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ORIENTAL WATCH HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

(the “Company”)

(Stock Code: 398)

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

FINAL RESULTS FOR THE YEAR ENDED 31ST MARCH 2018

Financial Highlights

- Turnover decreased 8.0% to HK\$2,892 million
- Profit attributable to owners of the Company was HK\$139 million
- Earnings per share was HK 24.32 cents
- Final dividend of HK 8.0 cents per share
- Special dividend of HK 15.0 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 31 March 2018 together with the comparative figures for the corresponding year in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Revenue	3	2,891,692	3,142,295
Cost of goods sold		<u>(2,284,817)</u>	<u>(2,634,028)</u>
Gross profit		606,875	508,267
Other income, gains and losses	4	38,870	20,896
Distribution and selling expenses		(206,424)	(190,447)
Administrative expenses		(275,423)	(311,367)
Finance costs	5	(1,843)	(3,730)
Share of results of associates		2,586	2,558
Share of result of a joint venture		50	(728)
Profit before taxation	6	164,691	25,449
Income tax expense	7	<u>(26,006)</u>	<u>(9,352)</u>
Profit for the year		<u>138,685</u>	<u>16,097</u>
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operations		61,587	(24,814)
Change in fair value of available-for-sale financial assets		<u>478</u>	<u>581</u>
Other comprehensive income (expense) for the year		<u>62,065</u>	<u>(24,233)</u>
Total comprehensive income (expense) for the year		<u>200,750</u>	<u>(8,136)</u>
Profit (loss) for the year attributable to:			
Owners of the Company		138,763	16,383
Non-controlling interests		<u>(78)</u>	<u>(286)</u>
		<u>138,685</u>	<u>16,097</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		200,783	(7,945)
Non-controlling interests		<u>(33)</u>	<u>(191)</u>
		<u>200,750</u>	<u>(8,136)</u>
Earnings per share			
Basic	9	<u>24.32 HK cents</u>	<u>2.87 HK cents</u>
Diluted	9	<u>24.32 HK cents</u>	<u>2.87 HK cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 31 March 2018*

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		210,816	208,863
Deposits for acquisition of property, plant and equipment		3,000	133
Interests in associates	<i>10</i>	37,779	36,499
Interest in a joint venture	<i>11</i>	27,413	24,873
Available-for-sale financial assets		12,344	6,106
Deferred tax assets		56	73
Property rental deposits		30,817	46,550
		322,225	323,097
Current assets			
Inventories		1,001,069	1,275,897
Trade and other receivables	<i>12</i>	134,704	110,508
Taxation recoverable		48	48
Bank balances and cash		1,081,891	645,188
		2,217,712	2,031,641
Current liabilities			
Trade and other payables	<i>13</i>	126,076	87,835
Taxation payable		19,925	7,460
Bank loans		62,820	81,573
		208,821	176,868
Net current assets		2,008,891	1,854,773
Total assets less current liabilities		2,331,116	2,177,870
Non-current liabilities			
Bank loans		12,500	29,167
Deferred tax liabilities		1,664	1,689
		14,164	30,856
Net assets		2,316,952	2,147,014
Capital and reserves			
Share capital	<i>14</i>	57,061	57,061
Reserves		2,258,916	2,088,945
Equity attributable to owners of the Company		2,315,977	2,146,006
Non-controlling interests		975	1,008
Total equity		2,316,952	2,147,014

Notes:

1. GENERAL

Oriental Watch Holdings Limited (“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 address of the registered office and principal place of business of the Company are detailed in the corporate information section of the annual report.

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

The Company and its subsidiaries (collectively referred to as the “Group”) have applied the following amendments to Hong Kong Accounting Standards (“HKASs”) and HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

New and revised HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ⁴
HK(IFRIC) — Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) — Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 “Financial Instruments” with HKFRS 4 “Insurance Contracts” ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ²
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle ¹
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle ²

- ¹ Effective for annual periods beginning on or after 1 January 2018.
² Effective for annual periods beginning on or after 1 January 2019.
³ Effective for annual periods beginning on or after a date to be determined.
⁴ Effective for annual periods beginning on or after 1 January 2021.

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 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)	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong	2,179,921	2,284,289	162,988	50,524
Taiwan, Macau and the PRC	711,771	858,006	18,406	(4,886)
	<u>2,891,692</u>	<u>3,142,295</u>	181,394	45,638
Unallocated other income			5,483	2,257
Unallocated corporate expenses			(22,979)	(20,546)
Finance costs			(1,843)	(3,730)
Share of results of associates			2,586	2,558
Share of result of a joint venture			50	(728)
Profit before taxation			<u>164,691</u>	<u>25,449</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 (loss) represents the profit (loss) before taxation earned/incurred by each segment without allocation of finance costs, share of results of associates and a joint venture and unallocated other income and corporate expenses. Unallocated corporate expenses include auditor's remuneration, directors' emoluments, exchange gain (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 31 March 2018.

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	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Hong Kong	892,402	1,115,902	71,398	46,881
Taiwan, Macau and the PRC	552,866	587,005	53,362	39,640
Segment total	1,445,268	1,702,907	124,760	86,521
Unallocated	1,094,669	651,831	98,225	121,203
Group's total	<u>2,539,937</u>	<u>2,354,738</u>	<u>222,985</u>	<u>207,724</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 available-for-sale financial assets, deferred tax assets, tax recoverable and bank balances and cash; and
- all liabilities are allocated to operating segments other than taxation payable, deferred tax liabilities and bank loans. Bank loans are classified as unallocated corporate liabilities because they are managed centrally by the treasury function of the Group.

Other segment information

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

	Additions of property, plant and equipment		Depreciation		Loss on disposal of property, plant and equipment		Impairment loss recognised in respect of property, plant and equipment		(Decrease) increase in non-current property rental deposits	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	11,715	6,783	12,071	12,784	109	5,362	—	—	(15,317)	(4,610)
Taiwan, Macau and the PRC	9,990	4,852	9,235	9,615	44	2,377	26	588	(416)	5,422
Segment total	21,705	11,635	21,306	22,399	153	7,739	26	588	(15,733)	812
Unallocated	—	—	83	132	—	—	—	—	—	—
Group's total	<u>21,705</u>	<u>11,635</u>	<u>21,389</u>	<u>22,531</u>	<u>153</u>	<u>7,739</u>	<u>26</u>	<u>588</u>	<u>(15,733)</u>	<u>812</u>

Information about the Group's non-current assets (excluding available-for-sale financial assets and deferred tax assets) by geographical location of the assets is detailed below:

	Carrying amount of non-current assets	
	2018	2017
	HK\$'000	HK\$'000
Hong Kong	268,519	276,858
Taiwan, Macau and the PRC	41,306	40,060
	<u>309,825</u>	<u>316,918</u>

4. OTHER INCOME, GAINS AND LOSSES

	2018	2017
	HK\$'000	HK\$'000
Show window rental income	20,264	22,624
Interest income	5,483	2,256
Repairing service income	1,271	1,898
Loss on disposal of property, plant and equipment	(153)	(7,739)
Exchange gain (loss)	6,157	(2,948)
Loss on disposal of interest in a joint venture	—	(14)
Others	5,848	4,819
	<u>38,870</u>	<u>20,896</u>

5. FINANCE COSTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest on bank loans	<u>1,843</u>	<u>3,730</u>

6. PROFIT BEFORE TAXATION

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Directors' remuneration	25,963	16,066
Other staff's retirement benefits scheme contributions	4,805	4,757
Other staff costs	<u>114,310</u>	<u>75,390</u>
Total staff costs	<u>145,078</u>	<u>96,213</u>
Auditor's remuneration	2,960	2,780
Depreciation of property, plant and equipment	21,389	22,531
Impairment loss recognised in respect of property, plant and equipment	26	588
Operating lease rentals in respect of rented premises	<u>169,276</u>	<u>213,522</u>

7. INCOME TAX EXPENSE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
— Current year	24,526	3,360
— (Over)underprovision in prior years (<i>note</i>)	<u>(76)</u>	<u>5,390</u>
	<u>24,450</u>	<u>8,750</u>
Taxation in other jurisdictions		
— Current year	1,055	202
— Overprovision in prior years	(43)	(159)
— Withholding tax on dividend income from associates	<u>545</u>	<u>771</u>
	<u>1,557</u>	<u>814</u>
Deferred taxation credit	<u>(1)</u>	<u>(212)</u>
	<u>26,006</u>	<u>9,352</u>

Note: On 21 March 2017, the Inland Revenue Department of Hong Kong issued additional tax assessment to a wholly-owned subsidiary of the Company on a claimed offshore income for the years of assessment from 2010/11 to 2012/13. Accordingly, the amount of tax had been charged as underprovision in prior years for the year ended 31 March 2017.

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Dividends recognised as distribution during the year:		
Interim dividend for financial year ended 31 March 2018 of 2.0 HK cents (2017: 0.2 HK cent) per share on 570,610,224 (2017: 570,610,224) shares	11,412	1,141
Final dividend for financial year ended 31 March 2017 of 0.4 HK cent (2016: 0.25 HK cent) per share on 570,610,224 (2016: 570,610,224) shares	2,282	1,426
Special dividend for financial year ended 31 March 2017 of 3.0 HK cents (2016: nil) per share on 570,610,224 (2016: 570,610,224) shares	17,118	—
	<u>30,812</u>	<u>2,567</u>
Dividend proposed after year end (<i>note</i>):		
Proposed final dividend for financial year ended 31 March 2018 of 8.0 HK cents (2017: 0.4 HK cent) per share on 570,610,224 (2017: 570,610,224) shares	45,649	2,282
Proposed special dividend for financial year ended 31 March 2018 of 15.0 HK cents (2017: 3.0 HK cents) per share on 570,610,224 (2017: 570,610,224) shares	85,592	17,118
	<u>131,241</u>	<u>19,400</u>

Note: Subsequent to the end of the reporting period, a final dividend and special dividend for the year ended 31 March 2018 have been proposed by the directors of the Company and is subject to approval by the shareholders in the forthcoming general meeting.

9. 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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Earnings		
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to owners of the Company)	<u>138,763</u>	<u>16,383</u>
	2018 <i>'000</i>	2017 <i>'000</i>
Number of shares		
Number of ordinary shares for the purpose of basic 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 earnings per share	<u>570,610</u>	<u>570,610</u>

The diluted 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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Cost of investments in unlisted associates	30,201	30,201
Exchange adjustment	1,176	(245)
Share of post-acquisition profits, net of dividends received	<u>6,402</u>	<u>6,543</u>
	<u>37,779</u>	<u>36,499</u>

Included in the cost of investments is goodwill of HK\$16,089,000 (2017: HK\$15,381,000) arising on acquisition of associates.

11. INTEREST IN A JOINT VENTURE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Cost of investment in an unlisted joint venture	21,793	21,793
Exchange adjustment	652	(1,838)
Share of post-acquisition profits	4,968	4,918
	<u>27,413</u>	<u>24,873</u>

Included in the cost of investments is goodwill of HK\$4,262,000 (2017: HK\$3,874,000) arising on acquisition of 寧波匯美鐘錶有限公司 during the year ended 31 March 2012.

12. TRADE AND OTHER RECEIVABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables	108,938	91,351
Property rental deposits	18,915	11,465
PRC value added tax (“VAT”) recoverable	2,904	2,744
Advances to other suppliers	798	767
Other receivables	3,149	4,181
	<u>134,704</u>	<u>110,508</u>

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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Age		
0 to 30 days	99,445	85,304
31 to 60 days	6,233	2,705
61 to 90 days	45	334
Over 90 days	3,215	3,008
	<u>108,938</u>	<u>91,351</u>

13. TRADE AND OTHER PAYABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade payables	65,307	52,427
Payroll and welfare payables	19,954	7,665
Commission payables	2,116	2,267
Advances from customers	8,780	3,838
Renovation work payables	5,288	1,164
PRC VAT and other taxes payables	12,372	10,520
Advertising fee payables	639	1,569
Property rental fee payables	1,996	566
Other payables	9,624	7,819
	<u>126,076</u>	<u>87,835</u>

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Age		
0 to 60 days	54,341	42,977
61 to 90 days	907	1,604
Over 90 days	10,059	7,846
	<u>65,307</u>	<u>52,427</u>

14. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.10 each		
Authorised:		
At 1 April 2016, 31 March 2017 and 31 March 2018	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2016, 31 March 2017 and 31 March 2018	<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 3 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 3 November 2003.

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

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

On 6 April 2011, 32,300,000 share options were granted and on 29 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
6 April 2011	32,300,000	6 April 2011 to 5 April 2021	HK\$4.13	HK\$3.44 <i>(note i)</i>
29 August 2011	23,000,000	29 August 2011 to 28 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 31 March 2017 and 2018:

Share options granted on 6 April 2011

	Number of shares under option outstanding at 1 April 2016	Reclassified during the year ended 31 March 2017	Number of shares under option outstanding at 31 March 2017 and 31 March 2018
Categories of participants			
Directors of the Company	14,520,000	(3,000,000)	11,520,000
Other employees	14,400,000	—	14,400,000
Consultants (<i>note ii</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

	Number of shares under option outstanding at 1 April 2016, 31 March 2017 and 31 March 2018
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 2 November 2013. The options could be exercised by the participants at any time during the option period and notwithstanding that the 2003 Share Option Scheme had expired.

(b) 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.

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

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

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

No option was granted, exercised or lapsed under the 2013 Share Option Scheme since its effective date on 3 November 2013 and there was no outstanding share option as at 31 March 2018.

No share-based payment expense was recognised for the years ended 31 March 2017 and 2018 in relation to share options granted by the Company.

16. CONTINGENT LIABILITIES

As at 31 March 2018, 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\$54,100,000; 2017: NT\$200,000,000 and equivalent to HK\$51,800,000), which was fully utilised by these associates at 31 March 2018. 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 2018 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:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within one year	133,694	145,379
In the second to fifth years inclusive	116,547	138,048
Over five years	616	36,715
	<u>250,857</u>	<u>320,142</u>

Operating lease payments represent rentals payable by the Group for certain shops and office premises. Leases are negotiated for a term ranged from 1 to 8 years (2017: 1 to 8 years). Some group entities are required to pay lease charges based on a fixed percentage of net sales.

18. CAPITAL COMMITMENTS

	2018 <i>HK\$'000</i>	2017 <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>8,949</u>	<u>132</u>

FINAL DIVIDEND

The directors proposed to pay a final dividend of 8.0 HK cents per share for the year ended 31 March 2018 (2017: 0.4 HK cent) and a special dividend of 15.0 HK cents per share (2017: 3.0 HK cents) to the shareholders whose names appear on the register of members of the Company on 6 September 2018. Subject to approval at the forthcoming annual general meeting, dividend warrants will be sent to shareholders on or before 13 September 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 4 September 2018 to 6 September 2018 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and special dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Secretaries Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 3 September, 2018.

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 2018 (the "Year").

2017 has marked a revival of Hong Kong's retail market. The pick-up in personal consumption was propelled by the positive market sentiment arising from the favourable economic conditions. During the Year, local consumers have been a major driving force for the market upturn, and an ongoing recovery in inbound tourism has given an extra impetus to the retail market. Together with the success in enhancing product portfolio, the Group's turnover for the Year decreased by 8.0% to HK\$2,892 million (2017: HK\$3,142 million). Gross profit increased by 19.5% to HK\$607 million (2017: HK\$508 million) while gross profit margin increased to 21.0%. Moreover, given a full impact of rental reductions, the Group's net profit attributable to owners of the Company recorded a year on year ("yoy") growth of 768.8% to HK\$139 million (2017: net profit of HK\$16 million), achieving a positive results in this financial period.

To show our appreciation for shareholders' continuous support, the Board has resolved to recommend final dividend of 8.0 HK cents per share (2017: 0.4 HK cents) and a special dividend of 15.0 HK cents per share (2017: 3.0 HK cents) for the year ended 31 March 2018.

Business Review

As at 31 March 2018, the Group operates 62 retail and wholesale points (including associate retail stores) in the Greater China region. Breakdown by geographic region is as follows:

	As at 31 March 2018
Hong Kong	12
Macau	1
China	46
Taiwan	3
	<hr/>
Total	<u>62</u>

Reported by the National Bureau of Statistics, the China's gross disposable product ("GDP") has sustained at a stable level with a 6.8% yoy growth in the past year, meeting the market expectation. Thanks to the improving employment condition, ongoing urbanisation, increasing expansion of the middle-class and together with greater sense of optimism regarding China's economy, the consumer confidence has started to pick up during the Year. Backed by the improving market condition, the Group's same-store-sales growth in China has achieved to 17.7% for the Year as we are poised to capitalise on opportunities arising from the recovery. On the other hand, Hong Kong's political and economic atmosphere continued to improve over the years, therefore attracting more visitors to Hong Kong which has injected new vitality into the retail industry. According to the Hong Kong Tourism Board, the number of visitors to Hong Kong last year rose by 3.2% to more than 58 million, with mainland tourists increased by 3.9% to 44 million. Under such favorable economic environment, the retail market in Hong Kong has regained its momentum and the sales in Hong Kong recovered steadily, reversing the continuous decline in the past few years. We believe that the economic recovery in 2018 will be more remarkable, providing good preconditions for the Group's development in Hong Kong. Oriental Watch, as a traditional luxury watches company with extensive foothold in Greater China, we will strive to consolidate our leading position in the market and bring greater returns to shareholders.

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 Year, the Group's aggregate rental cost (excluding related property management fees) decreased significantly by 21.0% to HK\$169 million, accounting for 34.9% of the Group's overall operating expenses (2017: 42.3%). 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 as well as the rental contracts from time to time in order to maximize the profitability by improving our efficiency and cost structure.

During the Year, the Group has employed policies on inventory management to ensure stable cashflow and healthy financial position. Policies included monitoring inventory level of high-ticket products and purchasing stocks only when existing inventory depletes to a pre-agreed level. With the hard work and determination from all staff, the Group's inventory level has successfully been maintained at a reasonable level. As at 31 March 2018, the Group's overall inventory level amounted to HK\$1,001 million, decreasing by 13.0% from HK\$1,151 million as at 30 September 2017. In parallel, the Group has also continued to step up its efforts in adjusting and optimising its brand portfolio, in order to stabilise the Group's overall sales performance and keep abreast of market trend. Oriental Watch will continue to maintain a lower inventory level for a better cash position and a sustainable business development in the future.

According to the Federation of the Swiss Watch Industry FH, the watch industry exports continued to gain ground in March 2018, the total export value was 4.8% higher than in March 2017. Watch exports to Hong Kong even grew 43.4% which is three times faster pace than the world average, representing their highest monthly variation rate of the past six years. Given by the significant growth in watch export, the Group is optimistic about long-term prospects and we will continue to capture the great market opportunities from the further improved economic outlook in both Hong Kong and the Greater China. Oriental Watch will continue to deploy appropriate strategies to elevate the productivity of existing stores, strengthen cost management and optimize its inventory profile, as well as enrich its product portfolio to capture opportunities within this particular consumer threshold.

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 31 March 2018, the Group's total equity reached HK\$2,317 million, compared with HK\$2,147 million as at 31 March 2017. The Group had net current assets of HK\$2,009 million, including bank and cash balances of HK\$1,082 million as at 31 March 2018 compared with balances of HK\$1,855 million and HK\$645 million respectively as at 31 March 2017. At 31 March 2018, bank loans of HK\$75 million (31 March 2017: HK\$111 million). At 31 March 2018, the gearing ratio (defined as total bank borrowing on total equity) was 0.03 (31 March 2017: 0.05).

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 31 March 2018, our Group employed approximately 600 employees all over HK, Macau, China and Taiwan, of which approximately 70% were located in Mainland China. The total manpower is lower than previous year.

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

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

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

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

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

REVIEW OF CONSOLIDATED FINANCIAL STATEMENTS

The Audit Committee of the Company has reviewed the consolidated financial statements of the Group for the year ended 31 March 2018.

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

During the year ended 31 March, 2018, 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 on Corporate Governance Code (“CG Code”) in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“the Listing Rules”), throughout the year ended 31 March 2018, 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 2018.

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 2018.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group’s consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 March 2018 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 29 August 2018. 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 2018 annual report containing all information required by the Listing Rules will be dispatched to the Company’s shareholders and available on the above websites in due course.

MEMBERS OF THE BOARD OF DIRECTORS

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

By order of the Board
Yeung Ming Bui
Chairman

Hong Kong, 21 June 2018