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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, 2016

FINANCIAL HIGHLIGHTS

- Turnover declined 2.5% to HK\$3,032 million
- Loss attributable to owners of the Company was HK\$16 million
- Loss earnings per share was HK2.72 cents
- Final dividend of HK0.25 cents per share

The Board of Directors 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, 2016 together with the comparative figures for the corresponding year in 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31st March, 2016

	<i>Notes</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Turnover	3	3,031,752	3,109,031
Cost of goods sold		<u>(2,546,147)</u>	<u>(2,590,037)</u>
Gross profit		485,605	518,994
Other income, gains and losses	4	37,125	48,055
Distribution and selling expenses		(199,533)	(214,382)
Administrative expenses		(332,430)	(337,958)
Finance costs	5	(6,942)	(15,214)
Share of results of associates		892	631
Share of results of joint ventures		<u>2,566</u>	<u>9,524</u>
(Loss) profit before taxation	6	(12,717)	9,650
Income tax expense	7	<u>(3,042)</u>	<u>(5,317)</u>
(Loss) profit for the year		<u>(15,759)</u>	<u>4,333</u>
Other comprehensive expense			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange difference arising on translation of foreign operations		(36,337)	(2,180)
Change in fair value of available-for-sale financial assets		<u>(127)</u>	<u>(4,098)</u>
Other comprehensive expense for the year		<u>(36,464)</u>	<u>(6,278)</u>
Total comprehensive expense for the year		<u>(52,223)</u>	<u>(1,945)</u>

	<i>Note</i>	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
(Loss) profit for the year attributable to:			
Owners of the Company		(15,528)	4,508
Non-controlling interests		<u>(231)</u>	<u>(175)</u>
		<u>(15,759)</u>	<u>4,333</u>
Total comprehensive expense attributable to:			
Owners of the Company		(51,938)	(1,731)
Non-controlling interests		<u>(285)</u>	<u>(214)</u>
		<u>(52,223)</u>	<u>(1,945)</u>
(Loss) earnings per share			
Basic	<i>9</i>	<u>(2.72) HK cents</u>	<u>0.79 HK cents</u>
Diluted	<i>9</i>	<u>(2.72) HK cents</u>	<u>0.79 HK cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st March, 2016

	<i>Notes</i>	2016 HK\$'000	2015 HK\$'000
Non-current assets			
Property, plant and equipment		228,867	247,067
Deposits for acquisition of property, plant and equipment		7,072	3,333
Interests in associates	<i>10</i>	35,150	35,696
Interests in joint ventures	<i>11</i>	114,806	119,936
Available-for-sale financial assets		5,525	5,652
Deferred tax assets		114	306
Property rental deposits		45,738	18,445
		437,272	430,435
Current assets			
Inventories		1,569,528	1,783,767
Trade and other receivables	<i>12</i>	117,085	141,947
Taxation recoverable		5,893	5,887
Bank balances and cash		403,804	344,037
		2,096,310	2,275,638
Current liabilities			
Trade and other payables	<i>13</i>	156,754	152,703
Taxation payable		681	2,310
Bank loans		156,178	228,377
		313,613	383,390
Net current assets		1,782,697	1,892,248
Total assets less current liabilities		2,219,969	2,322,683
Non-current liabilities			
Bank loans		60,460	109,137
Deferred tax liabilities		1,937	1,755
		62,397	110,892
Net assets		2,157,572	2,211,791
Capital and reserves			
Share capital	<i>14</i>	57,061	57,061
Reserves		2,099,457	2,153,391
Equity attributable to owners of the Company		2,156,518	2,210,452
Non-controlling interests		1,054	1,339
Total equity		2,157,572	2,211,791

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 which is also the functional currency of the Company.

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

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010 — 2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 — 2013 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 or prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new or revised standards that have been issued but are not yet effective:

HKFRS 9	Financial instruments ²
HKFRS 14	Regulatory deferral accounts ⁴
HKFRS 15	Revenue from contracts with customers ²
HKFRS 16	Leases ³
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations ¹
Amendments to HKAS 1	Disclosure initiative ¹
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation ¹
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants ¹
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture ⁵
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception ¹
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 — 2014 cycle ¹

- ¹ Effective for annual periods beginning on or after 1st January, 2016.
- ² Effective for annual periods beginning on or after 1st January, 2018.
- ³ Effective for annual periods beginning on or after 1st January, 2019.
- ⁴ Effective for first annual HKFRS financial statements beginning on or after 1st January, 2016.
- ⁵ Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 “Financial instruments”

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2015 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 “Financial instruments: Recognition and measurement” are 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 of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at 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.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented 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.
- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The directors of the Company are in the process of assessing the impact on the application of HKFRS 9. However, it is not practicable to provide a reasonable estimate of the effect until detailed review has been completed.

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.

The directors of the Company will assess the impact of the application of HKFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

HKFRS 16 “Leases”

HKFRS 16, which upon the effective date will supersede HKAS 17 “Leases”, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or not to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The directors of the Company will assess the impact of the application of HKFRS 16. For the moment, it is not practicable to provide a reasonable estimate of the effect of the application of HKFRS 16 until the Group performs a detailed review.

The directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group’s operation is principally sales of watches. The Group’s turnover 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 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)	
	2016	2015	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	2,245,293	2,185,609	28,361	28,287
Taiwan, Macau and the PRC	786,459	923,422	(16,919)	(13,657)
	<u>3,031,752</u>	<u>3,109,031</u>	11,442	14,630
Unallocated other income			4,509	20,897
Unallocated corporate expenses			(25,184)	(20,818)
Finance costs			(6,942)	(15,214)
Share of results of associates			892	631
Share of results of joint ventures			2,566	9,524
(Loss) profit before taxation			<u>(12,717)</u>	<u>9,650</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 earned by each segment without allocation of finance costs, share of results of associates and joint ventures and unallocated other income and expenses. Unallocated 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, 2016.

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	
	2016	2015	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	1,246,569	1,331,557	110,768	91,474
Taiwan, Macau and the PRC	721,173	862,317	44,801	61,185
Segment total	1,967,742	2,193,874	155,569	152,659
Unallocated	565,840	512,199	220,441	341,623
Group's total	<u>2,533,582</u>	<u>2,706,073</u>	<u>376,010</u>	<u>494,282</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, amount due from a joint venture, 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 (gain) on disposal of property, plant and equipment		Increase (decrease) in non-current property rental deposits	
	2016	2015	2016	2015	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	5,829	3,551	14,446	16,546	47	(17,255)	27,342	(21,225)
Taiwan, Macau and the PRC	11,373	8,041	17,693	20,310	—	—	(49)	2,745
Segment total	17,202	11,592	32,139	36,856	47	(17,255)	27,293	(18,480)
Unallocated	—	—	137	171	—	—	—	—
Group's total	<u>17,202</u>	<u>11,592</u>	<u>32,276</u>	<u>37,027</u>	<u>47</u>	<u>(17,255)</u>	<u>27,293</u>	<u>(18,480)</u>

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

	Carrying amount of non-current assets	
	2016 HK\$'000	2015 HK\$'000
Hong Kong	193,334	199,845
Taiwan, Macau and the PRC	42,605	50,555
	<u>235,939</u>	<u>250,400</u>

4. OTHER INCOME, GAINS AND LOSSES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Show window rental income	22,489	21,525
Refund of rental expense	8,880	—
Repairing service income	1,487	1,716
(Loss) gain on disposal of property, plant and equipment	(47)	17,255
Interest income	1,309	2,544
Exchange (loss) gain	(3,300)	163
Others	6,307	4,852
	<u>37,125</u>	<u>48,055</u>

5. FINANCE COSTS

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest on bank borrowings	<u>6,942</u>	<u>15,214</u>

6. (LOSS) PROFIT BEFORE TAXATION

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
(Loss) profit before taxation has been arrived at after charging:		
Directors' remuneration	15,694	18,049
Other staff's retirement benefits scheme contributions	5,249	7,562
Other staff costs	82,659	85,282
Total staff costs	<u>103,602</u>	<u>110,893</u>
Auditor's remuneration	2,780	2,780
Depreciation of property, plant and equipment	32,276	37,027
Impairment loss recognised in respect of property, plant and equipment	1,325	—
Operating lease rentals in respect of rented premises	<u>226,570</u>	<u>224,329</u>

7. INCOME TAX EXPENSE

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax	2,409	4,067
Under(over)provision in prior years	8	(444)
	<u>2,417</u>	<u>3,623</u>
Taxation in other jurisdictions	696	2,381
Overprovision in prior years	(432)	(1,085)
	<u>264</u>	<u>1,296</u>
Deferred taxation	<u>361</u>	<u>398</u>
	<u>3,042</u>	<u>5,317</u>

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Dividend recognised as distribution during the year:		
Interim dividend for financial year ended 31st March, 2016 of 0.1 HK cents (special dividend for financial year ended 31st March, 2015: 0.5 HK cents) per share on 570,610,224 (2015: 570,610,224) shares	570	2,853
Final dividend for financial year ended 31st March, 2015 of 0.25 HK cents (financial year ended 31st March, 2014: 0.25 HK cents) per share on 570,610,224 (2014: 570,610,224) shares	<u>1,426</u>	<u>1,426</u>
	<u>1,996</u>	<u>4,279</u>
Dividend proposed after year end:		
Proposed final dividend for financial year ended 31st March, 2016 of 0.25 HK cents (financial year ended 31st March, 2015: 0.25 HK cents) per share on 570,610,224 (2015: 570,610,224) shares	<u>1,426</u>	<u>1,426</u>

A final dividend of 0.25 HK cents (2015: 0.25 HK cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

9. (LOSS) EARNINGS PER SHARE

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<u>(Loss) earnings</u>		
(Loss) earnings for the purposes of basic and diluted (loss) earnings per share ((loss) profit for the year attributable to owners of the Company)	<u>(15,528)</u>	<u>4,508</u>
	2016 '000	2015 '000
<u>Number of shares</u>		
Number of ordinary shares for the purpose of basic (loss) earnings 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 (loss) earnings per share	<u>570,610</u>	<u>570,610</u>

The diluted (loss) earnings 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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cost of investments in unlisted associates	30,201	30,201
Exchange adjustment	(3,405)	(1,967)
Share of post-acquisition profits	<u>8,354</u>	<u>7,462</u>
	<u>35,150</u>	<u>35,696</u>

Included in the cost of investments is goodwill of HK\$14,144,000 (2015: HK\$14,738,000) arising on acquisition of associates.

11. INTERESTS IN JOINT VENTURES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cost of investments in unlisted joint ventures	21,807	21,807
Exchange adjustment	(588)	808
Share of post-acquisition profits	<u>22,248</u>	<u>19,682</u>
	<u>43,467</u>	<u>42,297</u>
Amount due from a joint venture (<i>note</i>)	<u>71,339</u>	<u>77,639</u>
	<u>114,806</u>	<u>119,936</u>

Note: The amount, which is due from Hei Tung Watches Company Limited ("Hei Tung"), is unsecured, interest free and has no fixed repayment term. During the year, the Group has received repayment of amount due from a joint venture, Hei Tung, amounting HK\$6,300,000. The Group expects that the remaining amount would not be settled within twelve months from the end of the reporting period and therefore classified the amount as a non-current asset.

12. TRADE AND OTHER RECEIVABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables	88,852	86,120
Receivable from a joint venture (note)	5,185	2,637
Property rental and utilities deposits	16,530	43,678
Advances to other suppliers	489	1,117
VAT recoverable	2,610	2,849
Other receivables	3,419	5,546
	<u>117,085</u>	<u>141,947</u>

Note: The amount represents 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:

Age	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 to 30 days	85,873	81,673
31 to 60 days	1,158	3,652
61 to 90 days	180	5
Over 90 days	1,641	790
	<u>88,852</u>	<u>86,120</u>

13. TRADE AND OTHER PAYABLES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade payables	102,881	97,075
Payroll and welfare payables	6,638	7,395
Commission payables	4,328	2,647
Advances from customers	12,611	20,293
Renovation work payables	3,163	2,199
VAT and other taxes payables	8,631	12,045
Advertising fee payables	3,666	2,568
Interest payables	208	695
Property rental fee payables	7,425	493
Other payables	7,203	7,293
	<u>156,754</u>	<u>152,703</u>

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Age		
0 to 60 days	91,816	87,890
61 to 90 days	127	645
Over 90 days	10,938	8,540
	<u>102,881</u>	<u>97,075</u>

14. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1st April, 2014, 31st March, 2015 and 31st March, 2016	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1st April, 2014, 31st March, 2015 and 31st March, 2016	<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 Rules Governing the Listing of Securities on the Stock Exchange (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 <i>(note a)</i>	6th April, 2011 to 5th April, 2021	HK\$4.13	HK\$3.44 <i>(note i)</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, 2015 and 2016:

Share options granted on 6th April, 2011

	Number of shares under option outstanding at 1st April, 2014, 31st March, 2015 and 31st March, 2016
Categories of participants	
Directors of the Company	14,520,000
Other employees	14,400,000
Consultants <i>(note ii)</i>	2,640,000
Total	<u>31,560,000</u>

Share options granted on 29th August, 2011

	Number of shares under option outstanding at 1st April, 2014, 31st March, 2015 and 31st March, 2016
Categories of participants	
Other employees	18,000,000
Consultants (<i>note ii</i>)	<u>5,000,000</u>
Total	<u><u>23,000,000</u></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 report 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, 2016.

No share-based payment expense was recognised for the years ended 31st March, 2015 and 2016 in relation to share options granted by the Company.

16. CONTINGENT LIABILITIES

As at 31st March, 2016, 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\$47,600,000; 2015: NT\$200,000,000 and equivalent to HK\$49,599,000), which was fully utilised by these associates at 31st March, 2016. The fair value of the financial guarantee contracts at the grant date and at 31st March, 2015 and 2016 is not significant and in the opinion of the directors, the default risk of associates 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:

	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	230,390	158,912
In the second to fifth years inclusive	218,670	208,466
Over five years	68,683	69,507
	<u>517,743</u>	<u>436,885</u>

Operating lease payments represent rentals payable by the Group for certain its shops and office premises. Leases are negotiated for an average term of 1 to 8 years (2015: 1 to 9 years). Some group entities are required to pay lease charges based on a fixed percentage of net sales.

18. CAPITAL COMMITMENTS

	2016 <i>HK\$'000</i>	2015 <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>1,000</u>	<u>2,000</u>

FINAL DIVIDEND

The directors proposed to pay a final dividend of 0.25 Hong Kong cents per share for the year ended 31 March, 2016 (2015: 0.25 Hong Kong cents) to the shareholders whose names appear on the register of members of the Company on 26 August, 2016. Subject to approval at the forthcoming annual general meeting, dividend warrants will be sent to shareholders on or before 8 September, 2016.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24 August, 2016 to 26 August, 2016 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the proposed final 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 23 August, 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Group Results

On behalf of the Board of Directors (the "Board") of Oriental Watch Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group"), I hereby present the audited consolidated results of the Group for the year ended 31 March 2016 (the "Year").

Given the slowdown of economic growth in China and the overall slackening landscapes in luxury sector, the Group's turnover for the Year slightly decreased by 2.5% to HK\$3,032 million (2015: HK\$3,109 million). Yet, gross profit declined by 6.4% to HK\$486 million (2015: HK\$519 million) whilst gross profit margin dropped to 16.0% from 16.7% last year. Net loss attributable to owners of the Company was HK\$16 million, (2015: Net profit of HK\$5 million). The significant decline in both the Group's gross profit and net loss incurred was mainly attributable to: (1) the slowdown of demand in the high-end consumer goods market both in Hong Kong and Mainland China; and (2) keen competition and high operating cost.

Despite such unfavourable business environment, the Board has resolved to recommend a final dividend of 0.25 HK cents per share for the year ended 31 March 2016 (2015: 0.25 HK cents) in appreciation of shareholders' ongoing support. Dividend payout for the Year of 2015 was approximately 95%.

Business Review

As at 31 March 2016, the Group operates 80 retail and wholesale points (including associate retail stores) in the Greater China region. Breakdown by geographic region is as follows:

	As at 31 March 2016
Hong Kong	14
Macau	3
China	60
Taiwan	3
	<hr/>
Total	80
	<hr/> <hr/>

The China's economy has undergone structural reform and a softened economic growth has been observed in the past two years. According to the National Bureau of Statistics of China, the 2015 gross domestic product ("GDP") was expanding at a rate of 6.9% and was the weakest since 1990, failing to meet the 7% growth target set in the "Twelfth Five-Year Plan" and even slowed to 6.7% in the first quarter of 2016. Apart from being hampered by the bleak economic landscape, outbound Chinese tourists nowadays also altered their destination preferences due to the relaxation of visa policies in foreign counties and the depreciation of relative currency. The favourable exchange rates have encouraged Chinese tourists to purchase luxury goods abroad, such as Japan and other European countries. Meanwhile, the increasing number of social movements and the intensifying tension between Hong Kong and Mainland China have deterred Chinese tourists from visiting Hong Kong, thus further upsetting the luxury retail market. Despite the difficult times ahead, Oriental Watch, as a traditional luxury watches company with extensive foothold in Greater China, will proactively implement stringent cost and inventory control strategies, as well as improve store efficiency to enhance our competitiveness and maintain stable financial position in the coming year.

Aside from the sluggish business environment, high rental cost is another major challenge to be tackled for the Group. During the Year, the Group's aggregate rental cost (excluding related property management fees) slightly increased by 1.3% to HK\$227 million, accounting for 42.1% of the Group's overall operating expenses. Since 2014, minimising rental cost and optimising store efficiency have been the priority of the Group. We have been internally assessing the performance of all retail stores on a regular basis and closed down high-rent yet non-performing stores to achieve better resources allocation. Moreover, the pace of rental increase has been slowed down due

to the sluggish market situation and the Group views it as a positive sign to negotiate better rental rate in the upcoming lease renewal. We believe the above measures can enhance our average store profitability in the long run and alleviate the heavy financial burden incurred by the high rental cost.

On the other hand, to ensure healthy financial position and cash flow level, the Group has employed various inventory management policies, such as monitoring inventory level of high-ticket products and purchasing stocks only when existing inventory depletes to a pre-agreed level. The Group's inventory level has been successfully lowered with our prudent replenishment policy and the continuous effort from all front-line staff. As at 31 March 2016, the Group's overall inventory level amounted to HK\$1,570 million, decreasing by 12.0% from HK\$ 1,784 million. In the coming year, the Group will strive to maintain a steady inventory level for a better cash position and a sustainable business development in the future.

According to Federation of the Swiss Watch Industry FH, China and Hong Kong's overall Swiss watch exports value in April 2016 recorded a significant year-on-year decline of 36.0% and 17.0% respectively. It is the fifteenth consecutive month for watch exports to Hong Kong to falter, implying that the business environment for the retail market, especially for luxury watches sector, will continue to be harsh. Looking ahead, the conservative consumption pattern of local customers is likely to persist under the weak macroeconomic condition, together with the shift in Chinese tourists' destination will inevitably affect the retail watch industry. Yet, the Group will take a prudent stance in negotiating for reasonable rent in the coming year, at the same time, cautiously monitor cost and inventory level to maximise overall profitability. This year marks the Group's 55th anniversary and as a luxury watch retailer with extensive experience in the industry, Oriental Watch will stand firm to overcome the adversity ahead. With shareholders' interests as our first priority, the Group will continue to strive to improve, advance and excel, so as to achieve stability and sustainability in our business.

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

FINANCIAL REVIEW

Liquidity and financial resources

At 31 March 2016, the Group's total equity reached HK\$2,158 million, compared with HK\$2,212 million as at 31 March, 2015. The Group had net current assets of HK\$1,783 million, including bank and cash balances of HK\$404 million as at 31 March, 2016 compared with balances of HK\$1,892 million and HK\$344 million respectively as at 31 March, 2015. At 31 March, 2016, bank loans of HK\$217 million (31 March, 2015: HK\$338 million). At 31 March, 2016, the gearing ratio (defined as total bank borrowing on total equity) was 0.10 (31 March, 2015: 0.15).

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, 2016, our Group employed approximately 700 employees all over HK, Macau, China and Taiwan, of which approximately 63% were located in Mainland China. The total manpower is lower than previous year.

The Group's compensation package, 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.

We believe 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. Since January, 2009, we have 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 31 March, 2016.

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

During the year ended 31 March, 2016, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities on The Stock Exchange of Hong Kong Limited.

CORPORATE GOVERNANCE

The Company is committed to the establishment of good governance practices and procedures. The Company has met the code provisions set out in the Code on Corporate Governance Practices (“CG Code”) in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”), throughout the year ended 31 March, 2016, except the deviation from the code provision A.4.1 of the CG Code.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors’ securities transactions. Enquiry has been made with all Directors and all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 March, 2016.

AUDIT COMMITTEE

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

The Audit Committee, together with the management of the Company, have reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of audited consolidated financial statements for the year ended 31 March, 2016.

REVIEW OF PRELIMINARY ANNOUNCEMENT

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 March 31, 2016 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 24 August, 2016. 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 2016 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, Mr. Fung Kwong Yiu, Madam Yeung Man Yee, Shirley, Mr. Lam Hing Lun, Alain and Mr. Choi Kwok Yum as executive directors and Dr. Sun Ping Hsu, Samson, Dr. Li Sau Hung, Eddy and Mr. Choi Man Chau, Michael as independent non-executive directors.

By order of the Board
Yeung Ming Bui
Chairman

Hong Kong, 23 June, 2016