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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 2017

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 2017 together with the comparative figures for the corresponding period in 2016. The unaudited condensed consolidated interim financial statements have been reviewed by the audit committee (the “Audit committee”) of the Company:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2017

		(Unaudited)	
		Six months ended	
	NOTES	30 September 2017	30 September 2016
		HK\$'000	HK\$'000
Revenue		1,507,794	1,545,049
Cost of goods sold		(1,253,687)	(1,308,407)
Gross profit		254,107	236,642
Other income, gains and losses		23,161	20,652
Distribution and selling expenses		(95,724)	(93,792)
Administrative expenses		(125,084)	(152,155)
Finance costs		(2,150)	(3,120)
Share of results of associates		281	1,240
Share of results of joint ventures		(9)	(865)
Profit before taxation	4	54,582	8,602
Income tax expense	5	(8,649)	(4,481)
Profit for the period		45,933	4,121

(Unaudited)		
Six months ended		
	30 September	30 September
<i>NOTES</i>	2017	2016
	HK\$'000	HK\$'000
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising on translation of foreign operations	29,323	(9,525)
Change in fair value of available-for-sale financial assets	376	163
Other comprehensive income (expense) for the period	29,699	(9,362)
Total comprehensive income (expense) for the period	75,632	(5,241)
Profit (loss) for the period attributable to:		
Owners of the Company	46,034	4,345
Non-controlling interests	(101)	(224)
	45,933	4,121
Total comprehensive income (expense) for the period attributable to:		
Owners of the Company	75,707	(5,083)
Non-controlling interests	(75)	(158)
	75,632	(5,241)
Earnings per share	7	
— Basic	8.07 HK cents	0.76 HK cents
— Diluted	8.07 HK cents	0.76 HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2017

		(Unaudited) 30 September <i>NOTES</i> 2017 <i>HK\$'000</i>	(Audited) 31 March 2017 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	8	204,464	208,863
Deposits for acquisition of property, plant and equipment		—	133
Interests in associates		36,795	36,499
Interest in a joint venture	9	25,912	24,873
Available-for-sale financial assets		6,482	6,106
Deferred tax assets		62	73
Property rental deposits		33,828	46,550
		<u>307,543</u>	<u>323,097</u>
Current assets			
Inventories	10	1,151,410	1,275,897
Trade and other receivables	11	117,917	110,508
Taxation recoverable		52	48
Bank balances and cash		863,787	645,188
		<u>2,133,166</u>	<u>2,031,641</u>
Current liabilities			
Trade and other payables	12	141,044	87,835
Taxation payable		9,694	7,460
Bank loans	13	64,254	81,573
		<u>214,992</u>	<u>176,868</u>
Net current assets		<u>1,918,174</u>	<u>1,854,773</u>
Total assets less current liabilities		<u>2,225,717</u>	<u>2,177,870</u>

		(Unaudited) 30 September <i>NOTES</i> 2017 <i>HK\$'000</i>	(Audited) 31 March 2017 <i>HK\$'000</i>
Non-current liabilities			
Bank loans	13	20,833	29,167
Deferred tax liabilities		<u>1,638</u>	<u>1,689</u>
		<u>22,471</u>	<u>30,856</u>
Net assets		<u>2,203,246</u>	<u>2,147,014</u>
Capital and reserves			
Share capital	14	57,061	57,061
Reserves		<u>2,145,252</u>	<u>2,088,945</u>
Equity attributable to owners of the Company		2,202,313	2,146,006
Non-controlling interests		<u>933</u>	<u>1,008</u>
Total equity		<u>2,203,246</u>	<u>2,147,014</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2017

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 2017 are the same as those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 March 2017.

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 HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle

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 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 adoption will result in relevant disclosures in the Group’s annual consolidated financial statements for the year ending 31 March 2018.

The application of the other 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 chief operating decision marker, 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:

	Revenue		Results	
	Six months ended		Six months ended	
	30 September		30 September	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	1,057,133	1,131,333	55,423	28,176
Taiwan, Macau and the PRC	450,661	413,716	14,871	(4,601)
	<u>1,507,794</u>	<u>1,545,049</u>	<u>70,294</u>	<u>23,575</u>
Unallocated other income			2,191	849
Unallocated corporate expenses			(16,025)	(13,077)
Finance costs			(2,150)	(3,120)
Share of results of associates			281	1,240
Share of results of joint ventures			(9)	(865)
Profit before taxation			<u>54,582</u>	<u>8,602</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 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 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 and liabilities by operating segments:

	Segment assets		Segment liabilities	
	30 September 2017 HK\$'000	31 March 2017 HK\$'000	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Hong Kong	957,301	1,054,530	89,687	46,881
Taiwan, Macau and the PRC	550,257	587,005	51,358	39,640
Segment total	1,507,558	1,641,535	141,045	86,521
Unallocated	933,151	713,203	96,418	121,203
Total assets	2,440,709	2,354,738	237,463	207,724

4. PROFIT BEFORE TAXATION

Six months ended	
30 September 2017 HK\$'000	30 September 2016 HK\$'000

Profit before taxation has been arrived at after charging:

Depreciation of property, plant and equipment	10,714	11,725
Directors' remuneration	10,216	7,228
Loss on disposal of property, plant and equipment	135	6,178
Minimum operating lease rentals in respect of rented premises	83,897	113,292
Net exchange losses	380	—

and after crediting:

Interest income	2,191	849
Net exchange gain	—	35

5. INCOME TAX EXPENSE

	Six months ended	
	30 September 2017 HK\$'000	30 September 2016 HK\$'000
The charge (credit) comprises:		
Hong Kong Profits Tax		
— Current period	8,609	1,494
— Underprovision in prior years	—	2,731
	<u>8,609</u>	<u>4,225</u>
Taxation in other jurisdictions	—	(16)
	<u>8,609</u>	<u>4,209</u>
Deferred taxation	40	272
	<u>8,649</u>	<u>4,481</u>

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 0.40 HK cent per share, totalling HK\$2,282,000, in respect of the year ended 31 March 2017 (2016: 0.25 HK cent per share, totalling HK\$1,426,000) and a special dividend of 3.0 HK cents per share, totalling HK\$17,118,000, in respect of the year ended 31 March 2017 (2016: nil) were approved at the annual general meeting held on 17 August 2017.

On 22 November 2017, the directors resolved to declare an interim dividend of 2.0 HK cents per share in respect of the six months ended 30 September 2017, totalling HK\$11,412,000 (2016: 0.20 HK cent per share, totalling HK\$1,141,000), to be paid in cash to those shareholders whose names appear on the Company’s register of members on 14 December 2017.

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
	2017	2016
	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>46,034</u>	<u>4,345</u>
	Number of shares	
	Six months ended	
	30 September	30 September
	2017	2016
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 2017, the Group incurred expenditure of approximately HK\$5,555,000 (six months ended 30 September 2016: HK\$5,960,000) to acquire property, plant and equipment for its operation. During the period, the Group disposed of certain property, plant and equipment with carrying amount of approximately HK\$135,000 (six months ended 30 September 2016: HK\$6,178,000) resulting a loss on disposal of approximately HK\$135,000 (six months ended 30 September 2016: HK\$6,178,000).

The Group has pledged certain land and buildings with an aggregate carrying value of approximately HK\$90,183,969 (31 March 2017: HK\$91,340,770) to a bank to secure the bank loan facilities granted to the Group.

9. INTEREST IN A JOINT VENTURE

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Costs of investment in an unlisted joint venture	21,794	21,794
Exchange adjustment	(791)	(1,839)
Share of post-acquisition profits	4,909	4,918
	<u>25,912</u>	<u>24,873</u>

10. INVENTORIES

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Watches	1,128,847	1,256,715
Accessories and parts	22,563	19,182
	<u>1,151,410</u>	<u>1,275,897</u>

11. TRADE AND OTHER RECEIVABLES

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Trade receivables	96,927	91,351
Property rental deposits	15,683	11,465
Value-added tax recoverable	2,933	2,744
Advances to other suppliers	95	767
Other receivables	2,279	4,181
	<u>117,917</u>	<u>110,508</u>

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 2017 HK\$'000	31 March 2017 HK\$'000
Age		
0 to 30 days	90,374	85,304
31 to 60 days	1,975	2,705
61 to 90 days	3,009	334
Over 90 days	1,569	3,008
	96,927	91,351

12. TRADE AND OTHER PAYABLES

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Trade payables	94,090	52,427
Payroll and welfare payables	11,726	7,665
Commission payables	2,397	2,267
Advances from customers	3,479	3,838
Renovation work payables	3,458	1,164
Value-added tax and other taxes payables	12,379	10,520
Advertising fee payables	1,334	1,569
Property rental fee payables	4,973	566
Other payables	7,208	7,819
	141,044	87,835

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

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Age		
0 to 60 days	82,703	42,977
61 to 90 days	1,426	1,604
Over 90 days	9,961	7,846
	94,090	52,427

13. BANK LOANS

During the six months ended 30 September 2017, the Group obtained a bank loan amounting to approximately HK\$31,920,000 (six months ended 30 September 2016: HK\$30,360,000). The loan carried interest at Taipei Interbank Offered Rate plus 1.5% divided by 0.946 and was repayable over one year up to 2018.

14. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 April 2016, 31 March 2017 and 30 September 2017	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2016, 31 March 2017 and 30 September 2017	<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 2017 and 30 September 2016:

Share options granted on 6 April 2011

Categories of participants	Number of share options outstanding at 1 April 2016	Reclass	Number of share options outstanding at 31 March 2017 and 30 September 2017
Directors of the Company	14,520,000	(3,000,000)	11,520,000
Other employees	14,400,000	—	14,400,000
Consultants (<i>note b</i>)	<u>2,640,000</u>	<u>3,000,000</u>	<u>5,640,000</u>
Total	<u><u>31,560,000</u></u>	<u><u>—</u></u>	<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 2016, 31 March 2017 and 30 September 2017
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 exercisable 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 2017 and 30 September 2016.

(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 2017 and 30 September 2016 since its effective date on 3 November 2013 and there was no outstanding share option as at 30 September 2017.

During the six months ended 30 September 2017 and 30 September 2016, no share-based payment expense was recognised in relation to share options granted by the Company.

16. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of the Group’s financial assets that are measured at fair value on a recurring basis

Some of the Group’s financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements are observable.

- Level 1 inputs are quoted prices (unadjusted) in active market for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	30 September 2017 HK\$’000	31 March 2017 HK\$’000		
(a) Available-for-sale financial assets — listed investments, equity securities listed in Hong Kong	71	91	Level 1	Quoted bid prices in an active market
(b) Available-for-sale financial assets — unlisted investments, managed fund portfolio	6,411	6,015	Level 2	Quoted market prices provided by brokers which are financial institutions (<i>note</i>)

Note: Quoted market prices provided by brokers which are financial institutions represent the net asset values of the respective funds, based on the observable quoted prices of the underlying investments in active market.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate to their fair values.

17. RELATED PARTY TRANSACTIONS

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

18. CONTINGENT LIABILITIES

As at 30 September 2017, 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 New Taiwan Dollar (“NT\$”) 200,000,000 (equivalent to HK\$53,200,000; 31 March 2017: NT\$200,000,000 and equivalent to HK\$51,800,000), which was fully utilised by these associates at 30 September 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 31 March 2017 and 30 September 2017 is considered as low.

19. OPERATING LEASE ARRANGEMENTS

The Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Within one year	161,647	145,379
In the second to fifth years inclusive	182,687	138,048
Over five years	—	36,715
	<u>344,334</u>	<u>320,142</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 6 years (31 March 2017: 1 to 8 years). Some group entities are required to pay lease charges based on a fixed percentage of net sales.

20. CAPITAL COMMITMENTS

	30 September 2017 HK\$'000	31 March 2017 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u>—</u>	<u>132</u>

INTERIM DIVIDEND

The directors have proposed pay an interim dividend of 2.0 HK cents per share (2016: 0.2 HK cent) in respect of the six months ended 30 September 2017, totalling HK\$11,412,000 (2016: HK\$1,141,000), to be paid in cash to the shareholders whose names appear on the register of the members of the Company on 14 December 2017. Dividend warrants will be sent to the shareholders on or before 18 December 2017.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11 December 2017 to 14 December 2017 (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 18 December 2017, 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 8 December 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 unaudited consolidated results of the Group for the six months ended 30 September, 2017 (the "Period").

Hong Kong's retail market has experienced an exponential growth during the first half of 2017, underpinned by robust local consumption due to stronger wealth effects and a further rebound in tourist numbers. Besides, the pressure on retail rents was easing down over the past few months; rental levels for prime street retail stores have mostly undergone adjustments. Overall, the business environment in Hong Kong has started to show signs of economic recovery, and the sales value of luxury goods has been increasing moderately. As a result, the Group's turnover for the Period decreased by 2% to HK\$1,508 million (2016: HK\$1,545 million). Gross profit increased by 7% to HK\$254 million (2016: HK\$237 million) while gross profit margin increased to 17%. Moreover, the Group recorded a net profit attributable to owners of the Company of HK\$46 million during the Period (2016: net profit of HK\$4 million), achieving an excellent results in this financial period, it is mainly due to (1) the improvement in the Mainland China and Hong Kong watch retail markets and (2) the decrease in rental payment of some shops in Hong Kong during the Period.

To show our appreciation for shareholders' continuous support, the Board has resolved to recommend an interim dividend of 2.0 HK cents per share (2016: 0.2 HK cents) for the six months ended 30 September 2017.

Business Review

As at 30 September 2017, the Group operates 63 retail and wholesale points (including associate retail stores) in the Greater China region. Breakdown by geographic region is as follows:

	As at 30 September 2017
Hong Kong	12
Macau	1
China	47
Taiwan	3
Total	63

According to the National Bureau of Statistics of China, the gross domestic product (“GDP”) climbs 1.7 percent quarter-on-quarter in the three months to September of 2017, which in line with market expectations and indicates that the general retail market in Greater China is on an upturn. The consumption sentiment of Chinese customers, who remain the Group’s major customer group, has been lifted by a positive wealth effect caused by rising property prices, narrower gaps between domestic and international prices as well as a curb on overseas purchases. Consumer confidence is picking up due to a greater sense of optimism regarding China’s economy, as well as the growing middle class, rising incomes and rapid urbanisation in China. As a leading watch retailer, the Group is poised to capitalise on opportunities arising from the recovery. As a result, the Group’s same-store-sales growth in China has also achieved a 14% increase during the Period. On the other hand, the retail market in Hong Kong has begun to turn up after having bottomed out and these have provided good preconditions for the Group’s development in 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 has increased 7.2% in September when compared to the same period last year. Moreover, the consumer confidence has increased to 102 in the second quarter of 2017 from 93 in the fourth quarter of 2016. Most importantly, the stabilizing sales performance along with rent adjustment has also become one of the key drivers for the Group 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 in Hong Kong and Greater China, will therefore, closely monitor the market trends and seize any market opportunity in order to further solidify our leading position in the region.

For the implementation of stringent cost control, lowering high rental cost has been the Group's priorities since 2014. Fortunately, the pressure on retail rent was easing down over the past year; the Group believed that positive outcomes have been reflecting. During the Period, the Group's aggregate rental cost (excluding related property management fees) decreased significantly by 26% to HK\$84 million, accounting for 36% of the Group's overall operating expenses (2016: 45%). The Group has been successfully negotiate better rental rate and more flexible leasing terms for the lease renewal and hence lowered certain amount of rental cost. The favourable financial impact has been fully reflected in the 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 strategy for 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 Period, 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 30 September 2017, the Group's overall inventory level amounted to HK\$1,151 million, decreasing by 10% from HK\$1,276 million as at 30 March 2017. In the coming financial year, the Group will continue to maintain a lower inventory level for a steady cash position.

Lastly, in terms of the overall Swiss watch exports value market from January to September in 2017, export value of Hong Kong and China increased by 4.1% and 17.2% respectively as compared with the same period in 2016, indicating that demand for luxury watches goes up. Looking ahead, the Group remains cautiously optimistic on the business outlook of the luxury goods market and expects retail sales in Hong Kong will hold stable amidst the sustained recovery in visitor arrivals and the resilience of local consumption demand. Leveraging on our prestigious brand image and long establishment history, the Group 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.

FINANCIAL REVIEW

Liquidity and financial resources

At 30 September 2017, the Group's total equity reached HK\$2,203 million, compared with HK\$2,147 million as at 31 March 2017. The Group had net current assets of HK\$1,918 million, including bank and cash balances of HK\$864 million as at 30 September 2017 compared with balances of HK\$1,855 million and HK\$645 million respectively as at 31 March 2017. At 30 September 2017 bank loans of HK\$85 million (31 March 2017: HK\$111 million). At 30 September 2017, the gearing ratio (defined as total bank borrowing on total equity) was 0.04 (31 March, 2017: 0.05).

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 2017, the Group employed a total work force of about 590 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 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 six months ended 30 September 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 during the six months ended 30 September 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 unaudited consolidated financial statements for the six months ended 30 September 2017.

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 2017 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 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, 22 November 2017