Oriental Watch Holdings Limited

(Incorporated in Bermuda with limited liability)
Website: http://www.orientalwatch.com
(Stock Code: 398)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30TH SEPTEMBER, 2010

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, 2010 together with the comparative figures for the corresponding period in 2009 as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30th September, 2010

		(Unaudited) Six months ended	
	Notes	**30th September, 2010** ***HK$'000***	30th September, 2009 *HK$'000*
Turnover		**1,678,823**	1,417,809
Cost of goods sold		**(1,419,147)**	(1,223,629)
Gross profit		**259,676**	194,180
Other income		**24,156**	20,345
Distribution and selling expenses		**(69,089)**	(53,724)
Administrative expenses		**(118,688)**	(106,776)
Finance costs		**(5,733)**	(7,701)
Profit before taxation	*4*	**90,322**	46,324
Taxation	*5*	**(19,868)**	(12,011)
Profit for the period attributable to owners of the Company		**70,454**	34,313
Other comprehensive income (expense)			
Exchange difference arising on translation of foreign operations		**8,437**	—
Change in fair value of available-for-sale financial assets		**726**	(1,155)
Other comprehensive income (expense) for the period		**9,163**	(1,155)
Total comprehensive income for the period attributable to owners of the Company		**79,617**	33,158
Earnings per share	*7*		
— Basic		**18.09 HK cents**	9.56 HK cents
— Diluted		**17.66 HK cents**	9.56 HK cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th September, 2010

	Notes	(Unaudited) 30th September, 2010 HK$'000	(Audited) 31st March, 2010 HK$'000
Non-current assets			
Property, plant and equipment	*8*	**139,832**	142,883
Available-for-sale financial assets		**23,020**	43,694
Property rental deposits		**20,995**	24,978
Deposit paid for acquisition of associates		**6,800**	—
		190,647	211,555
Current assets			
Inventories		**1,347,305**	1,247,838
Trade and other receivables	*9*	**165,025**	132,221
Taxation recoverable		**310**	397
Bank balances and cash		**197,895**	224,881
		1,710,535	1,605,337
Current liabilities			
Trade and other payables	*10*	**197,500**	101,466
Taxation payable		**21,285**	12,921
Current portion of secured long-term bank loans		**30,000**	30,000
Short-term bank loans		**117,716**	186,862
		366,501	331,249
Net current assets		**1,344,034**	1,274,088
Total assets less current liabilities		**1,534,681**	1,485,643
Non-current liabilities			
Secured long-term bank loans		**75,000**	90,000
Net assets		**1,459,681**	1,395,643
Capital and reserves			
Share capital	*11*	**38,948**	38,948
Reserves		**1,420,733**	1,356,695
Total equity		**1,459,681**	1,395,643

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September, 2010

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 ("HKAS") "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 financial instruments, which are measured at fair values.

The accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual audited financial statements for the year ended 31st March, 2010, except for the accounting policies described below.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretation ("new or revised HKFRSs") issued by the HKICPA.

The Group has applied Hong Kong Financial Reporting Standard ("HKFRS") 3 (Revised) "Business Combinations" prospectively to business combinations of which the acquisition date is on or after 1st April, 2010. The requirements in HKAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for the Group's changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary have also been applied prospectively by the Group on or after 1st April, 2010.

As there was no transaction during the current interim period to which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other new or revised HKFRSs has had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions to which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other new or revised HKFRSs are applicable. The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related party disclosures[3]
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters[2]
HKFRS 9	Financial instruments[4]
HK(IFRIC) — INT 14 (Amendment)	Prepayments of a minimum funding requirement[3]
HK(IFRIC) — INT 19	Extinguishing financial liabilities with equity instruments[2]

1 Effective for annual periods beginning on or after 1st July, 2010 and 1st January, 2011, as appropriate.

2 Effective for annual periods beginning on or after 1st July, 2010.

3 Effective for annual periods beginning on or after 1st January, 2011.

4 Effective for annual periods beginning on or after 1st January, 2013.

HKFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1st April, 2013, with earlier application permitted. This Standard requires all recognised financial assets that are within the scope of HKAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. Segment information

The Group's operation is sales of goods. The Group's turnover represents consideration received and receivable from sales of watches.

The Group has two operating segments, which are analysed based on geographical location of customers, being (a) Hong Kong, and (b) Macau and the People's Republic of China (the "PRC"), which are managed separately. The Group determines its operating segments based on the internal reports reviewed by the Managing Director of the Group that are used to allocate resources and assess performance.

The following is an analysis of the Group's segment revenue and results by operating segments.

	Turnover		Results	
	Six months ended		Six months ended	
	30th September, 2010	30th September, 2009	**30th September, 2010**	30th September, 2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**1,135,781**	930,576	**80,461**	40,652
Macau and the PRC	**543,042**	487,233	**31,426**	23,160
	1,678,823	1,417,809	**111,887**	63,812
Unallocated other income			**203**	1,038
Unallocated corporate expenses			**(16,035)**	(10,825)
Finance costs			**(5,733)**	(7,701)
Profit before taxation			**90,322**	46,324

Segment profit represents the profit earned by each segment without allocation of directors' salaries, unallocated other income and expenses and finance costs. This is the measure reported to the Managing Director of the Group for the purposes of resources allocation and performance assessment.

Inter-segment sales are charged at the prevailing market rate.

4. Profit before taxation

	Six months ended	
	30th September, 2010	30th September, 2009
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**11,979**	13,868
Directors' remuneration *(note)*	**14,907**	9,730
Loss on disposal of property, plant and equipment	**1,080**	—
and after crediting:		
Dividend income from available-for-sale financial assets	**—**	1,000
Interest income	**203**	38

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

5. Taxation

	Six months ended	
	30th September, 2010	30th September, 2009
	HK$'000	*HK$'000*
Hong Kong Profits Tax calculated at 16.5% (2009: 16.5%) on the estimated assessable profit for the period	**(11,415)**	(6,915)
Taxation in other jurisdictions	**(8,453)**	(5,096)
	(19,868)	(12,011)

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

6. Dividend

During the six months ended 30th September, 2010, a final dividend of 4.0 Hong Kong cents per share, totalling HK$15,579,000, in respect of the year ended 31st March, 2010 (2009: 3.5 Hong Kong cents per share, totalling HK$11,629,000) was approved at the annual general meeting held on 24th August, 2010.

On 17th November, 2010, the directors resolved to declare an interim dividend of 3.0 Hong Kong cents per share in respect of the six months ended 30th September, 2010 (2009: 1.5 Hong Kong cents per share), totalling HK$11,932,000 (2009: HK$5,827,000), to be paid in cash to those shareholders whose names appear on the Company's register of members on 10th December, 2010.

7. Earnings per share

	Six months ended	
	30th September, 2010	30th September, 2009
	HK$'000	*HK$'000*
Profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share	**70,454**	34,313

	Number of shares Six months ended	
	30th September, 2010	30th September, 2009
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**389,478,520**	359,054,710
Effect of dilutive potential ordinary shares — share options	**9,448,205**	—
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**398,926,725**	359,054,710

8. **Property, plant and equipment**

During the six months ended 30th September, 2010, the Group incurred HK$9,226,000 (2009: HK$16,753,000) to acquire plant and equipment for its operation.

The Group has pledged certain land and buildings with an aggregate carrying value of HK$41,253,000 (31st March, 2010: HK$41,475,000) to a bank to secure the bank loan facilities granted to the Group.

9. **Trade and other receivables**

	30th September, 2010 *HK$'000*	31st March, 2010 *HK$'000*
Trade receivables	**137,806**	93,523
Balance of consideration receivable from sale of available-for-sale financial assets	**—**	1,500
Property rental and utilities deposits	**18,563**	16,570
Advances to apparel suppliers	**793**	1,272
Advances to other suppliers	**2,229**	336
VAT receivables	**4,521**	16,591
Other receivables	**1,113**	2,429
	165,025	132,221

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 presented based on the invoice date at the end of the reporting period:

	30th September, 2010 *HK$'000*	31st March, 2010 *HK$'000*
Age		
0 to 30 days	**126,888**	88,354
31 to 60 days	**5,928**	3,863
61 to 90 days	**4,063**	1,187
Over 90 days	**927**	119
	137,806	93,523

10. Trade and other payables

	30th September, 2010 *HK$'000*	31st March, 2010 *HK$'000*
Trade payables	**150,473**	61,294
Payroll and welfare payables	**22,826**	14,807
Commission payables	**3,659**	7,433
Advances from customers	**2,310**	4,559
Renovation work payables	**3,329**	1,620
VAT payables	**815**	1,923
Interest payables	**885**	1,088
Property rental payables	**—**	128
Other payables	**13,203**	8,614
	197,500	101,466

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

	30th September, 2010 *HK$'000*	31st March, 2010 *HK$'000*
Age		
0 to 60 days	**149,517**	58,795
61 to 90 days	**389**	1,883
Over 90 days	**567**	616
	150,473	61,294

11. Share capital

	Number of shares	**Amount** *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At 1st April, 2009	500,000,000	50,000
Increase on 26th August, 2009	500,000,000	50,000
At 31st March, 2010 and 30th September, 2010	1,000,000,000	100,000
Issued and fully paid:		
At 1st April, 2009	323,253,200	32,325
Issue of shares upon exercise of warrants	33,000,000	3,300
Bonus issue of shares	33,225,320	3,323
At 31st March, 2010 and 30th September, 2010	389,478,520	38,948

(a) An ordinary resolution was passed at the annual general meeting of the Company held on 26th August, 2009 such that the authorised share capital of the Company was increased from HK$50,000,000 to HK$100,000,000 by the creation of 500,000,000 ordinary shares of HK$0.10 each.

Another ordinary resolution was passed at the same annual general meeting such that the issued share capital was increased by way of a bonus issue by charging HK$3,323,000 to the retained profits account in payment in full at par of 33,225,320 ordinary shares of HK$0.10 each on the basis of one new ordinary share for every ten ordinary shares held on 26th August, 2009.

(b) During the year ended 31st March, 2010 and prior to the bonus issue of shares set out in (a) above, 9,000,000 shares were issued upon exercise of warrants at a subscription price of HK$1.81 per share, resulting in the issue of 9,000,000 ordinary shares of HK$0.10 each in the Company.

Subsequent to the bonus issue of shares set out in (a) above, 24,000,000 shares were issued upon exercise of warrants at an adjusted subscription price of HK$1.65 per share, resulting in the issue of 24,000,000 ordinary shares of HK$0.10 each in the Company.

The new bonus shares issued on 26th August, 2009 are not entitled to the final dividend for the year ended 31st March, 2009. All other shares issued during that year rank pari passu with the then existing shares in all respects.

12. Share-based payment transaction

The Company has share options scheme for eligible directors of the Company, employees, consultants, customers, suppliers or advisors of the Company or a company in which the Company holds an interest or a subsidiary of such company.

Details of specific categories of options are as follows:

Date of grant	Number of share options outstanding at 1st April, 2010 and 30th September, 2010	Vesting period	Exercisable period	Exercise price per share
16th January, 2004	17,820,000	Nil	16th January, 2004 to 15th January, 2014	HK$1.547
4th June, 2007	12,430,000	Nil	4th June, 2007 to 3rd June, 2017	HK$1.604

No share option was exercised during the six months ended 30th September, 2010 (2009: nil).

13. Warrants

On 11th June, 2007, the Company entered into two warrants placing agreements with two independent subscribers 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. Following the bonus issue of the Company's shares on the basis of one new share for every ten shares held on 26th August 2009, the above subscription price per share was adjusted from HK$1.81 to HK$1.65.

During the year ended 31st March, 2010, 33,000,000 new shares were issued on exercise of the warrants.

The subscription rights conferred by the warrants lapsed during the year ended 31st March, 2010. Issue price of these unexercised rights, amounting to HK$260,000, was credited directly to retained profits.

14. Other commitments

At the end of the reporting period, the Group 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, 2010 *HK$'000*	31st March, 2010 *HK$'000*
Within one year	**1,738**	1,646
In the second to fifth year inclusive	**7,353**	8,249
	9,091	9,895

The Group was also subject to pay royalties at 6% on total net wholesales made per annum on top of the above minimum guarantee royalties.

15. Event after the reporting period

On 3rd November, 2010, a wholly owned subsidiary of the Company entered into an agreement with an independent third party for the acquisition of 40% equity interest in each of two companies (the "Target Companies") for a consideration of NT$80,136,000 (equivalent to approximately HK$20 million). The Target Companies are incorporated in Taiwan. They are principally engaged in the sales of watches in Taiwan. Upon completion of the transaction, the Target Companies will become associates of the Group.

At 30th September, 2010, a refundable deposit amounting to NT$27,200,000 (equivalent to HK$6,800,000) was paid to the seller. This deposit was included in the condensed consolidated statement of financial position at 30th September, 2010 as a non-current asset.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 7th December, 2010 to 10th December, 2010 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the proposed interim dividend which will be payable on 17th December, 2010, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrars, Tricor Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 6th December, 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Group results

The Group's unaudited consolidated turnover for the period under review was HK$1,679 million (2009: HK$1,418 million) whilst the profit for the period was HK$70 million (2009: HK$34 million). The basic earnings per share for the period was 18.09 Hong Kong cents (2009: 9.56 Hong Kong cents). These figures reflected an increase of 18% for the turnover and 105% for the profit respectively, over the same period last year.

Business review and prospects

The management is very encouraged by the results. We have recorded an increase in sales and profit in all segments of our markets: Hong Kong, China and Macau. This is a solid proof that the purchasing power for the luxury market recovered fully from the economic turmoil in 2009. Mainland Chinese customers remain the major source of our growth. As our shops are in prime mainland tourist locations, we are well positioned to capture their business. Chinese economic growth is firmly in a secular uptrend, whist mainland tourists with their purchasing power rising, continue to make Hong Kong the top shopping destination. We are confident that the fast growth in Hong Kong and China's luxury markets would sustain.

During the period, we have opened two new shops in China: a Rolex & Tudor boutique in Taiyuan, Shanxi province; one multi-brand store in Nanjing, Jiangsu province A shop in Urumqi was closed due to a less than satisfactory performance. In Hong Kong, the shop opened in Yaumatei last year performed very well, already generating positive returns in the few months of operations. The Group remains committed in seeking for choice locations to expand our distribution network in China, Hong Kong and Macau.

In order to broaden the Group's market scope, adding to our growth momentum, we have recently acquired a 40% interest in a Taiwanese watch company, as part of our long term strategic plan. This target company is a well-established retailer in Taiwan's high-end luxury market. This acquisition will allow the Group to partner with the target company in exploring the Taiwanese market's growth potential as mainland Chinese are now able to tour more freely.

Internally, the Group has implemented a new service improvement programme: "the Mystery Shoppers Programme". This is designed to further enhance the service level in our retail shops. The results so far are very encouraging with positive customer feedback. The Group is determined to maintain top service level as this is one of our competitive advantages in the luxury product business.

The Group continues to exercise strict cost and stock control, maintaining our liquidity hence being able to respond quickly and aptly to any changes in the marketplace.

On behalf of the Group, I would like to thank our customers, suppliers and shareholders for their loyalty and relentless support.

Liquidity and financial resources

At 30th September, 2010, the Group's total equity reached HK$1,460 million, compared with HK$1,396 million as at 31st March, 2010. The Group had net current assets of HK$1,344 million, including bank and cash balances of HK$198 million as at 30th September, 2010 compared with balances of HK$1,274 million and HK$225 million respectively as at 31st March, 2010. At 30th September, 2010, bank loans totalled HK$223 million (31st March, 2010: HK$307 million). At 30th September, 2010, the gearing ratio (defined as total bank borrowing on total equity) was 0.15 (31st March, 2010: 0.22).

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

Foreign exchange exposure

The Group's sales and purchase transactions are primarily denominated in Hong Kong dollars and Renminbi. The Group did not face significant risk from exposure to foreign exchange fluctuations.

STAFF AND EMPLOYMENT

As at 30th September, 2010, the Group employed a total work force of about 820 staff. The staff turnover rate is low. The Group's policy is to review its employee's pay levels and incentive bonus.

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

During the six months ended 30th September, 2010, 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, 2010, except the deviation from the code provision A.4.1 of the CG Code.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions. Enquiry has been made with all Directors and all Directors have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30th September, 2010.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-executive Directors of the Company. Terms of reference of the Audit Committee have been updated in compliance with the CG Code.

The Audit Committee, together with the management of the Company, have reviewed the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of unaudited consolidated financial statements for the six months ended 30th September, 2010.

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.

MEMBERS OF THE BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Yeung Ming Biu, 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 Biu
Chairman

Hong Kong, 17th November, 2010