



*Oriental*

## Oriental Watch Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 398)

INTERIM REPORT

2 0 0 7

## CORPORATE INFORMATION

### Board of Directors

Mr. Yeung Ming Biu (*Chairman*)  
Mr. Yeung Him Kit, Dennis  
(*Managing Director*)  
Mr. Fung Kwong Yiu  
(*Executive Director*)  
Madam. Yeung Man Yee, Shirley  
(*Executive Director*)  
Mr. Lam Hing Lun, Alain  
(*Executive Director*)  
Mr. Choi Kwok Yum  
(*Executive Director*)  
Dr. Sun Ping Hsu, Samson  
(*Independent Non-executive Director*)  
Dr. Li Sau Hung, Eddy  
(*Independent Non-executive Director*)  
Mr. So Kai Lau, Peter  
(*Independent Non-executive Director*)

### Qualified Accountant and Company Secretary

Mr. Lam Hing Lun, Alain

### Principal Bankers

Hang Seng Bank Limited  
Wing Hang Bank Limited

### Auditor

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

### Hong Kong Branch Share Registrars

Secretaries Limited  
26/F., Tesbury Centre  
28 Queen's Road East  
Wanchai  
Hong Kong

### Hong Kong Legal Adviser

Jennifer Cheung & Co

### Bermuda Legal Adviser

Conyers, Dill & Pearman

### Registered Office

Clarendon House  
Church Street  
Hamilton HM 11  
Bermuda

### Principal Place of Business

Room 312-8  
China Insurance Group Building  
141 Des Voeux Road Central  
Central  
Hong Kong

## INTERIM RESULTS

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 30th September, 2007 together with the comparative figures for the corresponding period in 2006 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2007

		(Unaudited)	
		Six months ended	
		30th September, 2007	30th September, 2006
	Notes	HK\$'000	HK\$'000
2	Turnover	<b>1,290,877</b>	1,148,323
	Cost of goods sold	<b>(1,115,515)</b>	(1,029,631)
	Gross profit	<b>175,362</b>	118,692
	Other income	<b>19,120</b>	14,417
	Distribution and selling expenses	<b>(35,365)</b>	(32,054)
	Administrative expenses	<b>(79,874)</b>	(50,455)
	Finance costs	<b>(7,248)</b>	(6,289)
	Profit before taxation	<b>71,995</b>	44,311
	Taxation	<b>(15,053)</b>	(8,866)
	Profit for the period	<b>56,942</b>	35,445
	Earnings per share	7	
	— Basic	<b>20.04 HK cents</b>	12.88 HK cents
	— Diluted	<b>17.84 HK cents</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2007

		(Unaudited) 30th September, 2007 HK\$'000	(Audited) 31st March, 2007 HK\$'000
Non-current assets			
Investment properties		24,251	24,453
Property, plant and equipment	8	123,788	109,470
Available-for-sale financial assets		52,528	57,980
Property rental deposits		12,781	12,086
		<u>213,348</u>	<u>203,989</u>
Current assets			
Inventories		923,692	767,721
Trade and other receivables	9	130,529	106,145
Taxation recoverable		4,994	4,982
Pledged bank deposits		—	40,000
Bank balances and cash		265,177	130,149
		<u>1,324,392</u>	<u>1,048,997</u>
Current liabilities			
Trade and other payables	10	188,559	116,061
Taxation payable		19,187	8,691
Current portion of secured long-term bank loan		980	980
Short-term bank loans		262,750	258,762
Bank overdrafts		—	6,855
		<u>471,476</u>	<u>391,349</u>
Net current assets		<u>852,916</u>	<u>657,648</u>
Total assets less current liabilities		<u>1,066,264</u>	<u>861,637</u>
Non-current liabilities			
Secured long-term bank loan		10,943	11,433
Deferred taxation		386	386
		<u>11,329</u>	<u>11,819</u>
Net assets		<u>1,054,935</u>	<u>849,818</u>
Capital and reserves			
Share capital	11	31,925	27,525
Reserves		1,023,010	822,293
Total equity		<u>1,054,935</u>	<u>849,818</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2007

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Subscription right reserve HK\$'000	Asset revaluation reserve HK\$'000	Special reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
At 1st April, 2007	27,525	52,045	425	—	3,124	5,180	5,897	740,208	15,414	849,818
Exchange difference arising on translation of foreign operations	—	—	—	—	—	—	10,777	—	—	10,777
Change in fair value of available-for-sale financial assets	—	—	—	—	958	—	—	—	—	958
Net income recognised directly in equity	—	—	—	—	958	—	10,777	—	—	11,735
Transfer to profit on sale of available-for-sale financial assets	—	—	—	—	(1,374)	—	—	—	—	(1,374)
Profit for the period	—	—	—	—	—	—	—	56,942	—	56,942
Total recognised income for the period	—	—	—	—	(416)	—	10,777	56,942	—	67,303
Issue of warrants	—	—	—	1,100	—	—	—	—	—	1,100
Issue of new shares — from exercise of warrants	500	8,650	—	(100)	—	—	—	—	—	9,050
— from placing	3,900	144,300	—	—	—	—	—	—	—	148,200
Share issue expenses	—	(2,977)	—	—	—	—	—	—	—	(2,977)
2007 final dividend payable to shares issued since the approval of the 2007 consolidated financial statements	—	—	—	—	—	—	—	(2,145)	2,145	—
2007 final dividend paid	—	—	—	—	—	—	—	—	(17,559)	(17,559)
2008 interim dividend proposed	—	—	—	—	—	—	—	(11,174)	11,174	—
At 30th September, 2007	31,925	202,018	425	1,000	2,708	5,180	16,674	783,831	11,174	1,054,935
At 1st April, 2006	27,525	52,045	425	—	209	5,180	569	667,629	11,010	764,592
Exchange difference arising on translation of foreign operations	—	—	—	—	—	—	696	—	—	696
Change in fair value of available-for-sale financial assets	—	—	—	—	9	—	—	—	—	9
Net income recognised directly in equity	—	—	—	—	9	—	696	—	—	705
Profit for the period	—	—	—	—	—	—	—	35,445	—	35,445
Total recognised income for the period	—	—	—	—	9	—	696	35,445	—	36,150
2006 final dividend paid	—	—	—	—	—	—	—	—	(11,010)	(11,010)
2007 interim dividend proposed	—	—	—	—	—	—	—	(6,881)	6,881	—
At 30th September, 2006	27,525	52,045	425	—	218	5,180	1,265	696,193	6,881	789,732

The special reserve of the Group comprises the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the issued share capital and special reserves of those companies which were acquired by the Company pursuant to a group reorganisation in 1993. The special reserves of these acquired subsidiaries represent the credit arising on reduction of their paid up share capital under the group reorganisation.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2007

	(Unaudited)	
	Six months ended	
	30th	30th
	September,	September,
	2007	2006
	HK\$'000	HK\$'000
Net cash (used in) from operating activities	<u>(23,656)</u>	<u>25,184</u>
Investing activities		
Purchase of property, plant and equipment	(17,461)	(8,086)
Purchase of available-for-sale financial assets	(3,904)	(8,371)
Proceeds from disposal of available-for-sale financial assets	10,314	10,750
Decrease in pledged bank deposits	40,000	—
Other investing activities	<u>2,526</u>	<u>2,941</u>
Net cash from (used in) investing activities	<u>31,475</u>	<u>(2,766)</u>
Financing activities		
Interest paid	(7,248)	(6,289)
Dividends paid	(17,559)	(11,010)
Proceeds from subscription of warrants	1,100	—
Proceeds from exercise of warrants	9,050	—
Net proceeds from issue of new shares	145,223	—
Bank loans raised	181,250	154,590
Repayment of bank loans	<u>(177,752)</u>	<u>(90,135)</u>
Net cash from financing activities	<u>134,064</u>	<u>47,156</u>
Increase in cash and cash equivalents	141,883	69,574
Cash and cash equivalents at 1st April	<u>123,294</u>	<u>98,381</u>
Cash and cash equivalents at 30th September, represented by bank balances and cash	<u><u>265,177</u></u>	<u><u>167,955</u></u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September, 2007

### 1. Basis of preparation

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

### 2. Principal accounting policies

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31st March, 2007.

In the current interim period, the Group has applied, for the first time, the following new Hong Kong Financial Reporting Standard ("HKFRS"), amendment of Hong Kong Accounting Standard ("HKAS") and interpretations ("INTs") (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1st April, 2007.

HKAS 1 (Amendment)	Capital disclosures <sup>1</sup>
HKFRS 7	Financial instruments: Disclosures <sup>1</sup>
HK(IFRIC)* — INT 8	Scope of HKFRS 2 <sup>2</sup>
HK(IFRIC)* — INT 9	Reassessment of embedded derivatives <sup>3</sup>
HK(IFRIC)* — INT 10	Interim financial reporting and impairment <sup>4</sup>
HK(IFRIC)* — INT 11	HKFRS 2 — Group and treasury share transactions <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1st May, 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1st June, 2006.

<sup>4</sup> Effective for annual periods beginning on or after 1st November, 2006.

<sup>5</sup> Effective for annual periods beginning on or after 1st March, 2007.

\* IFRIC represents the International Financial Reporting Interpretations Committee.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 2. Principal accounting policies (continued)

The adoption of the new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the new and revised standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results or financial position of the Group.

### 3. Segment information

The Group's operation is regarded as a single segment, being an enterprise engaged in watch trading.

The Group's operations are located in Hong Kong, Macau and Mainland China (the "PRC"). In determining the Group's geographical segments, revenues are attributed to the segment based on the location of the customers. The following table provides an analysis of the Group's geographical segment information which is the basis on which the Group reports its primary segment information.

	Turnover		Results	
	Six months ended		Six months ended	
	30th	30th	30th	30th
	September,	September,	September,	September,
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	961,572	880,199	54,692	37,963
Macau and the PRC	452,599	347,795	23,495	10,882
Inter-segment sales elimination	(123,294)	(79,671)	—	—
	<u>1,290,877</u>	<u>1,148,323</u>	<u>78,187</u>	<u>48,845</u>
Unallocated other income			1,439	2,960
Unallocated corporate expenses			(383)	(1,205)
Finance costs			(7,248)	(6,289)
Profit before taxation			71,995	44,311
Taxation			(15,053)	(8,866)
Profit for the period			<u>56,942</u>	<u>35,445</u>

Inter-segment sales are charged at prevailing market rate.



**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(continued)

**4. Profit before taxation**

	<b>Six months ended</b>	
	<b>30th September, 2007</b>	30th September, 2006
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit before taxation has been arrived at after charging:		
Depreciation for		
— investment properties	<b>202</b>	200
— property, plant and equipment	<b>6,601</b>	5,803
Directors' remuneration (note)	<b>10,924</b>	8,850
Loss on disposal of		
— convertible notes receivables	—	599
— property, plant and equipment	—	72
and after crediting:		
Gain arising from changes in fair value of conversion option derivative	—	521
Gain on disposal of available-for-sale financial assets	<b>1,374</b>	—
Imputed interest income from convertible notes receivables	—	48
Income from available-for-sale financial assets	<b>30</b>	1,903
Interest income from bank deposits	<b>2,526</b>	1,072

Note: Key management personnel of the Group mainly include directors.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 5. Taxation

	Six months ended	
	30th September, 2007 HK\$'000	30th September, 2006 HK\$'000
Hong Kong Profits Tax calculated at 17.5% on the estimated assessable profit for the period	(9,951)	(7,384)
Taxation in other jurisdictions	(5,102)	(1,482)
	<u>(15,053)</u>	<u>(8,866)</u>

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

On 16th March, 2007, the PRC promulgated the Law of PRC Enterprise Income Tax (the "new law") by Order No. 63 of the President of PRC which will change the tax rate from 33% to 25% for certain subsidiaries from 1st January, 2008. Other than the effect on current tax charge, the directors of the Company anticipate that the application of the new law will have no material impact on the results or financial position of the Group.

### 6. Dividend

During the six months ended 30th September, 2007, a final dividend of 5.5 Hong Kong cents per share, totalling HK\$17,559,000, in respect of the year ended 31st March, 2007 (2006: HK\$11,010,000) was approved at the annual general meeting held on 19th September, 2007 and subsequently paid to the shareholders.

On 19th December, 2007, the directors resolved to declare an interim dividend of 3.5 Hong Kong cents per share in respect of the six months ended 30th September, 2007 (2006: 2.5 Hong Kong cents per share), totalling HK\$11,174,000 (2006: HK\$6,881,000), to be paid in cash to those shareholders whose names appear on the Company's register of members on 11th January, 2008.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(continued)

**7. Earnings per share**

	<b>Six months ended</b>	
	<b>30th September, 2007 HK\$'000</b>	<b>30th September, 2006 HK\$'000</b>
Profit attributable to shareholders of the Company for the purposes of basic and diluted earnings per share	<u><b>56,942</b></u>	<u>35,445</u>
	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purposes of calculating basic earnings per share	<b>284,148,804</b>	<u>275,253,200</u>
Effect of dilutive potential ordinary shares		
— share options	<b>6,987,483</b>	N/A
— warrants	<u><b>27,983,193</b></u>	N/A
Weighted average number of ordinary shares for the purposes of calculating diluted earnings per share	<u><b>319,119,480</b></u>	N/A

No diluted earnings per share has been presented for the period ended 30th September, 2006 as the exercise price of the Company's share options was higher than the average market price of the Company's shares during that period.

**8. Property, plant and equipment**

During the six months ended 30th September, 2007, the Group incurred HK\$19,731,000 (2006: HK\$8,086,000) to acquire plant and equipment for its operation.

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(continued)

**9. Trade and other receivables**

	<b>30th September, 2007 HK\$'000</b>	31st March, 2007 HK\$'000
Trade receivables	<b>81,676</b>	68,666
Balance of consideration receivable from sale of available-for-sale financial assets	<b>2,152</b>	5,304
Property rental and utilities deposits	<b>5,360</b>	5,442
Property rental prepayments	<b>2,409</b>	3,237
Advances to apparel suppliers	<b>2,003</b>	5,934
Advances to other suppliers	<b>9,714</b>	3,357
VAT receivables	<b>23,994</b>	10,366
Other receivables	<b>3,221</b>	3,839
	<b><u>130,529</u></b>	<b><u>106,145</u></b>

The Group maintains a general credit policy of not more than 30 days for its established and major customers. The following is an aged analysis of trade receivables at the balance sheet date:

	<b>30th September, 2007 HK\$'000</b>	31st March, 2007 HK\$'000
Age		
0 to 30 days	<b>68,146</b>	59,090
31 to 60 days	<b>4,283</b>	6,819
61 to 90 days	<b>2,234</b>	1,531
Over 90 days	<b>7,013</b>	1,226
	<b><u>81,676</u></b>	<b><u>68,666</u></b>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(continued)

**10. Trade and other payables**

	<b>30th September, 2007 HK\$'000</b>	31st March, 2007 HK\$'000
Trade payables	<b>143,959</b>	95,212
Payroll and welfare payables	<b>18,478</b>	10,527
Commission payables	<b>2,486</b>	1,535
Advances from customers	<b>7,969</b>	—
Renovation work payables	<b>2,915</b>	645
VAT payables	<b>4,226</b>	—
Other payables	<b>8,526</b>	8,142
	<b>188,559</b>	116,061

The following is an aged analysis of trade payables at the balance sheet date:

	<b>30th September, 2007 HK\$'000</b>	31st March, 2007 HK\$'000
Age		
0 to 60 days	<b>132,563</b>	82,881
61 to 90 days	<b>10,431</b>	6,011
Over 90 days	<b>965</b>	6,320
	<b>143,959</b>	95,212

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(continued)

**11. Share capital**

	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st April, 2006, 31st March, 2007 and 30th September, 2007	<u>500,000,000</u>	<u>50,000</u>
Issued and fully paid:		
At 1st April, 2006 and 31st March, 2007	275,253,200	27,525
Issue of shares upon placement of new shares	39,000,000	3,900
Issue of shares upon exercise of warrants	<u>5,000,000</u>	<u>500</u>
At 30th September, 2007	<u>319,253,200</u>	<u>31,925</u>

- (i) On 20th July, 2007, arrangements were made for a private placement to professional and institutional investors of 39,000,000 new ordinary shares of HK\$0.10 each at a price of HK\$3.80 per share by the placing agent. The price of HK\$3.80 per share represents a discount of approximately 18.45% to the closing market price of the Company's shares of HK\$4.66 per share as quoted on the Stock Exchange on 20th July, 2007, the last trading date prior to the placing. The new shares were issued on 30th August, 2007 under the general mandate granted to the board of directors on 29th August, 2007.
- (ii) During the period, 5,000,000 warrants were exercised at a subscription price of HK\$1.81 per share, resulting in the issue of 5,000,000 ordinary shares of HK\$0.10 each in the Company.

All the shares issued during the period rank pari passu with the then existing shares in all respects.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(continued)

### 12. Warrants

On 11th June, 2007, the Company entered into two warrants placing agreements with two subscribers and two guarantors in relation to private placing of an aggregate of 55,000,000 warrants to the subscribers, at an issue price of HK\$0.02 per warrant, representing an aggregate subscription price of HK\$1,100,000. The warrants entitle the subscribers to subscribe for new ordinary shares of the Company of HK\$0.10 each at an initial subscription price of HK\$1.81 per share (subject to anti-dilutive adjustment) for a period of 30 months commencing from the date of issue of warrants. During the period, 5,000,000 new shares were issued on exercise of the warrants. Exercise in full of the remaining outstanding warrants would, under the present capital structure, result in receipt by the Company of HK\$90,500,000 in subscription monies and the issue of 50,000,000 new shares.

### 13. Capital commitments

	30th September, 2007 HK\$'000	31st March, 2007 HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	—	2,601

### 14. Other commitments

At the balance sheet date, the Group was committed to pay royalties for the usage of a fashion brand for manufacture and trading of apparels with a minimum guarantee royalties payment as follows:

	30th September, 2007 HK\$'000	31st March, 2007 HK\$'000
Within one year	644	729
In the second to fifth year inclusive	3,631	4,060
	<u>4,275</u>	<u>4,789</u>

The Group is required to pay royalties calculated at 6% on the amount of total net wholesales made per calendar year or the above minimum guarantee royalties, whichever is higher.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### 15. Post balance sheet event

On 25th October, 2007, the Group purchased a property (the "Property") for a consideration of HK\$4,700,000 from M.B. Yeung Limited (the "Vendor"), a connected party. The Vendor is wholly owned by Mr. Yeung Ming Biu (the Chairman, an executive director and a substantial shareholder of the Company), Mr. Yeung Him Kit (the managing director of the Company), Ms. Yeung Man Yee, Shirley (an executive director of the Company) and their family members. The fair value of the Property at 30th September, 2007 was HK\$4,700,000, representing the valuation carried out by Vigers Appraisal and Consulting Limited, an independent firm of professional property valuers.

### DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30th September, 2007, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Hong Kong Securities and Futures Ordinance ("SFO"), as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") were as follows:

Name of director	Number of ordinary shares held				Total number of shares	Percentage of issued share the Company
	Personal interest	Family interest	Corporate interest	Other interest		
Yeung Ming Biu	10,787,260	6,000,000	96,800,000 Note (a)	—	113,587,260	35.6%
Yeung Him Kit, Dennis	—	—	—	Note (b)	—	—
Fung Kwong Yiu	1,803,152	—	—	Note (c)	1,803,152	0.6%
Yeung Man Yee, Shirley	—	167,547	—	Note (d)	167,547	0.1%
Sun Ping Hsu, Samson, Dr.	—	—	2,000,000 Note (e)	—	2,000,000	0.6%



## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

(continued)

Notes:

- (a) Mr. Yeung Ming Biu and his wife, Madam Au Po Kee, are the beneficial owners of 45% and 22.5% respectively of the issued share capital of Realtower Holdings Limited. Realtower Holdings Limited is the beneficial owner of 55% of the issued share capital of Furama Investments Limited, which is the beneficial owner of 80% of the issued share capital of Datsun Holdings Limited. Datsun Holdings Limited is the beneficial owner of 96,800,000 shares in the Company.

Mr. Yeung Ming Biu is the beneficial owner of 10% of the issued share capital of Furama Investments Limited and 42.5% of the issued share capital of Y.H. Chan Limited which is the beneficial owner of 25% of the issued share capital of Furama Investments Limited. Y. H. Chan Limited also directly holds 294,365 shares in the Company.

- (b) Mr. Yeung Him Kit, Dennis is the beneficial owner of 10% and 7% of the issued share capital of Realtower Holdings Limited and Real Champ Limited respectively. Real Champ Limited is the beneficial owner of 20% of the issued share capital of Datsun Holdings Limited. Mr. Yeung Him Kit, Dennis is the beneficial owner of 2.5% of the share capital of Y. H. Chan Limited which is the beneficial owner of 25% of the issued share capital of Furama Investments Limited.

- (c) Mr. Fung Kwong Yiu is the beneficial owner of 6% of the issued share capital of Real Champ Limited.

- (d) Madam Yeung Man Yee, Shirley is the beneficial owner of 7.5% of the issued share capital of Realtower Holdings Limited.

- (e) Dr. Sun Ping Hsu, Samson and his family members are beneficial owners of the entire issued share capital of Sun International Limited, which is the beneficial owner of 2,000,000 shares in the Company.

Save as disclosed above, the paragraph headed "Share option scheme, and other than certain nominee shares in subsidiaries held by a director in trust for the Company, none of the directors of the Company had any interest or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange.

## SHARE OPTION SCHEME

Pursuant to an ordinary resolution passed in the Company's special general meeting held on 3rd November, 2003, the Company approved and adopted a Share Option Scheme.

The options of the Share Option Scheme may be granted to any director of the Company, employee, consultant, customer, supplier or advisor of the Company or a company in which the Company holds an interest or a subsidiary of such company (the "Eligible Persons"), the trustee of the Eligible Persons or a company beneficially owned by the Eligible Persons. The purpose of the Share Option Scheme is to attract and retain quality personnel and Eligible Persons to provide incentive to them to contribute to the business and operation of the Company. The total number of shares available for issue under the Share Option Scheme is 27,525,320 shares, representing 8.6% of the issued share capital of the Company as at the date of this report. 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 Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). The exercisable period is determined by the directors, which shall not be more than 10 years from the date of grant. There is no general applicable minimum period for which the options must be held before it can be exercised. An offer of the grant of an option shall be opened for acceptance in writing received by the secretary of the Company for a period of 21 days from the Eligible Persons without paying any consideration upon the acceptance of the offer. The exercise price per share payable on the exercise of an option equals to the highest of:

- (a) 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 or (where applicable) such price as from time to time adjusted pursuant to the Share Option Scheme;
- (b) the closing price per share as stated in the Stock Exchange's daily quotations sheet on the date of grant; and
- (c) the nominal value of the share.

## SHARE OPTION SCHEME (continued)

The Share Option Scheme is valid for a period of ten years commencing on the adoption date on 3rd November, 2003.

A summary of the share options outstanding under the Company's share option scheme are as follows:

Name of Director	Date of grant	Exercisable Period	Exercise price per share HK\$	Number of share options and number of underlying shares outstanding at 1.4.2007	Lapse during period	Number of share options and number of underlying shares outstanding at 30.9.2007
Yeung Ming Biu	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000	—	2,700,000
Yeung Him Kit, Dennis	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000	—	2,700,000
Chan Che Kwong, William	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000	(2,700,000)	—
Fung Kwok Yiu	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000	—	2,700,000
Yeung Man Yee, Shirley	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000	—	2,700,000
Lam Hing Lun, Alain	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000	—	2,700,000
Choi Kwok Yum	16.1.2004	16.1.2004 — 15.1.2014	1.702	2,700,000	—	2,700,000
						<u>16,200,000</u>

## SUBSTANTIAL SHAREHOLDERS

As at 30th September, 2007, according to the register maintained by the Company pursuant to Section 336 of the SFO, the following persons (not being a director of the Company) were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company.

### (1) Long position in shares of the Company

Name of shareholder	Number of shares held	Percentage of issued share capital of the Company
Datsun Holdings Limited	96,800,000	30.3%
Furama Investments Limited	96,800,000	30.3%
Realtower Holdings Limited	96,800,000	30.3%

Realtower Holdings Limited holds 55% of the issued share capital of Furama Investments Limited which holds 80% of the issued share capital of Datsun Holdings Limited. Accordingly, both Realtower Holdings Limited and Furama Investments Limited are deemed under the SFO to be interested in the 96,800,000 shares in the Company which are held by Datsun Holdings Limited.

Messrs. Yeung Ming Biu, Yeung Him Kit, Dennis, Fung Kwong Yiu, Madam Yeung Man Yee, Shirley and Madam Au Po Kee (wife of Mr. Yeung Ming Biu) are deemed by the SFO to be interested in the shares of the Company beneficially owned by Datsun Holdings Limited in the manner described under the above paragraph headed "Directors' interests and short positions in securities".

### (2) Short positions

Save as disclosed above, at 30th September, 2007, the Company had not been notified of any other interests or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under Part XV of the SFO.

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 8th January, 2008 to 11th January, 2008 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed interim dividend which is payable on 18th January, 2008, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 7th January, 2008.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

The Group's unaudited consolidated turnover for the period under review was HK\$1,290,877,000 (2006: HK\$1,148,232,000 ) and the profit for the period was HK\$56,942,000 ( 2006: HK\$35,445,000 ). The basic earnings per share for the period was 20.04 Hong Kong cents (2006: 12.88 Hong Kong cents).

The turnover for the period has increased 12.4%, from HK\$1,148,323,000 to HK\$1,290,877,000 while the profit for the period has increased 60.6%, from HK\$35,445,000 to HK\$56,942,000.

During the period, the Group has benefited from the strong economy of both Hong Kong and China. The overall atmospheres in these two areas are very positive and the customers are keen on purchasing luxury products. The demand for high-end expensive watches is strong. As such, the Group has been able to retain a higher margin on the watches sold. This is reflected on the high growth rate of our profit for the period.

During the period, the Group relocated the 555 Nathan Road shop in Yau Ma Tei to JD Mall, the new landmark in Jordan. Not only is the new location better suited for our potential customers, the size of the shop is also significantly larger. This move reflects our continual market shift into the higher end market, catering to the higher demands of the present-day luxury market customers. The results from this new shop have been very encouraging.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### Business Review (continued)

Other than Hong Kong, the Group has opened five more Rolex and Tudor shops in different cities of China. These cities include Zhengzhou, Guangzhou, Nanning, Changzhou and Tianjin. Up to the end of the period, the Group has 30 retail points of sales and 45 wholesale customers operating throughout Mainland China.

We will continue our policy in expanding and strengthening our retail network in China. The Group has issued 44,000,000 new shares in respect of placement of new ordinary shares to independent third parties and exercised of warrants by the warrants holders. The proceeds from the placement of new shares and exercised of warrants are used for further development the network in China and for financing its general operations.

We continue to commit to our dividend policy of providing a consistent return to our shareholders, as we hope that you will continue to commit to the Oriental Watch Group during all its ventures leading to a solid and successful future.

## FINANCIAL POSITION AND CAPITAL STRUCTURE

At 30th September, 2007, the Group's total equity reached HK\$1,055 million, compared with HK\$850 million as at 31st March, 2007. The Group had net current assets of HK\$853 million, including pledged bank deposits and bank and cash balances of HK\$265 million as at 30th September, 2007 compared with balances of HK\$658 million and HK\$170 million respectively as at 31st March, 2007. At 30th September, 2007, bank loans and overdrafts totalled HK\$275 million (31st March, 2007: HK\$278 million). At 30th September, 2007, the gearing ratio (defined as total bank borrowing on total equity) was 0.26 (31st March, 2007: 0.33).

Management still consider 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.

## STAFF AND EMPLOYMENT

As at 30th September, 2007, the Group employed a total work force of about 600 staff. The staff turnover rate is low. The Group's policy is to review its employee's pay levels and incentive bonus scheme regularly to ensure that the remuneration package is competitive with relevant industries.

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

During the six months ended 30th September, 2007, 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 30th September, 2007, except the deviation from the code provision A4.1 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 six months ended 30th September, 2007.

## **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 interim financial statements for the six months ended 30th September, 2007.

## **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 with respect to their remuneration packages.



## MEMBERS OF THE BOARD OF DIRECTORS

As at the date of this report, the Board comprises Mr. Yeung Ming Bui, 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. So Kai Lau, Peter as independent non-executive directors.

By order of the Board

**Yeung Ming Bui**

*Chairman*

Hong Kong, 19 December, 2007