

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



ORIENTAL WATCH HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Website: <http://www.orientalwatch.com>

(the “Company”)

(Stock Code: 398)

FINAL RESULTS FOR THE YEAR ENDED 31ST MARCH, 2017

FINANCIAL HIGHLIGHTS

- Revenue increased 3.6% to HK\$3,142 million
- Profit attributable to owners of the Company was HK\$16.4 million
- Earnings per share was 2.87 HK cents
- Final dividend of 0.4 HK cent per share
- Special dividend of 3.0 HK cents per share

The board of directors (the “Board”) of Oriental Watch Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31st March, 2017 together with the comparative figures for the corresponding year in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st March, 2017

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Revenue	3	3,142,295	3,031,752
Cost of goods sold		(2,634,028)	(2,546,147)
Gross profit		508,267	485,605
Other income, gains and losses	4	20,896	37,125
Distribution and selling expenses		(190,447)	(199,533)
Administrative expenses		(311,367)	(332,430)
Finance costs	5	(3,730)	(6,942)
Share of results of associates		2,558	892
Share of results of joint ventures		(728)	2,566
Profit (loss) before taxation	6	25,449	(12,717)
Income tax expense	7	(9,352)	(3,042)
Profit (loss) for the year		16,097	(15,759)
Other comprehensive expense			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		(24,814)	(36,337)
Change in fair value of available-for-sale financial assets		581	(127)
Other comprehensive expense for the year		(24,233)	(36,464)
Total comprehensive expense for the year		(8,136)	(52,223)

		2017	2016
	<i>Note</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) for the year attributable to:			
Owners of the Company		16,383	(15,528)
Non-controlling interests		<u>(286)</u>	<u>(231)</u>
		<u>16,097</u>	<u>(15,759)</u>
Total comprehensive expense attributable to:			
Owners of the Company		(7,945)	(51,938)
Non-controlling interests		<u>(191)</u>	<u>(285)</u>
		<u>(8,136)</u>	<u>(52,223)</u>
Earnings (loss) per share			
Basic	9	<u>2.87 HK cents</u>	<u>(2.72) HK cents</u>
Diluted	9	<u>2.87 HK cents</u>	<u>(2.72) HK cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st March, 2017

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Property, plant and equipment		208,863	228,867
Deposits for acquisition of property, plant and equipment		133	7,072
Interests in associates	<i>10</i>	36,499	35,150
Interests in joint ventures	<i>11</i>	24,873	114,806
Available-for-sale financial assets		6,106	5,525
Deferred tax assets		73	114
Property rental deposits		46,550	45,738
		323,097	437,272
Current assets			
Inventories		1,275,897	1,569,528
Trade and other receivables	<i>12</i>	110,508	117,085
Taxation recoverable		48	5,893
Bank balances and cash		645,188	403,804
		2,031,641	2,096,310
Current liabilities			
Trade and other payables	<i>13</i>	87,835	156,754
Taxation payable		7,460	681
Bank loans		81,573	156,178
		176,868	313,613
Net current assets		1,854,773	1,782,697
Total assets less current liabilities		2,177,870	2,219,969
Non-current liabilities			
Bank loans		29,167	60,460
Deferred tax liabilities		1,689	1,937
		30,856	62,397
Net assets		2,147,014	2,157,572
Capital and reserves			
Share capital	<i>14</i>	57,061	57,061
Reserves		2,088,945	2,099,457
Equity attributable to owners of the Company		2,146,006	2,156,518
Non-controlling interests		1,008	1,054
Total equity		2,147,014	2,157,572

Notes:

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and acts as an investment holding company as well as engaged in watch trading. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”) which is also the functional currency of the Company.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) for the first time in the current year:

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 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 amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs and interpretation issued but not yet effective

The Group has not early applied the following new and amendments to HKFRSs and interpretation that have been issued but are not yet effective:

HKFRS 9	Financial instruments ¹
HKFRS 15	Revenue from contracts with customers and the related amendments ¹
HKFRS 16	Leases ²
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ³
Amendments to HKAS 7	Disclosure initiative ⁴
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses ⁴
Amendments to HKFRSs	Annual improvements to HKFRSs 2014 - 2016 cycle ⁵
HK(IFRIC) - INT 22	Foreign currency transactions and advance consideration ¹

- ¹ Effective for annual periods beginning on or after 1st January, 2018.
- ² Effective for annual periods beginning on or after 1st January, 2019.
- ³ Effective for annual periods beginning on or after a date to be determined.
- ⁴ Effective for annual periods beginning on or after 1st January, 2017.
- ⁵ Effective for annual periods beginning on or after 1st January, 2017 or 1st January, 2018, as appropriate.

HKFRS 9 “Financial instruments”

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group’s financial instruments and risk management policies as at 31st March, 2017, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group’s financial assets. The Group’s available-for-sale investments will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). The expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised cost. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

HKFRS 15 “Revenue from contracts with customers”

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the director of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in future.

HKFRS 16 “Leases”

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 “Leases” and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31st March, 2017, the Group has non-cancellable operating lease commitments of HK\$320,142,000 as disclosed in note 17. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

Amendments to HKAS 7 “Disclosure initiative”

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1 January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group’s financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The management of the Group anticipates that the application of HKAS 7 in the future may enhance the disclosures and has no material impact on the amounts made in the Group’s consolidated financial statements.

The directors of the Company anticipate that the application of other new and amendments to HKFRSs and interpretation will have no material impact on the results and the financial position of the Group in future.

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 chief operating decision maker, being 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.

	Segment revenue		Segment profit (loss)	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Hong Kong	2,284,289	2,245,293	50,524	28,361
Taiwan, Macau and the PRC	858,006	786,459	(4,886)	(16,919)
	<u>3,142,295</u>	<u>3,031,752</u>	45,638	11,442
Unallocated other income			2,257	4,509
Unallocated corporate expenses			(20,546)	(25,184)
Finance costs			(3,730)	(6,942)
Share of results of associates			2,558	892
Share of results of joint ventures			(728)	2,566
Profit (loss) before taxation			<u>25,449</u>	<u>(12,717)</u>

The accounting policies used to determine segment revenue and results are the same as the accounting policies adopted in the Group's consolidated financial statements. Segment profit represents the profit (loss) 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 corporate expenses include auditor's remuneration, directors' emoluments, exchange loss and operating expenses of inactive companies. This is the measure reported to the Managing Director of the Group for the purposes of resources allocation and performance assessment.

The Group has no customer who contributed over 10% of the total revenue of the Group for any of the two years ended 31st March, 2017.

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

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

	Segment assets		Segment liabilities	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Hong Kong	1,054,530	1,246,569	46,881	110,768
Taiwan, Macau and the PRC	587,005	721,173	39,640	44,801
Segment total	<u>1,641,535</u>	<u>1,967,742</u>	<u>86,521</u>	<u>155,569</u>
Unallocated	<u>713,203</u>	<u>565,840</u>	<u>121,203</u>	<u>220,441</u>
Group's total	<u>2,354,738</u>	<u>2,533,582</u>	<u>207,724</u>	<u>376,010</u>

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

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than interests in associates and joint ventures, available-for-sale financial assets, deferred tax assets, taxation recoverable as well as assets of the headquarters and bank balances and cash; and
- all liabilities are allocated to operating segments other than taxation payable, deferred tax liabilities and bank loans as well as other payables of the headquarters. Bank loans are classified as unallocated corporate liabilities because they are managed centrally by the treasury function of the Group.

Other segment information

Amounts included in the measure of segment results or segment assets:

	Additions of property, plant and equipment		Depreciation		Loss on disposal of property, plant and equipment		Impairment loss recognised in respect of property, plant and equipment		Increase (decrease) in non-current property rental deposits	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	6,783	5,829	12,784	14,446	5,362	47	—	—	(4,610)	27,342
Taiwan, Macau and the PRC	4,852	11,373	9,615	17,693	2,377	—	588	1,325	5,422	(49)
Segment total	11,635	17,202	22,399	32,139	7,739	47	588	1,325	812	27,293
Unallocated	—	—	132	137	—	—	—	—	—	—
Group's total	<u>11,635</u>	<u>17,202</u>	<u>22,531</u>	<u>32,276</u>	<u>7,739</u>	<u>47</u>	<u>588</u>	<u>1,325</u>	<u>812</u>	<u>27,293</u>

Information about the Group's non-current assets (excluding available-for-sale financial assets, deferred tax assets, property rental deposits and interests in associates and joint ventures) by geographical location of the assets is detailed below:

	Carrying amount of non-current assets	
	2017	2016
	HK\$'000	HK\$'000
Hong Kong	178,803	193,334
Taiwan, Macau and the PRC	<u>30,193</u>	<u>42,605</u>
	<u>208,996</u>	<u>235,939</u>

4. OTHER INCOME, GAINS AND LOSSES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Show window rental income	22,624	22,489
Interest income	2,256	1,309
Repairing service income	1,898	1,487
Refund of rental expense	—	8,880
Loss on disposal of property, plant and equipment	(7,739)	(47)
Exchange loss	(2,948)	(3,300)
Loss on disposal of interest in a joint venture	(14)	—
Others	4,819	6,307
	<u>20,896</u>	<u>37,125</u>

5. FINANCE COSTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Interest on bank borrowings	<u>3,730</u>	<u>6,942</u>

6. PROFIT (LOSS) BEFORE TAXATION

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Profit (loss) before taxation has been arrived at after charging:		
Directors' remuneration	16,066	15,694
Other staff's retirement benefits scheme contributions	4,757	5,249
Other staff costs	<u>75,390</u>	<u>82,659</u>
Total staff costs	<u>96,213</u>	<u>103,602</u>
Auditor's remuneration	2,780	2,780
Depreciation of property, plant and equipment	22,531	32,276
Impairment loss recognised in respect of property, plant and equipment	588	1,325
Minimum operating lease rentals in respect of rented premises	<u>213,522</u>	<u>226,570</u>

7. INCOME TAX EXPENSE

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
— Current year	3,360	2,409
— Underprovision in prior years (<i>note</i>)	<u>5,390</u>	<u>8</u>
	<u>8,750</u>	<u>2,417</u>
Taxation in other jurisdictions		
— Current year	202	696
— Overprovision in prior years	(159)	(432)
— Withholding tax on dividend income from associates	<u>771</u>	<u>—</u>
	<u>814</u>	<u>264</u>
Deferred taxation	<u>(212)</u>	<u>361</u>
	<u>9,352</u>	<u>3,042</u>

Note: On 21st March, 2017, the Inland Revenue Department of Hong Kong (the “IRD”) issued additional tax assessment to a wholly-owned subsidiary of the Company on a claimed offshore income for the years of assessment from 2010/11 to 2012/13. Accordingly, the amount of tax has been charged as underprovision in prior years.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both years.

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%.

8. DIVIDENDS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Dividends recognised as distribution during the year:		
Interim dividend for financial year ended 31st March, 2017 of 0.2 HK cents (2016: 0.1 HK cents) per share on 570,610,224 (2016: 570,610,224) shares	1,141	570
Final dividend for financial year ended 31st March, 2016 of 0.25 HK cents (2015: 0.25 HK cents) per share on 570,610,224 (2015: 570,610,224) shares	<u>1,426</u>	<u>1,426</u>
	<u>2,567</u>	<u>1,996</u>
Dividend proposed after year end:		
Proposed final dividend for financial year ended 31st March, 2017 of 0.4 HK cents (2016: 0.25 HK cents) per share on 570,610,224 (2016: 570,610,224) shares	2,282	1,426
Proposed special dividend for financial year ended 31st March, 2017 of 3.0 HK cents per share on 570,610,224 shares	<u>17,118</u>	<u>—</u>
	<u>19,400</u>	<u>1,426</u>

9. EARNINGS (LOSS) PER SHARE

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Earnings (loss)		
Earnings (loss) for the purposes of basic and diluted earnings (loss) per share (profit (loss) for the year attributable to owners of the Company)	<u>16,383</u>	<u>(15,528)</u>
	2017 '000	2016 '000
Number of shares		
Number of ordinary shares for the purpose of basic earnings (loss) per share	570,610	570,610
Effect of dilutive potential ordinary shares — share options	<u>—</u>	<u>—</u>
Number of ordinary shares for the purpose of diluted earnings (loss) per share	<u>570,610</u>	<u>570,610</u>

The diluted earnings (loss) per share for both years 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.

10. INTERESTS IN ASSOCIATES

	2017 HK\$'000	2016 HK\$'000
Cost of investments in unlisted associates	30,201	30,201
Exchange adjustment	(245)	(3,405)
Share of post-acquisition profits, net of dividends received	6,543	8,354
	<u>36,499</u>	<u>35,150</u>

Included in the cost of investments is goodwill of HK\$15,381,000 (2016: HK\$14,144,000) arising on acquisition of associates.

11. INTERESTS IN JOINT VENTURES

	2017 HK\$'000	2016 HK\$'000
Cost of investments in unlisted joint ventures	21,794	21,807
Exchange adjustment	(1,839)	(588)
Share of post-acquisition profits	4,918	22,248
	<u>24,873</u>	<u>43,467</u>
Amount due from a joint venture (<i>note a</i>)	<u>—</u>	<u>71,339</u>
	<u>24,873</u>	<u>114,806</u>

- (a) At 31st March, 2016, the Group held 45% of the paid-in capital of equity owners of Hei Tung Watches Company Limited ("Hei Tung"). Hei Tung was jointly controlled by the Group and the other significant equity owner by virtue of contractual arrangements between the two equity owners. Therefore, Hei Tung was classified as a joint venture of the Group. At 31st March, 2016, the amount due from Hei Tung amounting HK\$71,339,000, was unsecured, interest free and had no fixed repayment term.

On 7th September, 2016, Keen Time Enterprises Limited ("Keen Time"), a wholly-owned subsidiary of the Company (as vendor), entered into an agreement with Smart Group Limited ("Smart Group"), an independent third party, 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\$83,441,000. During the year, the Group has received repayment of amount due from Hei Tung amounting HK\$4,500,000, and the remaining amount due from Hei Tung amounting HK\$66,839,000 has been assigned to Smart Group with a deed of assignment loan completed on 7th September, 2016. The transaction of disposal of interest in Hei Tung was completed on 17th November, 2016.

- (b) The Group holds 40% of the paid-in capital of 寧波匯美鐘錶有限公司 (“Huimei”). Huimei is jointly controlled by the Group and the other significant equity owner by virtue of contractual arrangements among equity owners. Therefore, Huimei is classified as a joint venture of the Group.

Included in the cost of investments is goodwill of HK\$3,874,000 (2016: HK\$4,070,000) arising on acquisition of Huimei during the year ended 31st March, 2012.

12. TRADE AND OTHER RECEIVABLES

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Trade receivables	91,351	88,852
Property rental deposits	11,465	16,530
VAT recoverable	2,744	2,610
Advances to other suppliers	767	489
Receivable from a joint venture (<i>note</i>)	—	5,185
Other receivables	4,181	3,419
	<u>110,508</u>	<u>117,085</u>

Note: The amount represented reimbursements receivable from a joint venture under a procurement arrangement.

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

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Age		
0 to 30 days	85,304	85,873
31 to 60 days	2,705	1,158
61 to 90 days	334	180
Over 90 days	3,008	1,641
	<u>91,351</u>	<u>88,852</u>

13. TRADE AND OTHER PAYABLES

	2017 HK\$'000	2016 HK\$'000
Trade payables	52,427	102,881
Payroll and welfare payables	7,665	6,638
Commission payables	2,267	4,328
Advances from customers	3,838	12,611
Renovation work payables	1,164	3,163
VAT and other taxes payables	10,520	8,631
Advertising fee payables	1,569	3,666
Interest payables	—	208
Property rental fee payables	566	7,425
Other payables	7,819	7,203
	<u>87,835</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:

	2017 HK\$'000	2016 HK\$'000
Age		
0 to 60 days	42,977	91,816
61 to 90 days	1,604	127
Over 90 days	7,846	10,938
	<u>52,427</u>	<u>102,881</u>

14. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st April, 2015, 31st March, 2016 and 31st March, 2017	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1st April, 2015, 31st March, 2016 and 31st March, 2017	<u>570,610,224</u>	<u>57,061</u>

15. SHARE-BASED PAYMENT TRANSACTION

(a) 2003 Share Option Scheme

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

Under the 2003 Share Option Scheme, options may be granted to any director, employee, consultant, customer, supplier or advisor of the Group or a company in which the Company holds an interest or a subsidiary of such company, the trustee of the eligible persons or a company beneficially owned by the eligible persons. The purpose of the 2003 Share Option Scheme is to attract and retain quality personnel and other persons to provide incentive to them to contribute to the business and operation of the Group. No eligible persons shall be granted an option in any 12-month period for such number of shares (issued and to be issued) which in aggregate would exceed 1% of the share capital of the Company in issue on the last day of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules. The exercisable period is determined by the directors of the Company, which shall not be more than ten years from the date of grant, and may include a minimum period for which the options must be held before it can be exercised. The exercise price per share payable on the exercise of an option equals to the highest of:

- (a) the nominal value of one share;
- (b) the closing price per share as stated in the Stock Exchange's daily quotations sheet on the date of grant; and
- (c) the average closing price per share as quoted in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of grant.

On 6th April, 2011, 32,300,000 share options were granted and on 29th August, 2011, 23,000,000 share options were granted under the 2003 Share Option Scheme. The options may be exercised by the grantees at any time during the option period up to the termination of employment. All share options vested immediately at the date of grant. The estimated fair values of the options granted on these dates are HK\$44,855,000 and HK\$48,698,000, respectively. The closing prices immediately before the date of grant were HK\$3.95 and HK\$4.38, respectively.

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
6th April, 2011	32,300,000	6th April, 2011 to 5th April, 2021	HK\$4.13	HK\$3.44 (note i)
29th August, 2011	23,000,000	29th August, 2011 to 28th August, 2021	HK\$4.80	N/A

The following tables disclose movements of the Company's share options granted under the 2003 Share Option Scheme held by directors, employees and consultants during the years ended 31st March, 2016 and 2017:

Share options granted on 6th April, 2011

Categories of participants	Number of shares under option outstanding at 1st April, 2015 and 31st March, 2016	Reclassified during the year	Number of shares under option outstanding at 31st March, 2017
Directors of the Company	14,520,000	(3,000,000)	11,520,000
Other employees	14,400,000	—	14,400,000
Consultants (note ii)	2,640,000	3,000,000	5,640,000
Total	<u>31,560,000</u>	<u>—</u>	<u>31,560,000</u>

Share options granted on 29th August, 2011

Categories of participants	Number of shares under option outstanding at 1st April, 2015, 31st March, 2016 and 31st March, 2017
Other employees	18,000,000
Consultants (note ii)	<u>5,000,000</u>
Total	<u>23,000,000</u>

Notes:

- (i) 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.
- (ii) The share options were granted to consultants for services rendered in exploring investment opportunities for the Group.

The 2003 Share Option Scheme expired on 2nd 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.

(b) 2013 Share Option Scheme

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

Under the 2013 Share Option Scheme, options may be granted to (i) any director, employee or consultant of the Group or a company in which the Company holds an equity interest or a subsidiary of such company (“Affiliate”); or (ii) any discretionary trust whose discretionary objects include any director, employee or consultant of the Group or an Affiliate; or (iii) a company beneficially owned by any director, employee or consultant of the Group or an Affiliate; or (iv) any customer, supplier or adviser whose service to the Group or business with the Group contributes or is expected to contribute to the business or operation of the Group. The purpose of the 2013 Share Option Scheme is to attract and retain quality personnel and other persons to provide incentive to them to contribute to the business and operation of the Group. The total number of shares available for issue under the 2013 Share Option Scheme as at the date of this announcement is 57,061,022 shares. No eligible persons shall be granted an option in any 12-month period for such number of shares (issued and to be issued) which in aggregate would exceed 1% of the share capital of the Company in issue on the last day of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules. The exercisable period is determined by the directors of the Company, which shall not be more than ten years from the date of grant, and may include a minimum period for which the options must be held before it can be exercised. The exercise price per share payable on the exercise of an option equals to the highest of:

- (a) the nominal value of one share;
- (b) the closing price per share as stated in the Stock Exchange’s daily quotations sheet on the date of grant; and
- (c) the average closing price per share as quoted in the Stock Exchange’s daily quotations sheet for the five business days immediately preceding the date of grant.

The 2013 Share Option Scheme will remain in force until 2nd November, 2023.

No option was granted, exercised or lapsed under the 2013 Share Option Scheme since its effective date on 3rd November, 2013 and there was no outstanding share option as at 31st March, 2017.

No share-based payment expense was recognised for the years ended 31st March, 2016 and 2017 in relation to share options granted by the Company.

16. CONTINGENT LIABILITIES

As at 31st March, 2017, the Group issued financial guarantees to banks in respect of banking facilities granted to associates. The aggregate amount that could be required to be paid if the guarantees were called upon in entirety amounted to NT\$200,000,000 (equivalent to HK\$51,800,000; 2016: NT\$200,000,000 and equivalent to HK\$47,600,000), which was fully utilised by these associates at 31st March, 2017. The fair value of the financial guarantee contracts at the grant date is not significant and in the opinion of the directors, the default risk of associates at 31st March, 2016 and 2017 is considered as low.

17. OPERATING LEASE ARRANGEMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Within one year	145,379	230,390
In the second to fifth years inclusive	138,048	218,670
Over five years	<u>36,715</u>	<u>68,683</u>
	<u>320,142</u>	<u>517,743</u>

Operating lease payments represent rentals payable by the Group for certain its shops and office premises. Leases are negotiated for a term ranged from 1 to 8 years (2016: 1 to 8 years). Some group entities are required to pay lease charges based on a fixed percentage of net sales.

18. CAPITAL COMMITMENTS

	2017 <i>HK\$'000</i>	2016 <i>HK\$'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u>132</u>	<u>1,000</u>

FINAL DIVIDEND

The directors proposed to pay a final dividend of 0.4 Hong Kong cents per share for the year ended 31st March, 2017 (2016: 0.25 Hong Kong cents) and a special dividend of 3.0 Hong Kong cents per share (2016: Nil) to the shareholders whose names appear on the register of members of the Company on 25th August, 2017. Subject to approval at the forthcoming annual general meeting, dividend warrants will be sent to shareholders on or before 7th September, 2017.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 23rd August, 2017 to 25th August, 2017 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and special dividend, 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 22nd August, 2017.

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 audited consolidated results of the Group for the year ended 31st March, 2017 (the "Year").

Over the past year, both mainland China and Hong Kong continued to experience a slowdown in luxury goods spending, with economic uncertainty dampening consumer confidence. Yet, the Group saw a good sign of recovery in late 2016 followed by a positive growth in luxury good sales and improvement in both local consumption and tourist arrivals. As a result, the Group's turnover for the Year slightly increased by 3.6% to HK\$3,142 million (2016: HK\$3,032 million). Gross profit increased by 4.5% to HK\$508 million (2016: HK\$486 million) while gross profit margin remained stable. Moreover, the Group recorded a net profit attributable to owners of the Company of HK\$16.4 million during the Year (2016: net loss attributable to owners of the Company of HK\$15.5 million), achieving a turnaround in this financial year. It is mainly due to (1) the improvement in China's watch retail market; (2) success in changing product mix and (3) decrease in rental payment of some shops in Hong Kong during the year.

To show our appreciation for shareholders' continuous support, the Board has resolved to recommend a final dividend of 0.4 HK cent per share (2016: 0.2 HK cents) and a special dividend of 3.0 HK cents (2016: Nil) per share for the year ended 31st March, 2017.

Business Review

As at 31st March, 2017, the Group operates 64 retail and wholesale points (including associate retail stores) in the Greater China region. Breakdown by geographic region is as follows:

As at 31 March 2017	
Hong Kong	13
Macau	1
China	47
Taiwan	3
Total	<u><u>64</u></u>

According to the National Bureau of Statistics of China, the country's gross domestic product ("GDP") growth rate has sustained at a stable level of 6.9% for the past year, meeting the market expectation. At the same time, comparing to the same period last year, the accumulated national-wide per capital income in the fourth quarter of 2016 has increased by 6.8%, which is better than the market expectation. The continuous increase in disposable income stimulated China's retail market in general, and factors such as curb on overseas purchases and weaker Chinese currency also drove stronger sentiment in luxury spending, offsetting the long-term impact of anti-corruptions campaign in the past years. As a results, the Group's same-store-sales growth in China has also achieved a 29% increase during the Year. On the other hand, Hong Kong's retail market has also been slowly recovering. Although the luxury goods purchases remained lacklustre during the year, we saw a moderate year-on-year growth in retail sales in March 2017, driven by the recovery of visitor arrivals and the gradually improved spending appetite among local consumers. 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 March 2017 increased by 3.8% when compared to the same period last year, and the Hong Kong consumer confidence picked up gradually and remained steady at an index of 93 in the fourth quarter of 2016, according to the latest Nielsen Global Survey of Consumer Confidence. Furthermore, the stabilizing sales performance along with rent adjustment have also become one of the key drivers for Hong Kong retailers this year, which provided greater improvement in profitability with less rent burden suffered compared to the past few years. Oriental Watch, as a traditional luxury watches company with extensive foothold in Hong Kong and Greater China, will therefore, closely monitor the market trends and seize any market opportunity by proactively restructuring its product portfolio, implementing strict cost control measures and enhancing operating efficiency in order to maintain sustainability and to achieve better profitability in the long run.

For the implementation of stringent cost control, lowering high rental cost has been the Group's priorities since 2014. The Group believed that positive outcomes have been gradually reflecting. During the Year, the Group's aggregate rental cost (excluding related property management fees) decreased by 5.7% to HK\$214 million, accounting for 42.3% of the Group's overall operating expenses (2016: 42.1%). Over the past year, the Group has been actively negotiating better rental rate for the lease renewal and has successfully lowered certain amount of rental cost. Although the favourable financial impact has not yet been fully reflected in the fiscal year, the Group believed that with its continuous negotiation with landlords for the remaining leasing contracts, it will continue to be benefited from the rental reduction in the coming 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 major cost-cut measures. During the Year, the Group has closed down 1 store in Hong Kong, as well as selling our Macau business to achieve better resources allocation. The Group will continue to closely monitor the store performance and its efficiency and hope the above measures together with the rent adjustments can improve profitability of each store in the forthcoming years.

During the Year, the Group has 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 31st March 2017, the Group's overall inventory level amounted to HK\$1,276 million, decreasing by 18.7% from HK\$1,570 million 2015/16. In the coming financial 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 March 2017, the China watch market remained stable; while Hong Kong's export value has been showing signs of recovery for some time, ended 25 months of a steep decline in March to record a year-on-year rise of 18.1% in the month, which is good news to the market and to the Group. Propelling forward, the Group will strive in cautiously controlling all costs and expenses, aiming to adjust products portfolio and carefully monitor the inventory level. We believe 2017 is off to a better start supported by a further improved economic outlook in Hong Kong, rebound in the number of mainland tourists as well as the growing middle class, rising incomes and rapid urbanization in China. As an experienced luxury watch retailer in the industry, Oriental Watch is ready to face the upcoming adversity, and 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.

FINANCIAL REVIEW

Liquidity and financial resources

At 31st March, 2017, the Group's total equity reached HK\$2,147 million, compared with HK\$2,158 million as at 31st March, 2016. The Group had net current assets of HK\$1,855 million, including bank and cash balances of HK\$645 million as at 31st March, 2017 compared with balances of HK\$1,783 million and HK\$404 million respectively as at 31st March, 2016. At 31st March, 2017, bank loans of HK\$111 million (31st March, 2016: HK\$217 million). At 31st March, 2017, the gearing ratio (defined as total bank borrowing on total equity) was 0.05 (31st March, 2016: 0.1).

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

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.

HUMAN RESOURCES

As at 31st March, 2017, our Group employed approximately 620 employees all over HK, Macau, China and Taiwan, of which approximately 62% were located in Mainland China. The total manpower is lower than previous year.

The Group's compensation packages, includes basic salary, commission, annual bonus, medical insurance, and other common benefits. It is structured by reference to the marketplace and individual merits, and is reviewed on an annual basis based on the Group's policy's performance system and objective specification performance appraisal.

The Group believes every customer does have high expectations on the services they obtained while shopping for luxury goods. Thus, we must always try to provide services beyond their expectations. As such, significant resources have been allocated to the Staff Training and Development.

In financial year 2016/17, the Group developed a series of training programmes for our senior executives with diverse topics ranging from leadership, personal development and effectiveness, task and team management. Through these programmes, enable our staff to improve their management skills and help to bring in innovative ideas to the organization as a whole.

The Group have also commissioned an independent consulting firm to conduct a continuous “Mystery Shoppers Programme (MSP)”. This programme has helped the management to gauge and monitor the overall service performance of our sales team. By analyzing the results of MSP, we are able to identify areas for improvements. The management team has used these results to tailor-made training programme to specific shop and individual level.

All these efforts align with the company’s philosophy of providing “Service Excellence” to customer. Hopefully these measures will help propel the company’s business forward.

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the consolidated financial statements of the Group for the year ended 31st March, 2017.

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

During the year ended 31st March, 2017, 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 Corporate Governance Code (“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 year ended 31st March, 2017, 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 throughout the year ended 31st March, 2017.

AUDIT COMMITTEE

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

The Audit Committee, together with the management of the Company, have reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of audited consolidated financial statements for the year ended 31st March, 2017.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31st March, 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company ("the Remuneration Committee") comprises three members, a majority of whom are independent non-executive directors of the Company. The principal functions of the Remuneration Committee include reviewing the remuneration policies of the Company, assessing the performance of the directors and senior management of the Company and determining the policies in respect to their remuneration packages.

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting will be held on 17th August, 2017. The Notice of Annual General Meeting will be published and dispatched to the shareholders in due course.

PUBLICATION OF FINAL RESULTS AND DISPATCH OF ANNUAL REPORT

The final 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 2017 annual report containing all information required by the Listing Rules will be dispatched to the Company's shareholders and available on the above websites in due course.

MEMBERS OF THE BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Dr. Yeung Ming Bui, Mr. Yeung Him Kit, Dennis, 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 Bui
Chairman

Hong Kong, 14th June, 2017