
OUR BUSINESS

OVERVIEW

We are the leading manufacturer, brand-owner and retailer of watches in the PRC national brand watch market, established in 1988, under our core proprietary Tian Wang (天王) brand which we have developed into a well-known brand in the PRC. Tian Wang was the top⁽¹⁾ national watch brand⁽²⁾ in the PRC in 2011, with a market share of 11.1% in terms of retail sales value among approximately 130 national watch brands. Tian Wang was also the top national watch brand in the mid-end watch market⁽³⁾ in the PRC in terms of both retail sales value and retail sales volume in 2011 and its market share by retail sales value in the PRC watch market as a whole was approximately 2.2% in 2011.^{(1), (4)}

We are primarily engaged in product design and development, assembling, marketing and sales of Tian Wang watches, and product design, marketing and sales of watches under Balco (拜戈), our other proprietary brand. We offer a wide range of Tian Wang watches with diverse styles, fashionable design, quality and functionality, including both mid-end watches targeting mid-income consumers and low-end watches targeting the mass market in the PRC. Sales of our Tian Wang watches accounted for approximately 64.3% and 64.4% of our total revenue for the year ended 30 June 2012 and the three months ended 30 September 2012, respectively.

Balco, a brand that was initially registered in Switzerland in 1986 by an Independent Third Party and the rights of using which globally was acquired by us in 2002, offers Swiss-made watches mainly targeting younger consumers in the mid-end watch market in the PRC. Sales of our Balco watches accounted for approximately 7.1% and 6.3% of our revenue for the year ended 30 June 2012 and the three months ended 30 September 2012, respectively. We believe our Tian Wang and Balco brands complement each other and cover a wide range of consumer sub-segments in the low-end and mid-end watch market in the PRC.

Notes:

- ⁽¹⁾ The ranking and market share of Tian Wang are based on the report prepared by Euromonitor, an Independent Third-Party market research firm which we have engaged in connection with the Global Offering to conduct market analyses of, and provide report on, the PRC watch industry.
- ⁽²⁾ According to Euromonitor, the categorisation of the PRC watch market into national and foreign watch brands is determined by the place of brand origin, based on factors such as the place where the relevant trademark for the watch brand was first registered, or if no such mark was registered, the place where the watch brand was first used, where watches of the relevant watch brand are produced, and where the watch brand is marketed and is generally recognised. Please refer to pages 102 and 103 in the “Industry Overview” section for further details.
- ⁽³⁾ According to Euromonitor, mid-end watch market in the PRC refers to a segment within the watch market in the PRC where the unit retail price of watches is generally within the range of RMB1,500 to RMB5,000, which our Directors believe is a fair representation of the PRC watch market, as confirmed by the Shenzhen Watch and Clock Association, which is an independent watch industry organization in the PRC. For more details, please refer to the section headed “Industry Overview” in this prospectus.
- ⁽⁴⁾ Our Directors believe that the PRC watch market as a whole, with the presence of over 200 watch brands according to Euromonitor, is highly fragmented, and is especially so for the low-end watch segments. Because of the lack of necessary official or market data, our Directors believe that it is infeasible to arrive at a market position of our watches in the PRC watch market as a whole.

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We have successfully built up Tian Wang as a widely recognised and well-known brand in the PRC through the high quality of our Tian Wang watches, our consistent promotion and marketing efforts through a variety of media channels, as well as our extensive directly managed Sales Network.

We directly control and manage our extensive Sales Network, which as at 30 September 2012, consisted of a nationwide footprint of 1,706 POS covering 30 out of 31 Provinces in the PRC. Except for the JV POS which carry multiple brands, each of our other POS only carries one of our Tian Wang or Balco brands. According to Euromonitor, our Sales Network was the largest network in terms of number of directly managed watch retail outlets in the PRC as at 31 December 2011. Direct management of our Sales Network enables us to obtain first-hand and up to date information on market trends and consumer preferences, manage our product offering and inventory more effectively and enhance our profitability.

In order to enhance the growth of our Sales Network, since 2008, we have formed four JV Companies, with JV Partners which are watch retailers with established sales networks in the watch market in the PRC, to open and operate retail points in Department Stores to promote and sell our Tian Wang and Balco watches, as well as watches of the Other Brands, mainly covering the Provinces of Jiangsu, Anhui, Shanghai and Sichuan. The JV Companies allow us to expand the coverage of our Tian Wang and Balco Sales Network, as well as to diversify our income base by the retail sales of watches under the Other Brands.

We directly control the key stages of our operation chain, including product design and development, sourcing of components and assembling of our Tian Wang watches, and the brand promotion and management, marketing and sales for both Tian Wang and Balco. This integrated business model, together with our well-established relationship with our suppliers of watch components, affords us significant operational flexibility and efficiency and allows us to quickly respond to changing market trends and offer fashionable watches to our customers timely.

In addition to our principal sales channel which is our extensive Sales Network, we (i) sell some of our Tian Wang and Balco watches to Watch Distributors in Hong Kong, Macau and Taiwan on wholesale or consignment basis and to Online Distributors, for details of which please refer to the paragraph below headed “Our Sales Network – Diversified sales channels – Sales to Watch Distributors and Online Distributors” in this section, and (ii) display and promote our Tian Wang watches through our Online Platform. We also sell some of our Tian Wang watches directly to corporate customers in the PRC, including made-to-order watches bearing their corporate logos which are presented to their customers for their marketing and promotional purposes. For the year ended 30 June 2012 and the three months ended 30 September 2012, sales through such channels other than our Sales Network accounted for approximately 8.8% and 5.8%, respectively, of our revenue attributable to sales of our Tian Wang and Balco watches.

Ancillary to our operation of assembling Tian Wang watches, we operate an in-house watch movement procurement and trading arm to source and maintain stable supply of watch movements for our Tian Wang watches, and we sell surplus watch movements to other watch manufacturers and distributors.

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Financial performance during the Track Record Period

During the Track Record Period, we have achieved significant growth in revenue and profits. For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, our revenue was approximately HK\$919.6 million, HK\$1,189.3 million, HK\$1,524.8 million and HK\$508.2 million, respectively, with a CAGR of approximately 28.8% from the year ended 30 June 2010 to the year ended 30 June 2012. Our net profit for the same periods was approximately HK\$61.5 million, HK\$137.7 million, HK\$188.5 million and HK\$78.1 million, respectively, with a CAGR of approximately 75.2% from the year ended 30 June 2010 to the year ended 30 June 2012.

Sales of Tian Wang and Balco watches and watches of the Other Brands contributed approximately 67.5%, 77.0%, 83.5% and 83.2% of our total revenue for the years ended 30 June 2010 and 2011 and 2012 and the three months ended 30 September 2012, respectively.

Business segment breakdown

The following table sets out a breakdown of our revenue by product segments for each of the periods indicated:

	2010		For the year ended 30 June				2012		For the three months ended 30 September			
	2011		2011		2012		2011		2012			
	Percentage % of total revenue		Percentage % of total revenue		Percentage % of total revenue		Percentage % of total revenue		Percentage % of total revenue			
	Revenue HK\$'000	%	Revenue HK\$'000	%	Revenue HK\$'000	%	Revenue HK\$'000	%	Revenue HK\$'000	%		
	(unaudited)											
SALES												
Tian Wang	465,818	50.7	711,243	59.8	980,446	64.3	216,751	64.0	327,360	64.4		
Balco	82,995	9.0	90,523	7.6	108,523	7.1	25,929	7.7	31,905	6.3		
Other Brands	71,536	7.8	114,309	9.6	184,207	12.1	35,530	10.5	63,671	12.5		
Sub-total	620,349	67.5	916,075	77.0	1,273,176	83.5	278,210	82.2	422,936	83.2		
TRADING												
Watch movements	299,256	32.5	273,250	23.0	251,603	16.5	60,275	17.8	85,261	16.8		
TOTAL	919,605	100.0	1,189,325	100.0	1,524,779	100.0	338,485	100.0	508,197	100.0		

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OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have contributed to our success:

Leading position of our Tian Wang brand in the national brand watch market in the PRC complemented by our Swiss-imported Balco brand

Tian Wang, our core brand, was the top national watch brand in the PRC in terms of retail sales value and the top national watch brand in the mid-end watch market in the PRC in terms of both retail sales value and volume for the year ended 31 December 2011, according to Euromonitor. Sales of our Tian Wang watches accounted for approximately 64.3% and 64.4% of our total revenue for the year ended 30 June 2012 and the three months ended 30 September 2012, respectively. Revenue from sales of Tian Wang watches increased from HK\$465.8 million for the year ended 30 June 2010 to HK\$980.4 million for the year ended 30 June 2012, representing a CAGR of approximately 45.1% from the year ended 30 June 2010 to the year ended 30 June 2012.

We believe our success in establishing our Tian Wang brand as the top brand in the national brand watch market in the PRC is attributable to our effective brand-building strategies, strategic brand positioning, and product quality and reliability.

Effective and scalable brand-building strategies

We have built up the brand awareness and promoted the brand image of our Tian Wang and Balco brands with our effective marketing and promotion strategies through our media advertisement campaigns and our nationwide Sales Network. Our marketing strategies correspond to the respective marketing needs and target customers of our Tian Wang and Balco brands. We utilise more traditional advertising channels such as television commercials on China Central Television and newspaper for Tian Wang, and a variety of media that is gaining popularity including travel magazines, internet, and outdoor displays such as light boxes and billboards for Balco.

We have engaged Mr. Bosco Wong (黃宗澤先生) as the brand spokesperson of Balco. In the past, we have engaged a Chinese television and movie actor, who is active and well-known in the Chinese society especially in the PRC, as the brand spokesperson of Tian Wang, and Mr. Francis Ng (吳鎮宇先生) as brand spokesperson for our Balco brand as part of our marketing campaign. We intend to engage an active and well-known Chinese television and movie actor to be the new brand spokesperson for Tian Wang to further strengthen its brand image.

Strategic brand positioning

Our Tian Wang and Balco brands are strategically positioned to complement each other. Each of them bears a distinctive style and brand philosophy and caters to different consumer sub-segments, with Tian Wang targeting mid-income consumers and the mass market in the PRC, and Balco targeting the younger generation of mid-income consumers. Tian Wang offers

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watches with a diverse range of classical, fashionable and modern designs that appeal to consumers who look for well-designed watches with quality and functionality. Balco mainly targets younger consumers who look for trendy Swiss-made watches with prevailing design elements in the international watch market. We adopt this dual-brand strategy and aim to develop Balco to diversify our income stream and reduce reliance on Tian Wang, attract a wider customer base with watches with different styles and prices, and cover the mid-end and low-end watch market in the PRC more comprehensively.

Reliable product quality

We recognise the quality of our watches is crucial to the goodwill and image of our Tian Wang and Balco brands. We implement stringent quality control measures throughout the entire production process of our Tian Wang watches, including selection of watch component suppliers, watch components inspection, function tests and close monitoring of all production processes, quality testing and inspection of all finished Tian Wang watches. We perform quality control examination on our finished watches in accordance with international standards and inspect each one of them. To enhance consumer confidence, we provide one-year warranty for all of our Tian Wang watches generally and two-year warranty for our Balco watches and battery for our quartz watches, and we also provide comprehensive after-sale services. Please refer to the paragraph below headed “After-sale services and warranties” in this section for details.

Effective retail management through our directly managed Sales Network

We have established an extensive Sales Network, with 1,706 POS as at 30 September 2012, which covers 30 out of 31 Provinces in the PRC. According to Euromonitor, our Sales Network was the largest network in terms of number of directly managed watch retail outlets in the PRC as at 31 December 2011.

For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, 93.0%, 92.4%, 91.2% and 94.2%, respectively, of sales of our Tian Wang and Balco watches were made through our directly managed Tian Wang and Balco Sales Network. As we sell most of our watches directly to our retail customers, we are able to obtain first-hand market information and direct feedbacks from our frontline staff and customers on our watches and the changing tastes and preferences of the consumers.

As we directly control and manage all the POS in our Sales Network, we are also able to conduct our marketing activities and implement our pricing strategies in a consistent manner and maintain unified brand images for our Tian Wang and Balco brands respectively. As our POS are distributed across the PRC, where consumer preferences and market conditions may vary from region to region, we divide our Tian Wang and Balco Sales Network into 36 Sales Regions for Tian Wang and 33 Sales Regions for Balco, to facilitate our management. Each of our Sales Regions implements the standardised policies on pricing, store layout and decoration, sales promotion and inventory management laid down by our headquarters, while retaining certain degree of flexibility in store and staff management. As a result of our structured

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management system for our Tian Wang and Balco Sales Network, we believe we have an effective and efficient platform in place for future growth by enabling us to replicate our business model and open new POS in new markets systematically.

The total number of our POS increased from 847 as at 30 June 2009 to 1,706 as at 30 September 2012, covering 30 out of 31 Provinces in the PRC.

We use a variety of sales channels to cover the different markets in the PRC. As at 30 September 2012, we operated 1,675 Sales Counters, 21 Shop-in-Shops, 10 Street Stores and also market and promote sales of our Tian Wang watches through online channels. Our POS are located in strategic locations and offer diverse series of watches. We believe our extensive Sales Network covers a broad customer base with a wide spectrum of consumer of sub-segments across the PRC and meet different customers' needs.

Strong positioning to take advantage of the fast-growing watch market in the PRC

We operate in the fast-growing watch market in the PRC. According to Euromonitor, in 2011, the watch market in the PRC generated a total value of approximately RMB34 billion, which grew at a CAGR of 18% from 2006. According to Euromonitor, (i) the mid-end national brand watch market in the PRC has grown from approximately RMB794 million in 2006 to approximately RMB2,368 million in 2011 in terms of sales value and (ii) the low-end national brand watch market in the PRC has grown from approximately RMB1,371 million in 2006 to approximately RMB4,060 million in 2011 in terms of sales value, both of which have more than doubled during the period.

According to Euromonitor, our Tian Wang brand was ranked as the top national watch brand in the PRC in 2011 with a market share of approximately 11.1% by retail sales value. With our strong brand image, extensive Sales Network and experienced senior management team, we have been able to increase our revenue, profits and market share in the fast-growing national brand watch market in the PRC during the Track Record Period. For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, our revenue generated by sales of our Tian Wang and Balco watches was approximately HK\$548.8 million, HK\$801.8 million, HK\$1,089.0 million and HK\$359.3 million, respectively, with a CAGR of approximately 40.9% from the year ended 30 June 2010 to the year ended 30 June 2012. We believe our Tian Wang brand is well-positioned to capture the expanding consumer base in the mid-end watch market and the vast and growing mass market for low-end watches, especially in the lower-tier cities which we intend to expand into. This will be complemented by Balco which mainly targets the mid-income consumers in the mid-end watch market in the PRC. According to Euromonitor, it is estimated that the low-end national brand watch market, the mid-end national brand watch market and the national brand watch market as a whole in the PRC will grow at CAGR of 16.9%, 20.8% and 18.4%, respectively, from 2013 to 2015 in terms of sales value.

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Well-established and stable relationship with our suppliers

We have well-established and stable business relationship with our key suppliers of watch components, which enables us to have ready and stable access to watch components required for our Tian Wang watches. We attribute our stable relationship with our key suppliers to our long history and well-recognised Tian Wang brand.

In view of our well-established relationship with our suppliers, we have not entered into any long-term supply agreements with them, which would otherwise restrict our flexibility in sourcing watch components. As a result, our suppliers are selected on a case-by-case basis based on their reputation for product quality and supply reliability. We believe this enables us to easily adapt to new market trends and produce watches that satisfy the changing consumer preference. In particular, we benefit from our well-established relationship with our suppliers for watch movements, which is the key and quality-determining watch component in the production of watches. The global supply of watch movements is dominated by a few manufacturers in Japan and Switzerland who generally give priority to their in-house watch manufacturing arms or domestic watch manufacturers in their countries. We have maintained an in-house watch movement procurement and trading arm and directly source from key watch movement suppliers such as Time Module (H.K.) Ltd. and ISA Pacific Co. Ltd., with both of which we have over 16 years of business relationship, as well as Ronda Limited. Our large scale of operation enables us to make purchase orders for watch movements in bulk volume at reduced price. We give priority to the production need of Tian Wang, and also sell watch movements to other watch manufacturers and distributors as an additional income base.

Experienced and dedicated management team

We have an experienced and capable management team, led by Mr. Michael Tung, our Chairman, chief executive officer and executive Director, who is the founder of our Tian Wang brand and has been instrumental in spearheading the growth of the Group since its inception. Mr. Michael Tung has over 30 years of experience and possesses in-depth knowledge of the watch industry and insightful understanding of the tastes and preferences of the PRC consumers in the watch market. We benefit from his knowledge and experience, as well as his extensive business networks, as he has well-established relationship with our suppliers, business associates, and Store Operators of Department Stores. Mr. Michael Tung is assisted by our senior management team, including Mr. Lo Wing Sang (executive Director and deputy chief executive officer), Mr. Hou Qinghai (executive Director), Mr. Tung Wai Kit (executive Director and marketing and administrative controller), Ms. Low Mui Kee (chief financial officer), Ms. Wong Siu Yu Rachel (group financial controller), Mr. Deng Guang Lei (sales and marketing general manager) and Mr. Li Yu Zhong (head of manufacturing and assembly department). Our senior management responsible for our production and sales operation have, on average, more than 10 years of experience in the PRC retail and watch industry.

In order to ensure sustainable and stable growth of our Group and align the interests of our senior management with those of our Shareholders, we have put in place certain performance-based incentive programs, including the Share Option Scheme. Our key

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management personnel include Mr. Michael Tung, one of our Controlling Shareholders, who will have a 70% interest in our Company upon the Listing. We believe that by offering our senior management a shareholding stake, we can ensure that they will have a strong incentive to maximise Shareholder returns. These incentives will also help us recruit and retain suitable management personnel. For detailed information of our Share Option Scheme, please refer to the paragraph headed “Statutory and General Information – Other Information – 16. Share Option Scheme” in Appendix V to this prospectus.

Responsiveness to fast-changing market trends with our own Sales Network and control in key operation functions

We seek to distinguish ourselves in the PRC watch industry through our integrated business model in which we control the key stages of our operation chain and capture value at each of these stages. We control the processes of product design and development, sourcing of components and assembly of our Tian Wang watches, and the processes of brand promotion and management, marketing and sales for both Tian Wang and Balco. We believe our control over such key functions provides us with significant synergy, operational flexibility and efficiency which enable us to quickly respond to changing market trends and produce watches that satisfy changing customer tastes, and enhance our ability to compete effectively in the PRC watch market.

In particular, our extensive Sales Network, which covers 30 of the 31 Provinces in the PRC, enables us to closely monitor the changing market trends and consumer preferences in different regions in the PRC. Through our Sales Regions, customer feedbacks and market information are channelled to our product design and development department, which enable our designers to develop new watches that closely respond to the latest prevailing market trends and consumer preference. Once our new series of watches are developed, our marketing department and Sales Regions work together to ensure appropriate quantities of each new series are produced and allocated to different Sales Regions to match their respective demand, so that we can maintain an appropriate inventory level. In addition, our management reviews our inventory level on a monthly basis and works closely with our Sales Regions to mobilise our inventory across our Sales Network in accordance with the sales performance and popularity of different models of watches at each of our POS.

OUR BUSINESS STRATEGIES

We intend to maintain and strengthen our overall competitiveness and business growth in the watch market in the PRC by expanding our customer base and increasing our market share in both mid-end and low-end watch markets. We aim to achieve this goal by pursuing the following key business strategies:

Strengthening the leading position of our Tian Wang brand

We have successfully built up recognition and brand image of our Tian Wang brand which is fundamental to our continued success. We will continue to strengthen the leading position of our Tian Wang brand through our marketing and advertisement efforts.

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We plan to increase our investment on advertising and promotion across the PRC to further promote the brand awareness and brand image of Tian Wang. Our promotion campaign will reflect the brand positioning of Tian Wang as the leading mid-end national brand that appeals to the expanding segment of mid-income consumers and the vast and growing mass market in the PRC with our mid-end and low-end watches with fashionable design, quality and functionality.

We intend to include the following enhanced marketing, sales and promotion initiatives:

- to further increase our investment in advertisement through a variety of media, such as television, newspaper, magazines and internet, as well as outdoor advertisements such as billboards and light boxes that will be strategically placed in areas with high pedestrian traffic;
- to engage an active and well-known television and movie actor in the Chinese community as the new brand spokesperson for our Tian Wang brand;
- to roll out large-scale nationwide marketing campaign focusing on our new Tian Wang spokesperson;
- to enhance in-store marketing and promotion activities such as discount sale at our POS; and
- to participate in high profile industry events and international and domestic watch fairs such as the Baselworld Watch and Jewellery Show in Switzerland and the China Clock and Watch Fair (中國(深圳)國際鐘錶展覽會), and provide sponsorship to television programs and charity events.

We also aim to broaden our customer base by developing a comprehensive range of Tian Wang watches. While we will remain focused on the mid-end and low-end watch market in the PRC, we also offer some high-end watches to promote our brand image and brand awareness, with use of more luxurious materials such as gemstones and 18 karat gold.

As we believe that our strong watch design and development capabilities are crucial for the expansion of our product offerings, we plan to enhance our watch design and development capabilities by increasing our annual product design and development budget in the three years ending 30 June 2015 for the expansion of our product design and development department with additional watch designers, and engagement of professional Swiss designers experienced in designing for international watch brands. We also plan to acquire new design softwares to enhance and streamline our product design and development process.

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Promoting brand awareness and sales of Tian Wang and Balco watches through expansion of our Sales Network

We intend to further promote brand awareness and sales of Tian Wang through expansion of our Sales Network by opening concept stores and other POS across the PRC. We believe that the continual expansion of our Sales Network will enable us to capture more opportunities from the fast-growing mid-end and low-end watch market in the PRC. We plan to accomplish such expansion by:

Opening concept stores of Tian Wang to strengthen our market presence in major cities

We intend to establish around 38 directly managed concept stores for Tian Wang in major cities covering different regions across the PRC in the period up to 30 June 2015. We plan to open around six concept stores in first-tier cities in the PRC such as Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu and Shenyang in the year ending 30 June 2013, around an additional 16 concept stores in the year ending 30 June 2014 and around another 16 concept stores in the year ending 30 June 2015.

Our concept stores for Tian Wang will be in the form of free-standing street stores or large shop-in-shops in shopping malls, with sales area of approximately 60 sq.m.. We intend that our concept stores will be (i) situated in prominent locations of the relevant cities, (ii) more well-decorated than our existing POS, (iii) may be installed with audio-visual display to highlight the brand image of Tian Wang and our Tian Wang watches, and (iv) will carry a wide collection of our Tian Wang watches, mainly focusing on the popular models and also includes some high-end series. Our primary objective of opening these concept stores is to establish a permanent physical presence of our Tian Wang brand in the relevant regions and to showcase series of our Tian Wang watches that our Group targets to promote. The concept stores will be managed in the same way as our other POS in the Sales Network and will be covered by the U8 Data Management System.

Opening approximately 60 additional POS for Tian Wang in the year ending 30 June 2013 and approximately 200 additional POS for Tian Wang in each of the years ending 30 June 2014 and 2015

We intend to open approximately 60 additional (net increase of) POS for Tian Wang in addition to the aforesaid concept stores from the Listing Date to 30 June 2013, and approximately 200 such POS in each of the years ending 30 June 2014 and 2015, including:

- expansion of our sales network for Tian Wang in Provinces or cities where there is potential for further penetration, such as Changchun, Chengdu, Guiyang, Hefei, Jinan, Shenyang, Tianjin, Xian and Zhengzhou and in certain lower-tier cities, to tap into the expanding mid-income consumer base and the vast and growing mass market. We believe that such cities have a growing population of low-income and mid-income consumers with strong and growing demand for low-end and mid-end watches and we will continuously review our sales performance and strategically focus on sales of watch series or models which correspond to the local consumers' income level, preference and demand.

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- expansion of our sales network for Tian Wang into Provinces where we currently have no or limited presence, such as Gansu and Guizhou.

The table below sets forth the number of Tian Wang POS and concept stores that we currently intend to open and their distribution among geographical regions in the PRC (subject to further changes according to local sales results and economic conditions), and the expected average capital expenditure and expected average payback period for a typical concept store or other POS in the years ending 30 June 2013, 2014 and 2015, respectively.

Geographical regions	For the 12 months ending 30 June					
	2013		2014		2015	
	Concept stores	Other POS ⁽²⁾	Concept stores	Other POS	Concept stores	Other POS
Northern China	nil	53	2	30	2	42
Eastern China	1	48	3	30	2	25
Central China	2	53	3	42	3	38
Southern China	3	28	5	28	4	23
North-western China	nil	18	nil	20	1	22
South-western China	nil	30	2	25	3	23
North-eastern China	nil	30	1	25	1	27
Total	6	260	16	200	16	200
Expected capital expenditure per new concept store/other POS (HK\$ million) ⁽¹⁾	2.15	0.27	2.37	0.30	2.60	0.33
Approximate expected average payback period of each new concept store/other POS (years)	4.2	1.1	4.2	1.1	4.2	1.1

Note:

- (1) The expected capital expenditure per concept store/other POS included inventories required for the opening of such concept store/other POS.
- (2) The number of POS (other than concept stores) intended to be opened for the 12 months ending 30 June 2013 includes POS which have already been opened from 1 July 2012 up to the Latest Practicable Date.

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The table below sets forth the breakdown of our revenue and the average revenue per Tian Wang POS from sales of Tian Wang watches by geographical regions in the PRC during the Track Record Period.

Geographical regions	For the year ended 30 June						For the three months ended 30 September	
	2010		2011		2012		2012	
	Revenue	Average revenue per POS ⁽¹⁾	Revenue	Average revenue per POS ⁽¹⁾	Revenue	Average revenue per POS ⁽¹⁾	Revenue	Average revenue per POS ⁽¹⁾
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
Northern China	85.9	0.7	131.3	0.9	172.2	1.0	60.8	0.3
Eastern China	99.4	0.5	155.4	0.6	213.8	0.6	74.5	0.2
Central China	52.7	0.7	77.2	0.8	119.4	1.0	39.6	0.3
Southern China	47.5	0.6	73.5	0.7	101.4	0.7	32.1	0.2
North-western China	22.8	0.8	35.8	1.0	49.9	1.0	17.3	0.3
South-western China	39.5	0.6	55.6	0.7	73.0	0.7	25.5	0.2
North-eastern China	88.5	0.9	131.0	1.1	177.9	1.2	64.5	0.4
TOTAL	436.3		659.8		907.6		314.3	

Note:

- (1) Average monthly revenue per POS of a particular year represents the revenue generated from sales of Tian Wang watches through our Sales Network of the same year divided by the average number of POS of that year, further divided by 12. Average number of POS represents the number of POS at the beginning of the year plus the number of POS at the end of the year divided by two.

Our Directors estimate that the average revenue per POS for Tian Wang will grow by not less than 10% in each of the years ending 31 December 2013, 2014 and 2015. Our Directors consider that there will be sufficient demand for the new POS and concept stores that are planned to be opened, based on (i) the historical growth in revenue attributable to sales of Tian Wang watches of our Group at CAGR of 45.1% during the Track Record Period, (ii) the estimation that the market of low-end national brand watch market, mid-end national brand watch market and the national brand watches market as a whole in the PRC will grow at CAGR of 16.9%, 20.8% and 18.4% respectively from 2013 to 2015 in terms of sales value according to Euromonitor, details of which are provided in the section headed “Industry Overview – Key Trends in the Retail Watch Market in China – Year on year growth of the national and foreign watch market retail sales value in China (2007-2015E)” in this prospectus, (iii) the same-store sales growth of approximately 16.0% and 19.5% for our Group’s sales of watch business and approximately 17.3% and 26.1% for Tian Wang for the year ended 30 June 2012 and the three months ended 30 September 2012, respectively, (iv) our Directors’ estimation of the growth in the demand for low-end and mid-end national watches for 2013 to 2015, (v) our plan to expand into Provinces and cities including Changchun, Chengdu, Guiyang, Hefei, Jinan, Shenyang,

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Tianjin, Xian and Zhengzhou where the general economic growth is expected to be faster than the overall national watch market in the PRC, and other Provinces and cities where our Directors believe have stronger growth potential, which may be adjusted according to our sales performance in the new cities we expand into and changes in regional and national economic conditions in the PRC, and (vi) the enhanced marketing, sales and promotion strategies, such as the engagement of a well-known brand spokesperson and large-scale nationwide marketing campaign, set out above in this section, which will further strengthen our brand image and recognition. For the three months ended 30 September 2012, there has been a net increase of 107 new Tian Wang POS. Our revenue increased to HK\$508.2 million for the three months ended 30 September 2012 from HK\$338.5 million for the three months ended 30 September 2011 by approximately 50.1%, and our operating profit increased to HK\$106.5 million for the three months ended 30 September 2012 from HK\$70.6 million for the three months ended 30 September 2011 by 50.9%.

Forming joint venture with watch retailers of watch sales network

Since 2008, we have formed four JV Companies with four respective JV Partners who are experienced watch retailers of watch sales networks with established business connections with department stores in certain regions in the PRC. Against the competition for prime locations of retail points among watch brands, such joint ventures facilitate our entry into regions in the PRC where it is relatively more difficult for us to penetrate without existing connections.

Through forming such joint ventures, we can tap into new retail points where we can promote our Tian Wang and Balco watches. We believe the brand image of our Tian Wang and Balco brands may also be promoted as we display high-end series of our Tian Wang and Balco watches alongside watches of high-end foreign brands, and the existing market recognition carried by these other brands will broaden our customer base. For details of our joint ventures operation, please refer to the paragraph headed “Our Sales Network – JV Sales Network” below in this section. We have established Time Watch Sichuan, a new joint venture not having commenced operation as at the Latest Practicable Date, which we will develop using our internal resources. For details, please refer to the section headed “History, Reorganisation and Corporate Structure – History – Our Corporate History – Our JV Companies – Time Watch Sichuan” in this prospectus.

Upon completion of the Global Offering, we intend to form two to three such joint ventures in the next 12 to 18 months in cities such as Dalian, Jilin and/or Guiyang, where we currently do not have any significant presence. We expect to form around six joint ventures in total in the three years ending 30 June 2015 to further expand our Sales Network. We will generally select our joint venture partners according to their reputation, the size and location of their sales networks, their industry experience and their local connection, in order to facilitate smooth expansion of our Sales Network.

Promoting Balco through our extensive and expanding Sales Network

For Balco, we intend to use our internal resources and leverage on our extensive Sales Network to promote the brand awareness and sales of our Balco watches.

OUR BUSINESS

Improving our sales revenue by improving same-store sales growth and maintaining our profit margin

In addition to opening new POS to expand our Sales Network, we also aim to improve same-store sales growth of our existing POS. We achieved a same-store sales growth rate for our Tian Wang brand of approximately 21.3%, 30.1%, 17.3% and 26.1% for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively. To achieve this goal, we plan to continue to provide training and improve the quality of our frontline sales staff, upgrade and refurbish the layout and displays of our POS and further promote the brand image and awareness of our Tian Wang and Balco brands. We also intend to strengthen our product design and development capabilities to enhance our watch offering.

We aim to maintain our profit margin by increasing the retail price of our Tian Wang watches by 4% to 10% each year in general (except for the watch models aged more than two years and at the same times, identified as slow moving), leveraging on our strong brand image and established customer base in the PRC and we increase the retail price of Balco watches and watches of the Other Brands based on the cost of procurement from the suppliers and the market demand. We will continue to carefully devise our pricing strategies, taking into account prevailing market price of watches, the overall economy in the PRC, inflation rate and the sales performance of different series of our watches. We aim to maintain our gross profit margins for Tian Wang and Balco watches which were 79.4% and 66.6%, respectively, for the year ended 30 June 2012 and 78.8% and 74.6%, respectively, for the three months ended 30 September 2012. For further details of our pricing strategies, please refer to the paragraph headed “Sales and Marketing – Pricing and discount policies” below in this section.

Enhancing our watch design and development capabilities, operational efficiency and profitability

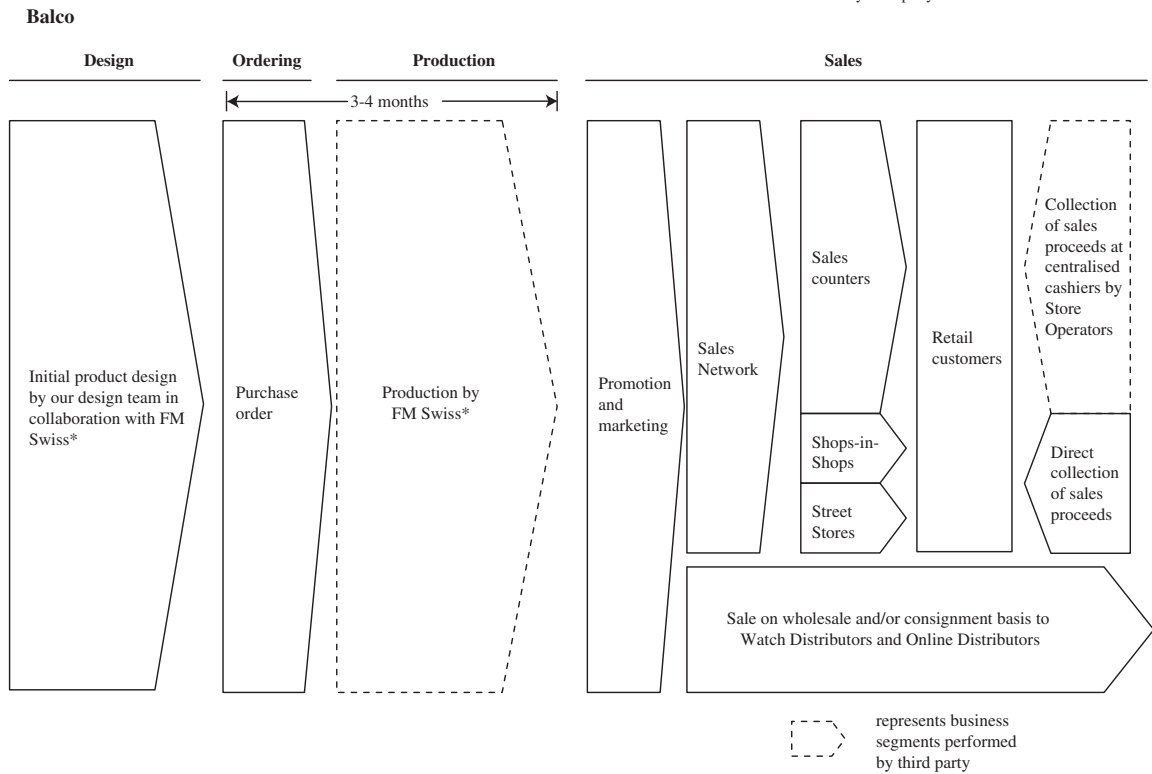
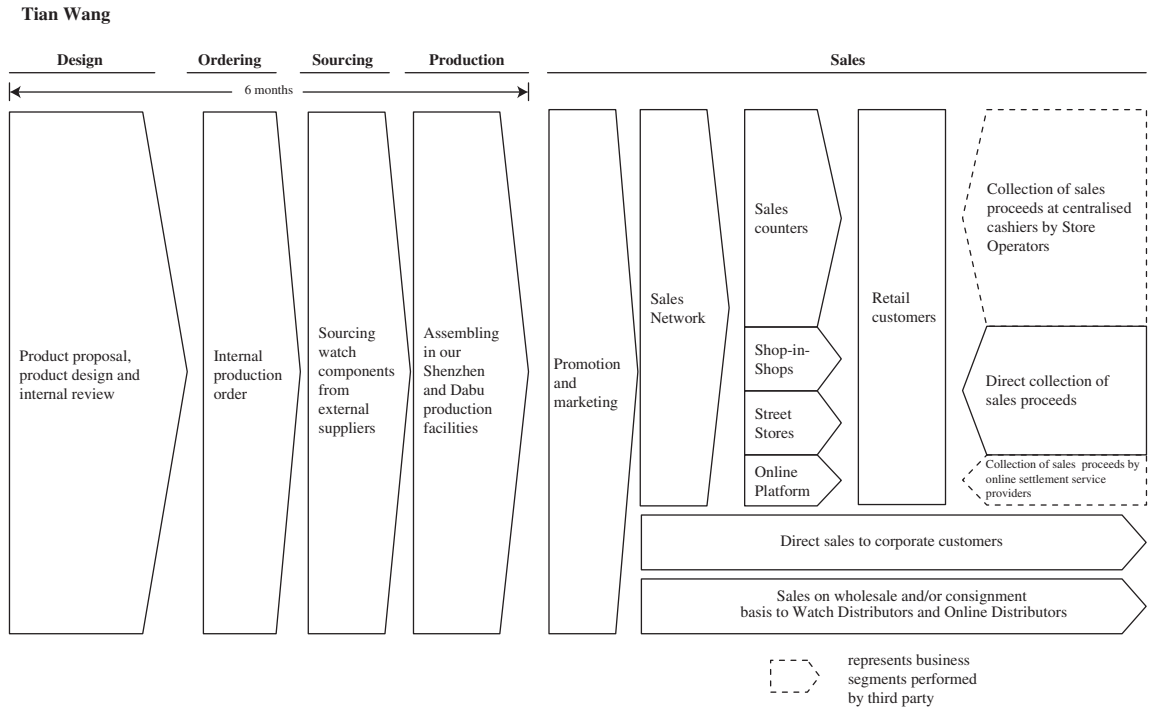
We intend to enhance our watch design and development capabilities through expansion of our product design and development department with additional watch designers and engagement of professional Swiss designers experienced in designing watches for foreign brands. We also intend to acquire new design softwares to enhance and streamline our watch design and development process.

We intend to enhance our operational efficiency and profitability by strengthening our inventory management capability, and by further fine-tuning our supply chain management. We will continue to centrally coordinate our inventory management through our U8 Data Management System to review the demand pattern of our watches across our Tian Wang and Balco Sales Network, and we are currently in the process of upgrading our enterprises resources planning system to enhance our operational data analysis and supply chain management capabilities.

OUR BUSINESS

OUR BUSINESS MODEL

The following diagram illustrates the business model of our core business of development and sale of watches under our Tian Wang and Balco brands:



* FM Swiss is a connected party of our Company. For the relationship between FM Swiss and our Company, please refer to the section headed "Continuing Connected Transactions – Relationship between our Group and connected persons" in this prospectus.

OUR BUSINESS

We are primarily engaged in the product design and development, sourcing of watch components, assembling, brand promotion and management and sales and marketing of our Tian Wang watches, and the design, brand promotion and management, marketing and retail management for Balco. We outsource the production of Balco watches to FM Swiss, an experienced Swiss watchmaker, and a connected person of our Company, which, together with its predecessor under substantially the same management, has approximately 36 years of experience in watchmaking and also produces watches on OEM basis for other brands, including some well-known high-end international brands. Balco watches are designed by our in-house product design department and FM Swiss collaboratively.

We market and sell our Tian Wang and Balco watches predominantly through our own extensive Sales Network and conduct our sales directly to retail customers. We also sell some of our Tian Wang watches directly to corporate customers, who present our watches to their own customers for marketing and promotional purposes, and to our online order customers through our Online Platform. In addition, we also sell some of our Tian Wang and Balco watches on wholesale or consignment basis to Watch Distributors in Hong Kong, Macau and Taiwan, for details please refer to the paragraph below headed “Our Sales Network – Diversified sales channels – Sales to Watch Distributors and Online Distributors” in this section.

We also operate an in-house watch movement procurement and trading arm to source and maintain stable supply of watch movements manufactured overseas for assembling of our Tian Wang watches and we sell the surplus watch movements to other watch manufacturers and distributors.

BRANDS AND PRODUCTS

Our proprietary brands

We currently offer a comprehensive range of watches under our two proprietary Tian Wang and Balco brands.

Tian Wang, was the top national watch brand⁽¹⁾ in the PRC in terms of retail sales value, and the top national watch brand in the mid-end watch market in the PRC in terms of retail sales value and retail sales volume for the year ended 31 December 2011, according to Euromonitor. Sales of our Tian Wang watches accounted for 64.3% and 64.4% of our total revenue for the year ended 30 June 2012 and the three months ended 30 September 2012, respectively. We believe that the strong brand image and goodwill of Tian Wang are critical to our significant business growth during the Track Record Period.

Note:

⁽¹⁾ According to Euromonitor, the categorisation of the PRC watch market into national and foreign watch brands is determined by the place of brand origin, based on factors such as the place where the relevant trademark for the watch brand was first registered, or if no such mark was registered, the place where the watch brand was first used, where watches of the relevant watch brand are produced, and where the watch brand is marketed and is generally recognised. Please refer to pages 102 and 103 in the “Industry Overview” section for further details.

OUR BUSINESS

We market and sell watches under our Balco brand since 2002. The Balco brand was initially registered in Switzerland in 1986 by an Independent Third-Party and we have acquired the intellectual property rights of using the Balco brand globally in 2002. Sales of our Balco watches accounted for approximately 7.1% and 6.3% of our total revenue for the year ended 30 June 2012 and the three months ended 30 September 2012, respectively.

We believe our Tian Wang and Balco brands are strategically positioned to complement each other. Each of our two proprietary brands bears a distinctive style and brand philosophy and caters to different consumer sub-segments, with Tian Wang targeting mid-income consumers and the mass market in the PRC, and Balco targeting the younger generation of mid-income consumers in the PRC. We believe that Tian Wang offers watches with a diverse range of classical, fashionable and modern designs that appeal to consumers who look for well-designed watches with quality and functionality. As our Tian Wang brand is well-established and well-recognised in the PRC, we target the expanding mid-end watch market as well as the vast and growing mass market of low-end watches in the PRC and Balco targets consumers who look for trendy Swiss-made watches with prevailing design elements in the foreign watch market. We adopt this dual-brand strategy which we believe will diversify our income stream and reduce reliance on Tian Wang brand, attract a wider customer base looking for watches with different styles and prices, and cover the low-end and mid-end watch market in the PRC more comprehensively.

We place great emphasis on brand building and promotion of our Tian Wang and Balco brands. For further discussion on our marketing and advertisements, please refer to the paragraph headed “Sales and Marketing – Marketing and promotion” below in this section.

Our watch products

We believe that the comprehensive and diverse ranges of our Tian Wang watches, covering the whole spectrum of consumer sub-segments in the low-end and mid-end watch market and Balco watches targeting mid-income consumers in the PRC, is one of the keys to our success. Our two proprietary brands offer a broad selection of watches characterised by different design and functions. Building on the strengths of our Tian Wang and Balco brands and the success of our existing watch products, we introduced over 30 new models of Tian Wang watches and about 10 to 20 new models of Balco watches per year during the Track Record Period.

As at the Latest Practicable Date, we offer over 400 models of Tian Wang and Balco watches. Each series of our watches is characterised by different styles and materials, targets different groups of customers, mainly the mid-end watch market and the mass market, and is sold at different ranges of retail prices.

OUR BUSINESS

The tables below set forth our revenue, percentage of revenue, gross profit margin and sales volume for each category of the high-end, mid-end and low-end watches of our Tian Wang and Balco brands, respectively, for the periods indicated.

Brands	Categories	For the year ended 30 June									
		2010					2011				
		Revenue	% of revenue	Gross profit margin	Sales volume	Average selling price	Revenue	% of revenue	Gross profit margin	Sales volume	Average selling price
		<i>HK\$ million</i>	<i>%</i>	<i>%</i>	<i>'000</i>	<i>HK\$</i>	<i>HK\$ million</i>	<i>%</i>	<i>%</i>	<i>'000</i>	<i>HK\$</i>
Tian Wang	High-end	29.7	6.4	79.5	4.9	6,061	39.7	5.6	80.5	6.1	6,508
	Mid-end	240.5	51.6	78.7	166.7	1,443	377.9	53.1	80.2	247.6	1,526
	Low-end	195.6	42.0	78.9	533.1	367	293.6	41.3	77.9	761.8	385
	Overall	465.8	100	78.9	704.7	661	711.2	100	79.3	1,015.5	700
Balco	High-end	34.0	41.0	56.0	6.6	5,152	48.3	53.4	77.0	10.2	4,735
	Mid-end	48.9	58.9	56.1	23.4	2,090	42.0	46.4	77.2	19.9	2,111
	Low-end	0.1	0.1	5.8	0.2	500	0.2	0.2	4.6	0.7	286
	Overall	83.0	100	56.0	30.2	2,748	90.5	100	76.9	30.8	2,938
Brands	Categories	For the year ended 30 June					For the three months ended 30 September				
		2012					2012				
		Revenue	% of revenue	Gross profit margin	Sales volume	Average selling price	Revenue	% of revenue	Gross profit margin	Sales volume	Average selling price
		<i>HK\$ million</i>	<i>%</i>	<i>%</i>	<i>'000</i>	<i>HK\$</i>	<i>HK\$ million</i>	<i>%</i>	<i>%</i>	<i>'000</i>	<i>HK\$</i>
Tian Wang	High-end	53.9	5.5	82.4	7.8	6,910	15.5	4.7	82.1	2.2	7,045
	Mid-end	516.7	52.7	79.8	344.2	1,501	171.5	52.4	78.6	91.1	1,883
	Low-end	409.8	41.8	78.5	810.0	506	140.4	42.9	78.6	206.1	681
	Overall	980.4	100	79.4	1,162.0	844	327.4	100	78.8	299.4	1,094
Balco	High-end	56.2	51.8	66.6	13.7	4,102	15.6	48.9	73.4	4.0	3,900
	Mid-end	52.0	47.9	67.0	25.4	2,047	16.2	50.8	75.9	7.6	2,132
	Low-end	0.3	0.3	12.9	1.1	273	0.1	0.3	19.7	0.2	500
	Overall	108.5	100	66.6	40.2	2,699	31.9	100	74.6	11.8	2,703

During the Track Record Period, sales of mid-end and low-end Tian Wang watches was our Group's major revenue and profit contributor. Our Directors believe that these categories of watches will continue to provide the major growth potential in the future and will remain as the focus of our brand promotion strategy.

OUR BUSINESS

Tian Wang

As at 31 December 2012, our Tian Wang brand offers 14 series of watches, with retail prices ranging from around RMB518 to RMB128,000, which comprise mainly of mid-end watches targeting the fast-expanding segment of mid-income consumers, and low-end watches targeting the vast and growing mass market in the PRC. Tian Wang watches come in diverse ranges of design including classical, fashionable and modern designs and are assembled with watch movements most of which are manufactured in Japan and the rest of which are manufactured in Switzerland and in Asia (excluding Japan) by Swiss watch movement manufacturers. We also offer low-end watches under our promotional series, which are designed and produced for sales at promotional events in Department Stores. We also sell some of our Tian Wang watches directly to corporate customers in the PRC, comprising mainly of low-end watches as well as made-to-order watches bearing the corporate customers' logos for their promotional purpose. The following table sets forth the key characteristics, approximate retail price range, revenue and percentage of our revenue from sales of watches attributable to sales of each of our principal or representative series of Tian Wang watches:

Round-Times Series
(輪時代系列)

Watch case: stainless steel and tungsten steel or gold-plated stainless steel

Bracelet: leather, steel, gold-plated stainless steel or gold-plated steel bracelet with tungsten steel

Glass: sapphire glass

Ornaments: small diamond grain and zircon

Movements: automatic

Approximate retail price range:
RMB3,100 to RMB9,400

Revenue attributable to sale of this series for the year ended 30 June 2012 and the three months ended 30 September 2012 respectively:
HK\$111.2 million and HK\$29.4 million

Percentage of our revenue attributable to sale of watches for the year ended 30 June 2012 and the three months ended 30 September 2012 respectively:
8.7% and 7.0%



OUR BUSINESS

Sharp Series
(鋒睿系列)

Watch case: tungsten steel

Bracelet: tungsten steel

Glass: sapphire glass

Movements: quartz

Approximate retail price range:

RMB1,000 to RMB6,700



Revenue attributable to sale of this series for the year ended 30 June 2012 and the three months ended 30 September 2012 respectively:

HK\$117.8 million and HK\$29.7 million

Percentage of our revenue from sale of watches for the year ended 30 June 2012 and the three months ended 30 September 2012 respectively:

9.3% and 7.0%

OUR BUSINESS

Shine Series
(尚Shine系列)

Watch case: gold/rose gold-plated
stainless steel with crystal and zircon

Bracelet: rose gold-plated stainless steel
and ceramics or gold-plated stainless
steel and ceramics

Glass: sapphire glass

Movements: automatic/quartz

Approximate retail price range:
RMB1,400 to RMB3,700

**Revenue attributable to sale of
this series for the year ended
30 June 2012 and the three months
ended 30 September 2012
respectively:**
HK\$61.9 million and HK\$19.2 million

**Percentage of our revenue attributable
to sale of watches for the year ended
30 June 2012 and the three months
ended 30 September 2012
respectively:**
4.9% and 4.5%



OUR BUSINESS

Grace Series
(雅仕系列)

Watch case: stainless steel

Bracelet: steel

Glass: sapphire glass or crystal glass

Movements: quartz

Approximate retail price range:

RMB518 to RMB2,180

**Revenue attributable to sale of
this series for the year ended
30 June 2012 and the three months
ended 30 September 2012
respectively:**

HK\$74.8 million and HK\$23.1 million

**Percentage of our revenue attributable
to sale of watches for the year ended
30 June 2012 and the three months
ended 30 September 2012
respectively:**

5.9% and 5.5%



OUR BUSINESS

Learned Series
(博雅系列)

Watch case: stainless steel, gold-plated stainless steel or gold-plated stainless steel with zircon

Bracelet: steel or gold-plated steel

Glass: sapphire glass

Movements: quartz

Approximate retail price range:

RMB918 to RMB2,038

Revenue attributable to sale of this series for the year ended 30 June 2012 and the three months ended 30 September 2012 respectively:

HK\$89.2 million and HK\$24.8 million

Percentage of our revenue attributable to sale of watches for the year ended 30 June 2012 and the three months ended 30 September 2012 respectively:

7.0% and 5.9%



OUR BUSINESS

Promotion Series
(促銷系列)

Watch case: stainless steel and tungsten steel

Bracelet: stainless steel bracelet, or steel bracelet with tungsten steel

Glass: sapphire glass

Movements: quartz/automatic

Approximate retail price range:
RMB600 to RMB1,500

Revenue attributable to sale of this series for the year ended 30 June 2012 and the three months ended 30 September 2012 respectively:
HK\$237.9 million and HK\$74.3 million

Percentage of our revenue attributable to sale of watches for the year ended 30 June 2012 and the three months ended 30 September 2012 respectively:
18.7% and 17.6%



OUR BUSINESS

Balco

As at 31 December 2012, our Balco brand offers nine series of watches through our Sales Network, with retail prices ranging from around RMB1,260 to RMB88,000, targeting the expanding segment of mid-income consumers in the PRC. Our Swiss-made Balco watches are designed with trendy and sporty styles and are assembled with watch movements which are all manufactured in Switzerland. The following table sets out the key characteristics, approximate retail price range, revenue and percentage of our revenue for sales of watches attributable to the sale of each of our principal or representative series of Balco watches:

Speed Series (競速系列)

Watch case: stainless steel, gold-plated
stainless steel or rose gold-plated
stainless steel

Bracelet: stainless steel/black leather
strap, gold-plated stainless steel or
rose gold-plated stainless steel

Glass: sapphire glass

Movements: automatic/quartz

Approximate retail price range:
RMB2,800 to RMB16,500

**Revenue attributable to sale of
this series for the year ended
30 June 2012 and the three months
ended 30 September 2012
respectively:**
HK\$1.7 million and HK\$0.3 million

**Percentage of our revenue attributable
to sale of watches for the year ended
30 June 2012 and the three months
ended 30 September 2012
respectively:**
0.1% and 0.1%



OUR BUSINESS

ATIC Series (型動系列)

Watch case: stainless steel or rose gold-plated stainless steel or gold-plated stainless steel

Bracelet: stainless steel, rose gold-plated stainless steel or gold-plated stainless steel

Glass: sapphire glass

Movements: automatic/quartz

Approximate retail price range:
RMB2,300 to RMB11,300

Revenue attributable to sale of this series for the year ended 30 June 2012 and the three months ended 30 September 2012 respectively:
HK\$8.6 million and HK\$1.7 million

Percentage of our revenue attributable to sale of watches for the year ended 30 June 2012 and the three months ended 30 September 2012 respectively:
0.7% and 0.4%



OUR BUSINESS

Image Series
(型幻系列)

Watch case: stainless steel with zircon,
rose gold-plated stainless steel with
zircon or gold-plated stainless steel
with zircon

Strap/bracelet: leather, rose gold-plated
stainless steel with zircon or gold-
plated stainless steel with zircon

Glass: sapphire glass

Ornament: zircon

Movements: quartz

Approximate retail price range:
RMB2,900 to RMB4,000

**Revenue attributable to sale of
this series for the year ended
30 June 2012 and the three months
ended 30 September 2012
respectively:**
HK\$4.9 million and HK\$1.2 million

**Percentage of our revenue attributable
to sale of watches for the year ended
30 June 2012 and the three months
ended 30 September 2012
respectively:**
0.4% and 0.3%



OUR BUSINESS

Touch Series
(真情系列)

Watch case: stainless steel or gold-plated stainless steel

Bracelet: stainless steel bracelet, gold-plated stainless steel or stainless steel and tungsten steel

Glass: sapphire glass

Movements: quartz

Approximate retail price range:
RMB2,000 to RMB3,500

Revenue attributable to sale of this series for the year ended 30 June 2012 and the three months ended 30 September 2012 respectively:
HK\$10.0 million and HK\$2.1 million

Percentage of our revenue attributable to sale of watches for the year ended 30 June 2012 and the three months ended 30 September 2012 respectively:
0.8% and 0.5%



OUR BUSINESS

Brand recognition

Tian Wang

Our Tian Wang brand is widely recognised in the PRC, as evidenced by the following awards and certificates:

Year of grant	Awards/Accreditations	Issued by
2011	2010年度中國輕工業鐘錶行業十強企業 2010 Top Ten Enterprises in the Watch and Clock Light Industry in the PRC	2010中國輕工業聯合會 (China National Light Industry Council); and 中國鐘錶協會 (China Watch & Clock Association)
2008 – 2011	ISO:9001 for the design and manufacturing of Tian Wang watches	SGS SA
2010	最受歡迎領先品牌 The Most Popular Leading Brands	深圳市鐘錶行業協會 (Shenzhen Watch & Clock Association); and 深圳報業集團晶報社 (Shenzhen Press Group Daily Sunshine)
2009	中國馳名商標 PRC Famous Brands	國家工商行政管理總局 (State Administration for Industry and Commerce of the People's Republic of China)
2006	十大風雲品牌 Top Ten Influential Brands	第五屆中國鐘錶高峰論壇 (The Fifth China Watch & Clock Top Forum)
2005	中國名牌產品 PRC Well-known Brand	國家質量監督檢驗檢疫總局 (General Administration of Quality Supervision, Inspection and Quarantine of PRC)
2004 – 2012	Top Ten Domestic Watch Brand in the PRC	中華全國商業信息中心 (CNCIC)

OUR BUSINESS

Year of grant	Awards/Accreditations	Issued by
2004	2003年度“天王”牌手錶市場綜合佔有率在同類產品榮列前三位 Our Tian Wang watches ranked third in market shares among similar products in 2003	中國商業聯合會 (China General Chamber of Commerce); and 中華全國商業信息中心 (CNCIC)
2003	中國市場公認十佳暢銷品牌 Top Ten Best Selling Brands in PRC Market	中國名牌與市場戰略促進委員會 (China Brand and Market Strategy Promotion Committee)
1996	全國大商場推薦市場名優商品 Famous Quality Branded Goods recommended by National Shopping Malls	國內貿易部商業統計信息管理辦公室 (Ministry of Domestic Trade Commercial Statistical Information Management Office); and 國內貿易部商業信息中心 (Ministry of Domestic Trade Commercial Information Centre)
1994	全國大商場推薦市場名優商品 Famous Quality Branded Goods recommended by National Shopping Malls	國內貿易部市場建設管理司 (Ministry of Domestic Trade Market Construction Management Division); 全國商品市場監測中心 (National Monitoring Centre for Commodity Markets); 中華全國商業信息中心 (CNCIC); and 全國大商場聯評會 (National Big Shopping Malls Joint Evaluation Committee)
1992 – 1995	全國暢銷國產商品 金橋獎 Golden Bridge Award	中華人民共和國商業部最暢銷國產商品展銷活動組委會 (Ministry of Business of PRC, Best-selling Domestic Goods Exhibition Organising Committee)

Balco

The following table sets forth the awards and certificates we have received for Balco:

Year of grant	Awards/Accreditations	Issued by
2009 – 2010	Top 20 Imported Watch Brands in the PRC by Sales Volume	中華全國商業信息中心 (CNCIC)

OUR BUSINESS

SALES AND MARKETING

We sell our Tian Wang and Balco watches mainly through our extensive Sales Network. As at 30 September 2012, we had a nationwide footprint of 1,706 POS, including the 66 JV POS operated by our JV Companies, with presence in 30 out of 31 Provinces in the PRC. According to Euromonitor, our Sales Network was the largest network in terms of number of directly managed watch retail outlets in the PRC as at 31 December 2011.

We directly control and manage all of our Tian Wang and Balco POS selling our Tian Wang and Balco watches. Each of these POS only carries either one of our Tian Wang or Balco brands. For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, 93.0%, 92.4%, 91.2% and 94.2% of sales of our Tian Wang and Balco watches were made through our Tian Wang and Balco Sales Network, respectively.

As at 30 September 2012, we also operate 66 JV POS through our JV Companies which promote and sell watches of our Tian Wang and Balco brands and the Other Brands.

In addition to our principal sales channel through our Sales Network in the PRC, we sell some of our Tian Wang and Balco watches on wholesale or consignment basis to Watch Distributors in Hong Kong, Macau and Taiwan, for details please refer to the paragraph below headed “Our Sales Network – Diversified sales channels – Sales to Watch Distributors and Online Distributors” in this section. We sell some of our Tian Wang watches, including some low-end watches and made-to-order watches, directly to our corporate customers in the PRC and we also market and promote our Tian Wang watches through online channels.

Other than the above, our Group has not conducted any sales in any other country during the Track Record Period and currently do not have any concrete plan to expand its sales network to overseas market.

OUR BUSINESS

Our Sales Network

Extensive geographical coverage

We coordinate our sales effort at our sales department in our Shenzhen Headquarters and centrally manage our nationwide Sales Network currently comprising 36 and 33 Sales Regions, as at the Latest Practicable Date, for our Tian Wang and Balco watches, respectively. The following map shows the distribution of our 1,706 POS across the PRC by Provinces as at 30 September 2012, which illustrates that our POS cover mainly the affluent Provinces in Eastern and Southern China, as well as the less affluent inner Provinces:



Note: The number and delineation of regions indicated above are for illustrative purpose in accordance with our internal categorisation and may not correspond exactly with the official geographical delineation of the Provinces in the PRC.

OUR BUSINESS

Diversified sales channels

In response to the different levels of consumer purchasing power in different regions in the PRC, we use a variety of sales channels to cover different markets. As at 30 September 2012, we operated 1,675 Sales Counters, 21 Shop-in-Shops, 10 Street Stores and also market our watches through online sales channels. These diversified sales channels are located in strategic locations and offer a diverse range of watches mainly in the mid-end and low-end watch segments targeting different customers. The following table sets out the number of our POS by sales channels and segments and the approximate total GFA of all POS for Tian Wang and Balco, respectively, as at the dates indicated. Except for the JV POS which carry multiple brands, each of our other POS only carries one of our Tian Wang or Balco brands.

	As at 30 June 2010				As at 30 June 2011				As at 30 June 2012				As at 30 September 2012			
	Number of Sales Counters	Number of Shop-in-Shops	Number of Street Stores	Total	Number of Sales Counters	Number of Shop-in-Shops	Number of Street Stores	Total	Number of Sales Counters	Number of Shop-in-Shops	Number of Street Stores	Total	Number of Sales Counters	Number of Shop-in-Shops	Number of Street Stores	Total
Tian Wang	764	-	2	766	931	4	3	938	1,169	4	5	1,178	1,273	6	6	1,285
Balco	260	1	-	261	284	3	1	288	327	4	2	333	349	4	2	355
JV POS	13	3	1	17	15	3	1	19	52	8	2	62	53	11	2	66
TOTAL	1,037	4	3	1,044	1,230	10	5	1,245	1,548	16	9	1,573	1,675	21	10	1,706
Approximate total GFA of all POS (sq.m.)⁽¹⁾																
For Tian Wang				2,070				2,530				3,180				3,470
For Balco				530				580				670				720

Note:

- (1) The approximate total GFA of all POS for Tian Wang and Balco is a rough estimate based on our management information, as the GFA of some POS, in particular our Sales Counters, were not specified in the relevant Sales Counters cooperation agreements, and is based on the approximate average area of display counter of the POS.

We generated revenue of approximately HK\$581.7 million, HK\$855.0 million, HK\$1,177.7 million and HK\$402.1 million from sales through our Sales Network, comprising our Sales Counters, Shop-in-Shops and Street Stores, representing approximately 63.3%, 71.9%, 77.2% and 79.1% of our total revenue for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively. The total concessionaire fees and rentals for our Sales Counters, Shop-in-Shops and Street Stores were approximately HK\$151.8 million, HK\$222.0 million, HK\$297.1 million and HK\$106.2 million for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively, and were approximately 26.1%, 26.0%, 25.2% and 26.4% of the revenue generated from our Sales Network for the corresponding periods.

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The following table sets out the number of our POS according to sales channels and geographical regions as at the dates indicated:

Geographical regions ⁽¹⁾	2010			As at 30 June 2011			2012			As at 30 September 2012		
	Number of Sales Counters	Number of Shop-in-Shops	Number of Street Stores	Number of Sales Counters	Number of Shop-in-Shops	Number of Street Stores	Number of Sales Counters	Number of Shop-in-Shops	Number of Street Stores	Number of Sales Counters	Number of Shop-in-Shops	Number of Street Stores
Northern China												
– Tian Wang	134	–	–	153	–	–	199	–	–	212	–	–
– Balco	35	–	–	33	–	–	45	–	–	53	–	–
Eastern China												
– Tian Wang	243	–	1	292	–	2	363	–	3	402	2	3
– Balco	97	–	–	92	–	1	99	–	1	106	–	1
Central China												
– Tian Wang	81	–	–	107	–	–	135	–	–	149	–	–
– Balco	32	–	–	34	–	–	39	–	–	39	–	–
Southern China												
– Tian Wang	93	–	1	122	3	1	143	3	2	151	3	3
– Balco	21	1	–	32	2	–	36	3	1	38	3	1
North-western China												
– Tian Wang	30	–	–	40	–	–	64	–	–	65	–	–
– Balco	4	–	–	6	–	–	7	–	–	6	–	–
South-western China												
– Tian Wang	69	–	–	91	1	–	107	1	–	120	1	–
– Balco	42	–	–	56	1	–	63	1	–	68	1	–
North-eastern China												
– Tian Wang	114	–	–	126	–	–	158	–	–	174	–	–
– Balco	29	–	–	31	–	–	38	–	–	39	–	–
JV POS	13	3	1	15	3	1	52	8	2	53	11	2
Total number of POS	1,037	4	3	1,230	10	5	1,548	16	9	1,675	21	10

Note:

(1) We define the geographical regions as follows:

Northern China: Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia provinces

Eastern China: Shandong, Jiangsu, Anhui, Shanghai, Zhejiang and Fujian provinces

Central China: Henan, Hubei, Hunan and Jiangxi provinces

Southern China: Guangdong, Guangxi and Hainan provinces

North-western China: Xinjiang, Ningxia, Gansu and Shaanxi provinces

South-western China: Chongqing, Sichuan, Guizhou, Xizang and Yunnan provinces

North-eastern China: Heilongjiang, Jilin and Liaoning provinces

The categorisation above is for illustrative purpose in this prospectus only.

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The table below sets out the breakdown of our revenue attributable to sale of watches by sales channels:

	For the year ended 30 June						For the three months ended 30 September 2012	
	2010		2011		2012		2012	
	Revenue	%	Revenue	%	Revenue	%	Revenue	%
	HK\$ million		HK\$ million		HK\$ million		HK\$ million	
Sales channels								
Sales Counters	561.5	90.5	829.6	90.6	1,145.4	90.0	390.6	92.4
Shop-in-Shops	7.5	1.2	9.5	1.0	16.8	1.3	7.8	1.8
Street Stores	12.7	2.1	15.9	1.7	15.5	1.2	3.7	0.9
Direct sales to corporate customers	30.7	5.0	52.2	5.7	75.1	5.9	14.4	3.4
Online sales	0.2	0.0	0.2	0.0	0.1	0.0	0.0	0.0
Sales to Watch Distributors and Online Distributors on wholesale or consignment basis	7.7	1.2	8.7	1.0	20.3	1.6	6.4	1.5
TOTAL	620.3	100.0	916.1	100.0	1,273.2	100.0	422.9	100.0

Sales Counters

Sales Counters, in the form of concession counters in Department Stores, are the predominant sales channel of our Sales Network. As at 30 June 2010 and 2011 and 2012 and 30 September 2012, we operated 1,037, 1,230, 1,548 and 1,675 Sales Counters, respectively, representing approximately 99.3%, 98.8%, 98.4% and 98.2% of the total number of our POS as at the corresponding dates. We display and sell our watches at our Sales Counters at specified location in Department Stores which we occupy in accordance with the Sales Counter cooperation agreements with the Store Operators of the relevant Department Stores. Our Sales Counters carry selected series of our Tian Wang or Balco watches, and the product mix at each of our Sales Counters is determined in accordance with the local consumer preferences, market conditions, and historical sales performance of the individual geographical regions. As at 30 September 2012, we had in aggregate 1,675 Sales Counters, including 1,273 and 349 Sales Counters for Tian Wang and Balco, respectively, and 53 Sales Counters of the JV Companies. For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, sales from our Sales Counters amounted to approximately HK\$561.5 million, HK\$829.6 million, HK\$1,145.4 million and HK\$390.6 million, respectively, accounting for approximately 90.5%, 90.6%, 90.0% and 92.4% of our revenue from sales of watches for the corresponding periods.

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Our 1,675 Sales Counters, as at 30 September 2012, increase the exposure of our Tian Wang and Balco brands to the high consumer flow of the Department Stores where our Sales Counters are located and we benefit from their well-established reputation and the marketing campaigns.

Operation and Management of our Sales Counters

Pursuant to the Sales Counter cooperation agreements, we are responsible for the direct management and control of our Sales Counters and we retain the ownership of our inventory. The Store Operators provide us with counter space and certain guidelines for occupation of such space and we pay the Store Operators concessionaire fees, most of which are calculated as a percentage of our monthly sales receipt, depending on the bargaining position of the respective Store Operator. We believe that the Sales Counter cooperation arrangements between us and the Store Operators with variable concessionaire fees based on sales, are advantageous to our business operation as, we are not subject to pre-determined rental expenses which may, during months of lower sales volumes, negatively affect our profit margin.

While the Store Operators are responsible for the overall administration and operation of the Department Stores where the Sales Counters are located, such as collection of sales proceeds, holding of promotion events, overall decoration of the Department Stores and the Store Operators are the direct employer of some of the sales representatives at some of our POS (the salary of whom are reimbursed by us to the Store Operators), we directly manage the selection, internal procurement and delivery of watches to the Sales Counters, inventory control and data management, storage and insurance, display and arrangement of our watches at the Sales Counters, design of the decoration of the Sales Counters, sign board or slide box at the Sales Counters, marketing, implementation of our pricing and discount policy, and provision of after-sale repair and maintenance service.

The direct management of all of our Sales Counters and other POS, instead of relying on third-party distributors or franchisees to manage the POS which is the mode of operation adopted by many retail business operators and some of our competitors, is a strength of our Sales Network and enables us to manage our Sales Network efficiently and effectively.

In some cases, the Sales Counter cooperation agreement with the Store Operators contains a minimum sales requirement, which means that we have to pay the Store Operator a fixed fee if our sales do not meet the minimum amount for the relevant period. For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, the portion of fees we paid pursuant to the minimum guaranteed sales requirement was less than 0.2% of the total fees we paid to Store Operators during the corresponding periods.

For 1,161 or 70.8% of our Tian Wang and Balco POS as at 30 September 2012, we entered into Sales Counter cooperation agreement with authorised independent contractor of the Store Operators, which are mostly sub-contractors of the watch retail area or department of the relevant Department Stores and business partners of the Store Operators. Our Directors

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confirm that such arrangement is common industry practice and does not present any material additional risk as the independent contractors are duly authorised by the relevant Store Operators to enter into the Sales Counter cooperation agreement with us.

The Sales Counter cooperation agreements of our Sales Counters most typically contain the following principal terms:

(i) *Rights and obligations of our Group:*

- *Concessionaire fees* – Concessionaire fees depend on the size and location of our Sales Counters within the Department Stores and our relationship with, and bargaining power against, the relevant Store Operators.
- *Minimum guaranteed sales* – In some cases, our Sales Counter fee is subject to a minimum sales requirement. If our sales in the relevant period is below such requirement, we have to pay the Store Operator a fixed fee for such period.
- *Products* – We are typically required to sell the products of the brands and types specified in the Sales Counter cooperation agreements.
- *Renovation and maintenance* – We are typically responsible for the renovation costs and maintenance of our Sales Counters and the Store Operators are responsible for the overall decoration of the Department Stores and the fixtures at the Sales Counters.
- *Other fees* – In addition to the Sales Counter concessionaire fees, we also pay the Store Operators certain utility fees and management fees, and in some cases, share part of the expenses incurred by the Store Operators for the overall promotion activities and advertisements of the Department Stores either at a fixed amount or as a percentage of our total sales during the promotion period.

(ii) *Rights and obligations of the Store Operators:*

- *Location and size* – Store Operators are required to provide us with a fixed location for our Sales Counter in the watch section of the relevant Department Stores.
- *Promotion* – Store Operators are usually responsible for holding promotional activities in the Department Stores, and we generally have the right to decide whether to participate in such promotional activities at their invitation.
- *Discount policy* – Store Operators are not allowed to adjust the selling price of our products and cannot carry out any promotional sale activities in respect of our watches without our permission.

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- *Renovation* – Store Operators generally provide us, at their expenses, with certain basic decorations and electrical equipment for our POS, and we are responsible for the decoration and design of the Sales Counters and the display and showcase of our watches.
- *Employment* – In some cases, sales representatives at our Sales Counters may be under the direct employment of the Store Operators and are arranged to work at our Sales Counter pursuant to the relevant Sales Counter cooperation agreements. These sales representatives are under our supervision and follow our instructions in relation to the operation of the Sales Counters. If their performance is unsatisfactory, we may request for the sales representative to be replaced. We are required to reimburse the Store Operators for the salary which they pay to the relevant sales representatives.
- *Settlement* – As is typical for department stores, sales proceeds are collected at the cashiers at the Department Stores by the Store Operators on our behalf and are remitted to us typically on a monthly basis, and in most cases we are paid a net amount after deduction of Sales Counter concessionaire fees.

(iii) Duration

- The Sales Counter cooperation agreements typically have a term of one to two years renewable by agreement between the parties.

(iv) Termination

- The Sales Counter cooperation agreements can generally be terminated upon mutual agreement, and in some cases, may be terminated by us after a specified notice period.

Shop-in-Shops

As at 30 June 2010, 2011 and 2012 and 30 September 2012, we operated four, 10, 16 and 21 Shop-in-Shops, respectively, representing approximately 0.4%, 0.8%, 1.0% and 1.2% of our total number of POS as at the corresponding dates. Our Shop-in-Shops are established within shopping malls in different regions in the PRC. We believe the shopping malls provide a pleasant shopping experience for our customers and we benefit from the high customer flow and the promotion and marketing activities of the shopping malls. Our Shop-in-Shops typically carry a more comprehensive range of watches than our Sales Counters. Sales from our Shop-in-Shops accounted for approximately 1.2%, 1.0%, 1.3% and 1.8% of our watch sales revenue for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively.

For our Shop-in-Shops, we typically enter into leases with our landlords under which a fixed rent is payable. We directly manage all of our Shop-in-Shops, directly collect sales proceeds from our Shop-in-Shops and are responsible for our inventory and sales representatives at these POS. The leases for our Shop-in-Shops are generally for a term of three years.

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Street Stores

Our Street Stores are individual stores which are located along the streets in business centre districts with a high level of pedestrian flow where consumer spending power and demand for high-quality watches are expected to be high. As at 30 September 2012, our Street Stores have GFA ranging from approximately 10 to 330 sq.m.. They are typically free-standing structure and have large display areas, which allow us more flexibility to carry out promotional activities. As at 30 June 2010, 2011 and 2012 and 30 September 2012, we operated three, five, nine and 10 Street Stores, respectively, representing approximately 0.3%, 0.4%, 0.6% and 0.6% of our total numbers of POS as at the corresponding dates. Sales from our Street Stores accounted for approximately 2.1%, 1.7%, 1.2% and 0.9% of our watch sales revenue for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively.

For our Street Stores, we typically enter into leases with landlords under which a fixed rent is payable. We are responsible for the inventory, collection of sales proceeds and sales representatives employed at each of our Street Stores. The leases for our Street Stores are generally for a term of one to two years.

Direct sales to corporate customers

We sell some of our Tian Wang watches directly to our corporate customers in the PRC, including some low-end watches and made-to-order watches bearing their corporate logos which are presented to their customers for their marketing and promotional purposes. For direct sales to corporate customers, we may customise our watches with specifications provided by such customers. The watches we directly sell to corporate customers are mainly low-end watches during the Track Record Period, with a price range of approximately RMB135 to RMB680. We have a separate direct sales department to handle such direct sales to our corporate customers.

Revenue generated from direct sales to corporate customers for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012 were approximately HK\$30.7 million, HK\$52.2 million, HK\$75.1 million and HK\$14.4 million, respectively, representing 5.0%, 5.7%, 5.9% and 3.4% of our watch sales revenues for the corresponding periods.

We aim to promote direct sales to corporate customers by (i) promoting to our existing customers, (ii) promoting to potential customers by telephone calls, (iii) encouraging referral by existing customers, (iv) participating in watch fairs, and (v) promoting online sales on our website. The Directors believe that revenue from direct sales to corporate customers will remain stable with steady growth.

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Online sales

We operate an Online Platform at **www.etianwang.cn** (天王商城) which is directly operated and maintained by us to market our Tian Wang watches. We display our Tian Wang watches on our Online Platform where the online customers who make online orders are directed to the websites of Independent Third-Party online settlement service provider (“**Online Settlement Agent**”), who accept payment from the relevant customers and remit the relevant payment to our Group and we arrange for the delivery of the watches to the relevant customers. We engage the Online Settlement Agent to facilitate payment made by the online customers on the internet, which complies with the GOMC Circular, and we pay the Online Settlement Agent a fee of RMB0.45 million per year for its service. For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, 0.03%, 0.02%, 0.01% and 0.0%, respectively, of our revenue from sales of watches were attributable to our sales through our Online Platform.

We have also contracted with two Online Distributors which operate Online Stores to sell our Tian Wang watches, on a non-exclusive basis. We have approximately two years of relationship with each of the Online Distributors, which are online distributors operating B2B and/or B2C retail websites. Under our agreements with the Online Distributors who operate the Online Stores, online space is provided on their respective websites for display of our Tian Wang watches. Watches sold to the Online Distributors are despatched and delivered directly from our warehouse. Typically, the Online Distributors make order to purchase from us when they commit sales of the corresponding watch models to the online customers. We recognise our sales when our watches are sold to the Online Distributors and we collect the sales proceeds from them.

Operation of our Online Platform and the Online Stores

We market a selection of our Tian Wang watches on the Online Platform and Online Stores which we believe are likely to appeal to internet customers. Watches offered for online sales consist of relatively more low-end watches, compared with watches offered at our physical POS, and include some models with simple designs which are specifically designed for online sales. The retail price range of watches we market through the Online Platform was approximately RMB412 to RMB8,400 and the price range of our watches sold to the Online Distributors on wholesale basis was approximately RMB93 to RMB8,980 as at 31 December 2012. For our Online Stores, we sell our watches to the Online Distributors on wholesale basis and the retail price is determined by the Online Distributors, and we maintain a gross profit margin of approximately 40% to 50% for our watches sold to the Online Distributors.

For our online sales, we do not need to pay concessionaire fee, rentals or commission to sales representatives, which we do for sales at our physical POS, and therefore we generally offer greater discount for our online sales, including special discount for a limited number of watches of up to 84% as part of our online special promotion strategies.

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We believe that the operation of our Online Platform and the two Online Stores will help to strengthen our brand image, increase our market share and promote our brand awareness among internet users, whom we believe are mainly from the younger generation.

Through our own Online Platform (www.etianwang.cn), we display and provide free product information of our Tian Wang watches and accept orders from online customers. For orders made on our Online Platform, payment is either settled online through our Online Settlement Agents which then transfer the payment to our Group, or made to our Group offline physically, and we arrange for delivery of the watches to the relevant online customers. We have made filings to relevant telecommunication administrative authorities for that Online Platform. Based on the foregoing, our PRC legal advisers are of the view that no particular license, approval or registration is required by the Company for conducting online sales through its own website under the applicable provisions of GOMC Circular and other relevant PRC laws and regulations. For online sales conducted through the Online Stores, which are third-party-operated websites, as advised by our PRC legal advisers, no particular license, approval or registration is required by the Company under the relevant PRC laws and regulations.

Sales to Watch Distributors and Online Distributors

We sell some of our Tian Wang and Balco watches to Watch Distributors in Hong Kong (including Fortune Silver) on consignment basis, to Watch Distributors in Taiwan (including Time Watch Taiwan) on wholesale basis, and a Watch Distributor in Macau on wholesale basis and another Watch Distributor in Macau on consignment basis. Fortune Silver and Time Watch Taiwan are connected persons of our Company. For details, please refer to the section headed “Continuing Connected Transactions – Distribution of watches in Hong Kong and Taiwan” in this prospectus.

For sales of our watches on consignment basis to Watch Distributors in Hong Kong and Macau, our watches are displayed and marketed at the retail outlets of the Watch Distributors and remained as our inventory before they are sold to individual customers. When a watch is sold to the individual third-party customer at the retail outlets of the Watch Distributors, the sale is recognised by us as a sale to the Watch Distributors at the same time. The selling price of the watch sold to the Watch Distributors on consignment basis is typically determined with reference to a certain percentage discount from the recommended retail price of the same or similar watch model, and the sales proceeds are settled by the Watch Distributors to us typically under credit terms of approximately 60 days.

The inventory of our watches stocked by the Watch Distributors for consignment sale was typically at a level that is sufficient for approximately six months of sales. We check the sales and inventory reports of the Watch Distributors generally on a monthly basis, and perform physical stock take approximately every six months. While the watches remain as our property before they are sold at the retail outlet of the Watch Distributors, if they are damaged or lost, the Watch Distributors shall compensate us for our loss, and our Directors understand that they are covered by insurance of the Watch Distributors.

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For sales of our watches on wholesale basis to Watch Distributors in Taiwan and Macau, our watches are sold by us to the Watch Distributors. The selling price of the watches sold to the Watch Distributors on wholesale basis is typically determined by reference to a certain percentage discount from the recommended retail price of the same or similar watch model; the sale is recognised at the time when it is sold by us to the Watch Distributors, and the sales proceeds are settled by the Watch Distributors generally under credit terms of approximately 60 days.

Sales on wholesale and consignment basis, including sales to Watch Distributors and Online Distributors during the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012 were approximately HK\$7.7 million, HK\$8.7 million, HK\$20.3 million and HK\$6.4 million, respectively, representing 1.2%, 1.0%, 1.6% and 1.5% of our watch sales revenues for the corresponding periods.

JV Sales Network

Since 2008, in order to enhance the growth of our Sales Network, we have formed four JV Companies, which are owned by our Group as to 51%, with four respective JV Partners who are operators of watch sales networks with established business connections with department stores and shopping malls in certain regions in the PRC. In view of the competition for prime locations of retail points, such joint ventures facilitate our entry into regions in the PRC where we have no or limited presence more efficiently and quickly.

In forming the JV Companies with our JV Partners, we seek to identify potential joint venture partners who were operators with retail points in the relevant regions. The general managers of the JV Companies supervise the day-to-day operations of the respective JV Companies, and we hold a majority interest and maintain control and overall management of the JV Companies.

Under the relevant joint venture agreements, we have recruited the key individuals of our JV Partners to manage the JV Companies, who were required to assist the JV Companies to open sales counters in department stores and shopping malls, recruit experienced sales employees, and procure suppliers of established watch brands to supply watches for sales at the JV POS.

Through forming such joint ventures, we benefit from income generated from sales of watches of other established brands, and tap into new retail points where we can promote our Tian Wang and Balco watches in the future. We believe the brand image of our Tian Wang and Balco brands may be promoted as we display high-end series of our Tian Wang and Balco watches alongside watches of high-end foreign brands, and the existing market recognition carried by the Other Brands will broaden our customer base.

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The JV Companies market and sell our Tian Wang and Balco watches, as well as watches of the Other Brands, on non-exclusive basis, which, as at 31 December 2012, mainly consisted of 49 established foreign and national watch brands. The Other Brands comprise mostly of other mid-end to high-end watch brands and also include some well-known luxury watch brands. The retail price of watches of these target segments of the Other Brands ranges from around RMB1,450 to RMB877,000 as at 31 December 2012. We purchases watches of the Other Brands from the relevant brand owners, their distributors of which we have entered into supply agreements or authorised retail agreements with, or other sources designated by the brand owners, on order-by-order basis, based on the inventory level and expected demand. We purchase watches of the Other Brands generally at a discount from the suggested retail price set by the relevant brand-owners or distributors from time to time.

In addition to the cost of sourcing watches of the Other Brands, the operating costs of JV Companies, including payment of Sales Counter concessionaire fees and wages and sales commission to employees, are similar to the operating costs of our Tian Wang and Balco Sales Network.

As at 30 September 2012, our JV Sales Network consisted of an aggregate of 66 JV POS, comprising 53 Sales Counters, 11 Shop-in-Shops and two Street Stores, mainly covering the Provinces of Jiangsu, Anhui, Shanghai and Sichuan in the PRC, which were operated by the respective JV Companies. The mode of operation of the JV Sales Network is similar to that of our Tian Wang and Balco Sales Network. The JV POS are managed by the general manager of the relevant JV Company, operating the JV POS in the same way that the Tian Wang and Balco POS are managed by the regional managers of the Tian Wang and Balco Sales Network. The JV Companies have not been granted any exclusive right to sell Tian Wang and Balco watches or watches of the Other Brands in the regions where the JV Companies establish and operate their JV POS. They sell Tian Wang and Balco watches and watches of most of the Other Brands in regions specified by our Group for Tian Wang and Balco watches or the relevant brand owners for watches of the Other Brands. Our Tian Wang and Balco Sales Network may also operate in the regions where the JV Companies operate.

Revenue attributable to sales through our JV Sales Network was approximately HK\$71.5 million, HK\$114.3 million, HK\$184.2 million and HK\$63.7 million for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively, representing approximately 11.5%, 12.5%, 14.5% and 15.1% of revenue of our Group generated from sales of watches for the corresponding periods. We have established Time Watch Sichuan, a new joint venture not having commenced operation as at the Latest Practicable Date, which we will develop using our internal resources. For details, please refer to the section headed “History, Reorganisation and Corporate Structure – History – Our Corporate History – Our JV Companies – Time Watch Sichuan” in this prospectus.

For details of our JV Companies, please see the section headed “History, Reorganisation and Corporate Structure – Our Corporate History – Our PRC subsidiaries” in this prospectus.

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Management and operation of our Tian Wang and Balco Sales Network

Management Structure

We have a three-tiered management structure for our Tian Wang and Balco Sales Network which consists of our headquarters, 36 and 33 Sales Regions for Tian Wang and Balco, respectively, and 1,706 POS as at 30 September 2012. This structure ensures a clear delineation of responsibilities, facilitates flow of information on market trends and consumer preference from our Tian Wang and Balco POS to our Sales Regions and Shenzhen Headquarters and ensures efficient implementation of decisions made at our headquarters.

Headquarters

Our headquarters in Hong Kong is primarily responsible for our overall business development strategy, marketing and brand management strategy, financial management, senior personnel recruitment and internal control, whereas our headquarters in Shenzhen is primarily responsible for nationwide sales and marketing management and management of our assembling, quality control and logistics processes.

The sales and marketing department monitors the performance of each of our Tian Wang and Balco POS and Sales Region. Our headquarters review and analyse the performance of our Tian Wang and Balco POS and Sales Regions to identify deficiency in any particular Tian Wang and Balco POS or Sales Region. Our senior management devises improvement schemes to address the identified deficiencies. Our deputy general manager for sales reports directly to our Directors.

Sales Regions

In order to optimise management efficiency, we divide our nationwide Tian Wang and Balco Sales Network into 36 and 33 Sales Regions for our Tian Wang and Balco brands, respectively. The Sales Regions for Tian Wang are managed by 35 Sales Region managers who report directly to our sales and marketing general manager whereas the Sales Regions for Balco are directly managed by our sales and marketing general manager.

Each of the managers of the Sales Regions is principally responsible for the management and supervision of sales performances, staff administration and product management of the Tian Wang and Balco POS, as well as the development of new POS, within the relevant Sales Regions. The general managers of our JV Companies bear similar responsibilities to managers of the Sales Regions for Tian Wang and Balco in the management of the JV Sales Network. The managers of the Sales Regions are also responsible for selecting and allocating quantity of different series of Tian Wang and Balco watches to the POS in the Sales Region according to the relevant statistics within the Sales Region. The Sales Regions collaborate with our product design and development department at our Shenzhen Headquarters by continuously providing up-to-date information in market trends and consumer preferences in the PRC watch market.

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The local management at our Sales Regions provide up-to-date POS sales data collected by our U8 Data management System and assist our marketing and sales department at our headquarters in coordinating and developing local marketing and promotional activities tailored to the specific circumstances of the POS within the relevant Sales Region.

Management and Operation at POS level

Each of our Tian Wang and Balco POS is under direct management and supervision of a specific Sales Region and is supervised by a sales officer, who is responsible for overseeing the sales performance, sales targets, store image, financial performance and staff management of the individual POS. The sales officer reports directly to managers of their respective Sales Regions.

As at 30 September 2012, we also operated 66 JV POS in the JV Sales Network. Please refer to the paragraph headed “Sales and Marketing – Our Sales Network – JV Sales Network” above in this section.

Selection of location for our POS

Our POS comprises of Sales Counters and Shop-in-Shops in Department Stores and free-standing Street Stores located at strategic locations in retail districts of populous cities with high flow of pedestrian traffic. We believe that the selection of our POS location is crucial to the success of our operation. Therefore, we adopt a systematic and strategic approach in locating our POS. In selecting the Department Stores for opening our Sales Counters and Shop-in-Shops and selecting the locations of our Street Stores, we generally consider the following key factors:

- population density, customer traffic and vehicle traffic of the region;
- potential growth of local population;
- development potential and future development trends of the region;
- estimated spending power of the local population and its trend;
- marketing and strategic benefits available at the location; and
- proximity and performance of competitors and our existing POS in the surrounding area.

Before we open a Tian Wang and Balco POS at a new location, we conduct a thorough site review and analysis based on the above factors. Each Regional Manager is responsible for identifying and selecting potential sites for new Tian Wang and Balco POS in the relevant Sales Region. Shortlisted sites are reviewed by our Shenzhen Headquarters and final decision is made by a team consisting of some of our Directors and senior management.

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Under the concessionaire fees arrangements between us and the Store Operators of the Department Stores at which our POS are located, our strong sales performance and scale of operations translate into high profitability for the Store Operators, and we believe that this mutually beneficial relationship together with our long term well-established relationship with many of the Store Operators enable us to secure prominent retail space in the Department Stores.

Opening and closure of our POS

During the Track Record Period, we adopted the following strategies when making decisions on the opening and closure of POS. We seek to establish more Tian Wang and Balco POS at locations with high pedestrian flow and large target consumer base for our Tian Wang and Balco watches. When we consider whether to maintain or close an existing POS, in addition to the sales performance of the relevant POS, we also take into account the following factors: (i) for a newly opened POS, there is usually an initial ramp up period of approximately 12 to 18 months, based on the Directors' experience in operating the Sales Network, before it becomes profitable, meaning that the monthly revenue from the relevant POS is greater than the monthly operating expenses relating to it; (ii) some POS are opened in prominent locations within a region or city to promote our brand image as part of our marketing strategy and profit-making is not the main objective of opening or maintaining such POS; and (iii) POS are opened in some regions where we have limited presence to allow for penetration of our brand and increasing our market shares in such regions, as part of our Group's business strategy in the long-run.

The following table gives a breakdown and the changes in the number of POS in our Sales Network as at the dates indicated:

	Number of POS as at 30 June									Number of POS as at 30 September			
	2009	Opening	Closure	2010	Opening	Closure	2011	Opening	Closure	2012	Opening	Closure	2012
Tian Wang	626	191	51	766	227	55	938	319	79	1,178	126	19	1,285
Balco	203	83	25	261	65	38	288	81	36	333	44	22	355
JV POS	18	4	5	17	3	1	19	44	1	62	9	5	66
TOTAL	847	278	81	1,044	295	94	1,245	444	116	1,573	179	46	1,706

During the Track Record Period, certain of our POS were not profit-making, meaning that the monthly revenue from the relevant POS was less than the monthly expenses relating to it. While the majority of our Tian Wang, Balco and JV POS closed during the Track Record Period were POS which were not profit-making, when we decide on whether to maintain or close a POS, we do not only consider whether the POS is profit-making, but also take into account the factors mentioned in the paragraph above.

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Design and appearance of our Tian Wang and Balco POS

We believe that each of our Tian Wang and Balco brands have unique market position, and our Tian Wang and Balco POS are characterised by distinctive store appearance. The design, spacing, layout and product display of our Tian Wang and Balco POS follow the guidelines set down by our headquarters, which requires all POS of the respective brand to present a consistent visual image, particularly through the design and colour of the shop fronts, backdrop and product display of that brand. We have also set out detailed requirements for the layout of the display stands of our watches. Almost all of our Tian Wang and Balco POS are decorated based on our guidelines.

Our customers

We conduct our sales mainly through our Sales Network in the PRC to retail customers, and we generally target mid-income consumers with our mid-end series of Tian Wang watches and Balco watches, and the mass market consumers with our low-to-mid-end series of our Tian Wang watches. We sell some of our Tian Wang watches to our corporate customers in the PRC and also sell some of our Tian Wang and Balco watches to Watch Distributors in Hong Kong, Macau and Taiwan on wholesale or consignment basis, for details please refer to the paragraph above headed “Our Sales Network – Diversified sales channels – Sales to Watch Distributors and Online Distributors” in this section. We anticipate our customer base will grow further and become more diversified as we expand our Sales Network and establish new joint venture operation following the completion of the Global Offering.

For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, the aggregate sales to our five largest customers, who were either customers for our watch movements or our corporate customers of our Tian Wang watches, accounted for approximately 6.6%, 5.8%, 9.3% and 8.1%, respectively, of our total revenue of the corresponding periods, and sales to our largest customer accounted for approximately 1.6%, 1.7%, 4.6% and 3.0%, respectively, of our total revenue for the corresponding periods. Among our five largest customers during the Track Record Period, East Base was our largest customer during each of the years ended 30 June 2010 and 2011 and the three months ended 30 September 2012, and Fortune Silver was one of our five largest customers during the year ended 30 June 2012 and the three months ended 30 September 2012. Mr. Michael Tung (our Chairman, chief executive officer and executive Director) and our Controlling Shareholders are interested in East Base and Fortune Silver by virtue of their shareholding interests therein. Please refer to the section headed “Relationship with our Controlling Shareholders” in this prospectus for further information about East Base and Fortune Silver. Save as aforesaid, none of the Directors, our chief executive officer or any person who, to the knowledge of the Directors, owns more than 5% of our issued share capital or any of our subsidiaries, or any of their respective associates, had any interest in any of the other of our five largest customers during the Track Record Period.

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Cash and credit control policies

We do not grant any credit terms to our retail customers. For our corporate customers and Watch Distributors, during the Track Record Period, the average credit period for our trade receivables was approximately 60 days. For more information, please refer to the section headed “Financial Information – Selected Consolidated Statements of Financial Position – Trade and other receivables” in this prospectus.

We generate the substantial portion of our revenue from sales to retail customers through our Sales Counters. Proceeds generated through sales at our Sales Counters are collected by the Store Operators at the centralised cashiers of the Department Stores and are generally remitted to us on a monthly basis, which is in line with industry practice. The remittance is generally settled within 60 days in accordance with our policy, but it may vary according to the policy of the relevant Store Operators. Although we record the sales at our Sales Counters as our sales to the relevant Department Stores, such sales are in fact generated from retail customers. During the Track Record Period, we did not experience any material default in collecting the net sales proceeds from the Store Operators of the Department Stores and we did not experience any material incident of, or losses from, cash misappropriation.

The table below sets forth the payment methods by and credit terms offered to customers of different sales channels or Store Operators.

Types of sales channels	Payment method(s) by customers or Store Operators	Average credit terms granted to customers or Store Operators
Sales Counters ⁽¹⁾	Cash/Credit card/Bank transfer	60 days
Shop-in-shops	Cash/Credit card/Bank transfer	60 days
Street Stores	Cash/Credit card/Bank transfer	60 days
Corporate customers	Cash/Bank transfer	60 days
Wholesale customers	Cash/Bank transfer	60 days
Consignment sale customers	Bank transfer	60 days
Online Platform ⁽²⁾	Bank transfer	60 days
Online Stores ⁽³⁾	Bank transfer	60 days

Notes:

- (1) Payment for sales at Sales Counters by individual customers are in most cases first collected by the Store Operators who then remit the sum to us, and the credit terms are granted by us to the Store Operators.
- (2) Payment for sales through Online Platform by individual customers are made to our Online Settlement Agents, who then remit the sum to us, and the credit terms are granted by us to the Online Settlement Agents.
- (3) Payment for sales through the two Online Stores is settled by the Online Distributors.

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Seasonality

Our sales volume may be affected by seasonality. Revenue fluctuations throughout the year are common for the watch industry which is subject to the seasonal purchase patterns of consumers. We generally record higher sales revenue during major holidays or festivals, such as Chinese New Year, Valentine's Day, PRC Labour Festival, Mid-Autumn Festival, National Day and Christmas, usually in the months of January, February, April, May, September, October and December.

Further, our revenue flow and periodical financial performance are also influenced by a number of factors, including changes in our product mix, effectiveness of our inventory management, new products, level of pre-opening expenses associated with opening of new POS, timing and effectiveness of our marketing activities, actions by our existing and new competitors, and employee motivation and effectiveness, among others. As a result of these fluctuations, comparison of sales and operating results from different periods in different financial years may not be relied on as indicators of our performance.

Pricing and discount policies

Our pricing policy is predominantly cost-based, which allows us to maintain a satisfactory profit margin. In addition to our cost of sales, we also take into consideration several factors, including the retail price of similar watches of our competitors, income level of our target customers, functionality of our watches, historical sales performance and general market conditions when we set our pricing policy. We review our pricing strategy from time to time and make necessary adjustments to maintain our price competitiveness and sales volume.

The price range of our watches is determined by our headquarters which formulates detailed pricing policies that is followed by each of our Sales Regions. Our standard pricing policy generally applies across all of our POS to maintain the brand positioning of our Tian Wang and Balco brands and avoid price competition among our POS.

Based on the pricing policies adopted by our headquarters, our Sales Regions may adjust the retail prices of our watches from time to time in accordance with the local conditions of individual POS, level of competition, market trends and seasonality. Further, we sometimes participate in promotional activities organised by Department Stores at which our Sales Counters are located, subject to approval from our headquarters.

Depending on the level of slow-moving inventory, we may from time to time offer watches of the slow-moving models with discount or adjust the original retail price of the relevant models to reduce the level of such inventory. For more information, please refer to the paragraph below headed "Inventory Management" in this section. The aim of our pricing policy is for our customers to understand that the retail price of our watches is consistent with their underlying value and will not be marked down frequently for promotion, and we generally seek to limit the number of discount promotional sale events to approximately once to twice per

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year. We believe this strategy will present a balanced image of quality and reasonable price. During the Track Record Period, our slow-moving inventory are mainly sold through our Sales Network at a discount of generally not more than 20%. For finished watches left unsold after our promotional activities, we may offer them to our corporate customers or through our online sales channels at deeper retail discounts. As the cost of our direct sales to corporate customers or through online sales channels does not include Sales Counter concessionaire fees, rent or other expenses for operation of our physical POS, we are able to maintain an acceptable level of profit margin for such sales.

During the Track Record Period, we maintained an average gross margin of 79.2% and 67.6% for our Tian Wang and Balco watches, respectively. In response to increasing inflation and rising affluence in the PRC, we generally increased the retail price of our Tian Wang watches by approximately 4% to 10% each year (except for the watch models aged more than two years and at the same time identified as slow moving) and we increase the retail price of Balco watches and watches of the Other Brands based on the cost of procurement from the suppliers and the market demand.

After-sale services and warranties

Retail customers

We recognise that the quality of our watches is crucial to the goodwill and image of our Tian Wang and Balco brands. We have a dedicated after-sale department for processing customers' complaints and providing comprehensive after-sale services for our Tian Wang and Balco watches. Tian Wang and Balco watches sold by us are covered by one-year local warranty for all of our Tian Wang watches generally, two-year warranty for our Balco watches and battery for our quartz watches and comprehensive after-sale services. As at 31 December 2012, there were 100 maintenance and repair centres for our Tian Wang and Balco watches across 58 major cities in the PRC. Additionally, we perform after-sale reviews with our customers to obtain their feedback on our Tian Wang and Balco watches and constructive feedbacks will be channelled to the relevant members of our management at our headquarters. The JV POS provide after-sale service to the customers by serving as collection points for Tian Wang and Balco watches and watches of the Other Brands purchased from the JV POS which require maintenance or repair, and send such watches to the maintenance and repair centres operated by the relevant brand owners or Department Stores. Under the PRC laws, we are required to accept the return, exchange or repair defective products.

For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, the amount of sales returns by customers were approximately HK\$0.1 million, HK\$0.1 million, HK\$0.1 million and HK\$0.1 million, respectively, and the warranty-related expenses were approximately HK\$0.9 million, HK\$1.0 million, HK\$0.5 million and HK\$0.1 million, respectively. The amount of our provision for the warranties is estimated based on sales volumes and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised when appropriate. Based on past experience, the Directors consider that the level of repairs and returns was insignificant, and no provision on product warranty had to be made during the Track Record Period.

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Corporate customers

We provide one-year warranties for watches we sell to our corporate customers. As a standard commercial term in the sales agreements and warranty cards for our corporate customers, maintenance service on watch movements is provided to our corporate customers at no cost within one year of purchase, and the battery can be repaired at no cost within two years of purchase.

Watch Distributors

We provide maintenance services at no cost for Tian Wang and Balco watches we sell to our Watch Distributors within one year of purchase.

Marketing and promotion

We target our marketing activities to promote and strengthen the brand image of our Tian Wang and Balco brands. While we focus our promotion on our principal mid-end series of our Tian Wang and Balco watches, our broad range of nationwide promotion campaigns and marketing activities also strengthen our overall brand recognition among consumers in the vast and growing mass market in the PRC. The Directors believe that one of the major factors underlying our continued success is our responsiveness to consumer preference market demands for watches.

For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, our advertising and promotion fees accounted for approximately 3.0%, 4.3%, 2.8% and 2.7% of our revenue, respectively. To enhance our customer loyalty, brand reputation, and recognition, we have carried out the following principal marketing activities during the Track Record Period:

Media advertisement

We advertise our watches through a number of different media:

- *Television:* We have produced and developed high-quality television commercials for our Tian Wang watches.
- *Print:* We use print advertisements, such as industry magazines, travel magazines, newspaper, as well as at outdoor locations such as light boxes and posters that are strategically placed at areas with high pedestrian traffic.
- *Website:* We market and promote Tian Wang and Balco watches on our websites and our customers can access information about our brands, watches and POS locations on our websites.

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Set out below is an advertisement of one of our Tian Wang watches.



In-store marketing

Through the use of consistent product displays and backdrop design at each of our POS, we seek to enhance public recognition of our Tian Wang and Balco brands. We consider this in-store marketing approach as more cost-effective than other non-specific mass promotion as we can make use of our extensive Sales Network that is strategically placed at locations with heavy customer flow, enabling us to reach a wide consumer base without incurring substantial extra cost in marketing and promotion. Our in-store marketing is complimentary to our strategies of placing our POS in locations where we consider likely to attract the rising tide of consumer affluence. We currently plan to open concept stores in first-tier cities such as Beijing, Shanghai, Guangzhou, Shenzhen, Chengdu and Shenyang to strengthen our market presence and promote our brand image. Please see the paragraph above headed “Our Business Strategies” in this section for further details.

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Watch fairs

We participated in the annual China Clock and Watch Fair (中國 (深圳)國際鐘錶展覽會), the largest watch trade fair in the PRC, to acquire latest market intelligence and promote our Tian Wang brand. Since 2008, we also attend Baselworld Watch and Jewellery Show, the leading annual watch exhibition in the world, to promote our Balco brand.

Spokespersons

We have historically engaged a Chinese television and movie actor, who is active and well-known in the Chinese society especially in the PRC, as the brand spokesperson of our Tian Wang brand and Mr. Francis Ng (吳鎮宇先生) as the brand spokesperson of our Balco brand as part of our marketing campaign. Currently, we have engaged Mr. Bosco Wong (黃宗澤先生) as the brand spokesperson of Balco. For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, our expenses on engagement of spokespersons were approximately 0.1%, nil, 0.1% and nil of our revenue of the corresponding periods.

Product catalogues

To promote our latest design and collections, we prepare product catalogues and brochures featuring our Tian Wang and Balco watches which are designed to appeal to consumers. Contents of our catalogues and brochures are renewed from time to time.

Department store and shopping mall promotions

We participate in the promotional activities and marketing campaigns organised by the Department Stores at which our POS are located to take advantage of the higher number of consumers visiting the Department Stores during the promotional periods. We also set up temporary stands and promotion booths for promotion of our new products from time to time.

Marketing activities of JV Companies

The JV Companies do not actively undertake marketing activities but usually participate in promotion sale events organised by the Store Operators of the Department Stores where the JV POS are located as well as those organised by the brand owner of the Other Brands.

PRODUCT DESIGN AND DEVELOPMENT

We place great emphasis on customising our watch series in accordance with the prevailing market trends and consumer preferences in the PRC watch market to develop fashionable and commercially viable watch series. For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, our design and product development expenses were approximately HK\$14.5 million, HK\$14.8 million, HK\$34.9 million and HK\$3.7 million, respectively, representing approximately 3.1%, 3.0%, 5.8% and 1.9% of our costs of sales for the corresponding periods. We follow the international quality standard for

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watches and inject them with Chinese style and design to cater to consumer preferences in the PRC. Our strong and innovative design capabilities have earned us 23 registered patents of design and production know-how that are exclusively applied to our Tian Wang and Balco watches as at the Latest Practicable Date.

We have an in-house product design and development department dedicated to the product design and development of our Tian Wang watches. Balco watches are initially designed by our product design department in collaboration with FM Swiss who review and comment on our designs. In-house design process allows us to fully integrate our product development capabilities into other segments of our business model and to respond timely to the changing market trends.

We are highly responsive to the changing consumer preferences in the mid-end and low-end watch market in the PRC as our series of Tian Wang watches are designed based on the marketing intelligence and customer feedbacks collected from our directly controlled and managed Sales Network.

During the Track Record Period, we introduced over 30 new models of Tian Wang watches and about 10 to 20 models of Balco watches each year. Our design and product development process mainly comprises the stages of market information collection, product design, product development, design review, prototyping and after-sale evaluation.

Collection of market information

We strive to offer a wide variety of watches under our Tian Wang and Balco brands that keep up with the prevailing market trend and cater to the preferences of our targeted consumer groups based on market information collected from a variety of sources, such as up to date information on watch market trends in the PRC collected through our directly controlled and managed Sales Network, industry events and watch fairs, industry reports and publications.

Product design and product development

Our design department is responsible for preparation of sketches of design which include choice of raw materials, ornaments, straps or bracelets, watch movements and other watch components. Our sales and marketing department provides feedback on the sketches based on their estimation of the potential popularity and sales performance of the proposed designs. Incorporating the feedbacks from our sales and marketing department, our design and product development department commences on the process of outlook design, which include design patterns, technical drawings, and our product development department produces the relevant production standards, production instructions and product specifications.

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Collaboration with FM Swiss

All of our Balco watches are designed by our in-house product design and development department in collaboration with and with support from FM Swiss, which is an experienced watch manufacturer in Switzerland, pursuant to the Balco Agreement. All new watch designs are subject to our approval before production. FM Swiss is a connected person of our Company. Please refer to the paragraph below headed “Production Outsourcing” in this section for further details.

Design review

Our finished product designs are subject to review by new product review committee comprising Mr. Michael Tung and representatives from our design, production and sales and marketing departments and is responsible for assessing the commercial, engineering and production viability.

Prototyping

Watch design for our Tian Wang watches that receive initial approval from our new product review committee are used to produce prototypes. Our engineering department and quality control department work closely with our designers to produce a prototype that is structurally and commercially viable. Our production and material control departments review and select qualified suppliers for watch components. The finished prototypes are subject to final review by our new product review committee. The prototyping phase usually takes one to two months. The prototypes are mainly used for determining the types of watch components to be sourced from our suppliers.

After-sale evaluation

Our product design and development department collaborates with our sales and marketing department to conduct after-sale surveys from our frontline sales staff on the market response to our watches. Results from after-sale evaluation will be used for the next round of product development to improve the popularity of our watches.

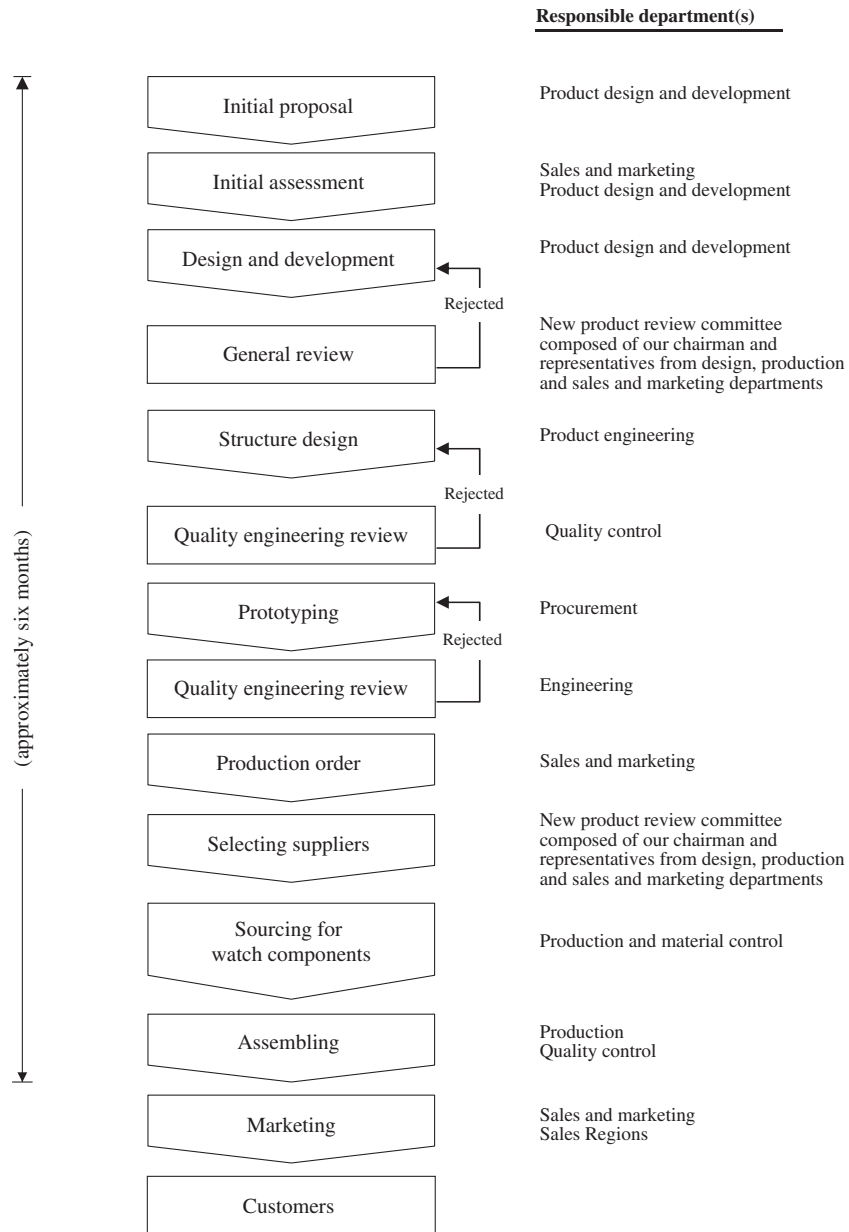
SOURCING AND PRODUCTION

We design and assemble all of our Tian Wang watches with watch components which are all sourced from Independent Third-Party suppliers. We outsource the production of all Balco watches to FM Swiss. Please refer to the paragraph below headed “Production Outsourcing” in this section for further details.

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Supply chain overview

The following diagram sets forth the typical supply chain flow of our Tian Wang watches. The average product lead time of our Tian Wang watches is approximately six months.



Product design and engineering

Our product design and development department works closely with our sales and marketing department to develop new designs for our watch collections in accordance with the prevailing market trends and consumer preferences. Please refer to the paragraph headed “Product design and development” above in this section for further information.

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Sourcing of watch components

The main components required for assembling our Tian Wang watches are watch movements, cases, straps, dials, crowns and hands. Save for the Japan-made, Swiss-made and other watch movements which we source from suppliers in Hong Kong, we source substantially all of our watch components from suppliers in the PRC and the purchases are mainly made in RMB.

Selection criteria for our suppliers

All of our watch components are supplied by suppliers that have satisfied our quality standards and are on our approved supplier list. We usually invite three or more potential suppliers to bid for the supply of each watch components for our Tian Wang watches. We primarily focus on the following criteria when we select our suppliers:

- business scale and reputation of the product quality of the potential suppliers and their ability to timely produce and deliver the required quantity of products;
- production capacity and production lead time of the potential suppliers;
- the quality requirements for each model of our watches; and
- price of individual purchase orders.

For new suppliers, we usually have site-visits before we place any purchase orders. We conduct initial quality control on all of our watch components, and watch components with quality defects will be returned to our suppliers. We periodically review the quality and delivery performance of our suppliers. Unsatisfactory suppliers are removed from our approved supplier list.

Supply arrangements

Our Directors believe that there are adequate and reliable sources of supply for all watch components we use to assemble our Tian Wang watches. With more than 20 years of operating history in the watch industry, we have built up close business relationships with our suppliers for watch components. We believe that our well-established Tian Wang brand has earned the recognition from our major suppliers. Therefore, we generally do not, and we do not intend to, enter into long-term watch components supply agreements. Our watch components purchase arrangements, including pricing, are made by purchase orders based on our on-going requirements. Our Directors believe that these arrangements give us the flexibility to adjust the purchase quantity of watch components in accordance with the demand for our watches. Purchase orders for watch components typically contain the following principal terms:

- *Quality standard* – We require our suppliers to supply watch components that meet our specifications, and we typically have the right to delay payment if the supplies do not meet our specified standard.

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- *Credit terms* – We generally settled payments to most of our watch component suppliers within 90 days.
- *Delivery* – Our watch component supplies are required to be delivered within an agreed time frames at the suppliers' expense. We have the rights to delay or reduce payments in the event that our suppliers fail to meet our delivery schedules.

We seek to maintain stable supply of watch movements, a key quality-determining watch component in making watches. We maintain a watch movement procurement arm under Win Source, our wholly-owned subsidiary, to source Japan-made, Swiss-made and other watch movements from suppliers located in Hong Kong such as Time Module (H.K.) Ltd and ISA Pacific Co. Ltd., with whom we have about 16 years of business relationship. Our watch movement purchases are planned and prioritised for the production needs of Tian Wang and are made in bulk volume for a reduced price. Surplus watch movements are traded to Independent Third-Party manufacturers and distributors as an additional income base for our Group.

For further details on the principal terms of the purchase orders we place to our watch movements suppliers, please refer to the paragraph headed "Our Ancillary Watch Movements Trading Business" in this section below.

Our suppliers

Our major suppliers include suppliers of watch components for assembling our Tian Wang watches, FM Swiss, which produces Balco watches as ordered by us and suppliers of watches of the Other Brands.

For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, purchases from our single largest supplier, which was a supplier for watch movements, accounted for approximately 24.6%, 23.3%, 18.4% and 14.1% of our total cost of sales, respectively. For the same periods, purchases from our five largest suppliers, which include our suppliers for watch movements, accounted for approximately 61.0%, 60.9%, 55.2% and 48.1% of our total cost of sales, respectively. All of our five largest suppliers are Independent Third-Parties.

None of our Directors, our chief executive officer or any person who, to the knowledge of our Directors, owns more than 5% of our issued share capital or of any of our subsidiaries, or any of their respective associates, had any interest in any of our five largest suppliers during the Track Record Period.

Production orders

The quantity of internal production orders for our Tian Wang watches are determined by members of our senior management with assistance from our sales and marketing department and production department in accordance with the projected demand for our watches, prevailing market trends and consumer preferences, current utilisation rate of our production

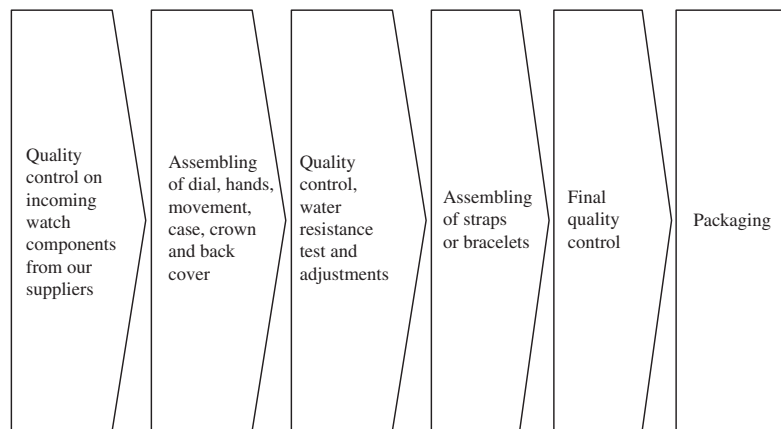
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facilities and our overall market strategies. Our Sales Regions managers, after assessing potential consumer response towards each new design gathered from our Sales Network, make projection of production order volumes in light of their respective sales target and POS expansion plan.

Assembling

Our assembling process

The following diagram sets out the principal stages of the assembling process of our Tian Wang watches.



Our production facilities and capacities

We have two production facilities located on leased premises in Shenzhen City and Dabu County, respectively, both in Guangdong Province, the PRC, with a combined GFA of 3,536 sq.m.. The following table sets out information relating to our two production facilities.

Facilities	Location	GFA (sq.m.)	Number of assembly lines	Status	Principal usage
Shenzhen Production Facilities	深圳市寶安區龍華街道 工業東路利金城科技 工業園第4棟第4-5層 (4-5/F, Block 4, Lijincheng Technology Industrial Park, Gongye Street East, Longhua Road, Bao'an, Shenzhen)	2,976	1	Leased	Product design and development assembly facilities, office and storage
Dabu Production Facilities	大埔縣湖寮鎮虎中路 48號2樓 (2/F, 48 Zhenhu Road Central, Huliao, Dabu)	560	1	Leased	Assembly facilities

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The following table sets out the theoretical maximum production capacities (in number of watches), actual production volume (in number of watches) and utilisation rate (in percentage) of theoretical maximum production capacity during the Track Record Period of each of our Shenzhen Production Facilities and Dabu Production Facilities:

	Shenzhen Production Facilities	Dabu Production Facilities	Total
Theoretical Maximum Production Capacity (number of watches)⁽¹⁾			
For the year ended 30 June 2010	1,920,000	720,000	2,640,000
For the year ended 30 June 2011	1,920,000	720,000	2,640,000
For the year ended 30 June 2012	1,920,000	720,000	2,640,000
For the three months ended 30 September 2012	480,000	180,000	660,000
Actual Production Volume (number of watches)⁽²⁾			
For the year ended 30 June 2010	630,775	153,978	784,753
For the year ended 30 June 2011	721,242	331,666	1,052,908
For the year ended 30 June 2012	1,103,140	365,103	1,468,243
For the three months ended 30 September 2012	204,992	44,281	249,273
Utilisation Rate on Theoretical Maximum Production Capacity^{(3), (4)}			
For the year ended 30 June 2010	33%	21%	
For the year ended 30 June 2011	38%	46%	
For the year ended 30 June 2012	57%	51%	
For the three months ended 30 September 2012	43%	25% ⁽⁵⁾	

Notes:

- (1) Production capacity for our watches during any time period refers to the theoretical maximum number of watches our production facilities can assemble during such period. The estimation of such amount is based on the GFA of the production facilities, the number of production lines, the number of production employees and other relevant conditions of the production facilities, assuming production is carried on eight hours a day and 22 working days per month. Our Directors believe that the production capacity as so defined is in line with the practice in the PRC watch industry.
- (2) Production volume refers only to the total number of Tian Wang watches we have actually assembled in our production facilities. Our production employees may work overtime beyond eight hours a day and 22 working days per month from time to time, which may result in the production volume surpassing the production capacity. Our Directors believe that the production volume as so defined is in line with the practice in the PRC watch industry.
- (3) Production in Shenzhen Production Facilities included Tian Wang watches and OEM watches during the Track Record Period, but for the purpose of calculating the utilisation rate of Shenzhen Production Facilities, only the actual production volume of Tian Wang watches has been taken into account. For details of the past arrangement for production of the OEM watches, please refer to the section headed "Relationship with Controlling Shareholders – Delineation of Our Business from the Excluded Businesses – (3) Minority investments in various companies that manufacture and supply of third-party brands of watches and accessories on OEM basis and manufacture and supply of packaging materials for third-party brands of watches" in this prospectus. Since assembling time for Tian Wang watches and OEM watches are approximately the same, they are considered together for calculation of production capacity.
- (4) Utilisation rate equals actual production volume of Tian Wang watches (and excluding that of OEM watches) divided by theoretical maximum production capacity.
- (5) The production utilisation rate on theoretical maximum production capacity for Dabu Production Facilities for the three months ended 30 September 2012 has decreased due to the reduction of sales order for low-end watches from corporate customers, which our Dabu Production Facilities are dedicated for.

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For the year ended 30 June 2012 and the three months ended 30 September 2012, we had a combined theoretical maximum production capacity of approximately 2.64 million watches and 0.66 million watches at our Shenzhen Production Facilities and Dabu Production Facilities calculated on the basis that our production facilities are operating at eight hours a day and 22 working days per month. As at 31 December 2012, our production facilities were staffed with a total of approximately 125 members of our production department.

For the three years ended 30 June 2012, the average utilisation rate on theoretical maximum annual production capacity of our Shenzhen Production Facilities and Dabu Production Facilities was approximately 43% and 39%, respectively. Our production staff may work overtime beyond eight hours a day and 22 working days per month from time to time, which may result in the production volume surpassing the production capacities.

Machinery

As our production mainly involves manual assembling process of watch components for our Tian Wang watches, we do not utilise machinery to any substantial extent, except for some quality control processes such as water-resistance testing.

Production outsourcing

We outsource the production of our Balco watches to FM Swiss, an experienced watch manufacturer based in Switzerland which is principally engaged in the business of OEM manufacturing of watches. The production base of FM Swiss where the production process of our Balco watches takes place is in Switzerland. We outsource the production of our Balco watches to FM Swiss as we position Balco watches as Swiss-made watches targeting consumers in the PRC who have preference for watches of an foreign brand. FM Swiss is a connected person of our Company. For the relationship between FM Swiss and our Company, please refer to the section headed “Continuing Connected Transactions – Relationship between our Group and connected persons” in this prospectus. We have in total more than four years of business relationship with FM Swiss and its predecessor, Time Pieces.

On 1 September 2011, to further consolidate our business relationship with FM Swiss and to enhance the stable supply of Balco watches in anticipation of increasing demand, we entered into the Balco Agreement for a term of three years, which shall be automatically renewed for successive terms of three years unless termination notice is given six months prior to the expiry date of the relevant term. Pursuant to the Balco Agreement, FM Swiss is prohibited from reproducing or selling any Balco watches to any third party or infringing the design of any Balco watches manufactured by them. The minimum quantity of Balco watches to be purchased from FM Swiss is 20,000 pieces per year and the price payable to FM Swiss Balco watches is to be governed by individual production orders.

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We have granted FM Swiss the right to produce Balco watches until 31 December 2014. During the Track Record Period, we did not enter into any long term fixed price and minimum purchase volume contract with FM Swiss, as in line with industry practice. Currently our business relationship with FM Swiss was governed by the Balco Agreement and individual purchase orders we placed to FM Swiss, including the following principal terms:

(i) *Rights and obligations of our Group:*

- *Design* – All Balco watches are designed by our in-house product design and development department and FM Swiss can review and comment on the prototypes. All new watch design will be approved by us before production.
- *Pricing* – Pricing of our production orders for Balco watches are determined by individual production orders, subject to negotiation between our Group and FM Swiss.
- *Payment* – We are generally given a payment term of 60 days after the Balco watches are delivered to us and goods inspection result is confirmed by us.
- *Return* – We are entitled to return any watches delivered to us by FM Swiss that do not meet the agreed quality standards or specifications within two weeks of delivery. During the Track Record Period, no Balco watches was returned to FM Swiss due to material mechanical errors.
- *Freight* – We are required to bear all the freight charges for delivery of the Balco watches.

(ii) *Rights and obligations of FM Swiss:*

- *Production standard* – FM Swiss is required to manufacture the Balco watches in accordance with the relevant prototypes and specifications approved by us.
- *Quality standard* – We require the Balco watches manufactured by FM Swiss to meet all the criteria under the relevant quality standard for the relevant watch series, and we conduct quality inspection on all finished Balco watches delivered to us.

Our Balco watches are subject to an import duty of 11% to 12.5% and a value-added tax of 17%.

During the Track Record Period, we only engaged FM Swiss for the production of Balco watches. Currently, we do not intend to engage other OEM manufacturers in the near future. Our Directors consider that we have an established relationship with FM Swiss and during the Track Record Period, supply of Balco watches by FM Swiss has been reliable and we have not experienced any material interruption that had caused us to significantly reduce our production

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orders. Nevertheless, we are subject to the risks associated with our reliance on FM Swiss for the production of all Balco watches. Please refer to the risk factor headed “Risk Factors – We currently engage only one OEM manufacturer for the production of Balco watches” in this prospectus. In the event that the production capacity of FM Swiss cannot meet our future demand, we will seek to outsource the production of Balco watches to other OEM manufacturers in Switzerland that meet our quality standards. In the event that we have to engage an alternative supplier, our Directors believe that we will be able to do so within a reasonably short period of time and without difficulty as there are a large number of experienced Swiss watch designers and manufacturers in the market that will be able to meet our requirements on similar terms.

QUALITY CONTROL

We believe that the quality of our Tian Wang and Balco watches has been the key to our success, and is crucial to our future prospects.

We have implemented quality control procedures to ensure the quality of our watches meets the expectations of our customers. We have established quality control systems at various stages of our supply chain. We require our watch components and watches to be in compliance with the applicable quality standards for the relevant watch series and we conduct inspections on all of our watches. Our Directors confirm that, during the Track Record Period, we have complied with the product quality standards as required under the PRC law in all material aspects. During the Track Record Period, we did not experience any significant problem of quality defects or product returns from our customers.

Quality control department

As at 31 December 2012, our quality control department consisted of 30 members and was divided into three main functions of (i) watch components quality control, (ii) assembling process quality control, and (iii) finished products quality control.

Watch components quality control

Our watch component supplier selection process is our first step to ensure the quality of our watches, for details of which please refer to the paragraph headed “Sourcing and Production – Sourcing of watches components – Selection criteria for our suppliers” above in this section. Our procurement department and quality control department inspect the incoming watch components for appearance, function and specifications in accordance with our quality control procedures as well as industry standards. Only watch components meeting our quality requirements enter our production lines. Any watch component that does not meet our quality control requirements are returned to the suppliers for exchange or refund. Moreover, we periodically evaluate our suppliers to ensure that they are capable of meeting our quality standards.

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Assembling process quality control

Our quality control department at our Shenzhen Production Facilities and Dabu Production Facilities carry out on-site inspection at various stages of our assembling process of Tian Wang watches to ensure that their quality is satisfactory.

Finished products quality control

We inspect all of the finished watches under our Tian Wang and Balco brands for quality and functionality, such as water resistance, accuracy and watch mechanism, to ensure that our finished watches meet national and industry standards as well as our own quality standards. Any watch with quality issue will not be sold at our Sales Network, and Balco watch with any quality issue will be returned to FM Swiss, subject to the conditions set out in the relevant purchase orders.

Quality control system certification

We have received ISO9001 certification for the quality of the design and production of our Tian Wang watches, which is valid until 2 March 2014 and is the evidence of the effectiveness of our quality control management. As at the Latest Practicable Date, we are not aware of any reason that would result in us not being able to renew such certifications upon expiry.

COMPETITION

We operate in a fast-growing industry. According to Euromonitor, in 2011, the watch market in the PRC generated a total value of approximately RMB34 billion, with growth at a CAGR of approximately 18% from 2006. We believe such growth is attributable to the continuing strong growth in the PRC economy and the increase in average disposable income in the PRC, as well as watch brand owners' greater marketing effort.

We benefit from the competitive advantage of certain entry barriers to the watch industry in the PRC such as start-up costs and investment risks. We sell watches under our well-recognised proprietary brands of Tian Wang and Balco, and do not have to pay any royalty or brand-related premium payment. We utilise our established Sales Network to efficiently introduce new watches in response to changing consumer preferences. We believe that we will continue to benefit from and capture opportunities in the fast-growing local watch market in the PRC, and will further strengthen our leading position and capture additional market share.

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Nevertheless, the competition in the watch market in the PRC has been intensifying and the pricing of and demand for our watches are significantly affected by the intensity of competition we face. In particular, competition in the mid-end watch market, where our Tian Wang and Balco brands are positioned, has been fierce, with a number of national and foreign brands. According to Euromonitor, Tian Wang and Balco are in competition with the following brands, respectively:

Our brands	Competing brands
Tian Wang	Rossini, Ebohr and Fiyta
Balco	Tissot and Enicar

In the national brand watch market in the PRC, each of our close competitors, such as Rossini, Ebohr and Fiyta, has an established presence in the PRC with an extensive sales network. The location of their retail points are typically in close proximity with our POS.

In the foreign brand watch market in the PRC, some of our foreign brand competitors may have greater financial and marketing resources and geographical reach than us and may enjoy stronger brand loyalty and image and therefore premium pricing. Over the past decade, we have seen an increasing number of foreign brands operating and marketing in the PRC watch market.

We also compete with local retailers of watches which sell multiple national and foreign brands of watches. Such competitors may adversely affect our sales performance and results of operations if we are unable to provide comparable range of watches to meet the needs of potential customers.

The intense competition in the watch market in the PRC has led to the leading brands continuing to gain market share at the expense of less established, lower-end brands. Nevertheless, we believe that we have the following competitive advantages:

- Strong brand recognition and successful brand building strategies;
- Strong design and product development capabilities and comprehensive product offering;
- Extensive Sales Network with strategic geographical coverage;
- Well-established and stable relationship with our suppliers;
- Responsive production planning based on our directly managed Sales Network; and
- Experienced and dedicated management team.

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For further discussion of the competitive landscape we face for our watches, please refer to the section headed “Industry Overview” in this prospectus. For further discussion on the risks associated with the competition we face, please refer to the section headed “Risk Factors – Risks relating to our industry – We operate in a highly-competitive environment” in this prospectus.

INVENTORY MANAGEMENT

Our inventory comprises mainly of watch components and finished watches. Our inventory level of finished watches is affected by the market demand for Tian Wang and Balco watches and watches of the Other Brands and that of watch components is mainly determined by the production requirements of Tian Wang watches.

Each of the Tian Wang and Balco Sales Counters generally carry similar levels of low-end, mid-end and high-end watches of the respective brands subject to adjustment according to local consumer preference and demand, and due to the difference in store size and scale, the Shop-in-Shops and Street Stores generally carry more stock in terms of value and quantities, which include more expensive stock, than the Sales Counters.

Inventory turnover days

For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, our average inventory turnover days were 160 days, 197 days, 231 days and 219 days, respectively, while the balance of our inventory as at 30 June 2010, 2011 and 2012 and 30 September 2012 accounted for approximately 51.8%, 46.7%, 51.1% and 48.1% of our total current assets. For detailed analysis on our inventory level, please refer to the section headed “Financial Information – Selected Consolidated Statements of Financial Position – Inventories” in this prospectus.

Increasing level of slow-moving and obsolete inventory in the future may materially and adversely affect our business operations, financial position and results. For more information, please refer to the risk factor headed “Risk Factors – We are subject to the risks of obsolete and slow-moving inventory which may adversely impact on our cash flow and liquidity” in this prospectus.

Watch components inventory

Our purchase of watch components are driven by typical commercial considerations and determined by the actual number of watches we assemble in our production facilities. Every year, we submit to our suppliers our production forecast and projected amount of supply needs. As a result of detailed supply planning, we maintain an appropriate stock level of watch components for contingency purposes. We adjust our procurement volume based our actual and forecast sales volume, reflecting a procurement pattern whereby we would (i) purchase more watch components when there is greater expected demand and (ii) purchase less watch components when there is an expected decreasing demand. We do not acquire inventory for

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speculation on price movements of watch components. As a result of our inventory management policies, we maintain a relatively low inventory of watch components (before stock provision), which was approximately HK\$44.8 million, HK\$58.2 million, HK\$67.1 million and HK\$63.3 million as at 30 June 2010, 2011 and 2012 and 30 September 2012, respectively.

We continuously monitor our inventory of watch components. For watch components that are unused for a period exceeding two years, we will transfer them to our maintenance centres as spare parts. For unused watch components that are unsuitable for our maintenance centres, we would make appropriate provisions for them. As at 30 June 2010, 2011 and 2012 and 30 September 2012, the amount of provisions we made for such inventory were approximately HK\$10.1 million, HK\$6.1 million, HK\$6.1 million and HK\$5.8 million, respectively.

Finished watches inventory

Our inventory (before stock provision) of finished watches as at 30 June 2010, 2011 and 2012 and 30 September 2012 amounted to approximately HK\$174.7 million, HK\$230.7 million, HK\$386.4 million and HK\$403.4 million, respectively, of which approximately 27.2%, 29.6%, 21.4% and 23.0% are finished watches aged over one year. As at 30 November 2012, approximately HK\$62.1 million or 15.4% of the finished watches as at 30 September 2012 were subsequently sold.

As at 30 June 2010, 2011 and 2012 and 30 September 2012, our inventory of finished watches per POS was approximately HK\$167,000, HK\$185,000, HK\$246,000 and HK\$236,000, respectively. For details of an analysis on the historical inventory levels, please refer to the section headed “Financial Information – Selected Consolidated Statements of Financial Position – Inventories” in this prospectus.

Inventory control of our finished watches

We try to maintain an optimal level of inventory by comparing the average level of inventory with the sales revenue within a particular period, subject to the prevailing market conditions, and as reserve inventory to support the new Tian Wang POS to be opened within the following four to six months. The inventory of finished Tian Wang watches has to be stocked for two main purposes: (i) as basic display inventory that has to be showcased at each Tian Wang POS for the retail customers’ browsing and selection, and (ii) as rolling inventory for turnover and replenishing watches that have been sold. The basic display inventory required for a typical POS for Tian Wang is around 250 watches, which cover the whole range of Tian Wang watches in different models with diverse styles and price range to cater for different customers’ taste and preference, as well as to promote Tian Wang’s image of diversity.

Based on our Company’s experience in operating our Tian Wang POS, the basic inventory for display is approximately equivalent to six months of sales of the POS. The rolling inventory of finished Tian Wang watches is mainly maintained for replenishing watches that have been

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sold and based on our experience in operating our Tian Wang POS, we consider that the rolling inventory of finished Tian Wang watches should be maintained at an optimal level which is sufficient for sales for approximately five to six months, taking into account the production lead time of four to six months, and the need for a buffer to cater for the seasonality of sales and increase in demand at times, in order to avoid any shortage of stock.

Inventory control and liquidity management

We will monitor and control our inventory level vigilantly while we implement our Sales Network expansion plan to open approximately 60 additional (net increase of) Tian Wang POS from the Listing Date to 30 June 2013 in order to ensure that our expansion plan and inventory level will not adversely affect our cash flow and liquidity. We target to achieve and maintain a watch inventory benchmark level of around 500 Tian Wang watches (including around 250 watches as basic display inventory and 250 watches as rolling inventory for replenishing watches being sold) per POS, based on the product mix and sales of our Tian Wang watches currently sold at the sales network of Tian Wang. For inventory of Balco watches, we target to achieve an inventory balance of approximately HK\$60 million by 30 June 2013, based on the current product mix and sales trend of Balco watches, which our Directors expect will not change significantly in the year ending 30 June 2013. For watches of the Other Brands, as our Group may enter into new joint ventures similar to those operated by the JV Companies, we target to achieve a benchmark of an inventory balance of watches of the Other Brands of HK\$1.5 million per JV POS, which is similar to the level of inventory balance of watches of the Other Brands per POS for the year ended 30 June 2012, again based on the current product mix and sales trend of watches of the Other Brands. In the event that there is any significant change in the product mix, retail price or sales of Tian Wang, Balco or Other Brand watches, we may adjust the relevant benchmarks inventory levels accordingly. We will utilise our existing inventory of watches and adjust the production plan of Tian Wang watches based on the above benchmark to avoid the possibility of building up any excessive inventory. We believe that by targeting to achieve and maintain such inventory benchmark level as a key performance indicator, we will incentivise our management, production department and sales department to stringently control and closely monitor the production plan and inventory level, so that we will be able to improve the efficiency in our cash flow and resource management while maintaining just the right level of inventory to allow for our continuous growth and expansion. With the adoption of the above target inventory benchmark, based on our current estimate and assuming that there will not be any material change in (i) the sales trends of our watches, (ii) the cost of production of our watches, (iii) the turnover period for receipt of our trade receivables, (iv) the credit terms for payment of our trade payables, and barring any other major changes in the PRC economic conditions and unforeseen circumstances, we estimate that our net operating cash inflow will be not less than HK\$80 million for the year ending 30 June 2013.

Measures for controlling and managing finished watch inventory

We aim to maintain our optimal levels of inventory of finished watches by closely monitoring and adjusting our inventory level according to sales performance and expected demand. If our inventory level rises significantly above the optimal level or this is anticipated

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to happen, we will (i) promote the sales of our watches by offering them at discount, adjust the retail price of slow moving or off-season models, or offer them to corporate customers or through online sales channels; and (ii) decrease the production of the slow moving models of watches; and if the inventory level falls substantially below the optimal level, or this is anticipated to happen, we will immediately increase our production at our own production facilities for our Tian Wang watches.

We closely monitor the sales of finished watches and our inventory level by making use of our U8 Data Management System for our Tian Wang and Balco watches sold through our Tian Wang and Balco Sales Network and reports from our JV Companies for watches, including Tian Wang and Balco watches and watches of the Other Brands, which are sold through the JV Sales Network. The JV Companies monitor their sales and inventory with computerised system and provide monthly sales report and results of physical stock take to our headquarters, and our headquarters also delegate staff to the JV Companies at least periodically to carry out physical stock take on the inventory of the JV Companies and perform internal audit to ensure that the inventory control and physical stock take procedure have been properly performed on their inventory.

To reduce the risk of building up aged inventory, we check our inventories regularly through our U8 Data Management System to identify slow-moving stock and carry out physical stock take at our POS and Sales Regions every month, and the results are reconciled with the computerised inventory records generated by our U8 Data Management System for our Tian Wang and Balco watches. Our management utilise such data to anticipate the expected demand for our watches and adjust our production volume for Tian Wang and the number of purchase orders for Balco as well as to facilitate responsive reallocation of watches among our POS and Sales Regions accordingly. At our headquarters level, our sales and marketing department is responsible for the overall inventory management over our Sales Network and holds meetings with our production and material control department and sales department for our Tian Wang and Balco watches to ascertain appropriate levels of stock of each type of watch components and finished watches. At the Sales Regions level, regional managers, who periodically report to our Shenzhen Headquarters, are responsible for inventory management and stock replenishment in their respective Sales Regions.

If the sales of certain watch models of our Tian Wang and Balco watches do not meet our expectations, we offer such models as discount models to stimulate sales to reduce the risk of building up aged inventory. Subject to our pricing and discount policies, we generally conduct one to two promotional sales per year and participate in the promotional sales as invited by the Store Operators of the Department Stores. In order to maintain an acceptable level of profit margin, we generally do not offer discounts of more than 20% for watches sold through our Tian Wang and Balco Sales Network.

For finished watches left unsold after our promotional activities, we may offer them to our corporate customers at deeper retail discounts or through our online sales. As our direct sales to corporate customers are not subject to Sales Counters concessionaire fees or rent, we are able to maintain an acceptable level of profit margin. For our online sales, we do not need

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to pay any commission to Store Operators or sales staff, rental or other operational expenses for physical POS, and therefore we are able to offer greater discount. We also offer a limited number of watches, mainly of low-end models, at exceptionally greater discount at our Online Platform and Online Stores as part of our promotion strategies. For watches of the Other Brands, the JV Companies usually participate in promotional sale events organised by the Store Operators of the Department Stores where the relevant JV POS is located as well as those organised by the brand owner of watches of the Other Brands.

Provision for Inventories

We identify and make provision for obsolete and slow-moving inventories of raw materials and finished goods, including Tian Wang and Balco watches and watches of the Other Brands, that are no longer suitable for use in production or sale respectively. A number of factors including historical and forecast consumption of our raw materials, marketability of our watches, anticipated renewal of our watch offering, are taken into account when we consider whether to make appropriate provision. We normally make full provision for inventories, including Tian Wang, Balco, Other Brands watches and watch components, which are aged over two years and at the same time, have also been identified with slower or no usage or sale and deteriorated marketability. In some cases, we make specific provision for watch movements when the models are obsolete and no longer used by watch manufacturers even though their aging is less than two years. Such provision amounted to HK\$0.6 million, HK\$1.4 million, HK\$1.2 million and HK\$1.2 million as at 30 June 2010, 2011 and 2012 and 30 September 2012. As at 30 June 2010, 2011 and 2012 and 30 September 2012, the amount of provisions we made for inventory of raw materials and finished goods (excluding watch movements) were approximately HK\$19.6 million, HK\$20.9 million, HK\$34.1 million and HK\$33.7 million, respectively. The inventory aged over two years were HK\$25.8 million, HK\$36.5 million, HK\$47.6 million and HK\$46.8 million as at 30 June 2010, 2011 and 2012 and 30 September 2012, respectively, and the corresponding provision for these inventory balances were HK\$22.4 million, HK\$23.6 million, HK\$36.8 million and HK\$36.5 million, respectively. If additional provision were made to the remaining balance of the inventory aged over two years, the profit for the year attributable to owners of the Company would be reduced to HK\$57.0 million, HK\$123.0 million and HK\$174.8 million for the years ended 30 June 2010, 2011 and 2012, respectively, which would not affect our Company's compliance with the requirement set out in Rule 8.05(1)(a) of the Listing Rules. We believe that our inventory management policies have been effective.

Logistics and transport

Our watch components and finished watches are stored mainly at our central warehouse located within our Shenzhen Production Facilities and also our warehouse in Dabu Production Facilities. We also have small scale local warehouses for our Sales Regions across our Sales Network.

In our warehouses, we regulate the humidity and temperature to ensure our watch components and finished watches are stored under appropriate conditions, with humidity generally maintained below 70%.

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Our finished watches are transported from our warehouses directly to local warehouses of our Sales Regions and from the local warehouses to our individual POS for sales. We typically enter into yearly or biennial agreements with logistic companies for the transportation of our finished watches. The fees we pay the logistic companies typically cover all the expenses to be incurred by the logistic companies, such as insurance costs, tolls and any handling fees.

Watch components from our suppliers are generally delivered to our production facilities at the suppliers' own cost and risk, whereas Balco watches are delivered from FM Swiss to our warehouses at our own cost and risks.

During the Track Record Period, we did not experience any material loss in the delivery of our products.

Information management system

We place considerable emphasis on our information management system to improve the management efficiency of our production facilities, Sales Network, inventory and logistics. Currently, POS in our Sales Network are linked to our Shenzhen Headquarters through our U8 Data Management System, a computer-based management solution with enterprise resources planning components, which facilitates timely and accurate data management. Our U8 Data Management System integrates the functions of inventory management, stock replenishment, sales and data analysis. In particular, since we collect our sale proceeds from the Store Operators of the Department Stores at which our Sales Counters are located typically on a monthly basis, we rely on our U8 Data Management System to maintain accurate and timely record of our sales volume across our Sales Network. Our U8 Data Management System allows us to collect information regarding consumer purchase patterns and make timely assessment on market trends, based on which we adjust our production plans, inventory levels, marketing strategies, and design and product development.

During the Track Record Period, we did not experience any incidents of malfunction of our U8 Data Management System which materially affects our operations. Any significant disruptions to our U8 Data Management System may materially and adversely affect our business, operations and results of operations, on which please refer to the risk factor headed "Risk Factors – We may experience failures in our ERP system which could materially and adversely affect our business, financial condition and results of operations."

OUR ANCILLARY WATCH MOVEMENTS TRADING BUSINESS

Ancillary to the assembling process of our Tian Wang watches, we operate a watch movement procurement and trading arm, through Win Source, our wholly-owned subsidiary, to source and maintain stable supply of watch movements, a key and quality-determining watch component for production of our Tian Wang watches. Aside from providing for the production requirement of our Tian Wang watches, we distribute the watch movements to other watch manufacturers and distributors. Our Directors consider that our watch movement trading business is an integral segment of our overall business operation for providing reliable supply

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of watch movements to Tian Wang watches. For the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, the revenue attributable to our watch movements trading business was approximately HK\$299.3 million, HK\$273.3 million, HK\$251.6 million and HK\$85.3 million, respectively, representing approximately 32.5%, 23.0%, 16.5% and 16.8% of our total revenue for the corresponding periods. During the same periods, the gross profits generated by our watch movements trading business was approximately HK\$10.6 million, HK\$26.9 million, HK\$18.4 million and HK\$4.2 million, respectively, accounting for approximately 2.4%, 3.9%, 2.0% and 1.3% of our gross profit for the corresponding periods. The gross profit margin of our watch movements trading business was approximately 3.5%, 9.8%, 7.3% and 4.9%, respectively, during the same periods. Due to the relatively low gross profit margin, we intend to focus on supplying our watch movements for production of Tian Wang watches and reduce our supply to Independent Third-Party manufacturers and distributors upon completion of the Global Offering.

Watch movement products

As at the Latest Practicable Date, we distributed over 100 models of Japan-made, Swiss-made and other watch movements. Our watch movements are powered by different mechanisms, including quartz-powered and mechanical watch movements.

Sourcing and supply

We source Japan-made, Swiss-made and other watch movements from suppliers located in Hong Kong. For the Japan-made watch movements, our major suppliers include Time Module (H.K.) Ltd. For Swiss-made watch movements, our major suppliers include Ronda Limited and ISA Pacific Co. Ltd.

The global supply of watch movements is limited and dominated by a small number of suppliers in Japan and Switzerland who tend to prioritise the supply of watch movements to their respective in-house watch manufacturing arms or fellow native watch manufacturers. We believe that we are a major wholesale distributor of watch movements in Hong Kong and we have about 16 years of business relationship with key watch movements suppliers such as Time Module (H.K.) Ltd and ISA Pacific Co. Ltd, as well as Ronda Limited. Our purchase orders are made in bulk volume at reduced price and are prioritised to the production needs of Tian Wang and, some watch movements are traded to Third-Party manufacturers and distributor as an additional income base for the Group.

As in line with general market practice, we do not enter into long term supply agreement with our watch movements suppliers. As a result, our watch movements purchase arrangements, including pricing, are governed by purchase orders based on our requirements. The purchase orders for watch movements typically contain the following principal terms:

- *Quality standard* – We require our watch movements suppliers to supply watch movements that are able to meet the relevant official and industry standards.

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- *Credit terms* – We generally settle payment to the watch movement suppliers within 30 days. Our Directors confirm that there is no material outstanding trade payables during the Track Record Period, nor did we receive any material complaints or claims in relation to the payments of our purchase orders.

We have long term and well-established business relationship with all of our five largest watch movement suppliers. Building on our established relationship with our watch movement suppliers, our Directors consider that we are capable of securing reliable and stable supply of watch movements for the production of Tian Wang watches without entering into annual supply agreements.

Most of our watch movements are Japan-made watch movements sourced from suppliers located in Hong Kong. The supply of Japan-made watch movements have recovered from the earthquake and tsunami that struck Northeastern Japan in March 2011. During the Track Record Period, we had not experienced any material disruptions to the supply for watch movements trading that had caused us to significantly reduce our internal purchase order of Tian Wang watches.

Customers for watch movements

We distribute our watch movements to a number of watch manufacturers and distributors, which include (i) East Base, an OEM watch manufacturer based in Hong Kong, which is owned as to approximately, 5.6% by Mr. Michael Tung, for details of which please refer to the section headed “Relationship with our Controlling Shareholders – Background of our Controlling Shareholders” in this prospectus; (ii) other watch manufacturers in Hong Kong and the PRC, which are Independent Third-Parties; and (iii) distributors of watch components, all of which are Independent Third-Parties. For each of the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, 9.3%, 15.9%, 21.9% and 5.8% of the total amount of watch movements we sourced, respectively, were used for the production of Tian Wang watches. As at the Latest Practicable Date, the customer base of our watch movement trading business comprised of over 200 corporate entities.

Inventory management for watch movements

We believe we maintain an appropriate level of watch movements for production of our Tian Wang watches and for trading purpose, as we only source necessary quantity of watch movements as and when required based on our experience. The amount of provisions we made for inventory of watch movements were approximately HK\$2.7 million throughout the Track Record Period.

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EMPLOYEES

As of 31 December 2012, we had a total of 2,493 employees. The following table shows a breakdown of our employees by department as at 31 December 2012:

Department	Number of employees	Percentage of total
Production	125	5.0
Procurement	10	0.4
Quality control	30	1.2
Design and product development	21	0.9
Sales and marketing	2,099	84.2
Management and administration	85	3.4
Finance	80	3.2
Others	43	1.7
TOTAL	<u>2,493</u>	<u>100.0</u>

In addition to the employees whom we directly employ, some sales representatives at our Sales Counters were despatched to us from labour despatch agencies. Under the relevant despatchment arrangement, the agencies shall enter into a labour contract with the despatched personnel and are obliged to pay salaries and contribute to the statutory social insurances. As advised by Jingtian & Gongcheng, our PRC Legal Advisers, the applicable PRC labour laws, including the PRC Labour Contract Law, permit an entity to use personnel despatched from qualified labour despatch agencies, and the labour despatchment arrangements are valid and legally binding between us and the labour despatch agencies.

Training

We provide induction programmes and continuous training to our employees to enhance their industry, technical and product knowledge, as well as their familiarity with industry quality standards and work safety standards. We place particular emphasis on the training of our sales representatives. In order to promote high-quality customer service at our POS, we provide training to our sales representatives, including those engaged by the Store Operators and those recruited by our JV Partners, including information about our business operations, methods of serving customers, knowledge of our Tian Wang and Balco watches and sales skills.

Directors and staff remuneration

We incurred staff costs of approximately HK\$109.3 million, HK\$161.1 million, HK\$202.1 million and HK\$49.1 million for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively, representing 11.9%, 13.5%, 13.3% and 9.7% of our revenue for the corresponding periods.

We review the performance of our employees annually and use the results of such review in our annual salary review and promotion appraisal, in order to attract and retain valuable employees.

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We seek to motivate our sales representatives by performance-based commission in addition to their basic salary. During the Track Record Period, our sales representatives received commission based on their ability to meet the monthly sales targets. Our commission system are designed to encourage competition among our sales representatives in terms of sales targets and relative sales ranking.

In order to ensure sustainable and stable growth for our Group and align the interests of our senior management with those of our Shareholders, we have also put in place certain performance-based incentive programs, such as the Share Option Scheme. In addition, our Mr. Michael Tung, our Chairman, executive Director and chief executive officer, will have a 70% interest in our Company upon Listing and is one of our Controlling Shareholders. We believe that by offering our senior management a shareholding stake, we will be able to ensure that they will have a strong incentive to maximise Shareholder returns. These incentives will also assist us in recruiting and retaining suitable management personnel. For detailed information of our Share Option Scheme, please refer to the paragraph headed “Statutory and General Information – Other Information – 16. Share Option Scheme” in Appendix V to this prospectus.

Welfare Contribution

Pursuant to the applicable PRC laws and regulations, we are required to contribute to various social security insurances including pension contributing plans, medical insurance, work-related injury insurance, maternity insurance and unemployment insurance, and housing provident fund for our employees in the PRC.

Our Group also operates a defined contribution mandatory provident fund retirement benefits scheme (the “**MPF Scheme**”) under the Mandatory Provident Fund Schemes Ordinance (Cap.485 of the Laws of Hong Kong) for all of its employees in Hong Kong who are eligible to participate in the MPF Scheme. Contributions are made in accordance with the Mandatory Provident Fund Schemes Ordinance and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of our Group in an independent administered fund. Our Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

During the Track Record Period, our contribution to all social insurance plans for our employees for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012 was approximately HK\$4.6 million, HK\$7.3 million, HK\$13.1 million and HK\$4.6 million, respectively.

Employee relationship

We believe we have maintained good relationship with our employees and our management policies, working environment, development opportunities and employee benefits have contributed to maintenance of good employee relations and employee retention.

During the Track Record Period, we have not experienced any work stoppage or labour strike in the past and have not experienced any significant difficulty in recruiting or retaining qualified staff.

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PROPERTIES

As at the Latest Practicable Date, our Group leased 85 properties in the PRC with a total gross floor area of approximately 12,546.57 sq.m., one property in Hong Kong with a gross floor area of approximately 1,190 sq.m. and one property in Switzerland with a gross floor area of approximately 145.9 sq.m.. Majority of the properties were used as point of sale and office, while two of them were occupied by our Group for production and ancillary office purposes.

Material Properties

Among the property interests of our Group, our Directors considered that three leased properties with further particulars set out below were material to our Group because: (1) the leased property set out in item 1 below was our headquarters which was important for our operation and our sales of watch movement; and (2) the two leased properties in the PRC set out in items 2 and 3 below were premises of our production facilities which were material to our assembling, quality control and sales functions:

No.	Description/ Location of the Premises	Gross Floor Area <i>(sq.m.)</i>	Existing Usage	Lease Term	Current Monthly Rent	Material Encumbrance
1.	Workshops 1, 2, 3, 5, 6, 7, 8, 9, 10, 11, 12, 15 and 16 on 27th Floor, and four car parking spaces at CEO Tower, No. 77 Wing Hong Street, Kowloon, Hong Kong	1,189.61	Office and business related purposes	3 years from 1 July 2012 to 30 June 2015 with an option to renew for a successive term of 3 years each upon expiry of the then current term at the then prevailing market rent	HK\$340,000 inclusive of repairing and maintenance fee, management fee, government rates and rent, electricity and water bills and other fees in relation to the use of the premises but exclude other utility charges	Mortgage

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No.	Description/ Location of the Premises	Gross Floor Area (<i>sq.m.</i>)	Existing Usage	Lease Term	Current Monthly Rent	Material Encumbrance
2.	Levels 4 and 5 Block 4 of Lijincheng Science and Technology Industrial Park Gongye Dong Road Longhua Subdistrict Bao'an District Shenzhen City Guangdong Province The PRC	2,976	Production and ancillary storage and office purposes	3 years from 21 August 2011 to 20 August 2014	RMB62,496.50	nil
3.	Level 2 No. 48 Huzhong Road Huliao Town Dabu County Meizhou City Guangdong Province The PRC	560	Production and ancillary storage and office purposes	1 January 2011 to 31 May 2015	RMB3,100	nil

According to our Group's consolidated statements of financial position set out in Appendix I to this prospectus, our Directors confirm that:

- our Group does not have any property interest that forms part of property activities as at 30 September 2012, so the aggregate carrying amount of the property interest that forms part of our Group's property activities does not exceed 10% of the its total assets as at 30 September 2012; and
- the total and single property interest that forms part of non-property activities does not respectively have a carrying amount of 15% or more of our Group's total assets as at 30 September 2012.

As such and pursuant to Rule 5.01A of the Listing Rules, no valuation report is included in this prospectus. According to section 6(2) of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice, this prospectus is exempted from compliance with the requirements of section 342(1)(b) of the Companies Ordinance in relation to paragraph 34(2) of the Third Schedule to the Companies Ordinance, which requires a valuation report with respect to all our Group's interests in land or buildings.

OUR BUSINESS

As of the Latest Practicable Date, we leased 85 properties in the PRC with an aggregate GFA of approximately 12,546.57 square meters. As advised by Jingtian & Gongcheng, our PRC Legal Advisers, among the 85 leased properties in the PRC which were used by us either as our POS, regional offices, staff quarters and/or warehouses, (i) the lease agreements with respect to 72 properties had not been registered or filed with relevant authorities in accordance with the applicable PRC laws and regulations; (ii) in respect of 34 of these leased properties, the relevant lessors had not provided us with the relevant title ownership certificates or other written consents from the relevant owners evidencing their rights to lease these properties to us; and (iii) in respect of 27 of our leased properties, our usages of these leased properties for offices and warehouse purposes were inconsistent with the designated residential usage as stated under the relevant building ownership certificates of these leased properties. To the best of the Directors' knowledge, 35 of the aforementioned properties with defects in relation to the leases are premises on which our regional offices are located, which only serve as our contact points in the relevant regions, which our Directors believe can be relocated to nearby properties without material disruption to our operation or business, three of these properties are premises on which our warehouses are located, and 34 of these properties are premises on which our POS are located, which represent less than 2.0% of the total number of our POS as at the Latest Practicable Date. Please refer to the section headed "Risk factors – We are exposed to the risks involving leased properties – Certain defects related to certain properties occupied by us in the PRC may materially and adversely affect our ability to use such properties" in this prospectus. Taking into account that (i) the validity of the lease agreements that were not duly registered or filed with the relevant authorities is not affected by such failure of registration or filing; (ii) in respect of the other leased properties that we may be required to move out and relocate our operations thereat in the event that our right to use and occupy or our usage of the relevant leased properties are being challenged, only 23 of these were used by us as POS as of the Latest Practicable Date with contribution to less than 1.0% of our total revenue during each of the three years ended 30 June 2012 and the three months ended 30 September 2012, while the other leased properties were only used by us as offices and warehouse only, our Directors are of the view that these leased properties are not individually or collectively crucial to our Group's operation. Our Directors estimate that the time required for relocation of the relevant POS would not take more than two months and that for the other office and warehouse would not take more than a month, and the estimated cost for relocation would not be more than RMB230,000 for each POS and RMB20,000 for each of the other premises. As such, our Directors are of the view that the possible relocation would not have any material adverse impact on our business and financial position.

In this respect, our Controlling Shareholders have undertaken to indemnify our Company against, among others, any penalty that may be imposed on our Group as a result of the non-compliance with the applicable PRC laws and regulations in relation to the lease agreements and any costs, expenses or losses that our Group may suffer as a result of relocation of our Group's business and assets from the relevant properties as a result of any defect of the relevant leases, lease agreements to certain properties occupied by us in the PRC. Please refer to the section headed "Appendix V – Statutory and General Information – Other Information – 17. Estate duty, tax and other indemnity" in this prospectus for details of the indemnity.

OUR BUSINESS

INTELLECTUAL PROPERTY RIGHTS

Our success depends in large part on our trademarks, patents, and other intellectual property rights, including trade names, website, service marks, copy rights, domain names and business information system software which are either licensed to us or owned by us. As at the Latest Practicable Date, we were the registered owner of 69 trademarks and 23 patents that are relevant to the ordinary course of our business operations. Among all the intellectual properties we registered, our Directors consider that our “Tian Wang” and “Balco” trademarks registered under class 14 in the principal markets to which our products are sold are the most important intellectual properties to our business and operations. Details of our intellectual property rights, which are material to our business and operations, are more particularly set out under the section headed “Appendix V – Statutory and General Information – Further information about the business of our Group – Intellectual property rights of our Group” in this prospectus.

We own the trademarks, and have pending trademark applications, in relation to our Tian Wang and Balco brands.

We recognise the importance of protecting and enforcing intellectual property rights. We rely on various intellectual property laws, especially trademark laws, to protect our proprietary rights. If any infringement of our intellectual property rights is found, we will seek to take appropriate action to defend our Tian Wang and Balco brands.

During the Track Record Period, there were infringements of our intellectual property rights. For details of such infringements, please refer to the section headed “Risk Factors – We may encounter intellectual property rights issues” in this prospectus. Save as disclosed in this prospectus, we are not aware of any material infringement of our intellectual property rights during the Track Record Period and up to the Latest Practicable Date and we believe that we have taken all reasonable steps to prevent infringement of our intellectual property rights. As at the Latest Practicable Date, we were also not aware of any pending or threatened claim against us or any of our subsidiaries in relation to the infringement, including those arising from the design of our products, of any intellectual property rights of Independent Third-Parties.

Please refer to the risk factors headed “Risk Factors – We may not be able to protect adequately or enforce our intellectual property rights,” and “Risk Factors – Sale of counterfeit or imitated products of our watches may affect our reputation and profitability.”

ENVIRONMENTAL AND SAFETY MATTERS

Workplace safety and health care

Pursuant to the Labour Law of the PRC (中華人民共和國勞動法) (“**PRC Labour Law**”) promulgated on 5 July 1994 and effective on 1 January 1995, employers are required to establish and improve their labour safety and health care system, to strictly implement the labour safety and health care regulations, to carry out labour safety and health care education among their workers and to prevent accidents during work and reduce occupational hazards.

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Pursuant to the Work Safety Law of the PRC (中華人民共和國安全生產法) promulgated on 29 June 2002 and effective on 1 November 2002, enterprises operating production activities within the PRC are required to observe laws and regulations concerning production safety, strengthen their administration of, establish and improve a system of responsibility for, and improve facility conditions to ensure production safety. We are not involved in any production safety matter which is required to apply for the relevant work safety license.

We have established a production safety committee for the administration of production safety. In addition, we provide safety education to our employees and have established safety standards in connection with matters such as the usage of safety helmets, the operation of vehicles and the mechanism of reporting the industrial accidents with view to enhance the occupational safety and to minimise the possibility of work-related accidents and injuries as well as occupational illness.

We have not committed any event of non-compliance in relation to health and safety matters during the Track Record Period.

Environmental protection

Our manufacturing activities in the PRC are subject to various PRC environmental protection laws and regulations. The operation of our existing facilities does not cause any material environmental pollution, and almost all of the solid wastes produced therefrom, for example, watch components, are recycled, collected and sold to the third parties.

We obtained a confirmation from the relevant environmental protection authorities, among others, that our Shenzhen production facility has complied in all material aspects with the relevant environmental protection rules in its production, and no administrative penalty of any kind has been imposed on it by the relevant environmental authorities since it started to operate; and that for our Dabu facility, the discharging of wastes therefrom has complied with all the relevant applicable environmental protection standards in the PRC, there has not been any environmental pollution incident or complaints about environmental problems, and no administrative penalty of any kind has been imposed on it by any relevant environmental protection authorities.

We do not produce material quantity of industrial waste in our production process and our Directors do not anticipate that our production will produce any material quantity of industrial waste in the future. We expect the future costs of compliance with the relevant environmental protect laws and regulations in the PRC will be minimal in the following three years.

Our Directors confirm that we comply in all material aspects with relevant requirements under the PRC laws and regulations in relation to waste water treatment. We do not produce material amount of waste during our business operation and our costs of compliance with applicable environmental rules and regulations for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012 amounted to approximately HK\$8,913, HK\$10,970, HK\$29,658 and HK\$2,108, respectively. We expect that our cost for environmental compliance will amount to approximately HK\$30,000 for the year ending 30 June 2013.

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LITIGATION AND COMPLIANCE

As at the Latest Practicable Date, there were no litigation or arbitration proceedings pending or threatened against our Group or any of the Directors which could have a material adverse effect on our financial condition or results of operations.

As advised by Jingtian & Gongcheng, our PRC Legal Advisers, during the Track Record Period and up to the Latest Practicable Date, saved as disclosed in this prospectus, we have complied with all relevant PRC laws and regulations in all material aspects for our business operations in the PRC and obtained the requisite legal permits, approvals and licenses from relevant regulatory authorities in the PRC for its operation.

During the Track Record Period and up to the Latest Practicable Date, we have complied with all relevant Swiss laws and regulations in all material aspects for our business operations in the Switzerland and obtained the requisite legal permits, approvals and licenses from relevant regulatory authorities in the Switzerland for its operation.

During the Track Record Period, our Group has failed to comply with certain applicable laws and regulations in the PRC and Hong Kong, a summary of which is set out as follows:

Name of our subsidiaries	Event(s) of non-compliance	Reason(s) for non-compliance	Remedial action(s) taken and to be taken	Legal consequence(s) and maximum potential penalty
Gold Joy, Sky Sun, Win Sun	The respective first annual audited accounts of each of Gold Joy, Sky Sun and Win Sun were laid at their respective annual general meeting on a date which was beyond nine months from the date to which the respective audited accounts were made up, contrary to the requirement under section 122 of the Companies Ordinance.	The omission was principally due to the lack of professional knowledge of their respective directors in corporate compliance in Hong Kong, their reliance on the then company secretary and the insufficient advice on the relevant requirements therefrom in this regard.	The non-compliance had already been rectified as of the Latest Practicable Date. Application was made to the High Court of Hong Kong by each of Gold Joy, Sky Sun and Win Sun on 16 November 2011 for extending the time limit for the laying of their respective accounts to 24 July 2009, the day on which respective accounts had been tabled in the annual general meeting of the respective companies. Such order was granted by the High Court of Hong Kong on 7 December 2011.	As each of Gold Joy, Sky Sun and Win Sun had obtained a court order allowing the extension of the time limit for the laying of their respective accounts under section 122 (1A) of the Companies Ordinance to 24 July 2009, none of the directors of Gold Joy, Sky Sun and Win Sun commits an offence and none of them will be liable to any fine or imprisonment under the Companies Ordinance.

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Name of our subsidiaries	Event(s) of non-compliance	Reason(s) for non-compliance	Remedial action(s) taken and to be taken	Legal consequence(s) and maximum potential penalty
Tian Wang Shenzhen	During the Track Record Period, Tian Wang Shenzhen failed to contribute to the social insurance and housing provident fund for the benefit of all of its employees as required under the relevant PRC laws and regulations (“ Social Welfare-related Non-compliance ”). We estimate that the maximum amounts of the outstanding employer’s and employees’ portions of the contributions and overdue penalty that we are liable to pay as at 30 September 2012 are approximately HK\$2.7 million and HK\$1.3 million, respectively, and the amounts of overdue penalty up to the Latest Practicable Date is approximately HK\$1.4 million.	The non-compliance was principally due to the failure by Tian Wang Shenzhen to register and make full contribution to social insurance and housing provident fund in respect of some of our employees who are seconded to different sales regions in the PRC, turnover of our employees and the unwillingness of some of our employees in participating in such social insurance and housing provident fund contributions.	In respect of the Social Welfare-related Non-compliance, we shall arrange payment of social insurance and housing provident fund for all relevant employees in accordance with the PRC national laws and regulations and incorporate an enforceable written policy for social insurance and housing provident fund contribution into its human resources management policy.	As advised by Jingtian & Gongcheng, our PRC Legal Advisers, under the relevant PRC laws and regulations, Tian Wang Shenzhen may be ordered to pay up all outstanding contributions to social insurance and the housing provident fund within a prescribed period. The employees’ portion of the contributions shall be borne by the employees themselves, but such contributions shall be withheld by the employer from the salary of employees. An overdue penalty of 0.05% of the outstanding social insurance contributions per day as from the due date would be imposed. Tian Wang Shenzhen will be subject to a further fine representing between 100% and 300% of the outstanding contributions if it fails to pay up all outstanding social insurance within the prescribed period.

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Name of our subsidiaries	Event(s) of non-compliance	Reason(s) for non-compliance	Remedial action(s) taken and to be taken	Legal consequence(s) and maximum potential penalty
			<p>Since January 2012, Tian Wang Shenzhen has been communicating with its employees and relevant PRC governmental authorities for making full contributions to social insurance and housing provident fund for its employees. As we have limited control over the progress of the government authorities in processing the applications, there is no assurance that the rectification action can be completed before the Listing. We also had difficulties in contributing those past under-contributions in full because, among others, the turnover of our staff and the unwillingness of some of our employees to bear or make-up their own part of the contributions. Moreover, there is no established mechanism for enterprises to make up historical deficient contributions, particularly for those contributions which have been outstanding for a certain period of time. We will endeavour to make up the outstanding contributions to social insurance and housing provident fund.</p>	<p>The housing provident fund administrative centre of the PRC may order Tian Wang Shenzhen to make the outstanding contribution to the housing provident fund within a prescribed period, failing which it may apply to the court for compulsory execution.</p> <p>During the Track Record Period and up to the Latest Practicable Date, Tian Wang Shenzhen had not been subject to any penalty or administrative actions in respect of this non-compliance.</p> <p>We estimate that the aggregate amount of the outstanding employer's and employees' portions of the contributions and overdue penalty that we are liable to pay as at 30 September 2012 and up to the Latest Practicable Date is approximately HK\$4.0 million and HK\$4.1 million, respectively.</p>

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Name of our subsidiaries	Event(s) of non-compliance	Reason(s) for non-compliance	Remedial action(s) taken and to be taken	Legal consequence(s) and maximum potential penalty
			<p>According to the confirmations issued by relevant PRC government authorities in Guiyang and Chongqing in September and October 2012, respectively, Tian Wang Shenzhen commenced contributing housing provident fund for its employees in Chongqing and Guiyang, and Tian Wang Shenzhen has made up its historical housing provident fund contributions since July 2012.</p> <p>Mr. Lo Wing Sang, being our executive Director, deputy chief executive officer and company secretary, is in charge of monitoring the implementation of the remedial actions.</p>	<p>A sum of HK\$2.2 million, being the total employer's portion of the outstanding contributions and the overdue penalty, have been provided for in our Group's financial statements during the Track Record Period. The employees' portion of the outstanding contributions was not provided for in the financial statements during the Track Record Period, as our Directors consider that the possibility of our Group being ordered to make up the under-contribution as to employees' own portion is remote.</p>

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Name of our subsidiaries	Event(s) of non-compliance	Reason(s) for non-compliance	Remedial action(s) taken and to be taken	Legal consequence(s) and maximum potential penalty
Tian Wang Shenzhen, Ye Guang Li, Time Watch Hefei, Time Watch Shanghai	During the Track Record Period and as of the Latest Practicable Date, the lease agreements with respect to 72 of our leased properties in the PRC had not been registered or filed with relevant authorities within 30 days after the signing thereof in accordance with the applicable PRC laws. <i>(Note 1)</i> These leased properties were used by us as our POS, regional offices, staff quarters and/or warehouses.	The non-compliance was principally due to the lack of professional knowledge of our staff in properties matters. We have more than 1,500 POS in 30 Provinces in the PRC, and similar agreements for the leasing or usage of properties have been entered into by us from time to time, implementation of daily operational matters, including the entering into of lease agreements, have been delegated to administrative or regional staff, and we did not have a high standard of internal control over the implementation procedures during the Track Record Period.	Please refer to the paragraph headed “Remedial action for rectifying non-compliances and defects in our existing lease agreements” below.	As advised by our PRC Legal Advisers, the validity of the lease agreements will not be affected by the non-registration thereof. Nevertheless, the relevant government authorities may order the parties to the lease agreements to register the lease agreements within a prescribed time and, should they fail to do so, we may be subject to a fine of RMB1,000 to RMB10,000 for each unregistered lease agreement. Our Directors estimate that the aggregate maximum fine which we may be subject to for all our 72 unregistered lease agreements is RMB720,000. During the Track Record Period and up to the Latest Practicable Date, we had not been subject to any fine in respect of this non-compliance.

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Apart from the above non-compliances, our Group has entered into lease agreements for lease of some of our properties which are or may be defective for the following reasons:

Name of our subsidiaries	Nature of the defect	Legal consequence(s)	Remedial action(s) taken or to be taken
Tian Wang Shenzhen, Ye Guang Li, Time Watch Hefei	<p>The lease agreements with respect to 27 of our leased properties leased by us as at the Latest Practicable Date were used by our Group as regional offices and warehouses, which were inconsistent with the designated residential usage as stated under the relevant building ownership certificates of these leased properties. <i>(Note 2)</i></p> <p>The defect was principally due to the lack of professional knowledge of our staff in properties matters, the entering into of lease agreements have been delegated to administrative or regional staff and that we did not have a high standard of internal control over the implementation procedures during the Track Record Period.</p>	<p>As advised by our PRC Legal Advisers, failing to conform to the designated residential usage as stated under the relevant building ownership certificates of these leased properties would not result in any fines or administrative penalties imposed against our Group as lessees under relevant national laws in the PRC, however, the relevant authorities or the court may order us to conform to the usage requirement and use these leased properties for the designated usage only, and as a result we may not be able to continue to use these leased properties as regional offices and warehouse purposes. <i>(Note 2)</i></p>	<p>Please refer to the paragraph headed “Remedial action for rectifying non-compliances and defects in our existing lease agreements” below.</p>

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Name of our subsidiaries	Nature of the defect	Legal consequence(s)	Remedial action(s) taken or to be taken
<p>Tian Wang Shenzhen, Ye Guang Li, Time Watch Hefei, Time Watch Shanghai</p>	<p>The lessors in respect of 34 of our leased properties leased by us as at the Latest Practicable Date had not provided us with the relevant title ownership certificates or other written consents from the relevant owners evidencing their rights to lease properties to us. <i>(Note 3)</i></p> <p>The defect was principally due to the lack of professional knowledge of our staff in properties matters, the entering into of lease agreements have been delegated to administrative or regional staff and that we did not have a high standard of internal control over the implementation procedures during the Track Record Period.</p>	<p>As advised by our PRC Legal Advisers, leasing properties from lessors without proper legal title ownership certificates or consents would not result in any administrative penalties imposed against our Group as lessees under relevant national laws in the PRC. However, as we are unable to ascertain whether the relevant lessors are the legal owners of the relevant leased properties or have got the legal owners' consent to lease and, if the lessors do not have the requisite rights to lease out the relevant leased properties, the relevant lease agreements may be deemed invalid, and as a result, we may be forced to move out from the relevant leased properties. <i>(Note 3)</i></p>	<p>Please refer to the paragraph headed "Remedial action for rectifying non-compliances and defects in our existing lease agreements" below.</p>

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Notes:

- The following table summarises the length of the remaining tenure of these lease agreements as at the Latest Practicable Date (with some of these lease agreements falling within more than one of the following categories):

Remaining tenure to expire	Number of unregistered lease agreements as at the Latest Practicable Date	Number of lease agreements with inconsistent usage of leased properties as at the Latest Practicable Date	Number of lease agreements without proof of ownership or proof of rights of the relevant lessors as at the Latest Practicable Date
Within 1 year	45	21	16
1 – 2 years	15	5	8
2 – 3 years	9	1	8
Over 3 years	3	0	2
	<u>72</u>	<u>27</u>	<u>34</u>

- All these 27 lease agreements are used by our Group as our regional offices and warehouse and therefore, there is no potential loss of revenue and gross profits in respect of these leased properties. Our Directors estimate the aggregate removal costs (including write-off of leasehold improvements and other costs thereof) will not be more than approximately HK\$0.7 million. Our Directors estimate that it may not take more than one month to relocate our operation to the replacement leased properties.
- In respect of these 34 lease agreements, our Directors estimate a potential loss of revenue and gross profit of not more than approximately HK\$2.4 million and HK\$1.9 million, respectively, and the aggregate removal costs (including write-off of leasehold improvements and other costs thereof) will not be more than approximately HK\$3.5 million. Our Directors estimate that it may not take more than two months and one month for our POS and other leased agreements to relocate our operation to the replacement leased properties, respectively.

Given the nature and the circumstances giving rise to the above non-compliance incidents, our Directors are of the view that none of these incidents have any material adverse impact on our business and operation. Further, in light of the nature and circumstances giving rise to the above property-related non-compliance incidents, which were principally due to the lack of relevant legal knowledge of and professional advice given to our regional staff responsible for the day-to-day administration in the PRC in the past, the Joint Sponsors are of the view that none of these incidents impugn the competence of our Directors.

Remedial actions for rectifying non-compliances and defects in our existing lease agreements

For leased properties which form part of our Sales Network, our Group will strive to rectify the non-compliances or defects in our lease agreements by procuring the registration of non-registered lease agreement by relevant lessors, the change of usage of relevant leased premises or the acquisition of relevant leased premises or obtaining title ownership certificates or written consents from relevant owners of the leased premises before the expiry of the

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relevant lease agreements or within the 12 months from the Listing Date, whichever comes earlier, failing which our Group will, where necessary, negotiate with the relevant lessors for the early termination of the relevant lease agreements, and will relocate our operations there from the relevant leased properties to the other suitable locations upon the expiry of the relevant lease agreements or (as the case may be) within the said 12-month period.

For leased properties which do not form part of our Sales Network, our Group will strive to rectify the non-compliances or defects in our lease agreements by procuring the registration of non-registered lease agreement by relevant lessors, the change of usage of relevant leased premises or the acquisition of title ownership certificates or written consents from relevant owners of the leased premises before the expiry of the relevant lease agreements or within the six months from the Listing Date, whichever comes earlier, failing which our Group will, where necessary, negotiate with the relevant lessors for the early termination of the relevant lease agreements, and will relocate our operations there from the relevant leased properties to other suitable locations upon the expiry of the relevant lease agreements or (as the case may be) within the said six-month period.

Our Controlling Shareholders have undertaken to indemnify our Company against, among others, any penalty that may be imposed on our Group as a result of the non-compliance with the applicable PRC laws and regulations in relation to the leased agreements and any costs, expenses or losses that our Group may suffer as a result of relocation of our Group's business and assets from the relevant properties as a result of any defect of the relevant lease agreements to the properties occupied by us in the PRC. Please refer to the section headed "Appendix V – Statutory and General Information – Other Information – 17. Estate duty, tax and other indemnity" in this prospectus for details of the indemnity.

Measures to prevent recurrence of non-compliance

In order to continuously improve our corporate governance and to prevent recurrence of non-compliance in the future, our Group intends to adopt or have adopted the following measures:

- (1) our Board has established a corporate governance committee on 11 January 2013, comprising Mr. Ma Ching Nam, Dr. Tam Hok Lam Tommy and Mr. Wong Wing Keung Meyrick with Mr. Ma Ching Nam as the chairman of the corporate governance committee, to keep the effectiveness of the corporate governance and system of internal non-financial controls of our Group. The primary functions of our corporate governance committee include, among others, reviewing and making recommendation to our Board in respect of our Group's policies and practices on corporate governance, reviewing and monitoring our Group's policies and practices on compliance with any requirement, direction and regulation that may be prescribed by the Board, contained in any constitutional documents of our Group, or imposed by the Listing Rules, other applicable laws, regulations, rules and codes, and ensuring that appropriate monitoring systems are in place to ensure compliance against the relevant internal control systems, processes and policies, and monitoring the implementation of our Group's plan to maintain high compliance with own risk management standards;

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- (2) we have appointed Baker Tilly Hong Kong, an independent internal control adviser to perform a detailed evaluation of the adequacy and effectiveness of our internal control system, recommend action plans for improvements in areas (which include compliance functions) under their review;
- (3) we have designated Mr. Lo Wing Sang (an executive Director, our deputy chief executive officer and our company secretary), who is experienced in compliance issues of a listed company, as our compliance officer to assist our Board to identify, assess and manage the risks associated with our operation from time to time to ensure due compliance of laws, rules and regulations applicable to our Group;
- (4) our company secretary and compliance officer will act as the principal channel of communication between members of our Group and our Company in relation to legal, regulatory and financial reporting compliance matters of our Group as well as the chief coordinators to oversee the internal control procedures in general. Upon receipt of any queries or reports on legal, regulatory and financial reporting compliance matters, the company secretary or the compliance officer will look into the matter and, if considered appropriate, seek advice, guidance and recommendation from professional advisers and report to relevant members of our Group and/or our Board;
- (5) we will appoint DBS Asia Capital Limited as its compliance adviser upon Listing to advise our Group on compliance matters in accordance with Rule 3A.19 of the Listing Rules;
- (6) we have appointed Jingtian & Gongcheng, a qualified PRC law firm as our external PRC legal advisers which will assist us in performing the requisite legal due diligence and complying with the relevant registration and filing requirements in respect of any lease agreements to be entered into by us in the future;
- (7) we will procure future lease agreements which we are to enter into to be registered and filed with relevant authorities, and will impose an obligation on the relevant lessors to comply with the requisite registration and filing requirement under the lease agreements, ensure that lessors can provide us with relevant ownership certificates or other written consent from the relevant owners evidencing lessors' rights to lease properties and ensure that the designated usage stated under the relevant building ownership certificates are consistent with the purpose of our use;
- (8) we will provide our Directors, senior management and employees involved with training, development programmes and/or updates regarding the legal and regulatory requirements applicable to the business operations of our Group from time to time;
- (9) we will from time to time remind our employees of their obligations to contribute to their part of the social insurance and housing provident funds in order to comply with the applicable PRC laws and regulations, and advise them on the procedures for making such contributions; and

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- (10) we will appoint an external Hong Kong legal counsel to advise us on compliance with the Listing Rules and the applicable Hong Kong laws and regulations.

Views of our Directors and the Joint Sponsors

In the light of the foregoing, our Directors are of the view that we have adequate internal control procedures and policies in place to prevent further occurrence of the above non-compliance by our Group in the future.

Further, in light of the preventive measures mentioned above, our Directors and the Joint Sponsors are of the view that our Group has adequate and effective internal control procedures in place for the purpose of Rule 3A.15(5) of the Listing Rules.

Furthermore, having considered the facts and circumstances leading to the non-compliance incidents as disclosed in this section and our Group's internal control measures to avoid recurrence of these non-compliances, our Directors and the Joint Sponsors are of the view that these past non-compliance incidents do not involve any dishonesty on the part of our Directors or impugn on their integrity or competence and do not affect their suitability to act as directors of a listed issuer under Rules 3.08, 3.09 and 8.15 of the Listing Rules, and the suitability for listing of our Company under Rule 8.04 of the Listing Rules. Further, our board of Directors include members who are professionally qualified accountants and lawyers, and Mr. Lo Wing Sang, our executive Director, deputy chief executive officer and company secretary, has extensive experience in compliance matters of listed companies, and we will engage external legal advisers to advise us on compliance matters. Our Directors are of the view that the above measures will prevent future occurrence of non-compliance incidents.

INSURANCE COVERAGE

We carry insurance to protect against a range of contingencies, including, among others, loss of theft of, and damage to, property, plants and equipments, motor vehicles, inventory in our production facilities in Shenzhen and Dabu and our headquarters in Shenzhen. We are not required under PRC law to maintain, and we do not maintain, any product liability insurance. We believe that it is not the usual industry practice in the PRC to maintain such insurance.

The premiums we paid for our insurance were approximately HK\$0.3 million, HK\$0.3 million, HK\$1.0 million and HK\$0.1 million for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively, representing 0.0%, 0.0%, 0.1% and 0.0% of our revenues for those periods.

Our Directors believe that our insurance coverage is adequate and we have not experienced any material claims on our insurance policies during the past five years. During the Track Record Period, we had not make nor been the subject of any material insurance claim.

NO SIGNIFICANT INTERRUPTION

There have been no interruption in our business that may have or have had a significant effect on our financial position in the twelve months preceding the date of this prospectus.