$8,815,000 (six months ended 30 June 2020: HK\$8,815,000) was recognised by the Group in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2021.
- (b) As at 30 June 2021 and 31 December 2020, the listed equity investments outside Hong Kong represented 2.04% equity interest in Citychamp Dartong Company Limited (“Citychamp Dartong Shares”) listed on the Shanghai Stock Exchange in the PRC. As at 30 June 2021 and 31 December 2020, the Group held 30,389,058 Citychamp Dartong Shares. No dividend income was recognised by the Group in the condensed consolidated statement of comprehensive income for the six months ended 30 June 2021 and 2020.

During the six months ended 30 June 2021, the decrease in fair value of financial assets at fair value through other comprehensive income of HK\$7,094,000 (six months ended 30 June 2020: HK\$64,316,000) has been dealt with in other comprehensive income and FVOCI reserve.

13. TRADE RECEIVABLES

| | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|---|--|--|
| Trade receivables arising from watches and timepiece businesses (note (a)) | <u>35,269</u> | <u>382,091</u> |
| Trade receivables arising from financial business (note (b)): | | |
| – Margin clients | 5,549 | 402 |
| – Cash clients | 2,120 | 4,631 |
| – Clearing house | <u>–</u> | <u>4,623</u> |
| | <u>7,669</u> | <u>9,656</u> |
| Trade receivables, net | <u>42,938</u> | <u>391,747</u> |

- (a) The Group's trading terms with its customers of watches and timepieces businesses are mainly on credit, except for certain customers, where payment in advance is required. The credit period is generally for a period of one to six months (31 December 2020: one to six months) for major customers. Each customer has a maximum credit limit. The credit term for customers is determined by the management according to industry practice together with consideration of their creditability. Trade receivables are non-interest bearing.

Ageing analysis of trade receivables arising from watches and timepieces businesses as at the reporting dates, based on invoice date, and net of provisions, is as follows:

| | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|---------------|--|--|
| 1 to 3 months | 24,516 | 267,893 |
| 4 to 6 months | 8,252 | 29,796 |
| Over 6 months | <u>2,501</u> | <u>84,402</u> |
| | <u>35,269</u> | <u>382,091</u> |

- (b) The settlement term of trade receivables arising from the financial business of securities dealing is two business days after trade date ("T+2").

In the opinion of the directors, ageing analysis is not meaningful in view of the business nature of securities dealing.

14. OTHER FINANCIAL ASSETS AT AMORTISED COST

| | 30 June 2021 <i>HK\$'000</i> (Unaudited) | 31 December 2020 <i>HK\$'000</i> (Audited) |
|---|---|---|
| Listed debt instruments, at amortised cost | 2,017,760 | 1,449,886 |
| Issued by: | | |
| Governments and public sector | 643,256 | 84,447 |
| Financial institutions | 926,759 | 1,053,351 |
| Corporations | 447,745 | 312,088 |
| | 2,017,760 | 1,449,886 |

15. INVENTORIES

| | 30 June 2021 <i>HK\$'000</i> (Unaudited) | 31 December 2020 <i>HK\$'000</i> (Audited) |
|--------------------------------|---|---|
| Raw materials | 176,229 | 358,304 |
| Work-in-progress | 18,014 | 75,528 |
| Finished goods and merchandise | 164,371 | 1,821,721 |
| | 358,614 | 2,255,553 |

16. INTANGIBLE ASSETS

| | Supplier and distribution networks <i>HK\$'000</i> | Brand names <i>HK\$'000</i> | Trading rights <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|--|-----------------------------------|--------------------------------------|--------------------------|
| Six months ended 30 June 2021 | | | | |
| (Unaudited) | | | | |
| Opening carrying amount | 833 | 46,336 | 7,246 | 54,415 |
| Amortisation | (337) | (35) | – | (372) |
| Transfer to assets of disposal groups classified as held for sale | (496) | (35) | – | (531) |
| Exchange realignment | – | (1,981) | – | (1,981) |
| Closing carrying amount | – | 44,285 | 7,246 | 51,531 |
| Year ended 31 December 2020 (Audited) | | | | |
| Opening carrying amount | 2,246 | 42,597 | 7,246 | 52,089 |
| Amortisation | (1,712) | (72) | – | (1,784) |
| Exchange realignment | 299 | 3,811 | – | 4,110 |
| Closing carrying amount | 833 | 46,336 | 7,246 | 54,415 |

As at 30 June 2021, intangible assets of HK\$44,285,000 (31 December 2020: HK\$47,169,000) are attributable to watches and timepieces businesses while intangible assets of HK\$7,246,000 (31 December 2020: HK\$7,246,000) are attributable to financial business.

17. GOODWILL

| | 30 June 2021 <i>HK\$'000</i> (Unaudited) | 31 December 2020 <i>HK\$'000</i> (Audited) |
|---|---|---|
| Balance at the beginning of period/year | 1,144,071 | 1,065,051 |
| Transfer to assets of disposal groups classified as held for sale | (658,113) | – |
| Exchange realignment | (12,452) | 79,020 |
| | <u>473,506</u> | <u>1,144,071</u> |
| Balance at the end of period/year | <u>473,506</u> | <u>1,144,071</u> |

As at 30 June 2021, goodwill of HK\$212,415,000 (31 December 2020: HK\$871,442,000) are attributable to watches and timepieces businesses while goodwill of HK\$261,091,000 (31 December 2020: HK\$272,629,000) are attributable to banking and financial businesses.

18. ASSETS AND LIABILITIES OF DISPOSAL GROUPS CLASSIFIED AS HELD FOR SALE

An analysis of the assets and liabilities of disposal groups classified as held for sales as at 30 June 2021 was as follow:

| | <i>HK\$'000</i> (Unaudited) |
|---|--------------------------------|
| Assets of Disposal Groups classified as held for sale: | |
| Cash and deposits | 73,285 |
| Trading portfolio investments | 7,097 |
| Income tax recoverable | 1,016 |
| Trade receivables | 362,187 |
| Inventories | 1,822,151 |
| Financial assets at fair value through other comprehensive income | 6,030 |
| Interests in associates | 113,197 |
| Property, plant and equipment | 746,106 |
| Investment properties | 62,168 |
| Intangible assets | 531 |
| Goodwill | 658,113 |
| Other assets | 317,766 |
| | <u>4,169,647</u> |
| | <u>4,169,647</u> |

| | HK\$'000 (Unaudited) |
|---|---------------------------------------|
| Liabilities of Disposal Groups classified as held for sale: | |
| Trade payables | 236,520 |
| Contract liabilities | 20,215 |
| Income tax payables | 8,753 |
| Borrowings | 492,822 |
| Deferred tax liabilities | 23,285 |
| Lease liabilities | 17,678 |
| Other liabilities | 307,228 |
| | <u>1,106,501</u> |

19. TRADE PAYABLES

| | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|---|--|--|
| Trade payables arising from watches and timepiece businesses <i>(note (a))</i> | <u>16,076</u> | <u>245,246</u> |
| Trade payables arising from financial business <i>(note (b))</i> : | | |
| – Cash clients | 51,190 | 107,208 |
| – Margin clients | 2,046 | 8,170 |
| – Clearing house | 432 | – |
| | <u>53,668</u> | <u>115,378</u> |
| Trade payables | <u><u>69,744</u></u> | <u><u>360,624</u></u> |

- (a) Ageing analysis of trade payables arising from watches and timepieces businesses as at the reporting dates, based on invoice dates, is as follows:

| | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|---------------|--|--|
| 1 to 3 months | 9,088 | 190,025 |
| 4 to 6 months | 5,768 | 2,200 |
| Over 6 months | 1,220 | 53,021 |
| | <u>16,076</u> | <u>245,246</u> |

- (b) The settlement term of trade payables arising from the financial business of securities dealing is “T+2”. Trade payables arising from financial business during the “T+2” period are current whereas those which are outstanding after the “T+2” period are repayable on demand.

In the opinion of the directors, ageing analysis is not meaningful in view of the business nature of securities dealing.

20. BORROWINGS

| | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|-----------------|--|--|
| Bank overdrafts | – | 52,711 |
| Bank borrowings | <u>913,136</u> | <u>1,512,111</u> |
| | <u>913,136</u> | <u>1,564,822</u> |

As at 30 June 2021, the amount of the Group's bank overdrafts and bank borrowings repayable within one year or on demand is HK\$908,921,000 (31 December 2020: HK\$1,554,724,000).

Based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause. Borrowings are repayable as follows:

| | 30 June 2021 HK\$'000 (Unaudited) | 31 December 2020 HK\$'000 (Audited) |
|------------------------------|--|--|
| Borrowings payable: | | |
| Within one year or on demand | <u>908,921</u> | <u>1,477,347</u> |
| In the second year | – | 5,696 |
| In the third to fifth year | <u>4,215</u> | <u>81,779</u> |
| | <u>4,215</u> | <u>87,475</u> |
| | <u>913,136</u> | <u>1,564,822</u> |

At the reporting date, the Group's borrowings (including bank borrowings classified as liabilities of disposal groups classified as held for sale) were secured by:

- (i) corporate guarantees provided by certain subsidiaries within the Group as at 30 June 2021 and 31 December 2020;
- (ii) entire equity interest of certain subsidiaries within the Group as at 30 June 2021 and 31 December 2020;
- (iii) subordination deeds signed by the Directors of the Group as at 30 June 2021 and 31 December 2020;

- (iv) guarantee provided by the government of certain country as at 30 June 2021 and 31 December 2020;
- (v) personal guarantee provided by a non-controlling interests of a subsidiary of the Group and certain independent third parties as at 30 June 2021 and 31 December 2020;
- (vi) certain assets of the non-controlling interests of a subsidiary of the Group and certain independent third parties as at 30 June 2021 and 31 December 2020; and
- (vii) a legal charge over certain of the Group's land and buildings with the carrying amounts of HK\$318,947,000 (31 December 2020: HK\$310,118,000) as at 30 June 2021.

Certain of bank overdrafts and bank borrowings contain clause which give the banks the right at their sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations. Borrowings due for repayment after one year which contain a repayment on demand clause and are expected to be settled within one year. The carrying amounts of the bank overdrafts and bank borrowings are approximate to their fair value.

As at 30 June 2021, one of the financial covenants as stipulated in the relevant agreement in respect of borrowings with outstanding principal of approximately HK\$562,921,000 was not satisfied. The Company is in the process of the application of waiver as of the date of authorisation of the interim financial information for six months ended 30 June 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

OUR STRATEGY

The Group takes a long-term perspective in formulating our corporate strategy. We engage capital and people where we identify opportunities to generate returns which exceed our cost of capital over the long term and invest in the existing and new businesses. It is our intention to remain a conglomerate with different businesses capable of generating sustainable long-term growth.

FINANCIAL HIGHLIGHTS

| | Six months ended 30 June | | Variation % |
|---|--------------------------|-------------------------|----------------|
| | 2021 <i>HK\$'000</i> | 2020 <i>HK\$'000</i> | |
| Total revenue | 994,585 | 796,114 | 24.9 |
| Operating expenses | 626,975 | 588,578 | 6.5 |
| Gross profit generated from non-banking and financial businesses | 460,459 | 306,976 | 50.0 |
| Gross profit generated from banking and financial businesses | 169,796 | 199,111 | -14.7 |
| EBITDA | 89,839 | 30,566 | 193.9 |
| Loss before tax | (6,230) | (86,094) | -92.8 |
| Net loss after tax | (27,521) | (92,475) | -70.2 |
| Loss per share attributable to owners of the Company for the period | | | |
| – Basic | (HK0.63 cent) | (HK2.32 cents) | -72.8 |
| – Diluted | (HK0.63 cent) | (HK2.32 cents) | -72.8 |
| | 30 June | 31 December | |
| | 2021 | 2020 | Variation |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | % |
| Total assets | 22,181,605 | 21,385,195 | 3.7 |
| Total liabilities | 17,648,617 | 16,648,968 | 6.0 |
| Total equity | 4,532,988 | 4,736,227 | -4.3 |

OPERATING RESULTS

For the six months ended 30 June 2021, the Group recorded total revenue of approximately HK\$994,585,000 (six months ended 30 June 2020: HK\$796,114,000), an increase of HK\$198,471,000 or 24.9% over the corresponding period last year.

Operating expenses (including selling and distribution expenses and administrative expenses) for the six months year ended 30 June 2021 was approximately HK\$626,975,000 (six months ended 30 June 2020: HK\$588,578,000), an increase of HK\$38,397,000 or 6.5% over the corresponding period last year.

Gross profit generated from non-banking and financial businesses for the six months ended 30 June 2021 was approximately HK\$460,459,000 (six months ended 30 June 2020: HK\$306,976,000), an increase of HK\$153,483,000 or 50.0% over the corresponding period last year.

Gross profit generated from banking and financial businesses for the six months ended 30 June 2021 was approximately HK\$169,796,000 (six months ended 30 June 2020: HK\$199,111,000), a decrease of HK\$29,315,000 or 14.7% over the corresponding period last year.

EBITDA for the six months ended 30 June 2021 was approximately HK\$89,839,000 (30 June 2020: HK\$30,566,000), an increase of HK\$59,273,000 or 193.9% over the corresponding period last year.

Net loss after tax for the six months ended 30 June 2021 was approximately HK\$27,521,000 (six months ended 30 June 2020: net loss HK\$92,475,000), a decrease of HK\$64,954,000 or 70.2% over the corresponding period last year.

PERFORMANCE

Notwithstanding the challenging environment, we have formulated certain actions to deal with the issues aroused for each of the key business. Our Group comprises three key divisions – watches and timepieces businesses, banking and financial businesses, and various investment businesses.

I. Watches and timepieces businesses

I.A – local proprietary brands

I.B – foreign proprietary brands

I.C – non-proprietary brands

I.D – others

II. Banking and financial businesses

II.A – Bendura Bank AG

II.B – Shun Heng Finance Holding (Hong Kong) Limited

III. Various investment business

III.A – listed equity investment

III.B – property investment

III.C – other marketable securities

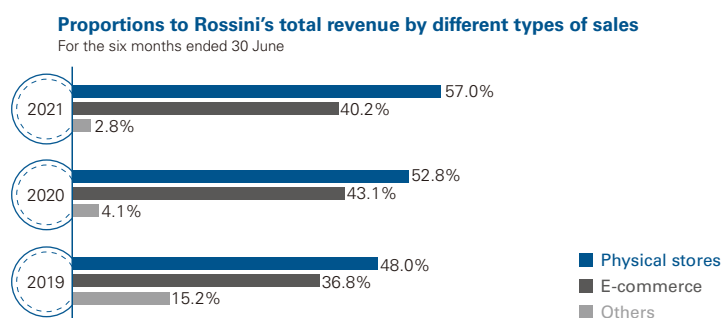
I.A Local Proprietary Brands

Zhuhai Rossini Watch Industry Limited

For the six months ended 30 June 2021, Zhuhai Rossini Watch Industry Limited (“Rossini”), a 91% subsidiary of the Group, recorded revenue of HK\$340,858,000, an increase of HK\$72,793,000 or 27.2%, from HK\$268,065,000 for the same period last year. Net profit after tax attributable to owners of the Company for the period under review was HK\$58,999,000, representing an increase of HK\$31,649,000 or 115.7% from HK\$27,350,000 for the same period last year.

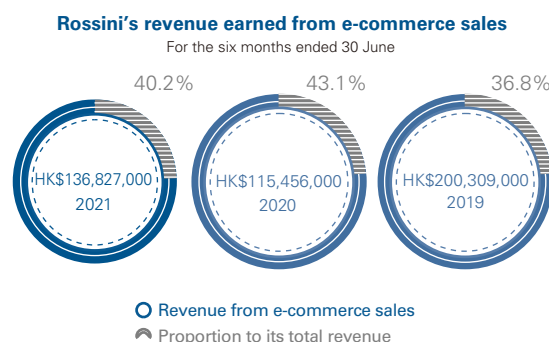
The outbreak of the COVID-19 since 2020 has intensified the challenges of business for physical stores in Mainland China. To cope with this difficult time, Rossini implemented diversified sales models and flexible policies, by making quick response to market so as to improve sales performance and achieve positive results.

During the first half of 2021, though the COVID-19 was no longer spreading widely in Mainland China, the number of customers in physical stores was still limited. However, to reduce the impact from the COVID-19, Rossini continued to consolidate and develop the position of physical market sales by implementing flexible policies to physical stores based on provinces, regions, and branches, strengthening the control of trade receivables, and encouraging branches to expand into shopping malls of third-tier and fourth-tier cities and so forth. The efforts eventually brought an increase of approximately 27.2% in revenue compare to same period last year.



E-commerce sales for the six months ended 30 June 2021 increased to HK\$136,827,000 from HK\$115,456,000 for the same period last year, representing an increase of approximately 18.5%. As one of the strategies to boost up the revenue, Rossini has developed e-commerce intensively, and a positive outcome has been achieved.

Specifically, Rossini kept expanding its territory for occupying more market shares by opening online distributors on the leading e-commerce platforms including Taobao, Tmall, JD and Pinduoduo. In addition, the shopping preferences of the Chinese consumers, especially those of the young generation, were influenced by key opinion leaders (KOL), who spread their views on social media live streaming apps. Rossini's e-commerce team seized the current trend and as a result, e-commerce livestreaming has taken off. Rossini was actively exploring new opportunities on popular social media platforms including Xiaohongshu, Kuaishou and Tik Tok to strengthen its brand awareness.



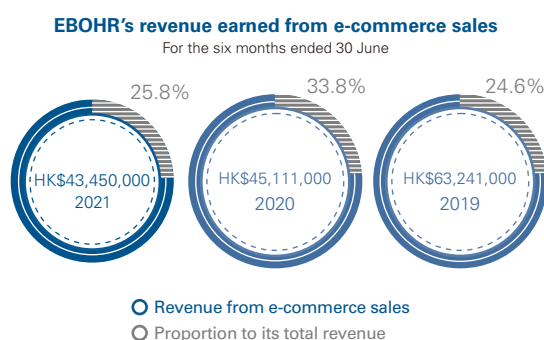
The ongoing of the COVID-19 keeps on bringing negative impact to the tourism industry. As a result, Rossini's industrial tourism business has been inevitably effected. With the COVID-19 was relatively under control in Mainland China since late 2020, domestic tourism has been gradually restored. The tourist number for the six months ended 30 June 2021 was approximately 30,000 (six months ended 30 June 2020: 10,000). Revenue was approximately HK\$2,343,000, representing an increase of approximately 20% over the corresponding period last year.

EBOHR Group

EBOHR Group is composed of EB Brand Limited, EBOHR Luxuries International Limited ("EBOHR") and its subsidiaries (the "EBOHR Group").

Revenue of EBOHR Group for the six months ended 30 June 2021 was HK\$168,447,000, an increase of HK\$34,883,000 or 26.1% from HK\$133,564,000 for the same period last year. Net profit after tax for the six months ended 30 June 2021 was HK\$4,306,000, compared with a loss of HK\$16,498,000 for the same period last year.

The rebound of the COVID-19 in 2021 continuously brought a negative impact to the entire economy in Mainland China, people remained cautious in their consumption, especially in non-essential goods, leading to overall decrease in demand for watches. In addition, the competition from smart-watches also exercised a strong pressure on traditional watch sales. Despite the business environment remains challenging, EBOHR still made some positive progress in the first half of 2021. Revenue from physical stores increased approximately 30% compared to the same period last year. The improvement was mainly due to successful brand building strategy. By making use of various TV channels in Mainland China and popular social platforms like Wechat and TikTok, as well as organizing various festival sales promotion, different forms of creative promotion strengthened the brand awareness of EBOHR among the markets, and hence resulting in a better performance.



On the other hand, revenue from e-commerce slightly decreased 3.7% compared to the same period last year. Although revenue from some e-commerce platforms recorded a huge improvement, the drop in revenue from the leading online platforms like Tmall, JD and Vipshop offset the overall performance, resulting the limited growth of e-commerce.

To further enhance the competitiveness of EBOHR, the R&D team put a lot efforts on the development of smart-watches. The target is to produce its own brand-new smart watch series, aiming to penetrate into the smart watch markets with promising growth potential. As the development of the COVID-19 is still not predictable in short term, EBOHR will keep imposing stringent control on labor's productivity and effectiveness to minimize the waste of resources.

The rapid growth of digital economy is changing consumer behavior, especially teenager groups demanding for individuality and diversity. Both Rossini and EBOHR Group are aggressively implementing strategies to enhance e-commerce. It is believed that the proportion of the e-commerce sales to revenue for both companies will increase and their contribution to the bottom-lines will also increase.

I.B Foreign Proprietary Brands



Ernest Borel Holdings Limited

The Group held 64.08% equity interest in Ernest Borel Holdings Limited (“Ernest Borel”, together with its subsidiaries, the “Ernest Borel Group”) as at 30 June 2021. Ernest Borel Group recorded revenue and net loss after tax for the six months ended 30 June 2021 of HK\$77,047,000 (six months ended 30 June 2020: HK\$36,627,000) and HK\$11,720,000 (six months ended 30 June 2020: HK\$7,839,000), respectively.

Mainland China remains as the core market of the Ernest Borel Group. Revenue from Mainland China was approximately HK\$75,111,000 for the six months ended 30 June 2021, accounting for approximately 97.5% of its total revenue.

The extensive distribution network of the Ernest Borel Group covers retail markets in Mainland China, Hong Kong, Macau, Southeast Asian countries, Europe and the US. As at 30 June 2021, the Ernest Borel Group had 808 POS, comprising 694 POS in Mainland China, 100 POS in Hong Kong, Macau and Southeast Asian countries and 14 POS in Europe, the US and India.

During the first half of 2021, the sales performance in Hong Kong, Macau and Southeast Asian countries were still heavily affected by the COVID-19. To increase revenue, the Ernest Borel Group continued to strengthen e-commerce sales in Mainland China. It launched specialized type watches and expanded special distribution channels such as duty-free shops and group customers business outlets opened in the Hainan Free Trade Zone. In addition, as the COVID-19 in Mainland China gradually relieved, the number of infections continued to decline. With the travel restriction control resulted in increasing domestic consumption, the revenue for the first half of 2021 was satisfactory, almost doubling the amount for the same period last year.

To reduce the impact of the COVID-19 on revenue, Ernest Borel Group applied different strategies. It optimized the price structure of watches, adjusted price downwards appropriately, and strived for market share of Swiss watches at different price levels. At the same time, it also optimized the customer profit margins by adjusting the supply chain, and reducing costs.

Ernest Borel Group will launch a series of marketing activities related to new brand spokespersons to strive for online and offline sales in Mainland China. It will continue to keep good relationship with distributors in Hong Kong, Macau and overseas countries for the expected recovery upon the release of the travel restrictions.

Other Foreign Proprietary Brands

Collectively, Corum, Eterna and The Dreyfuss Group Limited (the “Dreyfuss Group”) contributed revenue and net loss after tax for the period ended 30 June 2021 of HK\$93,970,000 (six months ended 30 June 2020: HK\$67,190,000) and HK\$30,095,000 (six months ended 30 June 2020: HK\$51,746,000), respectively.

All the markets, including the Swiss watches market, were still impacted by the COVID-19, the closure of many shops around the world and the shutdown of international tourism have taken a heavy toll on the “Swiss Made” watches industry. To minimize the effect of the crisis, Corum has drastically cut the expenses by reviewing all the contracts and negotiating with all suppliers, together with streamlining the unnecessary working procedure. In addition, the marketing strategy disclosed early last year got very positive feedbacks from the markets, retailers, clients and other stakeholders. The first prototypes of the Golden Bridge have been introduced during Watches & Wonders 2021. The collection has attracted customers and retailers expressed a clear acceptance of the product collection with certain models selling out before the pieces were actually produced. Corum also planned to focus on the Chinese market by developing new distribution channels and setting up some local events, and dedicated to these markets in the second half of 2021 to improve its financial results.

Eterna’s strongest markets remained in Europe, with growing interest in Asia, especially the Mainland China market, which became the most important export market for the Swiss watch industry. Within the US, there was a trend towards online sales. During the first half of 2021, Eterna mainly focused on clearing the inventories, which allowed Eterna to reach a sustainable positive cashflow. Generally, Eterna controlled all operating expenses to offset the decrease in revenue.

The COVID-19 also affected both activity and revenue of Eterna Movement. During the first half of 2021, it had limited production and sales because Switzerland had a partial lockdown from mid-December 2020 until mid-April 2021. Thus the revenue from movements and components were reduced accordingly. To overcome the impact from the low production level, Eterna Movement managed to cut most of its production costs in a higher ratio than the revenue reduction and succeeded in reducing the loss for the first half of 2021 compared to the same period last year.

The performance of the Dreyfuss Group was improved as a result of the slow recovery of both the UK and global economy from the COVID-19. Revenue increased approximately 48% compared to the same period last year. The UK is still the Dreyfuss Group's largest single market, representing approximately 78% of its total turnover for the six months ended 30 June 2021. During the period, the Dreyfuss Group worked closely with the UK major customers by building strong relationships through regular online meetings and providing desirable watches at compelling price to increase profitability. It also continued to develop strategic international markets, especially the Mainland China market, so as to lessen the dependence on the UK market. The sales of the subsidiary in Mainland China has grown 77% for the first half of 2021 compared with same period last year.

In addition, the Dreyfuss Group aims to gain a greater presence in online business by focusing on customer needs, as well as pushing exclusive orders to large specialist retailers. The Dreyfuss Group also recognizes the growing significance of social media in influencing consumption among young customers. It actively develops its marketing strategy via social media. By supporting the leading players in the UK e-commerce industry and developing segmented collections for them, the Dreyfuss Group aims to further broaden its customer base.

Backed by our competitive strengths and deep understanding of the needs of our customers, we will redeploy our resources to realize gains in efficiency and synergy and will build on the good progress we have made to provide long-term value.

I.C Non-proprietary Brands

Currently, the Group held four distribution companies. Collectively, distribution companies contributed revenue and net profit after tax for the period ended 30 June 2021 of HK\$122,320,000 (six months ended 30 June 2020: HK\$76,233,000) and HK\$1,733,000 (six months ended 30 June 2020: net loss after tax HK\$1,628,000) respectively.

I.D Others

Other non-major subsidiaries of the Group also engaged in other non-major categories of watch and timepieces businesses, which collectively contributed revenue and net loss after tax for the period ended 30 June 2021 of HK\$15,377,000 (six months ended 30 June 2020: HK\$11,268,000) and HK\$12,359,000 (six months ended 30 June 2020: HK\$9,566,000) respectively.

II.A Bendura Bank AG

Revenue of Bendura Bank AG (“Bendura Bank” or the “Bank”) for the period ended 30 June 2021 was HK\$168,213,000, a decrease of HK\$26,981,000 or 13.8% from HK\$195,194,000 for the same period last year. Net profit after tax attributable to owners of the Company for the period ended 30 June 2021 was HK\$8,684,000, representing a decrease of HK\$3,695,000 or 29.8% from HK\$12,379,000 for the same period last year.

Generally, the significantly lower net interest income contributed to lower revenue and net profit after tax.

Net income from interest and dividends decreased significantly by HK\$27,743,000 or 37.4% to HK\$46,468,000 for the first half of 2021 from HK\$74,211,000 for the same period last year. Lower interest rates shrank the Bank’s net interest margins and particularly the US Federal Reserve’s latest rate cuts to insulate the US economy against the COVID-19 fallout did hurt the Bank’s revenue very badly as a large portion of the Bank’s assets is denominated in US\$. In addition, the Bank continues to face negative interest rates in Swiss francs and euros.

As a positive consequence of the increased Asset under Management (AuM), net commission and fee income increased slightly by 13.9% to HK\$114,205,000 for the first half of 2021 from HK\$100,290,000 for the same period last year. The desire to rebalance the portfolio in the first half of 2021 also contributed to the increase in net commission and fee income.

Income from trading amounted to HK\$7,540,000, approximately HK\$13,153,000 or 63.6% below HK\$20,693,000 for the same period last year. This was mainly due to a negative valuation adjustment of HK\$11,138,000 resulting from a fund in liquidation in the trading portfolio.

Operating expenses amounted to HK\$147,765,000, slightly HK\$6,699,000 higher than HK\$141,066,000 for the same period last year. Although the general expenses decreased approximately 12%, it was being affected by 3% increase in personnel costs. In addition, as the most important marketing event of the Bank, i.e., the Polo Tournament, was cancelled due to the COVID-19, marketing costs, included in the operating expenses, were significantly lower.

As at 30 June 2021, a revision of HK\$1,453,000 to the carrying value of Wirecard AG notes to reflect the market value prevailing at the period end.

Against the challenges related to the COVID-19, the Bank recorded an inflow of Net New Money (NNM) of CHF260 million in the first six month of 2021, the AuM ending of CHF4,300 million in June 2021. The increase in AuM is undoubtedly a strong indicator of the sustainable profitability.

Total assets amounted to HK\$16,065,826,000, being HK\$1,014,098,000 more than HK\$15,051,728,000 as at 31 December 2020. Amounts due from clients increased to HK\$2,625,106,000 in June 2021 from HK\$2,463,225,000 in December 2020. Such increases were due to the gradual expansion of the mortgage portfolio and Lombard loans. These two segments of business would provide steady revenue and profit for the Bank, in spite of the general interest rate trend and ongoing strain caused by the COVID-19.

In addition to the growth of AuM and the balance sheet, a whole series of technical and organizational enhancements have been implemented or driven forward. In the process, the quality of service, performance, and IT security have been sustainably improved. As a result, the operation of the Bank has been developed steadily.

The latest e-Banking version went alive in May 2021. With the revised design, the handling is even more user friendly. Also the digitalization of the bank papers archives is progressing and enables rapid and registered access to archive data. Internal processes can thus be carried out much more quickly and also from the home office. This leads to a massive improvement in efficiency and reduction in the response time for customers and inquiries from authorities. Regardless of future pandemic development, almost all employees can work from their home as their hardware and software are sufficiently upgraded and hence the operation of all banking processes is ensured at the highest level.

As the Bank builds its extension, the entire IT network is renewed. The use of the latest technology combined with central configuration and monitoring systems allows efficient and secure management of the network components.

The Bank is continuously developing functions and processes to identify potential Anti-Money Laundering (AML) violations. In the first half of 2021, further procedures were established to recognize and check typical AML profiles so as to further strengthen the general compliance.

In the first half of 2021, the investment consulting team managed to work very well with the relationship managers and the team expanded the direct client contact with several key clients. The relationship managers and their clients were satisfied with the service of the investment consulting team and the performance achieved. The various special strategies (Asian Dragon, Eastern Eagle, ESG Panda, Lion Alternatives) were very well received, especially the Asian Dragon strategy.

The shell of the extension of the Bank was completed at the end of 2020. The construction team is working on the major renovation and finishing touches in 2021. Owing to the continuous adverse effects of the COVID-19, the formal opening ceremony is expected to be in early 2022.

Mr. Macro Lechthaler joined the Bank as the new member of the board of directors. The 47-years-old Swiss national has been a member of the board of directors of Schwyzer Kantonbank since 2016, chairing the audit committee and serving on the risk committee. With his substantial experience in banking and auditing, he would bring valuable expertise to the board of directors.

II.B Shun Heng Finance Holding (Hong Kong) Limited

The Group currently conducts securities and asset management businesses under the umbrella of Shun Heng Finance Holding (Hong Kong) Limited (“Shun Heng Finance Holding”), which is 60% owned by the Group. It comprises Shun Heng Securities Limited and Hong Kong Metasequoia Capital Management Limited.

For the period ended 30 June 2021, Shun Heng Finance Holding contributed revenue and net loss after tax attributable to owners of the Company of HK\$1,583,000 and HK\$1,245,000 respectively (six months ended 30 June 2020: HK\$3,917,000 and net profit after tax of HK\$3,475,000 respectively).

Shun Heng Securities Limited (“Shun Heng Securities”)

Shun Heng Securities Limited (“Shun Heng Securities”), a corporate licensed to conduct Type 1 (dealing in securities) regulated activity under the Securities and Futures Ordinance (the “SFO”), is mainly engaged in securities brokerage and margin businesses. In addition to the traditional brokerage business, Shun Heng Securities has actively seek opportunities to grow the underwriting business for bonds issued by Chinese enterprises.

During the first half of 2021, Shun Heng Securities assisted in the completion of a private equity US dollar bond underwriting project, with total issuance of of US\$100 million. From 1 January 2018 to 30 June 2021, Shun Heng Securities has successfully underwritten 11 bond projects with a cumulative amount of approximately US\$1.3 billion, achieving brand awareness in Hong Kong Market.

Hong Kong Metasequoia Capital Management Limited (“Metasequoia Capital”)

Hong Kong Metasequoia Capital Management Limited (“Metasequoia Capital”), a corporate licensed to conduct Type 4 (advisory on securities) and Type 9 (asset management) regulated activities under the SFO, is mainly engaged in asset management business.

Metasequoia Capital has launched two funds, namely Global Opportunities Fund and Stable Growth Fund. Global Opportunities Fund invests mainly in securities markets in Mainland China, Hong Kong and the US, with asset under management from US\$10.24 million initially to approximately US\$13.58 million as at 30 June 2021. The Stable Growth Fund invests in domestic CNY bond and reached asset under management of approximately US\$6.23 million as at 30 June 2021.

III.A Listed Equity Investment

Citychamp Dartong Company Limited

As at 30 June 2021, financial assets at fair value through other comprehensive income of the Group was HK\$457,749,000. HK\$122,779,000 was related to the listed equity investment in the equity share of Citychamp Dartong Company Limited (“Citychamp Dartong”). Citychamp Dartong is a company listed on the Shanghai Stock Exchange (Stock code: 600067) and engaged in real estate, enameled wire, banking and new energy. As at 30 June 2021, the Group owned 30,389,058 shares of Citychamp Dartong at the market price of RMB3.36 per share (equivalent to HK\$4.04 per share) with the fair value of HK\$122,779,000. The shares held by the Group accounted for 2.04% of the total issued share capital of Citychamp Dartong as at 30 June 2021. Such fair value accounted for 0.5% of the Group’s total assets.

The Group incurred a net loss on fair value change through other comprehensive income in investment in Citychamp Dartong of HK\$8,857,000 for the period ended 30 June 2021, as a result of decrease in the share price of Citychamp Dartong from RMB3.65 (equivalent to HK\$4.33) as at 31 December 2020 to RMB3.36 (equivalent to HK\$4.04) as at 30 June 2021.

This is the Group’s long-term investment due held for dividend yield and long-term capital gain. Given its substantial land bank for development and profitability of certain business segments, we are optimistic about the future prospects of Citychamp Dartong.

Min Xin Holdings Limited

Investment in Min Xin Holdings Limited (“Min Xin”) (Stock code: 222) was measured at fair value through other comprehensive income. The Company intends to hold the investment on a long-term basis.

Min Xin is a company engaged in financial services, securities trading, real estate development, toll road and manufacturing. As at 30 June 2021, the investment in Min Xin was HK\$334,970,000, i.e. 88,150,000 shares at the market price of HK\$3.8 per share as at 30 June 2021. Such fair value of the investment accounted for 1.5% of the Group’s total assets. The shares held by the Company accounted for 14.76% of the total issued share capital of Min Xin as at 30 June 2021.

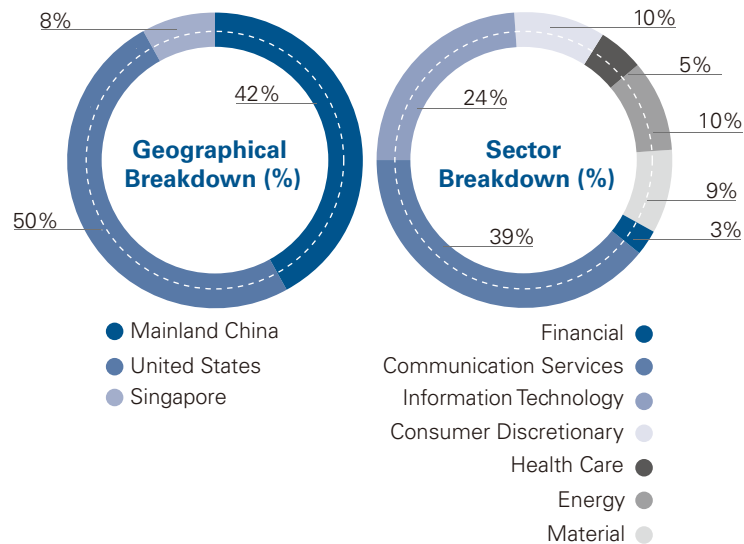
The Company incurred a net gain on fair value change in Min Xin’s investment of HK\$1,763,000 for the period ended 30 June 2021 (six months ended 30 June 2020: net loss of HK\$44,075,000), as a result of increase in the share price of Min Xin from HK\$3.78 as at 1 January 2021 to HK\$3.80 as at 30 June 2021. For the six months ended 30 June 2021, the Company’s dividend income from Min Xin was HK\$8,815,000.

III.B Property Investment

The property in Mainland China and Hong Kong owned by the Group have been leased out, with stable rental returns to the Group. During the period, these investment properties generated rental income of HK\$6,770,000 (six months ended 30 June 2020: HK\$4,056,000). Net profit after tax from the property investment business for the six months ended 30 June 2021 was HK\$6,196,000 (six months ended 30 June 2020: HK\$3,175,000).

III.C Other Marketable Securities

The Group has acted as the founder investor and invested US\$5.12 million in Metasequoia Investment Fund SPC – Global Opportunities Fund SP (the “Fund”) since 15 August 2017 in order to facilitate establishing the fund management business with an initial capital of US\$10.24 million. The rest of the fund was subscribed by other investors with the capital of US\$5.12 million. As of 30 June 2021, the total net asset value of the Fund was US\$13.58 million, composed of US\$2.47 million and US\$11.11 million for the Group and other investors respectively.



Headquarter and Other Subsidiaries

Losses from administrative expenses, finance costs and income tax of the headquarter and other non-major subsidiaries and/or non-major categories of businesses for the six months ended 30 June 2021 was HK\$51,895,000 (six months ended 30 June 2020: HK\$59,948,000).

FINANCIAL POSITION

(1) Liquidity, Financial Resources And Capital Structure

As at 30 June 2021, the Group had non-pledged cash and bank balances of approximately HK\$7,317,405,000 (31 December 2020: HK\$5,612,645,000). Based on the borrowings of HK\$913,136,000 (31 December 2020: HK\$1,564,822,000), due to a shareholder of HK\$12,000,000 (31 December 2020: HK\$12,000,000), due to directors of HK\$17,000,000 (31 December 2020: HK\$21,233,000), due to a related company of HK\$79,000,000 (31 December 2020: Nil) and shareholders' equity of HK\$4,273,064,000 (31 December 2020: HK\$4,418,679,000), the Group's gearing ratio (being borrowings plus due to a shareholder plus due to directors and due to a related company divided by shareholders' equity) was 24% (31 December 2020: 36%).

As at 30 June 2021, the Group's borrowings amounting to HK\$908,921,000 were repayable within one year, representing 99.5% of the total borrowings.

List of borrowings by currencies and by nature of interest rate and by duration

| Currency | Nature of interest rate | Duration with 1 year HK\$'000 | Duration with more than 1 year HK\$'000 |
|-----------------|--------------------------------|--|--|
| CHF | Floating | – | 4,215 |
| HKD | Floating | 346,000 | – |
| USD | Floating | 562,921 | – |
| | | <u>908,921</u> | <u>4,215</u> |

(2) Charge on Assets

As at 30 June 2021, the Group's borrowings were mainly secured by:

- corporate guarantee provided by certain subsidiaries within the Group;
- equity interest of certain subsidiaries within the Group; and
- a legal charge over the Group's land and buildings with the carrying amount of HK\$318,947,000 (31 December 2020: HK\$310,118,000).

(3) Capital Commitment

As at 30 June 2021, capital commitments were approximately HK\$270,000,000 in total (31 December 2020: HK\$270,000,000) for investment in an associate – Citychamp Allied International Limited and a property project.

Except for the above, the Group had no other material capital commitments as at 30 June 2021.

FINANCIAL REVIEW

(1) Total Assets

Total assets increased to HK\$22,181,605,000 as at 30 June 2021 from HK\$21,385,195,000 as at 31 December 2020.

Cash and deposits

| | 30 June 2021 | 31 December 2020 | Increase/ (decrease) Amount |
|-----------------------------------|-------------------------|---------------------|-----------------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cash and bank balance | 173,214 | 303,644 | (130,430) |
| Cash held on behalf of clients | 54,003 | 110,985 | (56,982) |
| Sight deposits with central banks | 7,090,188 | 5,198,016 | 1,892,172 |

Due from banks

| | 30 June 2021 | 31 December 2020 | Increase/ (decrease) Amount |
|---------------------------------|-------------------------|---------------------|-----------------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Due from banks on a daily basis | 3,586,784 | 5,229,597 | (1,642,813) |
| Due from banks other claims | 225,437 | 238,021 | (12,584) |
| Valuation adjustments | (543) | (1,358) | (815) |

(2) Investments

The investment as at 30 June 2021 included (a) trading portfolio investments of HK\$67,876,000; (b) derivative financial assets of HK\$39,712,000; (c) other financial assets at amortised cost of HK\$2,017,760,000; and (d) other financial assets at fair value through other comprehensive income of HK\$457,749,000 (the “Investments”).

(a) Trading portfolio investments of HK\$67,876,000

| | 30 June 2021 HK\$'000 | 31 December 2020 HK\$'000 |
|--|--------------------------------------|---------------------------------|
| Equity Instruments | | |
| Listed equity instruments in Hong Kong at market value | 583 | 649 |
| Listed equity instruments outside Hong Kong at market value | 8,456 | 4,522 |
| Total equity instruments | 9,039 | 5,171 |
| Debt instruments | | |
| Unlisted debt instruments of financial institutions | 6,012 | 12,938 |
| Investment fund units | | |
| Unlisted investment fund units | 46,403 | 55,843 |
| Investments in other financial products | 6,422 | 6,358 |
| Total trading portfolio investments | 67,876 | 80,310 |

It is the objective of the Group to maintain certain level of liquidity in the form of trading portfolio investments for unplanned capital expenditure. The liquidity is usually parked with the listed equities in order to generate short term return.

As at 30 June 2021, there were HK\$583,000 invested in a variety of listed equities in Hong Kong and HK\$8,456,000 invested in Mainland China and overseas markets.

The debt instruments of HK\$6,012,000 invested in the Mainland China by PRC company.

Trading assets of CHF1.8 million (equivalent to HK\$15,193,000) represents the single investment by Bendura Bank in the form of an unlisted investment fund. Bendura Bank acquired above trading assets from a professional counterparty in March 2019. The investment policy of Bendura Bank AG includes strict implementation of the investment process and is subject to constant review by the investment committee.

Investments in other financial products consist of the financial product investments of HK\$6,422,000 invested by Eternal Brands Limited, a subsidiary of the Group.

(b) Derivative financial assets of HK\$39,712,000

| | 30 June 2021 HK\$'000 | 31 December 2020 HK\$'000 |
|------------------------------|--------------------------------------|---------------------------------|
| Forward and option contracts | <u>39,712</u> | <u>29,224</u> |

In the derivative financial assets of HK\$39,712,000, there were forward and option contracts conducted by Bendura Bank.

Bendura Bank offers derivative products including currency forwards and swaps to its clients. These derivative positions were managed through entering back-to-back deals with external parties to ensure that remaining exposures are within acceptable risk levels. First-rate banks serve as counterparties, as is generally the case in trading business. It is not the objective of Bendura Bank to speculate the gain on the change in the price by conducting forward and option contracts without having invested in the underlying assets.

As at 30 June 2021, forward contracts of HK\$39,712,000 related to FX swaps were entered by Bendura Bank. Based upon risk/return considerations, client deposits denominated in foreign currencies were, in part, no longer invested on the interbank market but were swapped into Swiss francs using currency swaps and deposited with the Swiss National Bank (SNB). Income from the interest component of currency swaps exceeded the expense of SNB negative interest and the reduced level of interest from banks. During the first half of 2021, Bendura Bank recorded HK\$21,369,000 profits with FX swaps.

(c) *Other financial assets at amortised cost of HK\$2,017,760,000*

| | 30 June 2021 HK\$'000 | 31 December 2020 HK\$'000 |
|---|--------------------------------------|---------------------------------|
| Listed debt instruments, at amortised cost | | |
| Issued by: | | |
| Governments and public sector | 643,256 | 84,447 |
| Financial institutions | 926,759 | 1,053,351 |
| Corporations | 447,745 | 312,088 |
| | <u>2,017,760</u> | <u>1,449,886</u> |

Bendura Bank invested in listed debt instruments issued by government and public sector, financial institutions and corporations amounting to HK\$2,017,760,000. The portfolio was composed of 87 listed debt instruments with different maturity, geography, segment and currency and hence, diversification is ensured. Almost all listed debt instruments were considered upper-medium-grade and are subject to low credit risk. The average remaining term of the held-to-maturity investment is 1.8 years, while the modified duration of the portfolio is only 1.5%. Largest single investments are bonds issued by UK Treasury Bill (CHF51 million) and ESM Treasury Bill (CHF14 million). Both issuers are double-A rated. Risk concentration is analyzed and presented to the senior management on a monthly basis.

Relatively major listed debt instruments as at 30 June 2021 are as follows:

| Issuer | Nature of interest rate | Sector | Maturity date | Value (CHF'000) |
|--------------------------|------------------------------------|------------------------|----------------------|----------------------------|
| China Merchants Bank/Lux | Fixed | Financial corporations | 19 June 2022 | 5,500 |
| Abn Amro Bank Nv | Floating | Financial corporations | 19 July 2022 | 7,329 |
| Amazon.Com Inc | Fixed | Corporations | 12 May 2026 | 7,399 |
| Bank Of Nova Scotia | Floating | Financial corporations | 05 October 2022 | 8,288 |
| Intl Bk Recon & Develop | Fixed | Financial corporations | 19 March 2024 | 9,760 |
| Esm Tbill | Zero Coupon | General governments | 10 March 2022 | 14,335 |
| UK Treasury Bill | Zero Coupon | General governments | 09 August 2021 | 51,194 |
| Others | | | | 136,145 |
| | | | | <hr/> |
| Total | | | | 239,950 |
| | | | | <hr/> |
| Equivalent to HK\$'000 | | | | 2,017,760 |
| | | | | <hr/> <hr/> |

Collectively, listed debt instruments at amortised cost accounted for 9.1% of the Group's total assets.

As at 31 December 2020, Bendura Bank invested in listed debt instruments issued by government and public sector, financial institutions and corporations amounting to HK\$1,449,886,000. The portfolio was composed of 79 listed debt instruments with different maturity, geography, segment and currency and hence, diversification is ensured. Almost all listed debt instruments were considered upper-medium grade and are subject to low credit risk. The average remaining term of the held-to-maturity investment is 2.3 years. Largest single investments are bond issued by International Bank for Reconstruction and Development (CHF11 million) and followed by European Investment Bank (CHF9 million). Both are triple-A issuers. Risk concentration is analysed and presented to the senior management on a monthly basis.

Relatively major listed debt instruments as at 31 December 2020 are as follows:

| Issuer | Nature of interest rate | Sector | Maturity date | Value (CHF'000) |
|--------------------------|-------------------------|------------------------|------------------|-------------------------|
| Bank of Montreal | Fixed | Financial corporations | 22 December 2023 | 5,000 |
| China Merchants Bank/Lux | Fixed | Financial corporations | 19 June 2022 | 5,407 |
| Abn Amro Bank Nv | Floating | Financial corporations | 19 July 2022 | 7,071 |
| Deutsche Bank Ag | Floating | Financial corporations | 16 May 2022 | 7,566 |
| Bank of Nova Scotia | Floating | Financial corporations | 5 October 2022 | 8,166 |
| Intl Bk Recon & Develop | Fixed | Financial corporations | 19 March 2024 | 8,830 |
| European Investment Bank | Floating | Financial corporations | 24 March 2021 | 10,608 |
| Others | | | | <u>112,391</u> |
| Total | | | | <u>165,039</u> |
| Equivalent to HK\$'000 | | | | <u><u>1,449,886</u></u> |

(d) Other financial assets at fair value through other comprehensive income of HK\$457,749,000

| | 30 June 2021 HK\$'000 | 31 December 2020 HK\$'000 |
|---|-----------------------------|---------------------------------|
| Listed equity instruments in Hong Kong | 334,970 | 333,207 |
| Listed equity instruments outside Hong Kong | 122,779 | 131,636 |
| Unlisted equity investment | <u>–</u> | <u>5,951</u> |
| | <u>457,749</u> | <u>470,794</u> |

Listed equity instruments of HK\$122,779,000 related to investment in Citychamp Dartong and HK\$334,970,000 related to investment in Min Xin. Details of investments in Citychamp Dartong and Min Xin are set out on division III.A of this management discussion and analysis.

(3) Total Liabilities

Total liabilities increased to HK\$17,648,617,000 as at 30 June 2021 from HK\$16,648,968,000 as at 31 December 2020, mainly attributable to decrease in due to clients.

Due to clients

| | 30 June 2021 HK\$'000 | 31 December 2020 HK\$'000 | Increase/ (decrease) Amount HK\$'000 | % |
|---|--------------------------------------|---------------------------------|---|-----|
| Due to clients – precious metals | 137,366 | 130,119 | 7,247 | 5.6 |
| Other amounts due to clients, mainly bank deposits | 14,936,879 | 13,835,358 | 1,101,521 | 8.0 |

(4) Gross Profit from Non-banking and Financial Businesses

Gross profit from non-banking and financial businesses was HK\$460,459,000, an increase of HK\$153,483,000 or 50.0%.

(5) EBITDA

EBITDA was HK\$89,839,000, a increase of HK\$59,273,000 or 193.9%.

(6) Selling and Distribution Expenses

Total selling and distribution expenses was HK\$280,908,000, an increase of HK\$24,952,000 or 9.7%.

(7) Administrative Expenses

Total administrative expenses was HK\$346,067,000, an increase of HK\$13,445,000 or 4.0%.

(8) Share of Loss/Profit of Associates

The share of profit of Fair Future Industrial Limited (“Fair Future”), a 25% owned associate of the Group, was HK\$20,000 (six months ended 30 June 2020: share of loss HK\$1,071,000). Fair Future is one of the leading OEM quartz watch manufacturers in Mainland China.

(9) Finance Costs from Non-banking Business

Finance costs from non-banking business was HK\$39,000,000, representing a decrease of HK\$7,825,000 or 16.7%. It was composed of the interest charged on bank borrowings, bank overdrafts and lease liabilities.

(10) Net Loss Attributable to Owners of the Company

Net loss attributable to owners of the Company was HK\$27,396,000 (six months ended 30 June 2020: net loss attributable to owners of the Company of HK\$100,846,000).

(11) Inventories

Inventories was HK\$358,614,000, a decrease of 84.1% from HK\$2,255,553,000 as at 31 December 2020.

(12) Events after Reporting Period

As of the date of this report, the Group has no significant events after the reporting period required to be disclosed.

THE IMPACT OF THE COVID-19 ON THE GROUP

The COVID-19 was firstly reported in late 2019 and has been spreading throughout the world continuously til now. The COVID-19 has brought tremendous adverse impact on the supply and demand of a large number of industries and hence global economy generally. Sudden change of income and wealth as well as the psychological and emotional effect resulted in drop in demand of general consumption. Temporary or permanent closures of physical stores or shopping malls, owing to social distancing measures, lockdowns and travel restrictions, further deteriorated the general economy.

To overcome the adverse impacts of the COVID-19, the watch businesses have adopted a number of remediate actions, including implementation of employee optimization, operation cost control, investigation of new sales model, exploring new distribution channels such as e-commerce and new retailing tactics, shortening production time to increase inventory turnover, etc.

Starting from late 2020, with the development and implementation of the vaccine, it appeared that the COVID-19 was gradually under control all over the world. Mainland China has controlled the COVID-19 relatively satisfactorily and it has recorded noticeable economic recovery. However, the economic recovery of other countries is considered still weak but the medium-term forecast of the global economy is considered favorable.

The improved performance in our watch business in the first half of 2021 was a strong evidence of it. The COVID-19 led to greater opportunities in e-commerce as the customer behavior has been changed due to the social distancing measures. Our long-standing preparation efforts on e-commerce development has now become one of our important strategies for competition. With the improving demand when the economy is gradually recovered, it is believed that a satisfactory return will be achieved soon.

For banking business, the COVID-19 led to limited operation of Bendura Bank and reduction in client interaction which adversely affected its revenue last year. To overcome this situation, Bendura Bank pushed all digitalization projects for the employees to have full access to all necessary information when working at home. In May 2021, the revised design of e-Banking version came up, which enables rapid and registered access to archive data. This led to a massive improvement in efficiency and reduction in the response time for customers. In addition, Bendura Bank focused more on online marketing which improves the effectiveness in communication that leads to a closer relationship with its clients.

REVIEW OF FINANCIAL STATEMENTS

The audit committee of the Company (the “Audit Committee”) has reviewed the Group’s unaudited financial statements for the six months ended 30 June 2021. Based on this review and discussions with the management, the Audit Committee was satisfied that the unaudited financial statements for the six months ended 30 June 2021 were prepared in accordance with applicable accounting standards and fairly present the Group’s financial position and results for the six months ended 30 June 2021.

CORPORATE GOVERNANCE

The board of directors of the Company (the “Board”) committed to maintain a standard of corporate governance that is consistent with market practices. We believe that an appropriate mix of skills, experience and perspectives within the Board helps strengthen its effectiveness.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PERFORMANCE

Good Environmental, Social and Governance, or ESG, practices have always been an integral part of the Group’s business strategy and management approach. As a good corporate citizen, the Group committed to contributing to its different stakeholders by way of supporting the well-beings of our employees and their families, the community and society at large, and advocating environmental protection and efficient use of resources. We supported a wide range of charitable activities, with an emphasis on education and social welfare. We believe that it is worthwhile to support our community and helping businesses and individuals.

To adapt to the new requirements of the Listing Rules on ESG commencing from 2020, the Group has set up a working group responsible for the ESG issues, identifying the importance, reviewing the process, evaluating the effectiveness and strengthening of relevant disclosures.

RISK MANAGEMENT

We monitor our risks and uncertainties facing the Group and formulate and adopt appropriate risk management measures against each principal risk and uncertainty. In view of our increasing focus on private banking, fund management and securities trading business, risk management will continue to be of great importance for the Group. To cope with the legal risks of money laundering and tax fraud, Bendura Bank has enhanced the due diligence process on its customers, including review of their business models, economic activities and financial background.

OUTLOOK

The PRC leadership has successfully curbed the spread of the virus and has led the world in economic recovery. It implements good decision on monetary and fiscal stimuli which are lending support to a recovery of the Mainland China economy. Besides, Mainland China's "dual-circulation strategy" has boosted the domestic consumption further, reinforced the economic growth and opened more opportunities for both domestic and foreign companies.

The COVID-19 has accelerated the reshape of Mainland China's consumer and retail landscape with the next new normal being evolved. Key post-COVID-19 trends in Mainland China's consumer sector are as follows:

- Accelerated direct-to-consumer (D2C) strategies – Before the COVID-19, companies had already started beefing up their digital and omni-channel capabilities. This trend will continue at an accelerated pace in the second half of 2021, breaking down the silos between online and the traditional bricks and mortar retail businesses in order to ensure a smooth and seamless customer experience, both offline and online.
- Boosted use of social commerce – Innovative digital engagement models, such as live stream videos via online platforms like TikTok or Tmall, are increasingly being deployed to promote products and services. WeChat also provides a number of in-app commerce functionalities enabling direct business-to-consumer (B2C) interaction through micro-stores set up by retailers within the app, allowing users to make a variety of social media-driven purchases. Brand reputation is established more through word of mouth from key opinion leaders (KOL) or between consumers.

Online marketplaces are emerging as winners, supported by an increasing number of digitally savvy consumers that come to marketplaces.

As the post-COVID-19 new normal emerges, we leverage the key post-COVID-19 trend and to further strengthen our unique and comprehensive e-commerce strategies. In order to achieve competitiveness in the market, we are also increasingly investing in digital channels and technologies for more effective marketing of our watches and better customer experiences.

With long-term positive economic fundamentals, Mainland China is expected to remain one of the world's resilient and fundamentally sound market.

We believe that the proposed disposal of all watch businesses except Ernest & Borel represents a valuable opportunity for the Group to capitalize on the substantial cash inflow to strengthen the financial position of the Group by reducing the indebtedness, and focus on the organic growth of the banking and financial businesses, as well as the pursuit of potential business acquisitions.

Bendura Bank expands its online marketing into Google, LinkedIn and YouTube so as to target specific clients such as wealthy private individuals, medium-sized companies and intermediates.

It will maintain its existing strategy as a highly specialized niche player, meeting the needs of international clients by enlarging the advisory and investment services offering.

We continue the new mindset and take the COVID-19 as the most important opportunity and lesson that we should learn and improve from. Looking ahead, we would remain calm and apply courage and wisdom to take the strong headwind challenges.

EMPLOYEES AND REMUNERATION POLICY

Our sustained success would not be possible without the high levels of expertise, professionalism and commitment shown by our employees. As at 30 June 2021, the Group had approximately 4,300 full-time staff in Hong Kong and Mainland China and approximately 300 in Europe. The remuneration packages offered to the employees are determined and reviewed on an arm's length basis with reference to the market conditions and individual performance. The Group also provides other benefits to its employees, including year-end double pay, medical insurance and retirement benefits, and incentive bonuses are offered with reference to the Group's operating results and employee's individual performance. All employees of the Group in Hong Kong have joined the mandatory provident fund schemes. Employees of Group's subsidiaries in Mainland China also participate in social insurance scheme administrated and operated by local authorities and contributions are made according to the local laws and regulations.

INTERIM DIVIDEND

The Board has resolved not to distribute an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

SPECIAL DIVIDEND

At the extraordinary general meeting of the Company held on 25 March 2021, the independent shareholders of the Company have approved a special dividend of not less than HK\$0.13 per share to be declared and paid in the capital of the Company to the shareholders of the Company whose names appear on the register of members of the Company on the record date to be fixed by the Board of Directors of determining the dividend, which is subject to the completion of the very substantial disposal and connected transaction. Please refer to the paragraphs headed “Connected Transaction” below for details. The special dividend, if declared and paid, amounts to approximately HK\$570 million.

CORPORATE GOVERNANCE CODE

During the six months period ended 30 June 2021, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Listing Rules, except with the details disclosed below:

(1) CG Code E.1.2

CG Code E.1.2 stipulates that the chairman of the Board should attend the annual general meeting. The Chairman of the Board was unable to attend the annual general meeting of the Company held on 28 May 2021 (the “AGM 2021”) due to other business engagement.

(2) CG Code A.6.7

CG Code A.6.7 stipulates that independent non-executive directors of the Company (the “Independent Non-executive Director”) should attend general meetings. Two Independent Non-executive Directors did not attend the AGM 2021 due to travel restrictions under the COVID-19.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Company’s code of conduct for dealings in securities of the Company by the Directors. Based on specific enquiry of the Directors, the Directors have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2021.

CONNECTED TRANSACTION

On 16 December 2020, after trading hours, the Company (as the vendor), Tycoon Idea Global Limited (the “Purchaser”, which is an associate of Mr. Hon Kwok Lung and therefore connected person of the Company under the Listing Rules) and Sincere View International Ltd. (the “Purchaser’s Guarantor”) entered into the Sale and Purchase Agreement, pursuant to which the Company has conditionally agreed to sell, and the Purchaser has conditionally agreed to acquire, all the issued shares of (the “Sale Shares”) and the entire sum owing to the Company (the “Sale Loans”) by each of the following target companies: International Volant Limited, EB Brand Limited, Jia Cheng Investment Limited, Joyful Surplus International Limited, Sharptech International Limited, Unique Leader Limited and Sure Best Management Limited at consideration comprising (i) the consideration for the Sale Shares of HK\$1.5 billion; and (ii) the consideration for the Sale Loans of HK\$2.03 billion (being the face value of the Sale Loans as at 30 June 2020), to be paid by the Purchaser (or its nominee(s)) to the Company (or its nominee(s)), subject to adjustment at completion of the transaction. The gross proceeds to be received by the Company shall be HK\$3.53 billion, which will be settled in four stages by the Purchaser by (i) a cashier order issued by a licensed bank in Hong Kong, (ii) a banker’s draft drawn against a licensed bank in Hong Kong, (iii) by telegraphic transfer to the designated bank accounts of the Company (or its nominee(s)) or as the Company may direct in writing, or (iv) by such other method as the Purchaser and the Company agree in writing.

The above connected transaction was approved by independent shareholders at the extraordinary general meeting of the Company held on 25 March 2021. Pursuant to the terms of the Sale and Purchase Agreement, the completion of transaction is subject to the satisfaction or waiver (where applicable) of a number of conditions and, accordingly, may or may not proceed. The transaction is not yet completed up to the date of this announcement.

Details are set out in the announcements of the Company dated 16 December 2020, 25 March 2021 and 27 June 2021 and circular of the Company dated 25 February 2021.

BOARD COMMITTEES

Audit Committee

The Audit Committee currently comprises following members:

Independent Non-executive Directors

Kam, Eddie Shing Cheuk (*Committee Chairman*)

Kwong Chun Wai, Michael

Zhang Bin

Li Ziqing

During the period under review, the Audit Committee met with the Company's external auditor, the Board and senior management. The Audit Committee reviewed the financial reporting and other information to Shareholders (including a review of the unaudited financial statements for the six months ended 30 June 2021), the works done by internal audit for the reporting period and performed other duties set out in the terms of reference. The Audit Committee also reviewed the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters with the Board and senior management.

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") currently comprises following members:

| <i>Independent Non-executive Directors</i> | <i>Executive Directors</i> |
|---|----------------------------------|
| Kam, Eddie Shing Cheuk (Committee Chairman) | Hon Kwok Lung Shang Jianguang |
| Kwong Chun Wai, Michael Zhang Bin Li Ziqing | |

The Remuneration Committee makes recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The Remuneration Committee also makes recommendations to the Board on the remuneration packages of individual Executive Directors and senior management. The Remuneration Committee ensures that no Director or any of his/her associates is involved in deciding his/her own remuneration.

Nomination Committee

The nomination committee of the Company (the "Nomination Committee") currently comprises following members:

| <i>Executive Directors</i> | <i>Independent Non-executive Directors</i> |
|---|---|
| Hon Kwok Lung (Committee Chairman) Shang Jianguang | Kwong Chun Wai, Michael Zhang Bin Kam, Eddie Shing Cheuk Li Ziqing |

The principal duties of the Nomination Committee are to review the structure, size, composition and diversity (including but not limited to gender, age, cultural and educational background, independence from or relationship with other members of the Board, experience (professional or otherwise), skills, knowledge and length of service) of the Board, identify and nominate individuals suitably qualified to become board members and make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors. The Nomination Committee also develops, maintains and reviews the board diversity policy. The Nomination Committee is also responsible for assessing the independence of Independent Non-executive Directors.

Risk Management Committee

The risk management committee of the Company (the “Risk Management Committee”) currently comprises following members:

Executive Directors

Sit Lai Hei (*Committee Chairman*)

Shi Tao

Lam Toi Man

Bi Bo

The principal duties of the Risk Management Committee are to evaluate and determine the risk appetite that the Group is willing to take in achieving its strategic objectives, to oversee the Group’s risk management system on an ongoing basis and conduct a review on the effectiveness of the system at least once annually, and to identify significant risks to which the Group is exposed and develop plans and measures to management or mitigate such significant risks.

BUY-BACK, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2021, the Company did not buy back any Company’s listed shares (whether on the Stock Exchange or otherwise).

SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDER OF THE COMPANY

On 16 July 2019, the Company and a syndicate of banks (the “Syndicated Banks”) entered into a facility agreement (the “Syndicated Loan Agreement”), with Hang Seng Bank Limited (“Hang Seng”) as the mandated lead arranger, pursuant to which the Syndicated Banks have agreed to grant a term loan facility in the amount up to US\$150,000,000 (the “Syndicated Loan”) to the Company for a term of 36 months.

Pursuant to the Syndicated Loan Agreement, it will be an event of default if (1) Mr. Hon Kwok Lung (“Mr. Hon”) together with his direct family members and Ms. Sit Lai Hei (the “Hon Family”) fail to maintain (i) directly or indirectly, at least 60% of the beneficial shareholding interest in the issued share capital of the Company; or (ii) control over the management and business of the Company and its subsidiaries (excluding Bendura Bank AG and its subsidiaries and Shun Heng Finance Holding (Hong Kong) Limited and its subsidiaries; or (2) Mr. Hon (or another member of the Hon Family) is not the chairman of the Board. On and at any time after the occurrence of such event which is continuing, Hang Seng as the agent may, and shall if so directed by the Syndicated Banks whose commitments aggregate $66\frac{2}{3}\%$ or more of the total commitment, by notice to the Company, (i) cancel the commitments (and reduce them to zero); (ii) declare that all or part of the Syndicated Loan, together with accrued interest, and all other amounts accrued or outstanding be immediately due and payable; (iii) declare that all or part of the Syndicated Loan be payable on demand; and/or (iv) exercise or direct Hang Seng as the security agent to exercise any or all of its rights, remedies, powers or discretions under the Syndicated Loan Agreement.

Details are set out in the announcement of the Company dated 16 July 2019.

PUBLICATION OF 2021 INTERIM RESULTS AND 2021 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The 2021 interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.irasia.com/listco/hk/citychamp and www.citychampwj.com), and the 2021 Interim Report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

APPRECIATION

Our financial performance and strategic moves reflected the joint efforts of the Board and management in successfully pursuing our mission. Our performance could not have achieved without the leadership of the Board and our management team. I would like to express my deep gratitude to our employees, customers, suppliers, bankers, professional consultants, business partners, and Shareholders for their support.

By Order of the Board
Citychamp Watch & Jewellery Group Limited
Fong Chi Wah
CFO & Company Secretary

Hong Kong, 30 August 2021

As at the date of this announcement, Mr. Hon Kwok Lung, Mr. Shang Jianguang, Mr. Shi Tao, Mr. Lam Toi Man, Mr. Bi Bo, Ms. Sit Lai Hei, Mr. Hon Hau Wong and Mr. Teguh Halim are the executive directors of the Company, and Dr. Kwong Chun Wai Michael, Mr. Zhang Bin, Mr. Kam, Eddie Shing Cheuk and Mr. Li Ziqing are the independent non-executive directors of the Company.