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ORIENTAL WATCH HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(the “Company”)

(Stock Code: 398)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

The Board of Directors of Oriental Watch Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2016 together with the comparative figures for the corresponding period in 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2016

		(Unaudited)	
		Six months ended	
	NOTES	30 September 2016	30 September 2015
		HK\$'000	HK\$'000
Revenue		1,545,049	1,570,000
Cost of goods sold		(1,308,407)	(1,329,028)
Gross profit		236,642	240,972
Other income, gains and losses		20,652	19,431
Distribution and selling expenses		(93,792)	(97,352)
Administrative expenses		(152,155)	(154,798)
Finance costs		(3,120)	(5,093)
Share of results of associates		1,240	342
Share of results of joint ventures		(865)	1,123
Profit before taxation	4	8,602	4,625
Income tax expense	5	(4,481)	(2,109)
Profit for the period		4,121	2,516

		(Unaudited)	
		Six months ended	
	30 September	30 September	
<i>NOTES</i>	2016	2015	
	HK\$'000	HK\$'000	
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations	(9,525)	(16,853)	
Change in fair value of available-for-sale financial assets	163	(133)	
	<u></u>	<u></u>	
Other comprehensive expense for the period	(9,362)	(16,986)	
	<u></u>	<u></u>	
Total comprehensive expense for the period	(5,241)	(14,470)	
	<u></u>	<u></u>	
Profit (loss) for the period attributable to:			
Owners of the Company	4,345	2,647	
Non-controlling interests	(224)	(131)	
	<u></u>	<u></u>	
	4,121	2,516	
	<u></u>	<u></u>	
Total comprehensive expense for the period attributable to:			
Owners of the Company	(5,083)	(14,272)	
Non-controlling interests	(158)	(198)	
	<u></u>	<u></u>	
	(5,241)	(14,470)	
	<u></u>	<u></u>	
Earnings per share	7		
— Basic	0.76 HK cents	0.46 HK cent	
	<u></u>	<u></u>	
— Diluted	7 0.76 HK cents	0.46 HK cent	
	<u></u>	<u></u>	

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2016

		(Unaudited) 30 September 2016 HK\$'000	(Audited) 31 March 2016 HK\$'000
	NOTES		
Non-current assets			
Property, plant and equipment	8	216,439	228,867
Deposits for acquisition of property, plant and equipment		2,477	7,072
Interests in associates		38,632	35,150
Interests in joint ventures	9	25,453	114,806
Available-for-sale financial assets		5,688	5,525
Deferred tax assets		91	114
Property rental deposits		30,776	45,738
		<u>319,556</u>	<u>437,272</u>
Current assets			
Inventories		1,437,694	1,569,528
Trade and other receivables	10	155,885	117,085
Taxation recoverable		5,497	5,893
Bank balances and cash		535,433	403,804
		<u>2,134,509</u>	<u>2,096,310</u>
Assets classified as held for sale	11	<u>16,615</u>	<u>—</u>
		<u>2,151,124</u>	<u>2,096,310</u>
Current liabilities			
Trade and other payables	12	148,601	156,754
Taxation payable		3,472	681
Bank loans	13	124,633	156,178
		<u>276,706</u>	<u>313,613</u>
Liabilities associated with assets classified as held for sale	11	<u>11,480</u>	<u>—</u>
		<u>288,186</u>	<u>313,613</u>
Net current assets		<u>1,862,938</u>	<u>1,782,697</u>
Total assets less current liabilities		<u>2,182,494</u>	<u>2,219,969</u>

		(Unaudited) 30 September <i>NOTES</i> 2016 <i>HK\$'000</i>	(Audited) 31 March 2016 <i>HK\$'000</i>
Non-current liabilities			
Bank loans	13	29,195	60,460
Deferred tax liabilities		<u>2,394</u>	<u>1,937</u>
		<u>31,589</u>	<u>62,397</u>
Net assets		<u>2,150,905</u>	<u>2,157,572</u>
Capital and reserves			
Share capital	14	57,061	57,061
Reserves		<u>2,092,948</u>	<u>2,099,457</u>
Equity attributable to owners of the Company		2,150,009	2,156,518
Non-controlling interests		<u>896</u>	<u>1,054</u>
Total equity		<u>2,150,905</u>	<u>2,157,572</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2016

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2016 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 March 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to HKAS(s) and Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are mandatorily effective for the current interim period.

Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKAS 27	Equity method in separate financial statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 — 2014 cycle

The application of the above amendments to HKFRSs in the current interim period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

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

The Group has two operating segments, which are analysed based on geographical markets of the goods sold, being (a) Hong Kong, and (b) Taiwan, Macau and the People's Republic of China (the "PRC"), which is also the basis of organisation of the Group for managing the business operations. The Group determines its operating segments based on the internal reports reviewed by the Managing Director of the Group that are used to allocate resources and assess performance. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

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

	Revenue		Results	
	Six months ended		Six months ended	
	30 September		30 September	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,131,333	1,160,853	28,176	30,428
Taiwan, Macau and the PRC	413,716	409,147	(4,601)	(14,768)
	<u>1,545,049</u>	<u>1,570,000</u>	<u>23,575</u>	<u>15,660</u>
Unallocated other income			849	551
Unallocated corporate expenses			(13,077)	(7,958)
Finance costs			(3,120)	(5,093)
Share of results of associates			1,240	342
Share of results of joint ventures			(865)	1,123
Profit before taxation			<u>8,602</u>	<u>4,625</u>

Segment profit represents the profit before taxation earned by each segment without allocation of finance costs, share of results of associates and joint ventures and unallocated other income and corporate expenses. Unallocated other income include interest income. Unallocated corporate expenses include auditor's remuneration, directors' emoluments, loss on disposal of property, plant and equipment and corporate operating expenses. This is the measure reported to the Managing Director of the Company for the purposes of resources allocation and performance assessment.

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

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

	30 September 2016 HK\$'000	31 March 2016 HK\$'000
Hong Kong	1,166,200	1,246,569
Taiwan, Macau and the PRC	676,605	721,173
Segment total	1,842,805	1,967,742
Unallocated	627,875	565,840
Total assets	2,470,680	2,533,582

4. PROFIT BEFORE TAXATION

	Six months ended 30 September 2016 HK\$'000	30 September 2015 HK\$'000
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Profit before taxation has been arrived at after charging:

Depreciation of property, plant and equipment	11,725	17,021
Directors' remuneration	7,228	6,487
Loss on disposal of property, plant and equipment	6,178	48
Net exchange losses	—	2,186

and after crediting:

Interest income	849	551
Net exchange gain	35	—

5. INCOME TAX EXPENSE

Six months ended	
30 September 2016 HK\$'000	30 September 2015 HK\$'000

The charge (credit) comprises:

Hong Kong Profits Tax		
— Current period	1,494	1,491
— Under-provision in prior years	2,731	—
	4,225	1,491
Taxation in other jurisdictions	(16)	340
	4,209	1,831
Deferred taxation	272	278
	4,481	2,109

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both periods.

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

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25%.

6. DIVIDEND

During the current interim period, a final dividend of 0.25 HK cent per share, totalling HK\$1,426,000, in respect of the year ended 31 March 2016 (2015: 0.25 HK cent per share, totalling HK\$1,426,000) was approved at the annual general meeting held on 24 August 2016.

On 23 November 2016, the directors resolved to declare an interim dividend of 0.20 HK cent per share in respect of the six months ended 30 September 2016, totalling HK\$1,141,000 (2015: 0.1 HK cent per share, totalling HK\$570,000), to be paid in cash to those shareholders whose names appear on the Company’s register of members on 14 December 2016.

7. EARNINGS PER SHARE

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

	Six months ended	
	30 September	30 September
	2016	2015
	HK\$'000	HK\$'000
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the period attributable to owners of the Company)	<u>4,345</u>	<u>2,647</u>
	Number of shares	
	Six months ended	
	30 September	30 September
	2016	2015
	HK\$'000	HK\$'000
Number of shares		
Number of ordinary shares for the purpose of basic and diluted earnings per share	<u>570,610,224</u>	<u>570,610,224</u>

The diluted earnings per share for both periods has not included the effect from the Company's share options because the exercise prices of the share options are higher than the average market price of the shares of the Company.

8. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 September 2016, the Group incurred expenditure of approximately HK\$5,960,000 (six months ended 30 September 2015: HK\$9,706,000) to acquire property, plant and equipment for its operation. During the period, the Group disposed certain property, plant and equipment with carrying amount of approximately HK\$6,178,000 (six months ended 30 September 2015: HK\$48,000) resulting a loss on disposal of approximately HK\$6,178,000 (six months ended 30 September 2015: HK\$48,000).

The Group has pledged certain land and buildings with an aggregate carrying value of approximately HK\$92,498,000 (31 March 2016: HK\$93,654,000) to a bank to secure the bank loan facilities granted to the Group.

9. INTERESTS IN JOINT VENTURES

	30 September 2016 HK\$'000	31 March 2016 HK\$'000
Cost of investments in unlisted joint ventures	21,807	21,807
Exchange adjustment	(1,122)	(588)
Share of post-acquisition profits	21,383	22,248
	<u>42,068</u>	<u>43,467</u>
Amount due from a joint venture (<i>note</i>)	—	71,339
Transfer to assets classified as held for sale (<i>note 11</i>)	(16,615)	—
	<u>25,453</u>	<u>114,806</u>

Note: As at 31 March 2016, the amount was due from Hei Tung Watches Company Limited (“Hei Tung”), which was unsecured, interest-free and had no fixed repayment term. The Group expected the amount would be settled after twelve months from the end of the reporting period and therefore classified the amount as a non-current asset as at 31 March 2016. During the six months period ended 30 September 2016, the Group received repayments of amount due from Hei Tung of HK\$71,339,000, which included amount of HK\$66,839,000 which has been assigned to Smart Group Limited (“Smart Group”), an independent third party, with a deed of assignment of loan completed on 7 September 2016 (see note 11).

10. TRADE AND OTHER RECEIVABLES

	30 September 2016 HK\$'000	31 March 2016 HK\$'000
Trade receivables	117,701	88,852
Receivable from a joint venture (<i>note</i>)	—	5,185
Prepayments for promotion event	3,415	—
Property rental and utilities deposits	26,928	16,530
Advances to other suppliers	1,229	489
Value-added tax recoverable	2,576	2,610
Other receivables	4,036	3,419
	<u>155,885</u>	<u>117,085</u>

Note: The amount represented reimbursements receivable from a joint venture under a procurement arrangement (see note 16).

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

	30 September 2016 HK\$'000	31 March 2016 HK\$'000
Age		
0 to 30 days	110,437	85,873
31 to 60 days	6,361	1,158
61 to 90 days	4	180
Over 90 days	899	1,641
	<u>117,701</u>	<u>88,852</u>

11. ASSETS CLASSIFIED AS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS CLASSIFIED AS HELD FOR SALE

On 7 September 2016, Keen Time Enterprises Limited (“Keen Time”), a wholly-owned subsidiary of the Company (as vendor), entered into an agreement with Smart Group, pursuant to which Smart Group will acquire 45% interest of Hei Tung, and the amount due from Hei Tung of HK\$66,839,000 from the Group at a total consideration of HK\$83,240,000. During the period, HK\$78,319,000 was received and HK\$66,839,000 was in relation to a deed of assignment of loan for the amount due from Hei Tung amounting to HK\$66,839,000 which was completed on 7 September 2016, and the remaining amount of HK\$11,480,000 represent deposit for transfer of equity interest in the joint venture, which was pending completion as at 30 September 2016. At the end of the reporting period, the interest in Hei Tung amounting to HK\$16,615,000 and the deposit received for disposal of Hei Tung amounting to HK\$11,480,000 have been classified as assets held for sale and liabilities associated with assets classified as held for sale. The remaining balance of the consideration will be paid upon completion of the disposal.

Pursuant to the agreement relating to the disposal, the parties will evaluate the net assets of Hei Tung as at 31 August 2016 and adjust the aforesaid consideration accordingly. The transaction has been completed on 17 November 2016.

The major classes of asset and liability of the interests in Hei Tung at the end of the reporting period are as follows:

	30 September 2016 HK\$'000
Asset classified as held for sale	
Interests in a joint venture	<u>16,615</u>
Liability associated with assets classified as held for sale	
Deposit received for disposal of an interest in a joint venture	<u>11,480</u>

12. TRADE AND OTHER PAYABLES

	30 September 2016 HK\$'000	31 March 2016 HK\$'000
Trade payables	108,108	102,881
Payroll and welfare payables	6,783	6,638
Commission payables	6,504	4,328
Advances from customers	3,077	12,611
Renovation work payables	1,880	3,163
Value-added tax and other taxes payables	11,007	8,631
Advertising fee payables	3,948	3,666
Interest payables	—	208
Property rental fee payables	—	7,425
Other payables	7,294	7,203
	<u>148,601</u>	<u>156,754</u>

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

	30 September 2016 HK\$'000	31 March 2016 HK\$'000
Age		
0 to 60 days	91,749	91,816
61 to 90 days	3,563	127
Over 90 days	12,796	10,938
	<u>108,108</u>	<u>102,881</u>

13. BANK LOANS

During the six months ended 30 September 2016, the Group obtained bank loans amounting to HK\$30,360,000 (six months ended 30 September 2015: HK\$100,000,000). The loans carried interest at variable rate of HIBOR plus 1.8% and was repayable over three years up to 2018.

14. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 April 2015, 31 March 2016 and 30 September 2016	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2015, 31 March 2016 and 30 September 2016	<u>570,610,224</u>	<u>57,061</u>

15. SHARE-BASED PAYMENT TRANSACTION

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

(i) 2003 Share Option Scheme

Details of specific categories of options are as follows:

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

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

The following tables disclose movements of the Company's share options held by directors, employees and consultants during the six months ended 30 September 2016 and 30 September 2015:

Share options granted on 6 April 2011

Categories of participants	Number of share options outstanding at 1 April 2015, 31 March 2016 and 30 September 2016
Directors of the Company	14,520,000
Other employees	14,400,000
Consultants (<i>note b</i>)	<u>2,640,000</u>
Total	<u><u>31,560,000</u></u>

Share options granted on 29 August 2011

Categories of participants	Number of share options outstanding at 1 April 2015, 31 March 2016 and 30 September 2016
Other employees	18,000,000
Consultants (<i>note b</i>)	<u>5,000,000</u>
	<u><u>23,000,000</u></u>

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

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

No option was exercised or lapsed under the 2003 Share Option Scheme during the six months ended 30 September 2016 and 30 September 2015.

(ii) 2013 Share Option Scheme

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

No option was granted, exercised or lapsed under the 2013 Share Option Scheme during each of the six months ended 30 September 2016 and 30 September 2015 since its effective date on 3 November 2013 and there was no outstanding share option as at 30 September 2016.

During the six months ended 30 September 2016 and 30 September 2015, no share-based payment expense was recognised in relation to share options granted by the Company.

16. RELATED PARTY TRANSACTIONS

The compensation of key management personnel which represents the directors of the Company is disclosed in note 4.

In addition, in April 2012, the Group entered into a procurement agreement with Hei Tung, a company incorporated in Macau and a joint venture of the group. Pursuant to the procurement agreement, the Group provides procurement services to the joint venture relating to supply of watches and spare parts for no consideration. The procurement agreement is effective from 1 April 2012. At 31 March 2016, reimbursement receivable from Hei Tung amounted to HK\$5,185,000 (30 September 2016: nil).

17. CONTINGENT LIABILITIES

As at 30 September 2016, the Group issued financial guarantees to banks in respect of banking facilities granted to associates. The aggregate amount that may be required to be paid if the guarantees are called upon in entirety amounting to NT\$200,000,000 (equivalent to HK\$49,522,000; 31 March 2016: NT\$200,000,000 and equivalent to HK\$47,600,000), which was fully utilised by these associates at 30 September 2016. In the opinion of the directors, the fair value of the financial guarantee contracts at the grant date and at 31 March 2016 and 30 September 2016 is not significant as the default risk of associates is considered as low.

18. CAPITAL COMMITMENTS

	30 September 2016 <i>HK\$'000</i>	31 March 2016 <i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>500</u>	<u>1,000</u>

INTERIM DIVIDEND

The directors have proposed pay an interim dividend of 0.2 HK cent per share (2015: 0.1 HK cent) in respect of the six months ended 30 September 2016, totalling HK\$1,141,000 (2015: HK\$570,000), to be paid in cash to the shareholders whose names appear on the register of the members of the Company on 14 December 2016. Dividend warrants will be sent to the shareholders on or before 22 December 2016.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 12 December 2016 to 14 December 2016 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed interim dividend which will be payable on 22 December 2016, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 9 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Results

On behalf of the Board of Directors (the "Board") of Oriental Watch Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group"), I hereby present the unaudited consolidated results of the Group for the six months ended 30 September 2016 (the "Period").

Over the past few months, the overall business environment of the luxury sector in Hong Kong remained stagnant, yet the China market underwent slow recovery. As a result, the Group's turnover for the Period slightly decreased by 2% to HK\$1,545 million (2015: HK\$1,570 million). Gross profit decreased by 2% to HK\$237 million (2015: HK\$241 million). Moreover, the Group recorded a net profit attributable to owners of the Company of HK\$4 million during the Period (2015: net profit of HK\$3 million) and aimed at achieving a turnaround from the mediocre results in the second half of 2015/16 financial year. Although the Group has better performance with effective internal control measure, it still suffered from the following factors during the Period: (1) the decrease in Mainland China tourists in Hong Kong and Macau; and (2) high rental cost from previous leasing contracts in Hong Kong.

To show our appreciation for shareholders' continuous support, the Board has resolved to recommend an interim dividend of 0.2 HK cent per share for the six months ended 30 September 2016 (2015: 0.1 HK cent).

Business Review

As at 30 September 2016, the Group operates 69 retail and wholesale points (including associate retail stores) in the Greater China region. Breakdown by geographic region is as follows:

	As at 30 September 2016
Hong Kong	13
Macau	1
China	52
Taiwan	3
Total	69

In 2016, China's economy has been performing steadily. According to the National Bureau of Statistics of China, the country's gross domestic product ("GDP") growth rate has sustained at the stable level of 6.7% for the past three quarters, meeting the market's expectation. At the same time, comparing to the same period last year, the accumulated national-wide per capital income in the third quarter of 2016 has increased by 6.3%. The continuous increase in disposable income stimulated China's retail market, thus subsequently benefitting the Group's business in China in general. As a result, the Group's same-store-sales growth in China has achieved a 26% increase during the Period. However, for Hong Kong's retail market, it has been bleak and continuously affected by a number of factors. Chinese tourists changed their destination preference to Japan, Korea and other European countries due to favourable exchange rates and the relaxation of visa policies. Meanwhile, the after effect of social movements remained and the tension between Hong Kong and Mainland China persisted. These factors have deterred Mainland visitors to travel to Hong Kong. According to the monthly report on visitor arrival statistics by the Hong Kong Tourism Board, the number of Mainland tourists visiting Hong Kong from January to August 2016 decreased by 9.2% when compared to the same period last year. Additionally, under the weak macroeconomic condition, the local customers are very cautious and conserved in their consumption pattern. All the above factors collectively dampened the Hong Kong luxury retail market. In light of the above circumstance, Oriental Watch, as a traditional luxury watches company with extensive foothold in Hong Kong and Greater China, will proactively restructure its product portfolio to combat challenges arise from the volatile market, at the same time, implement strict cost control measures and enhance operating efficiency in order to maintain sustainability in the long run.

For the implementation of stringent cost control, lowering high rental cost has been the Group's priority since 2014. The Group believes that positive outcomes have been gradually reflecting. During the Period, the Group's aggregate rental cost (excluding related property management fees) increased by 3% to HK\$114 million, accounting for 45% of the Group's overall operating expenses (2015: 43%). Over the past few months, the Group has been actively negotiating better rental rate for the upcoming lease renewal and has successfully lowered certain amount of rental cost. The Group has faith that these successful negotiations will have a favourable financial impact to the whole fiscal year. In addition, regular internal assessment on the performance of all retail stores and closedown of high-rent yet non-performing stores are also the Group's cost-cut measures, aiming to achieve better resources allocation and alleviate financial burden. During the Period, the Group has closed down one store in Hong Kong, as well as selling our joint venture business in Macau to maintain overall profitability. The Group will continue to closely monitor the store performance and its efficiency and hope the above measures can maintain average store profitability in the forthcoming years.

During the Period, the Group has also employed policies on inventory management to ensure stable cashflow and healthy financial position. Policies included monitoring inventory level of high-ticket products and purchasing stocks only when existing inventory depletes to a pre-agreed level. With the hard work and determination from all staff, the Group's inventory level has successfully been maintained at a reasonable level. As at 30 September 2016, the Group's overall inventory level amounted to HK\$1,438 million, decreasing by 8% from HK\$1,570 million as at 31 March 2016. In the second half of the year, the Group will continue to maintain a steady inventory level for a better cash position and a sustainable business development in the future.

In terms of the overall Swiss watch exports value market in September 2016, the China watch market remained stable; while the Hong Kong's export value declined by 39.6%, representing the biggest contraction over the last twenty months. The above indicated that the business environment for the Hong Kong retail market, especially for luxury watches sector, will continue to be harsh and unstable. Propelling forward, the Group will strive in cautiously controlling all costs and expenses, at the same time, adjusting products portfolio and monitoring inventory level, so as to maximise overall profitability under such volatile circumstance. The Group will also continue to streamline its business operations and optimize its resources. As an experienced luxury watch retailer in the industry, Oriental Watch is ready to face the upcoming adversity, at the same time, to embrace different opportunities ahead and strive to maximize returns for our shareholders.

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

Liquidity and financial resources

At 30 September 2016 the Group's total equity reached HK\$2,151 million, compared with HK\$2,158 million as at 31 March 2016. The Group had net current assets of HK\$1,863 million, including bank and cash balances of HK\$535 million as at 30 September 2016 compared with balances of HK\$1,783

million and HK\$404 million respectively as at 31 March 2016. At 30 September 2016 bank loans of HK\$154 million (31 March 2016: HK\$217 million). At 30 September 2016, the gearing ratio (defined as total bank borrowing on total equity) was 0.7 (31 March 2016: 0.10).

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

Foreign exchange exposure

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

STAFF AND EMPLOYMENT

As at 30 September 2016, the Group employed a total work force of about 620 staff. The staff turnover rate is low. The Group's policy is to review its employee's pay levels and incentive bonus.

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

During the six months ended 30 September 2016, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities on the Stock Exchange of Hong Kong Limited.

CORPORATE GOVERNANCE

The Company is committed to the establishment of good governance practices and procedures. The Company has met the code provisions set out in the Code on Corporate Governance Practices ("CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"), throughout the six months ended 30 September 2016, except the deviation from the code provision A.4.1 of the CG Code.

Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. However, the Independent Non-executive Directors were not appointed for a specific term but are subject to retirement by rotation in annual general meeting of the Company in accordance with the Bye-laws of the Company. The management of the Company considered that there is no imminent need to revise the letter of appointment of Independent Non-executive Directors by adding a specific term in the letter of appointment.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Enquiry has been made with all Directors and all Directors have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 September 2016.

AUDIT COMMITTEE

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

The Audit Committee, together with the management of the Company, have reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of unaudited consolidated financial statements for the six months ended 30 September 2016.

PUBLICATION OF INTERIM RESULTS AND DESPATCH OF INTERIM REPORT

The interim results announcement is published on the websites of The Stock Exchange of Hong Kong Limited at (www.hkex.com.hk) and the Company at (www.orientalwatch.com). The 2016 interim report containing all information required by the Listing Rules will be despatched to the Company's shareholders and available on the above websites in the due course.

MEMBERS OF THE BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Dr. Yeung Ming Biu, Mr. Yeung Him Kit, Dennis, Mr. Fung Kwong Yiu, Madam Yeung Man Yee, Shirley, Mr. Lam Hing Lun, Alain and Mr. Choi Kwok Yum as executive directors and Dr. Sun Ping Hsu, Samson, Dr. Li Sau Hung, Eddy and Mr. Choi Man Chau, Michael as independent non-executive directors.

By order of the Board
Yeung Ming Biu
Chairman

Hong Kong, 23 November 2016