The following discussion and analysis should be read in conjunction with our consolidated financial information together with the accompanying notes set out in the Accountants' Report in Appendix I to this prospectus. The following discussion and analysis contains forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such risks and uncertainties include, without limitations, those discussed in the sections entitled "Forward-Looking Statements," "Risk Factors" and "Business" in this prospectus.

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. 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 mid-income consumers in the PRC. We outsource the production of our Balco watches to FM Swiss, which is an experienced watch manufacturer in Switzerland, and a connected person of our Company(5). 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.

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.

(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 especially so for the low-end watch segments.

(5) Please refer to page 265 of this prospectus for details of the relationship between FM Swiss and our Company.

We directly control and manage our extensive Sales Network, which as at 30 September 2012, consisted of 1,706 POS covering 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 have also formed four JV Companies[(6)] to promote and sell our Tian Wang and Balco watches, and watches of the Other Brands on non-exclusive basis. While the mode of operation of the JV Sales Network is similar to that of our Tian Wang and Balco Sales Network, the Other Brands comprise mostly of other mid-end to high-end watch brands. We purchase watches of the Other Brands from the relevant brand owners (or their designated suppliers), on an order-by-order basis, generally at a discount from the suggested retail price set by the suppliers.

We also sell our Tian Wang and Balco watches on wholesale or consignment basis to distributors in Hong Kong, Macau and Taiwan, market our Tian Wang watches through online sales channels, and sell Tian Wang watches directly to corporate customers in the PRC. We also operate an in-house procurement arm to source watch movements for Tian Wang watches, and sell surplus movements to watch manufacturers and distributors.

BASIS OF PRESENTATION

We have prepared our financial information on the historical cost basis and in accordance with HKFRSs except for properties, which are measured at revalued amount. Historical cost is generally based on the fair value of the consideration given in exchange for goods. In addition, our financial information includes the applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

Our financial information incorporates the financial statements of the group entities controlled by our Company. Control is achieved where our Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of our Group.

Our financial information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

Note:

(6) As our Group holds 51% equity interests, that is, more than half of equity interests in each of these four JV Companies, and controls the composition of the board of each of these four JV Companies and thus, has the power to govern the financial and operating policies of these four JV Companies. These four JV Companies are subsidiaries of our Company during the Track Record Period and up to the Latest Practicable Date.

KEY FACTORS AFFECTING OUR RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Our results of operations and our financial condition have been and will continue to be affected by a number of factors, including those set out below.

Economic development and levels of per capita consumer spending in the PRC

Our results of operation and financial condition are affected by the economic development and levels of per capita consumer spending in the PRC. The continued growth in our revenue is subject to the continued expansion in international trade and increase in consumer spending and confidence in the PRC.

The PRC economy, measuring in nominal GDP, experienced a rapid growth from RMB21,631 billion in 2006 to RMB47,288 billion in 2011, representing a CAGR of approximately 16.9%. As a result of the rapid economic growth, the per capita Annual Disposable Income of urban household in the PRC increased significantly from RMB11,760 in 2006 to RMB21,810 in 2011. Generally, the rapid economic growth and increasing per capita Annual Disposable Income of urban household are two main drivers of the fast growing PRC watch market where our business operates in. The overall retail market for watches in the PRC grew significantly from RMB15,061 million in 2006 to RMB33,830 million in 2011. The national mid-end watch market increased from RMB794 million in 2006 to RMB2,368 million in 2011, representing a CAGR of 24.4% for the period, according to Euromonitor report. We expect our results of operation and financial condition will continue to be affected by the changes in the growth of economy and the levels of per capita consumer spending in the PRC.

Our brands

We generate a majority of our revenue from the sale of watches under our Tian Wang and Balco brands. For the years ended 30 June 2010, 2011 and 2012 and three months ended 30 September 2012, sales of our Tian Wang and Balco watches accounted for approximately 59.7%, 67.4%, 71.4% and 70.7% of our revenue, respectively. We believe that as brand image is a critical factor affecting consumers' decision to purchase watches, our business depends, and will continue to depend, heavily on the brand image of our Tian Wang and Balco brands. If we are unsuccessful in continuing to maintain the image of our Tian Wang and Balco brands, market perception and consumer acceptance of them may be eroded, in which case our business, financial condition and results of operations may be materially and adversely affected.

A multi-location business such as ours can be adversely affected by negative publicity or news reports, whether or not accurate, regarding any product or service quality issues, or government or industry findings concerning our brands, products or POS. Any negative publicity or dispute relating to our Tian Wang and Balco brands, including product defects, counterfeit products or ineffective promotional activities are potential threats to the images of our brands. These types of negative publicity could materially harm our business and results of operations.

Further, as we expand our Sales Network to other geographical regions in the PRC, we face risks associated with the lack of brand awareness or acceptance of our Tian Wang and Balco brands in those new markets. To the extent that we are unable to foster brand awareness for our brands in such new markets, our new POS may not perform as well as expected and our growth may be significantly impeded.

Expansion of our Sales Network

Our Sales Network grew significantly during the Track Record Period. As at 30 June 2010, 2011 and 2012 and 30 September 2012, we had 1,044, 1,245, 1,573 and 1,706 POS, respectively, representing a CAGR of 22.7% from 30 June 2010 to 30 June 2012. Our revenue generated from our Sales Network were HK$581.7 million, HK$855.0 million, HK$1,177.7 million and HK$402.1 million for the years ended 30 June 2010, 2011 and 2012 and three months ended 30 September 2012, respectively, representing 63.3%, 71.9%, 77.2% and 79.1% of the total revenue, respectively. As part of our business strategy, we plan to continue expanding our Sales Network in the PRC. We intend to use 24.1% of the net proceeds we will receive from the Global Offering to continually increase the number of our POS in the PRC, 15.8% of the net proceeds for establishing directly managed concept stores, and 25.7% of the net proceeds for establishing joint ventures.

Our future growth will depend on our ability to expand our Sales Network. Failure to effectively expand our Sales Network may result in limited growth and reduced profitability.

Competition in the PRC watch industry

The PRC watch industry is a highly competitive market and the pricing and demand of our products are significantly affected by the intensity of competition we face. Our principal competitors include the major watch brands in the mid-end watch markets in the PRC. According to Euromonitor, the comparable watch brands with similar brand recognition and sales volumes with Tian Wang are Rossini, Ebohr and Fiyta. These competitors may have substantially greater financial and technological resources, design and manufacturing capacities, stronger customer relationship, more extensive retail and distribution networks, better brand image than we do. As a result, we may not be able to compete effectively with those brands and the competitive pressures could adversely affect our business and financial condition and results of operations. Please refer to the section headed "Industry Overview" and the paragraph headed "Our Business – Competition" in this prospectus for further details on the competitive landscape of the industry we operate in.

Concessionaire fees and rentals

We derived approximately 63.3%, 71.9%, 77.2% and 79.1% of our revenue from sales generated through our Sales Network comprising our Sales Counters, Shop-in-Shops and Street Stores for the years ended 30 June 2010, 2011 and 2012 and three months ended 30 September 2012, respectively. The total concessionaire fees and rentals for our Sales Counters, Shop-in-Shops and Street Stores calculated as a percentage of the total revenue generated from our Sales Network were approximately 26.1%, 26.0%, 25.2% and 26.4% for the years ended 30 June 2010, 2011 and 2012 and three months ended 30 September 2012, respectively. In the event that the Store Operators increase the concessionaire fee percentage or our lessors increase the rentals when our Sales Counter cooperation agreements or leases are renewed, our revenue attributable to the sales through our Sales Network may decrease and our results of operations may be adversely affected.

Staff compensation expenses

Staff compensation costs is one of the significant components of our total costs. As at 31 December 2012, we had a total of 2,493 employees. Our staff related costs in relation to our selling and distribution costs for the years ended 30 June 2010, 2011 and 2012 and three months ended 30 September 2012 were HK$84.2 million, HK$117.5 million, HK$148.3 million and HK$40.1 million, respectively, representing 27.2%, 26.4%, 25.8% and 21.5% of our total selling and distribution costs, respectively. 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 is designed to encourage competition among our sales representatives in terms of sales targets and relative sales ranking. On the other hand, staff related costs (including director emoluments) in relation to our administrative expenses for each of the year ended 30 June 2010, 2011 and 2012 and three months ended 30 September 2012 were HK$21.8 million, HK$37.9 million, HK$44.2 million and HK$5.5 million, respectively, representing 48.8%, 53.2%, 52.8% and 30.6% of our total administrative expenses, respectively.

Cost of watch components

The materials required for the assembling process of our Tian Wang watches are predominantly watch components, including watch movements, cases, straps, packing, glass, dial, crown and hands. The costs of materials used in assembling our Tian Wang watches accounted for 88.7%, 89.1%, 88.9% and 90.5% of our total cost of sales of Tian Wang watches for the years ended 30 June 2010, 2011 and 2012 and three months ended 30 September 2012.

The prices of our watch components fluctuate depending on market condition, including inflation and supplies. If we are unable to control the cost of watch components or pass on the increased costs to our customers, our results of operations will be affected accordingly.

Obsolete and slow-moving inventory

The demand for our Group's watches is highly dependent on the customers' preferences for our products, which are beyond our control. If the products of our Group fail to meet the changing consumer preferences and market trends, we will have to keep slow-moving inventory. Our inventory (before stock provision) as at 30 June 2010, 2011 and 2012 and 30 September 2012 amounted to approximately HK$254.6 million, HK$324.1 million, HK$503.2 million and HK$510.8 million, respectively, of which the provision for obsolescence were

HK$22.4 million, HK$23.6 million, HK$36.8 million and HK$36.5 million, respectively. Among our inventories, approximately 8.4%, 9.0%, 7.6% and 7.2% were finished products aged over two years as at 30 June 2010, 2011 and 2012 and 30 September 2012, respectively. As at 30 November 2012, approximately HK$121.4 million of the inventory as at 30 September 2012 were subsequently used and sold. If we cannot manage to source or manufacture appropriate inventory to suit the consumer preferences and market trends in the future, the volume of obsolete and slow-moving inventory may increase, our liquidity and cash flow may be affected and we may need to either sell off such inventory at a lower price or write off such inventory, in the event of which our financial position and results of operations may be materially and adversely affected. Please refer to the paragraph headed "Our Business – Inventory management" for further details of the strategies we adopt for inventory management.

Our business mix

Our business is organised into sales of Tian Wang, Balco, Other Brands watches and trading of watch movements, which have different contributions to our revenue and different gross profit margins. The revenue from our sales of Tian Wang, Balco, Other Brands watches and trading of watch movements were HK$465.8 million, HK$83.0 million, HK$71.5 million and HK$299.3 million for the year ended 30 June 2010, representing 50.7%, 9.0%, 7.8% and 32.5% of the total revenue, respectively, while respective revenue for the year ended 30 June 2012 were HK$980.4 million, HK$108.5 million, HK$184.2 million and HK$251.6 million, representing 64.3%, 7.1%, 12.1% and 16.5%, of the total revenue, respectively. Our sales of Tian Wang, Balco, Other Brands watches and trading of watch movements had a gross profit margin of 78.9%, 56.0%, 28.8% and 3.5% for the year ended 30 June 2010, and 79.4%, 66.6%, 27.0% and 7.3% for the year ended 30 June 2012, respectively. We expect our sales of Tian Wang, Balco and Other Brands watches will continue to grow and intend to maintain our current scale of trading of watch movements. If our business mix changes, our results of operations will be affected accordingly.

Taxation

Our net profit is affected by the income tax rates and tax exemptions applicable to us. Under the EIT Law and Implementation Regulation of EIT Law, the tax rate of our PRC subsidiaries is 25% from 1 January 2008 onwards. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa (2007) No.39), the tax concessions of Ye Guang Li and Tian Wang Shenzhen (set out below) are still applicable under the EIT Law.

Pursuant to the relevant laws and regulations in the PRC, Ye Guang Li is entitled to an exemption from PRC Enterprise Income Tax for the two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. The tax charge provided has taken into account these tax incentives. Ye Guang Li commenced its first profit making year for the calendar year ended 31 December 2007 and accordingly, Ye Guang Li was exempted from PRC Enterprise Income Tax for the calendar years ended 31 December 2007 and 2008, the applicable tax rate for the calendar years ended 31 December 2009, 2010 and 2011 was 12.5% and the applicable tax rate for the six months ended 30 June 2012 and three months ended 30 September 2012 was 25%.

The applicable tax rates for Tian Wang Shenzhen for the calendar years ended 31 December 2009 and 2010 are 20% and 22% respectively, being the concession tax rate for foreign invested enterprise in the area of Shenzhen Economic Zone. Tian Wang Shenzhen obtained the qualification as a high and new technology enterprise on 23 February 2011, which is valid for three years and it has also completed the relevant filing requirements with its competent tax authorities on 18 April 2012. Hence, Tian Wang Shenzhen is subject to the preferential tax treatment and the applicable tax rate for the calendar years ended 31 December 2011 and 2012 is 15%.

According to the Federal Act on Withholding Taxes of 13 October 1965, withholding tax on distribution of dividends and certain interest (including license fees) is chargeable in Switzerland at the rate of 35%. Under the Act, withholding tax can be reclaimed by Swiss recipients who declare the distribution of dividends in their taxable income. Foreign investors can reclaim the withholding tax according to the double taxation treaty (if any) entered into between Switzerland and the place of residence of the foreign investors. On 6 December 2010, Switzerland and Hong Kong have entered into a double taxation treaty which came into force on 15 October 2012, pursuant to which the withholding tax on distributions from subsidiaries and interests will be reduced to 0% and is applicable from 1 January 2013 with regard to Swiss taxes, and from 1 April 2013 with regard to Hong Kong taxes. Any withholding tax on the dividends receivable from Balco Switzerland incurred before 1 January 2013 may reduce the profits of our Group.

Our OEM manufacturer for the production of Balco watches

We outsource part of the product design process and production of our Balco watches to FM Swiss which is a connected person, over whose management and operations we have no control. The sales of our Balco watches is dependent on the ability of FM Swiss to supply us with finished Balco watches. The design and production of watches by FM Swiss may be affected by a number of factors, such as equipment failures or property damages sustained by it, changes in laws and regulations in Switzerland, financial difficulties and labour disputes. There is no assurance that FM Swiss will continue to supply us with sufficient quantity of products, or at all. Given that the production of Balco watches is outsourced to FM Swiss only, any material disruption to the operations of FM Swiss due to any of the above factors could interrupt the supply of our Balco watches before the operation of FM Swiss returns to normal or we engage another Swiss OEM manufacturer for production of our Balco watches.

Further, the Balco Agreement is subject to a term of three years. Upon its expiry on 31 August 2014, there is no assurance that FM Swiss will continue to accept our future purchase orders at a price commercially viable to us or at all in the future, nor can we assure that FM Swiss's resources will not be occupied by our competitors, or that they will have sufficient resources to meet our future demand. In the event that FM Swiss cannot fulfill its obligations to supply sufficient Balco watches to us, or in the event that we have disputes with or lose the services of FM Swiss, we will have to engage another Swiss designer and OEM manufacturer to design and produce our Balco watches, which could cause interruption to the supply and the sales of our Balco watches and adversely affect our business, financial condition and results of operations.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in conformity with HKFRS requires us to adopt accounting policies and make estimates and assumptions that affect amounts reported in our financial statements. In applying these accounting policies, we make subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. The following sections discuss certain key accounting policies, judgments and estimations applied in preparing our financial statements.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- We have transferred to the buyer the significant risks and rewards of ownership of the goods;
- We retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to us; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that economic benefits will flow to our Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset’s net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment (other than leasehold land and buildings held for use in production or supply of goods or services, or for administrative purposes) are stated in the consolidated statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Leasehold land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statements of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on revaluation of leasehold land and buildings is recognised in other comprehensive income and accumulated in properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is recognised in profit or loss to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that item of asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the property revaluation reserve is transferred to accumulated profits.

Depreciation is recognised so as to write off the cost or fair value of items of property, plant and equipment less their residual values over their estimated useful lives using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, amounts due from a director, fellow subsidiaries and a related company, and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Impairment of financial assets

Financial assets of our Group are assessed for indicators of impairment at the end of the reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include our past experience of collecting payments, an increase in the number of delayed payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

RESULTS OF OPERATIONS

The selected consolidated income statements for the Track Record Period set forth below are derived from the Accountants' Report of our Group included in Appendix I to this prospectus.

Selected Consolidated Income Statements

	Year ended 30 June						**Three months ended 30 September**			
	2010		**2011**		**2012**		**2011**		**2012**	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Revenue	919,605	100.0	1,189,325	100.0	1,524,779	100.0	338,485	100.0	508,197	100.0
Cost of sales	(474,478)	(51.6)	(493,940)	(41.5)	(606,319)	(39.8)	(120,622)	(35.6)	(197,867)	(38.9)
Gross profit	445,127	48.4	695,385	58.5	918,460	60.2	217,863	64.4	310,330	61.1
Other income	2,435	0.3	7,143	0.6	9,559	0.6	2,651	0.8	2,970	0.6
Other expenses	–	–	–	–	(17,930)	(1.2)	–	–	(2,259)	(0.4)
Selling and distribution costs	(309,472)	(33.6)	(444,610)	(37.4)	(575,791)	(37.8)	(128,383)	(37.9)	(186,689)	(36.8)
Administrative expenses	(44,705)	(4.9)	(71,222)	(6.0)	(83,798)	(5.4)	(21,537)	(6.4)	(17,813)	(3.5)
Operating profit	93,385	10.2	186,696	15.7	250,500	16.4	70,594	20.9	106,539	21.0
Finance costs	(3,638)	(0.4)	(4,323)	(0.4)	(6,010)	(0.4)	(994)	(0.3)	(2,556)	(0.5)
Profit before taxation	89,747	9.8	182,373	15.3	244,490	16.0	69,600	20.6	103,983	20.5
Income tax	(28,290)	(3.1)	(44,656)	(3.7)	(55,955)	(3.6)	(13,910)	(4.1)	(25,929)	(5.1)
Profit for the year/period	61,457	6.7	137,717	11.6	188,535	12.4	55,690	16.5	78,054	15.4
		% of profit for the year		*% of profit for the year*		*% of profit for the year*		*% of profit for the period*		*% of profit for the period*
Profit for the year/period attributable to:										
Owners of the Company	60,717	98.8	134,603	97.7	184,093	97.6	53,749	96.5	76,436	97.9
Non-controlling interests	740	1.2	3,114	2.3	4,442	2.4	1,941	3.5	1,618	2.1
	61,457	100.0	137,717	100.0	188,535	100.0	55,690	100.0	78,054	100.0

Revenue

The table below sets out our revenue generated from (i) our sales of Tian Wang, Balco and Other Brands watches, and (ii) our trading of watch movements, and their respective percentages of our total revenue for the years/periods indicated.

	Year ended 30 June						Three months ended 30 September			
	2010		2011		2012		2011		2012	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000* (unaudited)	%	*HK$'000*	%
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
Subtotal	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 revenue	919,605	100.0	1,189,325	100.0	1,524,779	100.0	338,485	100.0	508,197	100.0

Our revenue represents sales net of discounts and sales-related taxes. We generate our revenue from sales of Tian Wang, Balco, Other Brands watches, and trading of watch movements. Our revenue increased substantially from HK$919.6 million for the year ended 30 June 2010 to HK$1,524.8 million for the year ended 30 June 2012, representing an increase of HK$605.2 million or 65.8%. The revenue for the three months ended 30 September 2012 also increased by HK$169.7 million or 50.1% to HK$508.2 million compared to that for the three months ended 30 September 2011. Our sales of Tian Wang, Balco and Other Brands watches contributed 67.5%, 77.0%, 83.5% and 83.2% of our total revenue for the years ended 30 June 2010, 2011 and 2012 and three months ended 30 September 2012, respectively. This increase in our revenue from sales of Tian Wang, Balco and Other Brands watches during the Track Record Period was primarily due to the increase of the number of our POS and the increase of revenue generated from individual POS. As at 30 June 2010, 2011 and 2012 and 30 September 2012, we had 1,044, 1,245, 1,573 and 1,706 POS, respectively, representing an increase of 662 POS or 63.4% between 30 June 2010 and 30 September 2012. The same-store sales growth rates of our Group were approximately 18.4%, 27.0%, 16.0% and 19.5% for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively.

Our revenue from trading of watch movements contributed 32.5%, 23.0%, 16.5% and 16.8% of our total revenue for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively. While our revenue from watch sales increased significantly from the year ended 30 June 2010 to the year ended 30 June 2012, our revenue from trading of watch movements decreased. The reason of the decrease was primarily due to the unstable and limited supplies of watch movements resulted from the earthquake in Japan in March 2011, and decrease in demand from the watch OEM manufacturers as a result of the deepened European sovereignty debt crisis.

The table below sets out a breakdown of the number of POS as of the dates indicated.

	As at 30 June				As at 30 September
	2009	**2010**	**2011**	**2012**	**2012**
Tian Wang	626	766	938	1,178	1,285
Balco	203	261	288	333	355
Sub-total	829	1,027	1,226	1,511	1,640
Other Brands	18	17	19	62	66
Total	847	1,044	1,245	1,573	1,706

The tables below set forth the average monthly revenue generated from our Sales Network and same-store sales growth for the years/period indicated.

	Year ended 30 June			Three months ended 30 September
	2010	**2011**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Average monthly revenue per POS[1] of				
Tian Wang watches	52	65	71	85
Balco watches	27	25	23	23
Other Brands watches	341	529	379	332

	Year ended 30 June			Three months ended 30 September
	2010	**2011**	**2012**	**2012**
Same-store sales growth[2]				
Tian Wang watches	21.3%	30.1%	17.3%	26.1%
Balco watches	1.3%	-12.8%	-7.0%	-0.2%
Other Brands watches	N/A[3]	49.9%	23.9%	0.0%
Overall	18.4%	27.0%	16.0%	19.5%

Notes:

(1) Average monthly revenue per POS of a particular year/period represents the revenue generated from our Sales Network of Tian Wang, Balco and Other Brands watches of the same year/period divided by the average number of POS of that year/period, further divided by 12 for a year and three for a three-month period. The revenue used in calculating the average monthly revenue per POS of a particular year/period includes revenue generated by all of the POS existed during the relevant year/period including newly opened and closed POS of that year/period. Average number of POS represents the number of POS at the beginning of the year/period plus the number of POS at the end of the year/period divided by two. Please refer to page 308 for the relevant number of POS used in calculating average number of POS for Tian Wang, Balco and Other Brand watches.

(2) Same-store sales growth represents the growth from the same-store sales from a group of POS in a particular year/period to the sales from the same group of POS in the following year/period. The number of POS used in calculating the same-store sales growth for Tian Wang watches for the years ended 30 June 2010, 2011 and 2012 and three months ended 30 September 2012 was 475, 559, 657 and 849, respectively. The number of POS used to calculate the same-store sales growth for Balco watches for the years ended 30 June 2010, 2011 and 2012 and three months ended 30 September 2012 was 163, 165, 205 and 232, respectively. The number of POS used to calculate the same-store sales growth for Other Brands watches for the years ended 30 June 2011, 2012 and three months ended 30 September 2012 was 12, 15 and 19, respectively.

(3) Suzhou Paragon, our JV Company selling Other Brand watches, was established in July 2008; hence, there is no POS existing as at 30 June 2010 had been operating for at least 24 months for comparison.

Average monthly revenue per POS

Average monthly revenue per POS reflects the average rate of revenue generated by the current Sales Network of POS which among others, might be affected by, among others, (i) the changes in number of POS during the year; (ii) the timing of POS additions and closures occur resulting in changes of revenue attributable from the relevant POS.

Tian Wang

During the Track Record Period, our average monthly revenue per POS of Tian Wang watches increased by approximately 25.0% and 9.2% for the years ended 30 June 2011 and 2012, respectively. The slowdown in the rate of this average ratio in the year ended 30 June 2012, was primarily due to the average revenue generated from the newly added POS was less than the average revenue generated from the existing POS and thus had an effect in lowering the overall average revenue. The average monthly revenue per POS increased to approximately HK$85,000 for the three months ended 30 September 2012 representing an increase of 19.7% from that for the year ended 30 June 2012. This increase was primarily due to we conducted a nation-wide sales campaign in September 2012, to coincide with Mid-Autumn Festival in September, which resulted in an increased number of promotional events held at department stores to promote sales of both regular-priced watches as well as watch models aged more than 2 years and at the same time identified as slow moving.

Balco

The average monthly revenue per POS of Balco watches decreased from HK$27,000 for the year ended 30 June 2010 to HK$25,000 for the year ended 30 June 2011 and further decreased to HK$23,000 for the year ended 30 June 2012. These decreases were primarily due to that we carried out a large scale of promotion activities for the year ended 30 June 2010 which was not repeated for the years ended 30 June 2011 and 2012. For details of the promotion, please refer to the sub-paragraph (ii) in the paragraph headed "Gross profit and gross profit margin" on page 326 below in this section. Furthermore, these decreases followed the similar trend of decreases in average monthly sales quantity per POS of 8, 7 and 6 pieces for the years ended 30 June 2010, 2011 and 2012, respectively. Although the average monthly revenue per POS of Balco watches decreased slightly during the Track Record Period, the overall revenue increased year on year primarily due to the increase in POS number and our sales to Watch Distributors and corporate customers. For details of the analysis of the revenue increases, please refer to sub-paragraph (ii) in the paragraph headed "Revenue" on pages 321 and 325 of this prospectus. The average monthly revenue per POS remained stable at approximately HK$23,000 for the three months ended 30 September 2012.

Other Brands

The average monthly revenue per POS of Other Brands watches increased by 55.1% from HK$341,000 for the year ended 30 June 2010 to HK$529,000 for the year ended 30 June 2011 mainly as a result of overall increase in revenue of Suzhou Paragon for the year ended 30 June 2011. The average monthly revenue was then decreased by 28.4% to HK$379,000 for the year ended 30 June 2012. This decrease was primarily due to the inclusion of revenue contributed by Time Watch Hefei and Time Watch Shanghai which were established in November 2011 and January 2012, respectively. The average revenue per POS of Time Watch Hefei and Time Watch Shanghai was relatively lower than Suzhou Paragon at HK$188,000 and HK$55,000, respectively. Excluding the diluting effect of Time Watch Hefei and Time Watch Shanghai, Suzhou Paragon's average monthly revenue per POS for the year ended 30 June 2012 was approximately HK$619,000, representing a further increase of 17.0% compared to that for the year ended 30 June 2011 mainly as a result of our continual expansion of Suzhou Paragon. The average monthly revenue per POS further decreased to HK$332,000 for the three months ended 30 September 2012 from HK$379,000 for the year ended 30 June 2012 was primarily due to the decrease in average monthly revenue per POS of Suzhou Paragon of approximately HK$596,000 for the three months ended 30 September 2012 as compared to approximately HK$619,000 for the year ended 30 June 2012 as a result of the weakened sentiment for luxury watches.

Same-store sales growth

The same-store sales growth for the years ended 30 June 2010, 2011 and 2012 measures the revenue growth of POS that existed in the last 24 months and the same-store sales growth for the three months ended 30 September 2012 measures the revenue growth of POS that exist as at 30 September 2012 and which have been operating in the last 15 months, thus will not be affected by the sales performance of newly added POS during the year. Given the calculation of same-store sales growth and average revenue per POS differs, the two ratios are not comparable with each other, but measuring similar nature of item by using different approaches. The same-store sales growth rate for the three months ended 30 September 2012 compares the sales of a group of POS for the three months ended 30 September 2012 to the sales of the same group of POS for the three months ended 30 September 2011 which is not comparable with the same-store sales growth rates for the three years ended 30 June 2010, 2011 and 2012 since it does not reflect an annual growth.

Tian Wang

Same-store sales growth of Tian Wang watches were approximately 21.3%, 30.1%, 17.3% and 26.1% for the years ended 30 June 2010, 2011 and 2012 and three months ended 30 September 2012, respectively. While we maintained over 20% of same-store sales growth for the years ended 30 June 2010 and 2011, the growth decreased to approximately 17.3% for the year ended 30 June 2012 primarily due to the slight drop in rate of growth of our existing POS. The same-store sales growth rate then returned to over 20% for the three months ended 30 September 2012. This was primarily due to our roll-out of a nation-wide sales campaign in September 2012.

Balco

While the same-store sales growth was relatively flat at approximately 1.3% for the year ended 30 June 2010, the same-store sales growth recorded a decrease of approximately 12.8%, 7.0% and 0.2% for the years ended 30 June 2011 and 2012 and the three months ended 30 September 2012, respectively. These fluctuations were consistent with the trend of average monthly revenue per POS of Balco watches during the Track Record Period.

Other Brands

Same-store sales growth of Other Brands watches were approximately 49.9%, 23.9% and 0.0% for the years ended 30 June 2011, 2012 and three months ended 30 September 2012, respectively. Relatively higher same-store sales growth rates for the years ended 30 June 2011 was primarily due to Suzhou Paragon was established in 2008 and the business was in high growth stage. The same-store sales growth was flat for the three months ended 30 September 2012 primarily as a result of slow-down in the growth of the PRC high-end and luxury watch market.

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 RMB1,450 to RMB877,000 as at 31 December 2012. As a result, the average monthly revenue per POS for Other Brands watches was much higher than those for Tian Wang and Balco watches.

The table below sets out our revenue breakdown by geographical regions and the respective percentage of total revenue for the years/periods indicated.

	Year ended 30 June						Three months ended 30 September			
	2010		2011		2012		2011		2012	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000* (unaudited)	%	*HK$'000*	%
Sales of Watches										
Northern China	90,334	9.8	136,254	11.5	179,111	11.7	36,533	10.8	64,453	12.7
Eastern China	182,809	19.9	288,990	24.3	414,621	27.2	90,861	26.8	144,220	28.4
Central China	62,415	6.8	88,195	7.4	131,246	8.6	31,004	9.2	42,445	8.3
Southern China	87,559	9.5	137,127	11.5	185,197	12.2	41,857	12.4	44,998	8.9
North Western China	24,191	2.6	37,189	3.1	50,529	3.3	11,419	3.4	17,627	3.5
South Western China	65,804	7.2	76,915	6.5	102,128	6.7	22,669	6.7	33,787	6.6
North-eastern China	99,379	10.8	142,505	12.0	189,992	12.5	40,907	12.0	69,027	13.6
Hong Kong, Macau and Taiwan[(1)]	7,694	0.9	8,723	0.7	20,257	1.3	2,939	0.9	6,340	1.2
Online	164	0.0	177	0.0	95	0.0	21	0.0	39	0.0
Subtotal	620,349	67.5	916,075	77.0	1,273,176	83.5	278,210	82.2	422,936	83.2
Trading of watch movements:										
Hong Kong	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

Note:

(1) Sales made to Watch Distributors in Hong Kong, Macau and Taiwan on wholesale or consignment basis.

Cost of sales and gross profit

Our cost of sales primarily consists of cost of watch components, direct labour, sub-contracting fees, import declaration charges and other direct overheads. The table below sets out a breakdown of our cost of sales in relation to (i) our sales of Tian Wang, Balco and Other Brands, and (ii) our trading of watch movements segment, with respective percentages of our total cost of sales for the years/periods indicated.

	Year ended 30 June						Three months ended 30 September			
	2010		2011		2012		2011		2012	
	HK$'000	%	*HK$'000*	%	*HK$'000*	%	*HK$'000* (unaudited)	%	*HK$'000*	%
Tian Wang	98,422	20.8	147,570	29.9	202,342	33.3	37,605	31.2	69,523	35.1
Balco	36,498	7.7	20,874	4.2	36,200	6.0	6,704	5.6	8,099	4.1
Other Brands	50,898	10.7	79,108	16.0	134,529	22.2	22,838	18.9	39,137	19.8
Subtotal	185,818	39.2	247,552	50.1	373,071	61.5	67,147	55.7	116,759	59.0
Watch movements	288,660	60.8	246,388	49.9	233,248	38.5	53,475	44.3	81,108	41.0
Total cost of sales	474,478	100.0	493,940	100.0	606,319	100.0	120,622	100.0	197,867	100.0

The table below sets out a breakdown of our cost of sales by nature in relation to our sales of Tian Wang watches with respective percentages and average unit price for the years/period indicated.

Tian Wang	Year ended 30 June 2010			2011			2012			Three months ended 30 September 2012		
			Average unit price			Average unit price			Average unit price			Average unit price
	HK$'000	*%*	*HK$*	*HK$'000*	*%*	*HK$*	*HK$'000*	*%*	*HK$*	*HK$'000*	*%*	*HK$*
Watch components												
Watch movements	18,667	19.0	26.5	32,330	21.9	31.8	39,961	19.8	34.4	17,035	24.5	56.9
Cases	25,291	25.7	35.9	36,797	24.9	36.2	48,611	24.0	41.8	15,801	22.8	52.8
Straps	25,360	25.8	36.0	35,445	24.0	34.9	49,229	24.3	42.4	16,337	23.5	54.6
Crowns	10,598	10.7	15.0	17,768	12.0	17.5	25,680	12.7	22.1	8,432	12.1	28.2
Others	7,370	7.5	10.5	9,200	6.3	9.1	16,342	8.1	14.1	5,293	7.6	17.7
Subtotal	87,286	88.7		131,540	89.1		179,823	88.9		62,898	90.5	
Overhead, direct labour costs and others	11,136	11.3		16,030	10.9		22,519	11.1		6,625	9.5	
Total	98,422	100.0		147,570	100.0		202,342	100.0		69,523	100.0	

The major watch components of Tian Wang watches consist of watch movements, cases, straps and crowns, representing 81.2%, 82.8%, 80.8% and 82.9% of its total cost of sales for the three years ended 30 June 2010, 2011 and 2012 and three months ended 30 September 2012, respectively. The average unit price of watch movements increased by HK$5.3 or 20.0% from HK$26.5 for the year ended 30 June 2010 to HK$31.8 for the year ended 30 June 2011 and further increased by HK$2.6 or 8.2% to HK$34.4 for the year ended 30 June 2012. These increases were primarily due to the disruption of watch movements supplies from Japan as a result of the earthquake in March 2011. The average unit price of watch movements continued to increase for the three months ended 30 September 2012 to HK$56.9, representing an increase of 65.4%. The average unit price of watch cases was HK$35.9 for the year ended 30 June 2010 and remained relatively stable at HK$36.2 for the year ended 30 June 2011, increased by HK$5.6 or 15.5% to HK$41.8 for the year ended 30 June 2012, and further increased by HK$11.0 or 26.3% to HK$52.8 for the three months ended 30 September 2012. The average unit price of watch straps decreased by HK$1.1 or 3.1% from HK$36.0 for the year ended 30 June 2010 to HK$34.9 for the year ended 30 June 2011, increased by HK$7.5 or 21.5% to HK$42.4 for the year ended 30 June 2012, and further increased by HK$12.2 or 28.8% to HK$54.6 for the three months ended 30 September 2012. The average unit price of watch crowns increased by HK$2.5 or 16.7% from HK$15.0 for the year ended 30 June 2010 to HK$17.5 for the year ended 30 June 2011, and increased by HK$4.6 or 26.3% to HK$22.1 for the year ended 30 June 2012, and further increased by HK$6.1 or 27.6% to HK$28.2 for the three months ended 30 September 2012. Save as discussed above, the increase in average unit price of watch components of Tian Wang watches, including watch cases, straps, and crowns during the Track record Period, were primarily a result of general inflation in the PRC. For the year ended 30 June 2012, the increase was also due to a higher portion of mid-end watches being sold which normally required the use of more expensive watch components for assembly. For the three months ended 30 September 2012, the increase in costs of watch components, especially in watch movements, was primarily due to (i) the proportion of mechanical watches sold for the three months ended 30 September 2012 increased to 44% from 38% for the year ended 30 June 2012, whereas the average cost of sales of a mechanical watch is approximately 1.8 times higher than that of a quartz watch due to the difference in watch components used; (ii) the proportion of corporate sales watch models decreased from approximately 7.4% for the year ended 30 June 2012 to 4.0% for the three months ended 30 September 2012, whereas the cost of components was much lower than that of retail models; and (iii) the general increase in purchase prices of watch components.

The table below sets out our gross profit and gross profit margin for our sales of Tian Wang, Balco and Other Brands watches, and trading of watch movements for the years/periods indicated.

	For the year ended 30 June									Three months ended 30 September					
	2010			2011			2012			2011			2012		
	Gross profit	**Gross profit margin**	**% of gross profit**	**Gross profit**	**Gross profit margin**	**% of gross profit**	**Gross profit**	**Gross profit margin**	**% of gross profit**	**Gross profit**	**Gross profit margin**	**% of gross profit**	**Gross profit**	**Gross profit margin**	**% of gross profit**
	HK$'000	*%*	*%*	*HK$'000*	*%*	*%*	*HK$'000*	*%*	*%*	*HK$'000* (unaudited)	*%*	*%*	*HK$'000*	*%*	*%*
Tian Wang	367,396	78.9	82.5	563,673	79.3	81.1	778,104	79.4	84.7	179,146	82.7	82.3	257,837	78.8	83.1
Balco	46,497	56.0	10.4	69,649	76.9	10.0	72,323	66.6	7.9	19,225	74.1	8.8	23,806	74.6	7.7
Other Brands	20,638	28.8	4.7	35,201	30.8	5.0	49,678	27.0	5.4	12,692	35.7	5.8	24,534	38.5	7.9
Subtotal	434,531	70.0	97.6	668,523	73.0	96.1	900,105	70.7	98.0	211,063	75.9	96.9	306,177	72.4	98.7
Watch movements	10,596	3.5	2.4	26,862	9.8	3.9	18,355	7.3	2.0	6,800	11.3	3.1	4,153	4.9	1.3
Total	445,127	48.4	100.0	695,385	58.5	100.0	918,460	60.2	100.0	217,863	64.4	100.0	310,330	61.1	100.0

Other income

Other income is primarily derived from net foreign exchange gains, interest income from time deposits, watch repair and maintenance services income, other services and management income.

Other expenses

Other expense of HK$17.9 million and HK$2.3 million represents professional fees incurred for the Global Offering for the year ended 30 June 2012 and the three months ended 30 September 2012, respectively. Please see the paragraph headed "Listing Expenses" below in this section for details.

Selling and distribution costs

Our selling and distribution costs primarily consist of concessionaire and rental fees for the POS, salaries for sales personnel (including commissions), advertising and promotion fees, traveling expenses, depreciation, packing charges, transportation expenses and insurance expenses.

Set out below is the breakdown of our selling and distribution costs for the years/periods indicated.

	Year ended 30 June						Three months ended 30 September			
	2010		2011		2012		2011		2012	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*	*HK$'000* (unaudited)	*%*	*HK$'000*	*%*
Concessionaire fees	145,572	47.0	213,430	48.0	282,463	49.1	65,716	51.2	100,796	54.0
Rental fees	6,268	2.0	8,609	1.9	14,686	2.5	2,670	2.1	5,371	2.9
Salaries for sales personnel (including commissions)	84,158	27.2	117,489	26.4	148,349	25.8	33,214	25.9	40,054	21.5
Advertising and promotion fees	27,607	8.9	51,128	11.5	42,500	7.4	11,459	8.9	13,592	7.3
Depreciation	10,426	3.4	14,779	3.3	19,965	3.5	4,346	3.4	5,338	2.9
Packing charges	6,584	2.1	8,878	2.0	15,621	2.7	2,410	1.9	3,435	1.8
Transportation expenses	4,945	1.6	5,981	1.4	6,252	1.1	1,274	1.0	1,372	0.7
Traveling expenses	8,050	2.6	4,149	0.9	6,886	1.2	899	0.7	1,157	0.6
Services charges	1,410	0.5	2,114	0.5	6,748	1.2	–	0.0	3,664	2.0
Management fee	1,308	0.4	2,463	0.6	5,484	0.9	578	0.5	2,063	1.1
Entertainment expenses	1,194	0.4	1,456	0.3	3,939	0.7	412	0.3	1,106	0.6
Exhibition fees	1,118	0.4	610	0.1	3,246	0.6	1,420	1.1	281	0.1
Printing and stationery charges	464	0.1	480	0.1	3,010	0.5	285	0.2	742	0.4
Others	10,368	3.4	13,044	3.0	16,642	2.8	3,700	2.8	7,718	4.1
	309,472	100.0	444,610	100.0	575,791	100.0	128,383	100.0	186,689	100.0

Set out below is the selected items of our selling and distribution costs directly related to our revenue generated from our Sales Network for the years/periods indicated.

	Year ended 30 June						Three months ended 30 September			
	2010		2011		2012		2011		2012	
	HK$'000	*% of Sales Network revenue*	*HK$'000*	*% of Sales Network revenue*	*HK$'000*	*% of Sales Network revenue*	*HK$'000* (unaudited)	*% of Sales Network revenue*	*HK$'000*	*% of Sales Network revenue*
Concessionaire fees	145,572	25.0	213,430	25.0	282,463	24.0	65,716	24.8	100,796	25.1
Rental fees	6,268	1.1	8,609	1.0	14,686	1.2	2,670	1.0	5,371	1.3
Salaries for sales personnel of Sales Network (including commissions)	82,130	14.1	115,721	13.5	145,697	12.4	32,487	12.3	39,270	9.8
Advertising and promotion fees	27,607	4.7	51,128	6.0	42,500	3.6	11,459	4.3	13,592	3.4

Administrative expenses

Our administrative expenses primarily consist of salaries and bonuses for management and administrative personnel, management fee, audit and consulting fees, overseas traveling expenses, PRC local regulatory surcharges, banking handling fees and other office expenses.

Finance costs

Our finance costs represent interest expenses on bank borrowings and finance lease charges.

Income tax

Our income tax represents corporate income tax for the entities comprising our group, including PRC enterprise income tax, PRC withholding tax and Hong Kong profits tax.

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits of the respective group entities for the Track Record Period.

Under the EIT Law and Implementation Regulation of EIT Law, the tax rate of our PRC subsidiaries is 25% from 1 January 2008 onwards. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa (2007) No.39), the tax concessions of Ye Guang Li and Tian Wang Shenzhen (set out below) are still applicable under the EIT Law.

Pursuant to the relevant laws and regulations in the PRC, Ye Guang Li is entitled to an exemption from PRC Enterprise Income Tax for the two years starting from their first profit-making year, followed by a 50% tax relief for the next three years. The tax charge provided has taken into account these tax incentives. Ye Guang Li commenced its first profit making year for the calendar year ended 31 December 2007 and accordingly, Ye Guang Li was exempted from PRC Enterprise Income Tax for the calendar years ended 31 December 2007 and 2008, the applicable tax rate for the calendar years ended 31 December 2009, 2010 and 2011 was 12.5% and the applicable tax rate for the six months ended 30 June 2012 and three months ended 30 September 2012 was 25%.

The applicable tax rates for Tian Wang Shenzhen for the calendar years ended 31 December 2009 and 2010 are 20% and 22% respectively, being the concession tax rate for foreign invested enterprise in the area of Shenzhen Economic Zone. Tian Wang Shenzhen obtained the qualification as a high and new technology enterprise on 23 February 2011, which is valid for three years and it also completed the relevant filing requirements with the competent tax authorities on 18 April 2012. Hence, Tian Wang Shenzhen is subject to the preferential tax treatment and the applicable tax rate for the calendar years ended 31 December 2011 and 2012 was 15%.

Under the EIT Law, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises," which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to non-PRC tax resident group entities in Hong Kong in respect of profits generated after 1 January 2008 shall be subject to the withholding tax at 5%. Deferred tax in relation to withholding income tax for the undistributed profits of the PRC subsidiaries have been provided.

RESULTS OF OPERATIONS

Three months ended 30 September 2012 compared with three months ended 30 September 2011

Revenue

Our revenue increased by HK$169.7 million or 50.1% from HK$338.5 million for the three months ended 30 September 2011 to HK$508.2 million for the three months ended 30 September 2012. The increase was primarily due to:

(i) Revenue from our sales of Tian Wang watches increased by HK$110.6 million or 51.0% from HK$216.8 million for the three months ended 30 September 2011 to HK$327.4 million for the three months ended 30 September 2012. This increase was primarily due to our Tian Wang POS increased from around 1,000 as at 30 September 2011 based on management's information to 1,285 as at 30 September 2012. The average monthly revenue per POS also increased from approximately HK$71,000 for the three months ended 30 September 2011 to HK$85,000 for the three months ended 30 September 2012, representing an increase of 19.7%. In addition, we also conducted a nation-wide sales campaign in September 2012, to coincide with Mid-Autumn Festival in September, which resulted in an increased number of promotional events held at department store to promote sales of regular-priced watches as well as watch models aged more than 2 years and at the same time identified as slow moving.

(ii) Revenue from our sales of Balco watches increased by HK$6.0 million or 23.0% from HK$25.9 million for the three months ended 30 September 2011 to HK$31.9 million for the three months ended 30 September 2012. This increase was primarily due to the increase in our sales to Watch Distributors in Hong Kong, Macau and Taiwan and corporate customers. Revenue from these sales increased from HK$3.1 million for the three months ended 30 September 2011 to HK$7.7 million for the three months ended 30 September 2012, representing an increase of HK$4.6 million.

(iii) Revenue from our sales of Other Brands watches increased by HK$28.1 million or 79.2% from HK$35.5 million for the three months ended 30 September 2011 to HK$63.7 million for the three months ended 30 September 2012. The increase was primarily due to the contribution of our Time Watch Hefei and Time Watch Shanghai JVs of HK$26.6 million for the three months ended 30 September 2012 while no revenue was derived from these JVs for the three months ended 30 September 2011 as they were established in November 2011 and January 2012, respectively.

(iv) Revenue from our trading of watch movements increased by HK$25.0 million or 41.5% from HK$60.3 million for the three months ended 30 September 2011 to HK$85.3 million for the three months ended 30 September 2012. The increase was primarily due to more watch movements were spared for trading since we had produced sufficient Tian Wang Watches from the year ended 30 June 2012 and had been monitoring and controlling the production of Tian Wang Watches since then.

Cost of sales

Our cost of sales increased from HK$120.6 million for the three months ended 30 September 2011 to HK$197.9 million for the three months ended 30 September 2012, representing an increase of HK$77.2 million or 64.0%. The increase was primarily a result of increase in sales.

Gross profit and gross profit margin

Our gross profit increased by HK$92.5 million or 42.4% from HK$217.9 million for the three months ended 30 September 2011 to HK$310.3 million for the three months ended 30 September 2012. The gross profit margin for the three months ended 30 September 2012 decreased to 61.1% from 64.4% for the three months ended 30 September 2011. The increase in our gross profit was primarily due to the increase in our sales of Tian Wang, Balco and Other Brands watches while the decrease in gross profit margin was primarily due to:

(i) Gross profit margin of our sales of Tian Wang watches decreased slightly from 82.7% for the three months ended 30 September 2011 to 78.8% for the three months ended 30 September 2012 while its contribution to our Group's gross profit increased from 82.3% for the three months ended 30 September 2011 to 83.1% for the three months ended 30 September 2012. The decrease in the gross profit margin was primarily due to we conducted a nation-wide sales campaign in September 2012 to promote sales of regular-priced watches as well as watch models aged more than 2 years and at the same time identified as slow moving, whereby higher discounts (generally around 30% – 40%) were given for the sales of the latter which resulted in lower gross profit margin. Sales of such watch models aged more than two years and at the same time identified as slow moving amounted to approximately HK$9.2 million in September 2012, representing 5.0% of that month's sales, which was an increase of 53.3% as compared to HK$6.0 million in September 2011. The corresponding gross profit margin of such aged more than two years models was 71.7% and 81.7% in September 2012 and 2011, respectively.

(ii) Gross profit margin of our sales of Balco watches remained relatively stable at 74.6% for the three months ended 30 September 2012 compared to 74.1% for the three months ended 30 September 2011 while its contribution to our Group's gross profit decreased from 8.8% for the three months ended 30 September 2011 to 7.7% for the three months ended 30 September 2012.

(iii) Gross profit margin of our sales of Other Brands watches increased from 35.7% for the three months ended 30 September 2011 to 38.5% for the three months ended 30 September 2012 while its contribution to our Group's gross profit also increased from 5.8% for the three months ended 30 September 2011 to 7.9% for the three months ended 30 September 2012. The increase in gross profit margin was primarily due to the watch mix carried and sold by Time Watch Hefei and Time Watch Shanghai were relatively less luxurious than that of Suzhou Paragon's, whereby the sales of these watches generated higher gross profit margin.

(iv) Gross profit margin of our trading of watch movements decreased from 11.3% for the three months ended 30 September 2011 to 4.9% for the three months ended 30 September 2012 which was primarily due to the watch movements supplies from Japan had resumed back to the level before the Japan earthquake in March 2011. Hence, we could no longer market our watch movements under an aggressive pricing strategy and resulted in the decrease in gross profit margin. In addition, the gross profit margin was relatively higher for the three months ended 30 September 2011 primarily as a result of the disruption of watch movements supplies from Japan due to the earthquake in March 2011. Since we have well-established and stable relationship with our watch movement suppliers, we were able to source substantial quantity of watch movements during the shortage period after the Japan earthquake. Hence, we could increase our selling prices of watch movements while maintaining reasonable costs during that period.

Other income

Our other income for the three months ended 30 September 2012 remained stable compared to that for the three months ended 30 September 2011.

Selling and distribution costs

Our selling and distribution costs increased by HK$58.3 million or 45.4% from HK$128.4 million for the three months ended 30 September 2011 to HK$186.7 million for the three months ended 30 September 2012, primarily as a result of (i) an increase in concessionaire and rental fees of HK$37.8 million due to the increase in our revenue. The concessionaire fees' proportion to Sales Network revenue increased from 24.8% for the three months ended 30 September 2011 to 25.1% for the three months ended 30 September 2012 primarily due to the concessionaire rates for the newly opened POS were higher. The increase in average concessionaire rate was within our acceptable range of concessionaire rate between 20% – 30%; (ii) an increase in salaries for sales personnel (including commissions) of HK$6.8 million, as a result of an increase in the number of sales staff due to the opening of new POS and increase in sales commissions along with the increase in our revenue. While the amount of salaries for sales personnel of Sales Network increased for the three months ended 30 September 2012, the proportion to Sales Network revenue decreased to 9.8% for the three months ended 30 September 2012. This decrease was mainly due to the Company adjusted the salary packages to the sales personnel in which the basic salary was increased while commission rate was reduced. As a result, although the amount of the balances increased, their correlation to Sales Network revenue was not as significant as for the three months ended 30 September 2011; (iii) an increase of HK$2.1 million in advertising and promotion fees as we rolled out a nation-wide sales campaign in September 2012 to promote sales of regular-priced watches as well as watch models aged more than 2 years and at the same time identified as slow moving; and (iv) an increase of HK$7.2 million in other selling related costs such as packing, transportation, traveling, entertainment expenses, services charges, and management fee, all in connection with our market expansion.

Administrative expenses

Our administrative expenses decreased by HK$3.7 million or 17.3% from HK$21.5 million for the three months ended 30 September 2011 to HK$17.8 million for the three months ended 30 September 2012. The decrease was primarily due to the decrease of director's remuneration of HK$2.6 million primarily as a result of our Chairman, Mr. Michael Tung is not entitled to any incentive performance bonus for the year ending 30 June 2013.

Finance costs

Our finance costs increased by HK$1.6 million from HK$1.0 million for the three months ended 30 September 2011 to HK$2.6 million for the three months ended 30 September 2012 as a result of an increase of HK$82.5 million in bank borrowings from HK$190.8 million as at 30 September 2011 to HK$273.3 million as at 30 September 2012 as well as an increase in weighted average effective interest rate from approximately 2.16% for the three months ended 30 September 2011 to approximately 3.0% for the three months ended 30 September 2012.

Income tax

Our income tax increased from HK$13.9 million for the three months ended 30 September 2011 to HK$25.9 million for the three months ended 30 September 2012, representing an increase of HK$12.0 million or 86.4%. Our effective tax rates calculated based on the tax charged to the consolidated income statement over the profit before tax has increased from 20.0% for the three months ended 30 September 2011 to 24.9% for the three months ended 30 September 2012. This increase was primarily due to tax loss of HK$15.1 million were not recognised for the three months ended 30 September 2012.

Profit for the period

As of the cumulative effect of the foregoing, our profit for the period increased by HK$22.4 million or 40.2% to HK$78.1 million for the three months ended 30 September 2012 from HK$55.7 million for the three months ended 30 September 2011. Our net profit margin decreased slightly from 16.5% for the three months ended 30 September 2011 to 15.4% for the three months ended 30 September 2012.

Profit attributable to owners of the Company

Profit attributable to owners of the Company increased by HK$22.7 million or 42.2% from HK$53.7 million for the three months ended 30 September 2011 to HK$76.4 million for the three months ended 30 September 2012, while its contribution to the profit for the period increased from 96.5% for the three months ended 30 September 2011 to 97.9% for the three months ended 30 September 2012.

Year ended 30 June 2012 compared with year ended 30 June 2011

Revenue

Our revenue increased by HK$335.5 million or 28.2% from HK$1,189.3 million for the year ended 30 June 2011 to HK$1,524.8 million for the year ended 30 June 2012. The increase was primarily due to:

(i) Revenue from our sales of Tian Wang watches increased by HK$269.2 million or 37.8% from HK$711.2 million for the year ended 30 June 2011 to HK$980.4 million for the year ended 30 June 2012. This increase was primarily due to the increase of the number of our Tian Wang POS from 938 as at 30 June 2011 to 1,178 as at 30 June 2012 representing an increase of 25.6% and increase of revenue generated from individual POS. The average monthly revenue per POS of Tian Wang watches increased from approximately HK$65,000 for the year ended 30 June 2011 to approximately HK$71,000 for the year ended 30 June 2012, representing an increase of 9.2%. In addition, the same-store sales growth rate of Tian Wang was approximately 17.3% from year ended 30 June 2011 to year ended 30 June 2012.

(ii) Revenue from our sales of Balco watches increased by HK$18.0 million or 19.9% from HK$90.5 million for the year ended 30 June 2011 to HK$108.5 million for the year ended 30 June 2012. This increase was primarily due to the increase in our sales to Watch Distributors in Hong Kong, Macau and Taiwan and corporate customers. Revenue from these sales increased from HK$8.7 million for the year ended 30 June 2011 to HK$20.3 million for the year ended 30 June 2012, representing an increase of HK$11.6 million.

(iii) Revenue from our sales of Other Brands watches increased by HK$69.9 million or 61.1% from HK$114.3 million for the year ended 30 June 2011 to HK$184.2 million for the year ended 30 June 2012. The reason for the increase was mainly due to the increase of individual POS revenue generated from Suzhou Paragon, our Suzhou Joint Venture. The average monthly revenue per POS of Suzhou Paragon increased from approximately HK$529,000 for the year ended 30 June 2011 to approximately HK$619,000 for the year ended 30 June 2012, representing an increase of 17.0%. In addition, our Other Brands watch sales outlets achieved the same-store sales growth rate of approximately 23.9% from year ended 30 June 2011 to year ended 30 June 2012. In addition, our Time Watch Hefei and Time Watch Shanghai JVs which were established in November 2011 and January 2012, respectively, contributed HK$22.5 million and HK$6.9 million of revenue, respectively.

(iv) Revenue from our trading of watch movements decreased by HK$21.6 million or 7.9% from HK$273.3 million for the year ended 30 June 2011 to HK$251.6 million for the year ended 30 June 2012. The reason for the decrease was primarily due to increased allocation of our watch movements for the production of our Tian Wang watches in order to cope with the sales growth.

Cost of sales

Our cost of sales increased from HK$493.9 million for the year ended 30 June 2011 to HK$606.3 million for the year ended 30 June 2012, representing an increase of HK$112.4 million or 22.8%. The increase was primarily a result of increase in sales.

Gross profit and gross profit margin

Our gross profit increased by HK$223.1 million or 32.1% from HK$695.4 million for the year ended 30 June 2011 to HK$918.5 million for the year ended 30 June 2012. The gross profit margin for the year ended 30 June 2012 increased to 60.2% from 58.5% for the year ended 30 June 2011. The increase in our gross profit was primarily due to the increase in our sales of Tian Wang, Balco and Other Brands watches while the increase in gross profit margin was primarily due to:

(i) Gross profit margin of our sales of Tian Wang watches remained stable at 79.4% for the year ended 30 June 2012 compared to 79.3% for the year ended 30 June 2011 while its contribution to our Group's gross profit increased from 81.1% for the year ended 30 June 2011 to 84.7% for the year ended 30 June 2012.

(ii) Gross profit margin of our sales of Balco watches decreased from 76.9% for the year ended 30 June 2011 to 66.6% for the year ended 30 June 2012 which was primarily due to the increase in our wholesale and consignment sales to Watch Distributors in Hong Kong, Macau and Taiwan which yielded a relatively lower gross profit margin at 37.2% as well as a net provision for obsolete inventories of HK$6.2 million was charged to cost of sales for the year ended 30 June 2012, whereas the contribution to our Group's gross profit decreased from 10.0% for the year ended 30 June 2011 to 7.9% for the year ended 30 June 2012.

(iii) Gross profit margin of our sales of Other Brands watches decreased from 30.8% for the year ended 30 June 2011 to 27.0% for the year ended 30 June 2012 as the purchase prices of some watch brands increased while our retail prices of these watches remained relatively stable.

(iv) Gross profit margin of our trading of watch movements decreased from 9.8% for the year ended 30 June 2011 to 7.3% for the year ended 30 June 2012 which was primarily due to the watch movements supplies from Japan have gradually resumed to the level before the Japan earthquake in March 2011. Since we have well-established and stable relationship with our watch movement suppliers, we were able to source substantial quantity of watch movements during the shortage period after the Japan earthquake. Hence, we could increase our selling prices of watch movements while maintaining reasonable costs during that period. Given the resumption of the supply level for the year ended 30 June 2012, we had to gradually reduce our aggressive pricing which resulted in the decrease in gross profit margin.

Other income

Our other income increased by approximately HK$2.4 million or 33.8% from HK$7.1 million for the year ended 30 June 2011 to HK$9.6 million for the year ended 30 June 2012 primarily due to the recognition of financial guarantee income of HK$2.0 million during the year ended 30 June 2012, with respect to financial guarantee provided by Win Sun, Gold Joy, Sky Sun, Ye Guang Li, Suzhou Paragon and Tian Wang Shenzhen towards a bank loan for Red Rewarding of HK$237.5 million.

In accordance with the Group's accounting policies, a financial guarantee contract issued by the Group is recognised initially at its fair value less transactions costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of obligation under the contract, as determined in accordance with Hong Kong Accounting Standards 37 "Provisions, Contingent Liabilities and Contingent Assets; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy. The fair value of the financial guarantees recognised in the consolidated statement of financial position on initial recognition was HK$6.0 million. During the year ended 30 June 2012 and three months ended 30 September 2012, financial guarantee income of HK$2.0 million and HK$0.5 million were recognised in profit and loss, respectively. As at 30 June 2012 and 30 September 2012, the carrying amount of the financial guarantee liability in the consolidated statement of financial position were HK$4.0 million and HK$3.5 million respectively. On 12 November 2012, the financial guarantees were released by the bank. As the Group provided the financial guarantees without charging Red Rewarding, the Group did not receive any fee in cash from Red Rewarding.

Selling and distribution costs

Our selling and distribution costs increased by HK$131.2 million or 29.5% from HK$444.6 million for the year ended 30 June 2011 to HK$575.8 million for the year ended 30 June 2012, primarily as a mixed effect of (i) an increase in concessionaire and rental fees of HK$75.1 million from HK$222.0 million for the year ended 30 June 2011 to HK$297.1 million for the year ended 30 June 2012. Concessionaire fees are generally charged based on the revenue generated from the POS and the increase in concessionaire and rental fees was due to the increase in our revenue; (ii) an increase in salaries for sales personnel (including commissions) of HK$30.9 million from HK$117.5 million for the year ended 30 June 2011 to HK$148.3 million for the year ended 30 June 2012, as a result of an increase in the number of sales staff due to the opening of new POS and increase in sales commissions as a result of the increase in our revenue; (iii) an increase of HK$25.1 million in other selling related costs such as packing, transportation, traveling, entertainment expenses, services charges, management and exhibition fees, printing and stationery charges, all in connection with our market expansion; and (iv) a decrease of advertising and promotion fees of HK$8.6 million from HK$51.1 million for the year ended 30 June 2011 to HK$42.5 million for the year ended 30 June 2012 mainly as a result of a reversal of over-accrued advertising expense of HK$15.0 million for the year ended 30 June 2012 due to an aborted negotiation to engage a spokesperson for our Tian Wang brand.

Administrative expenses

Our administrative expenses increased by HK$12.6 million or 17.7% from HK$71.2 million for the year ended 30 June 2011 to HK$83.8 million for the year ended 30 June 2012. This increase was primarily due to an increase in salaries and bonus for administrative personnel of HK$7.0 million and an increase in PRC local regulatory surcharges of HK$5.3 million such as city construction tax and education levy.

Finance costs

Our finance costs increased by HK$1.7 million or 39.0% to HK$6.0 million for the year ended 30 June 2012 from HK$4.3 million for the year ended 30 June 2011 as a result of an increase of HK$92.1 million or 47.6% in bank borrowings from HK$193.4 million as at 30 June 2011 to HK$285.5 million as at 30 June 2012 as well as an increase in weighted average effective interest rate from approximately 2.17% for the year ended 30 June 2011 to 3.62% for the year ended 30 June 2012.

Income tax

Our income tax increased from HK$44.7 million for the year ended 30 June 2011 to HK$56.0 million for the year ended 30 June 2012, representing an increase of HK$11.3 million or 25.3%. Our effective tax rates calculated based on the tax charged to the consolidated income statement over the profit before tax has decreased slightly from 24.5% for the year ended 30 June 2011 to 22.9% for the year ended 30 June 2012. This decrease was primarily due to the applicable tax rate for Tian Wang Shenzhen, our major operating subsidiary, was reduced to 15% with effect from 1 January 2011 onwards as a result of being qualified as a high and new technology enterprise. Please refer to Note 12 of the Accountants' Report in Appendix I to this prospectus for details. This was partially offset by an increase in expenses not deductible for tax purpose mainly as a result of professional fees incurred for the Global Offering.

Profit for the year

As of the cumulative effect of the foregoing, our profit for the year increased by HK$50.8 million or 36.9% to HK$188.5 million for the year ended 30 June 2012 from HK$137.7 million for the year ended 30 June 2011. Our net profit margin increased slightly from 11.6% for the year ended 30 June 2011 to 12.4% for the year ended 30 June 2012.

Profit attributable to owners of the Company

Profit attributable to owners of the Company increased by HK$49.5 million or 36.8%, from HK$134.6 million for the year ended 30 June 2011 to HK$184.1 million for the year ended 30 June 2012, while its contribution to the profit for the year remained relatively stable at 97.6% for the year ended 30 June 2012 and 97.7% for the year ended 30 June 2011, respectively.

Year ended 30 June 2011 compared with year ended 30 June 2010

Revenue

Our revenue increased by HK$269.7 million or 29.3% from HK$919.6 million for the year ended 30 June 2010 to HK$1,189.3 million for the year ended 30 June 2011. This increase was primarily due to:

(i) Revenue from our sales of our Tian Wang watches increased by HK$245.4 million or 52.7% from HK$465.8 million for the year ended 30 June 2010 to HK$711.2 million for the year ended 30 June 2011. This increase was primarily due to the increase of the number of our Tian Wang POS from 766 as at 30 June 2010 to 938 as at 30 June 2011 representing an increase of 22.5% and increase of revenue generated from individual POS. The average monthly revenue per POS of Tian Wang watches increased from approximately HK$52,000 for the year ended 30 June 2010 to approximately HK$65,000 for the year ended 30 June 2011, representing an increase of 25.0% while the same-store sales growth rate of Tian Wang watches was approximately 30.1% from year ended 30 June 2010 to year ended 30 June 2011.

(ii) Revenue from our sales of Balco watches increased by HK$7.5 million or 9.1% from HK$83.0 million for the year ended 30 June 2010 to HK$90.5 million for the year ended 30 June 2011. This increase was primarily due to the increase of the number of our Balco POS from 261 as at 30 June 2010 to 288 as at 30 June 2011 representing an increase of 10.3% while the average monthly revenue per POS of Balco watches decreased slightly from approximately HK$27,000 for the year ended 30 June 2010 to approximately HK$25,000 for the year ended 30 June 2011, representing a decrease of 7.4%.

(iii) Revenue from our sales of Other Brands increased from HK$71.5 million for the year ended 30 June 2010 to HK$114.3 million for the year ended 30 June 2011, representing an increase of HK$42.8 million or 59.8%. The reason for the increase was mainly due to the increase of revenue generated from individual POS. The average monthly revenue per POS of Other Brands increased from approximately HK$341,000 for the year ended 30 June 2010 to approximate HK$529,000, representing an increase of 55.1%. The same-store sales growth rate of Other Brands was approximately 49.9% from year ended 30 June 2010 to year ended 30 June 2011.

(iv) Revenue from our trading of watch movements decreased by HK$26.0 million or 8.7% from HK$299.3 million for the year ended 30 June 2010 to HK$273.3 million for the year ended 30 June 2011. The reason for the decrease was primarily due to the disruption of watch movements supplies from Japan as a result of the earthquake in March 2011 while the effect was partially offset by the increase in selling prices of the watch movements due to shortage of supplies.

Cost of sales

Our cost of sales increased from HK$474.5 million for the year ended 30 June 2010 to HK$493.9 million for the year ended 30 June 2011, representing an increase of HK$19.5 million or 4.1%. The increase was primarily a result of increase in sales.

Gross profit and gross profit margin

Our gross profit increased by HK$250.3 million or 56.2% from HK$445.1 million for the year ended 30 June 2010 to HK$695.4 million for the year ended 30 June 2011. The gross profit margin for the year ended 30 June 2011 increased to 58.5% from 48.4% for the year ended 30 June 2010. The increase in our gross profit was primarily due to the increase in our sales of Tian Wang, Balco and Other Brands while the increase in gross profit margin was primarily due to:

(i) Gross profit margin of sales of Tian Wang watches remained relatively stable at 79.3% for the year ended 30 June 2011 compared to 78.9% for the year ended 30 June 2010 while its contribution to our gross profit decreased slightly from 82.5% for the year ended 30 June 2010 to 81.1% for the year ended 30 June 2011.

(ii) Gross profit margin of sales of Balco watches increased from 56.0% for the year ended 30 June 2010 to 76.9% for the year ended 30 June 2011 which was primarily due to that we carried out a large scale of promotion activities during the year ended 30 June 2010 in order to reduce aged models. During the promotion period, certain Balco watches were offered at deeper discounts ranged from 30% – 50%. In addition, an allowance for obsolete inventories of HK$7.9 million was charged to cost of sales for the year ended 30 June 2010. The contribution to the gross profit remained relatively stable at 10.4% for the year ended 30 June 2010 and 10.0% for the year ended 30 June 2011.

(iii) Gross profit margin of our sales of Other Brands watches remained relatively stable at 30.8% for the year ended 30 June 2011 compared to 28.8% for the year ended 30 June 2010.

(iv) Increase in gross profit margin of our trading of watch movements from 3.5% for the year ended 30 June 2010 to 9.8% for the year ended 30 June 2011. The increase was primarily due to the disruption of watch movements supplies from Japan as a result of the earthquake in March 2011. Since we have well-established and stable relationship with our watch movement suppliers, we were able to source substantial quantity of watch movements during the shortage period after the Japan earthquake. Hence, we could increase our selling prices of watch movements while maintaining reasonable costs during that period. Additionally, we increased the selling prices of Swiss-made watch movements as a result of the appreciation of Swiss Franc for the year ended 30 June 2011.

Other income

Our other income increased by HK$4.7 million or 193.3% from HK$2.4 million for the year ended 30 June 2010 to HK$7.1 million for the year ended 30 June 2011 primarily due to increase in interest income from bank deposit and loan to a director of HK$1.2 million and increase in exchange difference and other miscellaneous income.

Selling and distribution costs

Our selling and distribution costs increased by HK$135.1 million or 43.7% from HK$309.5 million for the year ended 30 June 2010 to HK$444.6 million for the year ended 30 June 2011, primarily as a result of (i) the increase in concessionaire and rental fees of HK$70.2 million which was in line with increase in our revenue; (ii) the increase in staff salaries and benefits of HK$33.3 million, as a result of an increase in the number of sales staff due to the opening of new POS and increase in sales commissions from individual POS; and (iii) the increase in advertisement and promotion fees of HK$23.5 million as we made more Tian Wang watch television commercials on China Central Television and magazine advertisement in order to boost the recognition and image of our brands.

Administrative expenses

Our administrative expenses increased by HK$26.5 million or 59.3% from HK$44.7 million for the year ended 30 June 2010 to HK$71.2 million for the year ended 30 June 2011. This increase was primarily due to the increase of director's remuneration of HK$13.9 million, staff salaries and bonuses of HK$2.2 million, management fee of HK$3.5 million for providing business administrative services to our Balco business and PRC local regulatory surcharges of HK$5.3 million such as city construction tax and education levy.

Finance costs

Our finance costs increased by approximately HK$0.7 million or 18.8% to HK$4.3 million for the year ended 30 June 2011 from HK$3.6 million for the year ended 30 June 2010 as a result of increase in bank borrowings from HK$186.5 million as at 30 June 2010 to HK$193.4 million as at 30 June 2011.

Income tax

Our income tax increased from HK$28.3 million for the year ended 30 June 2010 to HK$44.7 million for the year ended 30 June 2011, representing an increase of HK$16.4 million or 57.9%. Our effective tax rates calculated based on the income tax charged over the profit before tax has decreased from 31.5% for the year ended 30 June 2010 to 24.5% for the year ended 30 June 2011. This decrease was primarily due to the applicable tax rate for Tian Wang Shenzhen, our major operating subsidiary, was reduced to 15% for the period from 1 January 2011 to 30 June 2011 as a result of being qualified as a high and new technology enterprise. Please refer to Note 12 of the Accountants' Report in Appendix I to this prospectus for details.

Profit for the year

As of the cumulative effect of the foregoing, our profit for the year increased by 124.1% from HK$61.5 million for the year ended 30 June 2010 to HK$137.7 million for the year ended 30 June 2011. Our profit margin increased from 6.7% for the year ended 30 June 2010 to 11.6% for the year ended 30 June 2011.

Profit attributable to owners of the Company

Profit attributable to owners of the Company increased by HK$73.9 million or 121.7%, from HK$60.7 million for the year ended 30 June 2010 to HK$134.6 million for the year ended 30 June 2011, while its contribution to the profit for the year decreased to 97.7% for the year ended 30 June 2011 from 98.8% for the year ended 30 June 2010.

SELECTED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Set out below is the breakdown of our current assets and current liabilities as of the dates indicated:

	As at 30 June			As at 30 September	As at 30 November
	2010	**2011**	**2012**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
					(unaudited)
Current assets					
Inventories	232,245	300,515	466,370	474,331	462,930
Trade receivables	111,577	173,138	233,221	314,236	290,790
Other receivables, deposits and prepayments	25,109	43,339	56,129	61,048	56,859
Amounts due from fellow subsidiaries	8,074	16,119	834	468	–
Amount due from a related company	240	812	60	–	–
Bank balances and cash	70,981	110,063	156,512	135,217	100,439
	448,226	643,986	913,126	985,300	911,018
Current liabilities					
Trade payables and bills payable	81,691	89,501	120,354	113,621	91,844
Other payables and accrued charges	51,931	81,356	73,501	91,101	72,143
Amount due to an intermediate holding company	26,853	28,250	–	–	–
Amount due to a director	–	–	33,483	33,204	40,610
Amounts due to fellow subsidiaries	61,699	52,177	316	–	–
Dividend payable	–	–	–	16,290	3,023
Tax liabilities	12,359	13,850	19,154	26,807	17,796
Obligations under finance leases	236	171	–	–	–
Bank borrowings	186,450	193,449	285,520	273,279	262,631
Financial guarantee liability	–	–	4,000	3,500	–
	421,219	458,754	536,328	557,802	488,047
Net current assets	27,007	185,232	376,798	427,498	422,971

Inventories

Our inventories comprise raw materials, work in progress and finished goods. Set out below are the inventories balances as of the indicated dates:

	As at 30 June			As at 30 September
	2010	2011	2012	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Raw materials and consumables	44,808	58,193	67,062	63,281
Work in progress	8,716	11,707	22,936	8,774
Finished goods				
– Finished watches	174,740	230,727	386,357	403,369
– Watch movements for trading	26,349	23,479	26,815	35,378
Subtotal	254,613	324,106	503,170	510,802
Provision for obsolescence	(22,368)	(23,591)	(36,800)	(36,471)
Total	232,245	300,515	466,370	474,331

Our inventories consist of raw materials, work in progress and finished goods. Finished goods being the largest component of our inventories consists primarily of Tian Wang, Balco and Other Brands watches and watch movements for trading. Because of the nature of our directly managed retail Sales Network, we have to maintain a relatively high level of inventories for sales and display and to avoid stock shortage at our POS and for opening of new POS. Our management carries out an inventory review and an ageing analysis on a regular basis. We make provision for obsolete and slow-moving inventories of raw materials and finished goods 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 outdated and no longer used by watch manufacturers even though their ageing is less than two years. Such provision was 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. Our inventories balance increased from HK$232.2 million as at 30 June 2010 to HK$300.5 million and HK$466.4 million as at 30 June 2011 and 2012, respectively, and further increased to HK$474.3 million as at 30 September 2012, representing an increase of 29.4%, 55.2% and 1.7%, respectively. While the inventory balance for watch movements for trading remained relatively stable as at the years ended 30 June 2010, 2011 and 2012, the balance increased by 31.9% to HK$35.4 million as at 30 September 2012 primarily due to a batch of watch movements ordered was delivered to our warehouse before the end of September 2012. The overall increase in inventory balance was primarily due to increase in the number of our POS year on year. The increase in inventories balance from HK$300.5 million as at 30 June 2011 to HK$466.4 million as at 30 June 2012 was mainly due to: (i) an increase in watch-related inventory (including watch components, WIP and finished watches and excluding watch movements for trading) which corresponds to the same-store sales growth, which was approximately 16.0% for our Group as a whole of its watch sales business for the year ended 30 June 2012; (ii) increase in finished watch inventory for the net addition of 240 POS for Tian Wang POS for the year ended 30 June 2012, mainly for the purpose of basic display inventory and rolling inventory for replenishment for each new POS; (iii) spare finished watch inventory of approximately HK$30 million that were stocked up in our warehouse and regional offices over the PRC as at 30 June 2012 to support the planned Sales Network expansion for Tian Wang in the following four to six months. (For the three months ended 30 September 2012, there has been a net increase of 107 new Tian Wang POS and is planning to continue this expansion by achieving net increase of over 200 new Tian Wang POS for the six months ended 31 December 2012); and (iv) there was a net addition of 43 JV POS for the year ended 30 June 2012, which carries a higher level of inventory in terms of value compared with the Tian Wang and Balco POS. Furthermore, as at 30 September 2012, the inventory balance was stabilised and only increased by 1.7% to HK$474.3 million given our net increase of 107 new Tian Wang POS. As at 30 November 2012, approximately HK$82.8 million or 20.3% of the finished goods as at 30 September 2012 were subsequently sold. Our Company considers that such level of inventory is reasonable, taking into account that for the net increase of around 107 new Tian Wang POS opened during the three months ended 30 September 2012, there is usually a ramp-up period for sales at the relatively large number of newly opened POS to pick up.

	As at/for the year ended 30 June			**As at/for the three months ended 30 September**
	2010	**2011**	**2012**	**2012**
Average inventory turnover days[1] *(days)*	160	197	231	219
Inventory per POS[2] *(HK$'000)*				
High-end	50	55	64	62
Mid-end	95	110	142	135
Low-end	22	20	40	39
Total	167	185	246	236
Inventory – finished watches *(HK$ million)*				
– Tian Wang	108	146	249[4]	249[4]
– Balco	39	41	46	47
– Other Brands	28	44	91	107
Total	175	231	386	403

	As at/for the year ended 30 June			As at/for the three months ended 30 September
	2010	2011	2012	2012
Average inventory quantity per POS				
– Tian Wang[3]	486	512	610[4]	552[4]
– Balco	228	203	195	206
– Other Brands	429	555	516	597
Overall	399	441	519	502
Average monthly sales quantity per POS				
– Tian Wang[3]	60	65	59	66
– Balco	8	7	6	7
– Other Brands	107	152	114	143
Average selling price *(HK$)*				
Tian Wang				
High-end	6,061	6,508	6,910	7,045
Mid-end	1,443	1,526	1,501	1,883
Low-end	367	385	506	681
Overall	661	700	844	1,094
Balco				
High-end	5,152	4,735	4,102	3,900
Mid-end	2,090	2,111	2,047	2,132
Low-end	500	286	273	500
Overall	2,748	2,938	2,699	2,703
Other Brands				
High-end	22,333	20,426	17,236	12,125
Mid-end	2,783	2,824	3,060	2,430
Low-end	768	935	1,104	918
Overall	3,194	3,485	3,315	2,312
Average cost of inventory *(HK$)*				
Tian Wang	273	261	277	284
Balco	654	698	712	638
Other Brands				
High-end	20,868	20,788	9,450	5,689
Mid-end	2,197	2,288	1,845	1,649
Low-end	345	536	523	452

Notes:

(1) Average inventory equals inventory at the beginning of the year plus inventory at the end of the year divided by two. Average inventory turnover days equals average inventory divided by cost of sales and multiplied by 365 for a year and 92 for three-months period.

(2) Inventory balance used for the calculation of inventory per POS represented finished watches excluding provision for obsolescence and inventory balance related to watch movements for trading.

(3) Inventory per POS, average inventory quantity per POS and average monthly sales quantity per POS of Tian Wang represents inventory designated for and selling of inventory through the Tian Wang Sales Network. The inventory of Tian Wang related to sales to corporate and online sales amounted to approximately HK$4.9 million, HK$11.0 million, HK$17.6 million and HK$17.2 million as at 30 June 2010, 2011 and 2012 and 30 September 2012, respectively, while the relevant sales amounted to approximately HK$29.5 million, HK$51.4 million, HK$72.8 million and HK$13.1 million for the years ended 30 June 2010, 2011 and 2012 and the three months ended 30 September 2012, respectively.

(4) If excluding the spare finished watch inventory of approximately HK$30 million that was stocked up in our warehouse as at 30 June 2012 in supporting the planned POS expansion in the following six months, the respective finished watches balance and average inventory quantity per POS of Tian Wang will be adjusted to approximately HK$219 million and 538 as at 30 June 2012, respectively. The corresponding amount will be adjusted to approximately HK$234 million and 510 as at 30 September 2012, respectively.

Analysis on inventory turnover days

Our inventory turnover days increased to 197 days for the year ended 30 June 2011 from 160 days for the year ended 30 June 2010, then further increased to 231 days for the year ended 30 June 2012. The increase in the Group's average inventory turnover days to 231 days for the year ended 30 June 2012 was mainly due to the spare finished watch inventory which were stocked for the planned Sales Network expansion for Tian Wang in the second half of 2012 and the increase in the number of JV POS in the year ended 30 June 2012, which are discussed in sub-paragraphs (iii) and (iv) on page 330. If these factors are excluded, the average inventory turnover days would have been reduced to approximately 220 days. Our inventory turnover days decreased to 219 days for the three months ended 30 September 2012 primarily due to the utilisation of inventories for the planned Sales Network expansion and sales level increase for Tian Wang.

Analysis on inventory per POS

Inventory per POS relating to the watch sales increased from approximately HK$167,000 as at 30 June 2010 to approximately HK$185,000 as at 30 June 2011, further increased to approximately HK$246,000 as at 30 June 2012 and decreased to approximately HK$236,000 as at 30 September 2012, representing an increase of approximately 10.8%, 33.0% and a decrease of 4.1%, respectively. For the year ended 30 June 2012, the increase in inventory was faster than the pace of increase in POS. This is mainly due to the increase in inventory level of Tian Wang. As at 30 June 2012, the inventory of finished watches of Tian Wang has increased by approximately 70.5% from approximately HK$146 million to approximately HK$249 million, which was due to the net increase of 240 Tian Wang POS and the spare finished watch inventory of approximately HK$30 million that was stocked up in our warehouse as at 30 June 2012 to support the planned subsequent POS expansion. For similar reason, the average inventory quantity per POS of Tian Wang also increased by 19.1% from approximately 512 to approximately 610 for the same period. If excluding the spare finished inventory, inventory of finished watches of Tian Wang will be reduced to approximately HK$219 million, representing an increase of approximately 50% comparing with 30 June 2011, while the average inventory quantity per POS will be reduced to approximately 538. Subsequently, for the three months ended 30 September 2012, there has been a net increase of 107 new Tian Wang POS and the respective finished watch balance of Tian Wang was maintained at approximately HK$249 million level, while average inventory quantity per POS has reduced to approximately 552.

The Group is aware that the increase in inventory for Tian Wang is faster than its POS expansion and the Group's cash flow and liquidity for the year ended 30 June 2012 was significantly affected. Based on this reason, the Group intends to achieve and maintain an inventory benchmark level of around 500 Tian Wang watches per Tian Wang POS by 30 June 2013 and thus to improve our cash flow and liquidity position. 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. 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 an benchmark of an inventory balance of watches of the Other Brands of approximately 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, for further details of the inventory control, please refer to the section headed "Our Business – Inventory Management – Inventory control and liquidity management." Based on the latest average monthly sales quantity per POS of approximately 59 and average inventory quantity per POS of approximately 610 for the year ended 30 June 2012, if we could maintain our current level of sales for Tian Wang in the coming financial year, the Group believes the current level of inventory of Tian Wang for sales through our Sales Network will be fully turnaround within the following 11 months, i.e. before the end of June 2013. Therefore by closely monitor the level of future sales and control the production level of Tian Wang watches, the Group is confident to achieve the benchmark level of around 500 Tian Wang watches per Tian Wang POS by 30 June 2013 and our net operating cash flow for the year will significantly improve to not less than HK$80 million.

The inventory per POS analysed by price segment shows that over 50% of our inventory represented mid-end segment watches. The increase in our Group's inventory per POS as at 30 June 2012 were also reflected in the increase of mid-end inventory by 29% from approximately HK$110,000 to HK$142,000 and low-end inventory by 100% from approximately HK$20,000 to HK$40,000, respectively in relation to the corresponding increase of Tian Wang in inventory per POS.

Average selling price

The average selling price of Tian Wang increased by approximately 20.6% for the year ended 30 June 2012 compared to that for the year ended 30 June 2011, and further increased by approximately 29.6% for the three months ended 30 September 2012, due to the change of products mix sold as well as the increase in average retail price during the year. The average selling price of Other Brands decreased from approximately HK$3,315 for the year ended 30 June 2012 to approximately HK$2,312 for the three months ended 30 September 2012 primarily due to the set up of two new JVs mentioned above.

Average cost of inventory

Our average cost of inventory for our own brands Tian Wang remained relatively stable throughout the Track Record Period. While the average cost of inventory of Balco decreased from approximately HK$712 for the year ended 30 June 2012 to approximately HK$638 for the three months ended 30 September 2012 mainly due to the launch of some lower price range models in September 2012 for the sales in September and October 2012 to coincide with Mid-Autumn Festival and National Day holiday in which the costs of such models were relatively lower. Some of our average cost of inventory of Other Brands were slightly higher than the average selling price of corresponding period, due to the use of different translation rates for HK$/RMB. The average cost of Other Brands decreased significantly as at 30 June 2012 due to lower unit cost models were carried by the other two new JVs as mentioned above. This effect was further strengthened as at 30 September 2012 due to these two new JVs had been gradually ramping up their operations.

The table below sets out our inventory by aging at the dates indicated:

	As at 30 June			**As at 30 September**
	2010	**2011**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Aging Analysis:				
Within 1 year	197,548	241,915	403,691	397,920
1 – 2 years	31,249	45,686	51,904	66,097
2 – 3 years	25,816	17,111	20,327	16,397
Over 3 years	–	19,394	27,248	30,388
Provision	(22,368)	(23,591)	(36,800)	(36,471)
	232,245	300,515	466,370	474,331

The inventory aged over two years were HK$25.8 million, HK$36.5 million and HK$47.6 million as at 30 June 2010, 2011 and 2012, respectively, and the corresponding provision for these inventory balances were HK$21.8 million, HK$22.2 million and HK$35.6 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 minimum profit requirement under Rule 8.05(1)(a).

The inventory aged over two years increased by HK$10.7 million or 41.4% to HK$36.5 million as at 30 June 2011, further increased by HK$11.1 million or 30.3% to HK$47.6 million as at 30 June 2012 and remained relatively stable at HK$46.8 million as at 30 September 2012. These increases followed the similar trend of increases in our overall inventory balance from 30 June 2010 to 30 June 2012, in which the detailed analysis were set out on pages 329 to 330 of this prospectus. In order to better control our aged inventory, we will promote the sales of our watches by offering them at discount, adjust the retail price of slow moving or off-season models, or to corporate customers or through online sales channels. For details of our control on aged inventory, please refer to pages 216 to 218 of this prospectus.

As at 30 November 2012, 58.2% of the raw materials and consumables and work in progress balance (net off provision) as of 30 September 2012 had been utilised, 20.3% of the finished goods balance (net off provision) as of 30 September 2012 had been sold, and on an overall basis, 25.6% of the total inventory balance (net off provision) as of 30 September 2012 had been sold or utilised. In addition, as at 30 November 2012, 22.3% of the inventory balance aged over two years (net off provision) as of 30 September 2012 had been subsequently sold or utilised.

Trade and other receivables

Set out below are the trade and other receivables balances as of the dates indicated:

	As at 30 June			**As at 30 September**
	2010	**2011**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables				
– third parties	110,647	170,468	227,956	308,821
– fellow subsidiaries	2,809	3,100	3,469	4,544
– a related company	–	–	2,226	1,301
Less: allowance for doubtful debts	(1,879)	(430)	(430)	(430)
	111,577	173,138	233,221	314,236
Average trade receivables turnover days[(1)]	40	44	49	50

Note:

(1) Average trade receivables equals trade receivables at the beginning of the year/period plus trade receivables at the end of the year/period divided by two. Average trade receivables turnover days equals average trade receivables divided by revenue and multiplied by 365 for a year and 92 for a three-month period.

	As at 30 June			As at 30 September
	2010	**2011**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other receivables, deposits and prepayments	25,109	43,339	56,129	61,048

Our trade receivables increased by 55.2% from HK$111.6 million as at 30 June 2010 to HK$173.1 million as at 30 June 2011, increased by 34.7% to HK$233.2 million as at 30 June 2012, and further increased by HK$81.0 million or 34.7% to HK$314.2 million as at 30 September 2012. These increases were primarily due to the increase in our sales as a result of the increase in number of POS during the Track Record Period.

The average trade receivable turnover days remained relatively stable and within our average credit period which was generally 60 days.

The following table shows the aging analysis of trade receivables (net of allowance for doubtful debts) as of the dates indicated:

	As at 30 June			As at 30 September
	2010	**2011**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
0 – 60 days	96,760	145,815	199,092	266,396
61 – 120 days	11,287	18,495	20,614	31,449
121 – 180 days	1,490	4,510	5,461	8,976
Over 180 days	2,040	4,318	8,054	7,415
	111,577	173,138	233,221	314,236

Trade receivables primarily consisted of receivables from Store Operators, corporate customers and distributors and customers of watch movements. Since proceeds generated through our Sales Counters are collected by the Store Operators, we generally do not have receivables from individual retail customers.

As at 30 June 2010, 2011 and 2012 and 30 September 2012, included in our trade receivables are debtors with a carrying amount of HK$14.8 million, HK$27.3 million, HK$34.1 million and HK$47.8 million, respectively, which were over 60 days and past due.

Trade receivables balance over 60 days mainly consisted of the trade receivables due from Store Operators, and the reason of such significant trade receivables past due was primarily due to some of the Store Operators were inefficient in processing the settlements. We did not provide an impairment loss for them as there had not been a significant change in credit quality. We did not maintain a significant amount of provision for our trade receivables as there had not been a default in our customers.

As at 30 November 2012, 69.5% of the trade receivables balance as of 30 September 2012 had been settled.

The table below sets out a breakdown of trade receivables by customer types for the years indicated.

	As at 30 June			As at 30 September
	2010	**2011**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Watch sales				
Store Operators	76,188	132,003	192,047	271,691
Corporate customers and distributors	12,825	22,881	24,534	24,361
Subtotal	89,013	154,884	216,581	296,052
Trading of watch movements				
Corporate customers	22,564	18,254	16,640	18,184
Total	111,577	173,138	233,221	314,236

Trade receivables due from Store Operators, corporate customers and distributors from watch sales increased by HK$65.9 million or 74.0% from HK$89.0 million as at 30 June 2010 to HK$154.9 million as at 30 June 2011, increased by HK$61.7 million or 39.8% to HK$216.6 million as at 30 June 2012 and further increased by HK$79.5 million or 36.7% to HK$296.1 million as at 30 September 2012. These increases were primarily due to the increase in our watch sales as a result of our increase in number of POS during the Track Record Period.

Trade receivables generated from trading of watch movements decreased from HK$22.6 million as at 30 June 2010 to HK$18.3 million as at 30 June 2011, further decreased to HK$16.6 million as at 30 June 2012, representing a decrease of 19.1% and 8.8%, respectively, and increased to HK$18.2 million as at 30 September 2012, representing an increase of 9.3%. These fluctuations were consistent with the trend in our sales generated from trading of watch movements during the Track Record Period.

Other receivables, deposits and prepayments increased by HK$18.2 million or 72.6% from HK$25.1 million as at 30 June 2010 to HK$43.3 million as at 30 June 2011. This increase was primarily due to (i) an increase of HK$12.9 million in advance payments and trade deposits to suppliers for purchase of raw materials; and (ii) an increase of HK$3.9 million for the prepayments of advertising fees. The balance then increased to HK$56.1 million as at 30 June 2012, representing an increase of HK$12.8 million. This increase was mainly due to an increase in advance payments and trade deposits to suppliers for purchase of raw materials of HK$10.9 million. The balance further increased by HK$4.9 million to HK$61.0 million as at 30 September 2012 mainly as a result of an increase of HK$3.2 million in advance payments and trade deposits to suppliers, and the PRC VAT receivables.

Trade payables and bills payable

Set out below are the trade and bills payable balances as of the indicated dates:

	As at 30 June			As at 30 September
	2010	**2011**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables				
– third parties	67,418	79,506	107,010	99,010
– non-controlling shareholder of a subsidiary	–	–	6,812	4,904
Bills payable	14,273	9,995	6,532	9,707
	81,691	89,501	120,354	113,621
Average trade payable turnover days[1]	53	63	63	54

Note:

(1) Average trade payables equals trade payables at the beginning of the year/period plus trade payables at the end of the year/period divided by two. Average trade payables turnover days equals average trade payables divided by cost of sales and multiplied by 365 for a year and 92 for a three-month period.

Our trade and bills payables increased by HK$7.8 million or 9.6% from HK$81.7 million as at 30 June 2010 to HK$89.5 million as at 30 June 2011 and further increased by 34.5% to HK$120.4 million as at 30 June 2012. These increases were primarily due to the increase in our purchase of watch components. The balance remained relatively stable at HK$113.6 million as at 30 September 2012.

Our average trade and bills payables turnover days increased from 53 days for the year ended 30 June 2010 to 63 days for the years ended 30 June 2011 and 2012, and decreased to 54 days for the three months ended 30 September 2012. The increase was primarily because we gradually utilised the maximum credit terms offered to optimise our working capital.

As at 30 November 2012, 68.4% of the trade payable balance as at 30 September 2012 had been settled.

Other payables and accrued charges

	As at 30 June			As at 30 September
	2010	**2011**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other tax payables	10,949	15,727	20,071	28,148
Accrued bonus to a director	8,275	13,000	8,350	810
Accrued advertising expenses	5,986	15,259	1,269	1,375
Accrued staff related costs	16,380	24,482	15,833	20,023
Accrued professional fees	–	–	13,590	14,196
Deposits received	1,931	2,005	4,847	9,652
Accrued business meeting fee	1,933	4,214	4,500	6,800
Amount due to a JV partner	–	–	–	1,915
Others	6,477	6,669	5,041	8,182
	51,931	81,356	73,501	91,101

The significant increase in other payables and accrued charges from HK$51.9 million as at 30 June 2010 to HK$81.4 million as at 30 June 2011 was primarily due to (i) an increase of HK$4.8 million in other tax payables, which comprised PRC value-added taxes; (ii) an increase of HK$4.7 million in accrued bonus to a director; (iii) an increase of HK$9.3 million in accrued advertising expenses mainly as a result of our accrual of HK$8.0 million for engaging a spokesperson for the year ended 30 June 2011; and (iv) an increase of HK$8.1 million for accrued staff costs as a result of the increase in our salaries, bonus and commissions.

The decrease in other payables and accrued charges from HK$81.4 million as at 30 June 2011 to HK$73.5 million as at 30 June 2012 was primarily due to the mixed effect of (i) an increase of HK$4.3 million in other tax payables, which comprised PRC value-added taxes; (ii) an increase of HK$2.8 million in deposits received; (iii) a decrease of HK$4.7 million in accrued bonus to a director; (iv) a decrease of HK$14.0 million in accrued advertising expenses mainly as a result of our reversal of HK$15.0 million in advertising fee. The reversal of HK$15.0 million accrued advertising fee represented the over-accrual of 1) international watch exhibition activities of HK$5.0 million; and 2) engagement of a spokesperson for Tian Wang Brand of HK$10.0 million which comprised agency fee for introduction of the celebrity and the success for confirming the terms of engagement with our Group, and initial signing fee to the celebrity. Due to leakage of information, this engagement was cancelled subsequent to 30 June 2011; (v) a decrease of HK$8.6 million in accrued staff related costs mainly as a result of the decrease in staff bonus/commissions accrual for the year ended 30 June 2012; and (vi) an accrual of HK$13.6 million made for professional fees in relation to the Global Offering.

The increase in other payables and accrued charges from HK$73.5 million as at 30 June 2012 to HK$91.1 million as at 30 September 2012 was primarily due to (i) an increase of HK$8.1 million in other tax payable, which comprised PRC value-added taxes; (ii) an increase in accrued staff related costs of HK$4.2 million mainly as a result of the increase in staff bonus/commissions accrual for the three months ended 30 September 2012 which is consistent with our strong growth in our revenue for the three months ended 30 September 2012; (iii) an increase in deposit received of HK$4.8 million mainly due to the deposits received from our wholesale distributors for the purchase of Tian Wang Watches and deposit received from independent contractor of the Store Operator; (iv) an increase in accrued business meeting fee of HK$2.3 million for the sales personnel; (v) an increase in amount due to a JV partner of HK$1.9 million; and partially offset by decrease in accrued bonus to a director of HK$7.5 million mainly due to our Chairman, Mr. Michael Tung is not entitled to any incentive performance bonus for the year ending 30 June 2013.

Bonus to directors are accrued at each financial year end by references to their performance and the Group's operation results. The balance paid in the subsequent months after each of the year end.

Accrued staff costs mainly consisted of accrued staff bonus, wages, salaries and commission and provision for PRC social insurance and housing provident fund. Staff bonus are usually paid before Chinese new year while wages, salary and commission are paid in the following month.

Financial guarantee liability

The estimated fair value of the financial guarantee of HK$6.0 million was recognised in the consolidated statements of financial position as financial guarantee liability on 29 July 2011, being the effective date, with the equivalent amount charged to equity as shareholder distribution. During the year ended 30 June 2012 and three months ended 30 September 2012, financial guarantee income of HK$2.0 million and HK$0.5 million was recognised in profit or loss respectively. As at 30 June 2012 and 30 September 2012, the carrying amount of the financial guarantee liability was HK$4.0 million and HK$3.5 million, respectively. Please refer to Note 32(i) of the Accountants' Report in Appendix I to this prospectus for details. The financial guarantee has been released on 12 November 2012.

Amounts due from fellow subsidiaries

As at 30 September 2012, our amounts due from fellow subsidiaries mainly represented funds transfer to or payment on behalf of Fine Jade International Limited, Fortune Silver Holdings Limited and Winning Asia Holdings Group Limited of approximately HK$175,000, HK$60,000 and HK$230,000, respectively. Please refer to Note 18 of the Accountants' Report in Appendix I to this prospectus for details. The amounts due from fellow subsidiaries had been fully settled prior to the Latest Practicable Date.

Amount due to a director

As at 30 September 2012, the balance of amount due from us to Mr. Michael Tung, a Director, was approximately HK$33.2 million, which was due pursuant to a deed of novation, assignment and set-off entered into between our Group, the fellow subsidiaries and Mr. Michael Tung. Subsequent to the Track Record Period, as at 30 November 2012, the balance increased to approximately HK$40.6 million. We have obtained a banking facility of HK$39.0 million from DBS Bank (Hong Kong) Limited which is secured by, among others, a charge on Mr. Michael Tung's cash deposit and personal guarantee and the corporate guarantee of WMP in favour of the bank and we expect that HK$39.0 million will be drawn down under the banking facility on or around the date on which the International Underwriting Agreement is entered into and together with the Company's internal funding resources of approximately HK$1.6 million to fully repay the amount due to Mr. Michael Tung prior to the date of Listing. The bank had agreed that the charge on cash deposit and personal and corporate guarantees provided by Mr. Michael Tung and/or WMP will be released upon the Listing, and we intend to repay part or the full amount of loan under this facility with proceeds from the Global Offering as set out in the section headed "Future Plans and Use of Proceeds" in this prospectus.

Please refer to Note 18 and Note 23 of the Accountants' Report in Appendix I to this prospectus for more details of amount due to a director.

Dividend payable

In July 2012, we distributed a special dividend of approximately HK$33.3 million. Out of the approximately HK$33.3 million, approximately HK$17.0 million was paid in July 2012 and the remaining balance of approximately HK$16.3 million was subsequently paid in October 2012. In October 2012, we further distributed and paid a special dividend of HK$37.2 million. The payments of the aforesaid dividends were settled using our internal funding resources. Dividend payable of approximately HK$3.0 million as at 30 November 2012 represented the portion of dividend declared to the JV partner of Suzhou Paragon and is expected to be settled in February 2013.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations primarily through cash flows from operations and short-term bank loans. We recorded net cash inflow during the Track Record Period. We were able to repay our obligations under bank loans when they became due during the Track Record Period. Our Directors are not aware of any material change to the underlying drivers of the sources of cash of our Group and the use of cash by our Group subsequent to 30 September 2012 and up to the date of this prospectus.

Cash flows

Set out below are our net cash flows for the years/periods indicated:

	Year ended 30 June			Three months ended 30 September	
	2010	**2011**	**2012**	**2011**	**2012**
	HK\$'000	*HK\$'000*	*HK\$'000*	*HK\$'000*	*HK\$'000*
				(unaudited)	
Net cash generated from operating activities	63,313	75,193	4,673	18,913	16,311
Net cash used in investing activities	(31,203)	(34,144)	(66,945)	(24,614)	(7,426)
Net cash generated from/(used in) financing activities	(13,035)	(5,677)	104,399	(6,259)	(30,528)
Net increase/(decrease) in cash and cash equivalents	19,075	35,372	42,127	(11,960)	(21,643)

Net cash generated from operating activities

Our cash flow from operating activities primarily comprises our profit before taxation adjusted for non-cash items such as depreciation and provision for obsolete inventories, the effect of changes in trade and other receivables and payables, the changes in inventories.

Net cash generated from operating activities for the three months ended 30 September 2012 was HK$16.3 million, representing an improvement of HK$11.6 million from HK$4.7 million for the year ended 30 June 2012. The amount was primarily attributable to profit before income tax of HK$104.0 million from our operations adjusted for non-cash item of HK$7.9 million, an increase in inventories, trade receivables, and other receivables, deposits and prepayments of HK$7.6 million, HK$81.0 million and HK$4.9 million, respectively, a decrease in trade payables and bills payables of HK$6.7 million, and income tax paid of HK$11.0 million. The amount was partially offset by an increase in other payables and accrued charges of HK$15.6 million.

Net cash generated from operating activities for the year ended 30 June 2012 was HK$4.7 million. The amount was primarily attributable to profit before income tax of HK$244.5 million from our operations adjusted for non-cash item of HK$36.1 million, an increase in inventories, trade receivables, and other receivables, deposits and prepayments of HK$178.8 million, HK$60.1 million and HK$12.8 million, respectively, a decrease in other payables and accrued charges and income tax paid of HK$7.9 million and HK$50.9 million, respectively. The amount was partially offset by an increase in trade payables and bills payable of HK$30.9 million, a decrease in amount due from a related company of HK$1.5 million and interest received of HK$2.2 million. Our net operating cash flow of HK$4.7 million for the year ended 30 June 2012 was lower than that of HK$75.2 million for the year ended 30 June 2011, mainly due to the expansion of our Group in terms of opening of new POS and forming of two new joint ventures during the year ended 30 June 2012. Our management will closely monitor the pace of our Group's expansion in order to ensure that its operating cash flow will be maintained at a sufficient level. The Directors will control the pace of its expansion both in terms of the opening of new POS and forming of new joint ventures. While there has been a net increase of 107 new Tian Wang POS for the three months ended 30 September 2012, our current plan is to open approximately 200 new POS in each of the years ending 30 June 2013, 2014 and 2015, which our Group has achieved in the past in a manageable manner. Our Company intends to maintain a watch inventory of around 500 Tian Wang watches per POS (including around 250 watches as basic display inventory and 250 watches as rolling inventory for replenishing watches being sold), based on the product mix and sales of our Tian Wang watches currently sold at the sales network of Tian Wang. In the event that there is any significant change in the product mix, retail price or sales of Tian Wang watches, we may adjust the benchmark finished watch inventory level accordingly. We will utilise our existing inventory of watches and adjust the production plan of Tian Wang watches based on this 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 foregoing target inventory benchmark, based on our current estimate and assuming that there will be not 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. Furthermore, the expansion plan (in particular the opening of concept stores) and the currently planned large-scale marketing activities will draw on the use of proceeds from the Global Offering and will be adjusted according to our financial condition and market demand in order that our operating cash flow will be maintained at a sufficient and healthy level.

Net cash generated from operating activities for the year ended 30 June 2011 was HK$75.2 million. The amount was primarily attributable to profit before income tax of HK$182.4 million from our operations adjusted for non-cash item of HK$23.2 million, an increase in inventories, trade receivables, other receivables, deposits and prepayments, and income tax paid of HK$53.8 million, HK$60.0 million, HK$18.2 million, and HK$37.1 million, respectively. The amount was partially offset by the increase in trade payables and bills payable, and other payables and accrued charges of HK$7.8 million and HK$29.2 million, respectively.

Net cash generated from operating activities for the year ended 30 June 2010 was HK$63.3 million. The amount was primarily attributable to profit before taxation of HK$89.7 million from our operations adjusted for non-cash item of HK$27.9 million, an increase in inventories, trade receivables, other receivables, deposits and prepayments, and income tax paid of HK$59.4 million, HK$21.3 million, HK$1.2 million, and HK$22.6 million, respectively. The amount was partially offset by the increase in trade payables and bills payable, and other payables and accrued charges of HK$24.5 million and HK$25.4 million, respectively.

Net cash used in investing activities

Our cash used in investing activities mainly consists of the payment of purchase of property, plant and equipment, advance to a director and fellow subsidiaries, and repayment from fellow subsidiaries.

Net cash used in investing activities for the three months ended 30 September 2012 was HK$7.4 million. The amount was mainly attributable to purchase of property, plant and equipment of HK$7.8 million and offset by repayment from fellow subsidiaries of HK$0.4 million.

Net cash used in investing activities for the year ended 30 June 2012 was HK$66.9 million. The amount was mainly attributable to purchase of property, plant and equipment of HK$32.8 million, advance to ultimate holding company, a director and fellow subsidiaries of HK$48.1 million, HK$3.8 million and HK$11.5 million, respectively, and partially offset by proceeds from disposal of property, plant and equipment of HK$13.6 million, repayment from fellow subsidiaries of HK$15.6 million.

Net cash used in investing activities for the year ended 30 June 2011 was HK$34.1 million. The amount was mainly attributable to the purchase of property, plant and equipment of HK$26.4 million, advance to a director of HK$24.1 million, advance to fellow subsidiaries of HK$29.8 million and partially offset by the repayment from fellow subsidiaries of HK$46.1 million.

Net cash used in investing activities for the year ended 30 June 2010 was HK$31.2 million. The amount was mainly attributable to the purchase of property, plant and equipment of HK$21.3 million, and advance to fellow subsidiaries of HK$31.9 million, and partially offset by repayment from fellow subsidiaries of HK$21.9 million.

Net cash generated from/used in financing activities

Our cash flow generated from/used in financing activities mainly consists of the proceeds from bank borrowings, advance from intermediate holding company and fellow subsidiaries, repayment of bank borrowings, repayment to intermediate holding company and fellow subsidiaries, and dividend paid.

Net cash used in financing activities for the three months ended 30 September 2012 was HK$30.5 million. The amount was mainly attributable to the dividend and interest paid of HK$17.1 million and HK$2.6 million, respectively, repayment of bank borrowings of HK$93.4 million, and partially offset by borrowings raised of HK$81.1 million.

Net cash generated from financing activities for the year ended 30 June 2012 was HK$104.4 million. The amount was mainly attributable to the contribution from non-controlling interest of HK$16.9 million, borrowings raised of HK$684.2 million, and advance from fellow subsidiaries of HK$11.4 million. The amount was partially offset by repayment of bank borrowings of HK$592.1 million and repayment to intermediate holding company of HK$9.4 million.

Net cash used in financing activities for the year ended 30 June 2011 was HK$5.7 million. The amount was mainly attributable to borrowings raised of HK$504.4 million, advance from intermediate holding company and fellow subsidiaries of HK$29.3 million and HK$4.4 million, respectively, and partially offset by repayment of bank borrowings of HK$497.4 million, repayment to intermediate holding company and fellow subsidiaries of HK$27.9 million and HK$13.9 million, respectively.

Net cash used in financing activities for the year ended 30 June 2010 was HK$13.0 million. The amount was mainly attributable to borrowings raised of HK$429.9 million, advance from intermediate holding company and fellow subsidiaries of HK$43.2 million and HK$14.0 million, respectively, and partially offset by repayment of bank borrowings of HK$412.6 million, repayment to intermediate holding company and fellow subsidiaries of HK$59.2 million and HK$8.0 million, respectively, and dividend paid of HK$16.7 million.

Indebtedness

We have financed our operations primarily through short-term bank borrowings and finance leases. Set out below are our bank borrowing, finance leases, amount due to a director, amount due to a non-controlling shareholder of a subsidiary, amount due to an intermediate holding company and amounts due to fellow subsidiaries as at the date shown:

	As at 30 June			As at 30 September	As at 30 November
	2010	**2011**	**2012**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Short-term bank borrowings					
Trust receipts loans	91,601	98,929	36,372	70,582	65,297
Bank loans	94,849	94,520	249,148	202,697	197,334
	186,450	193,449	285,520	273,279	262,631
Amounts payable under finance leases:					
Within one year	270	195	–	–	–
In the second year to fifth year inclusive	313	118	–	–	–
	583	313	–	–	–
Less: future finance charges	(73)	(39)	–	–	–
Present value of lease obligations	510	274	–	–	–
Amount due to a director	–	–	33,483	33,204	40,610
Amount due to a non-controlling shareholder of a subsidiary	–	–	–	1,915	1,319
Amount due to an intermediate holding company	26,853	28,250	–	–	–
Amounts due to fellow subsidiaries	61,699	52,177	316	–	–
	275,512	274,150	319,319	308,398	304,560

The following table sets out an effective interest rate analysis of our bank borrowings as of the dates indicated.

	Year ended 30 June			Three months ended 30 September
	2010	**2011**	**2012**	**2012**
Weighted average effective interest rates (per annum)	2.31%	2.17%	3.62%	3.00%

The following table sets out a currency analysis of the carrying amounts of our bank loans as of the dates indicated.

	As at 30 June			As at 30 September
	2010	**2011**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank loans denominated in Swiss Franc	5,474	2,728	3,618	11,189

Our bank borrowings are all repayable on demand or within 1 year as at 30 June 2010, 2011 and 2012 and 30 September 2012. As of the Latest Practicable Date, the Directors confirm that we have been in full compliance with the relevant covenants and restrictions under the terms of the relevant bank facilities.

On 12 November 2012, we obtained a banking facility of HK$39.0 million from DBS Bank (Hong Kong) Limited which is secured by, among others, a charge on Mr. Michael Tung's cash deposit and personal guarantee and the corporate guarantee of WMP in favour of the bank and we expect that HK$39.0 million will be drawn down on or around the date on which the International Underwriting Agreement is entered into and together with the Company's internal funding resources of approximately HK$1.6 million, for full repayment of the amounts due to Mr. Michael Tung prior to the date of Listing. The bank had agreed that the charge on cash deposit and personal and corporate guarantees provided by Mr. Michael Tung and/or WMP will be released upon the Listing, and we intend to repay part or the full amount of loan with proceeds from the Global Offering as set out in the section headed "Future Plans and Use of Proceeds" in this prospectus.

At the close of business on 30 November 2012, being the latest practicable date for the purpose of indebtedness statement, our Group had outstanding (i) amount due to a director of approximately HK$40.6 million; (ii) amount due to a non-controlling shareholder of a subsidiary of approximately HK$1.3 million; (iii) unsecured bank borrowings of approximately HK$136.2 million including unsecured trust receipt loans and unsecured bank loans, which were under guarantee provided by certain group entities, a director and fellow subsidiaries; and

(iv) secured bank borrowings of approximately HK$126.4 million including secured trust receipt loans and secured bank loans, which were pledged by the shares of two Group entities, certain properties in the PRC that provided by a fellow subsidiary of the Group and a floating charge on bank accounts of a Group entity.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, the Group did not have outstanding at the close of business on 30 November 2012 any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

Foreign currency amounts have been translated into Hong Kong dollars at the approximate exchange rates prevailing at the close of business on 30 November 2012.

The guarantees provided by a director and fellow subsidiaries for certain of our trust receipt loans and bank loans and the pledged properties of the fellow subsidiary will be released prior to the Listing.

As at 30 November 2012, our Group had obtained banking facilities of HK$498.0 million, of which HK$235.4 million was not utilised.

We intend to use approximately HK$66.0 million of the net proceeds from the Global Offering to repay the bank borrowings. The table below set forth the details of bank borrowings to be repaid using the net proceeds from the Global Offering.

Amount	**Weighted average effective interest rates (per annum)**	**Maturity**	**Usage**
HK$ million			
6.0	Hibor +2.5%	Within 1 year	Revolving term loan for repayment of amount due to our director, Mr. Michael Tung
60.0	5.25%	Within 1 year	Term loan for investments in JVs

Contingent liabilities

Saved as disclosed in Note 32 of the Accountants' Report in Appendix I to this prospectus, we had no contingent liabilities.

Commitments

Operating leases

Operating lease payments represented rentals payable by us for our rental of production facilities, office premises, and POS. Leases are negotiated for fixed terms ranging from 2 to 6 years. The table below sets forth our outstanding commitment in respect of non-cancellable operating leases which fall due at the end of the dates as indicated.

	As at 30 June			As at 30 September
	2010	**2011**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	1,728	4,016	18,602	18,477
In the second to fifth year inclusive	332	1,451	9,944	19,373
Over five years	34	–	381	–
	2,094	5,467	28,927	37,850

Capital expenditures

We have funded our historical capital expenditures through cash flows generated from operating activities and bank borrowings. The following table sets forth a summary of our capital expenditures during the Track Record Period:

	Year ended 30 June			Three months ended 30 September
	2010	**2011**	**2012**	**2012**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Addition of property, plant and equipment				
– Production facilities	127	91	1,448	90
– Retail points	18,943	21,626	27,233	6,690
– Head offices and regional offices	2,685	4,732	4,130	1,012
Total	21,755	26,449	32,811	7,792

Our total capital expenditure increased by 21.6% from HK$21.8 million in 2010 to HK$26.4 million for the year ended 30 June 2011, and further increased by 24.1% to HK$32.8 million for the year ended 30 June 2012. These increases were primarily due to our purchase and installation of light boxes and leasehold improvements for expansion in our POS.

Summary of financial ratios

	As at/For the year ended 30 June			As at/For the three months ended 30 September
	2010	**2011**	**2012**	**2012**
Gearing ratio	64.5%	41.3%	68.8%	59.4%
Return on equity	23.8%	36.3%	42.7%	N/A[(1)]
Current ratio	1.1	1.4	1.7	1.8
Quick ratio	0.5	0.7	0.8	0.9
Interest coverage	25.6	42.8	41.3	41.7
Return on total assets	9.3%	16.6%	19.7%	N/A[(1)]
Debt to equity ratio	40.0%	17.8%	31.1%	30.0%

Note:

(1) The net profit used in calculating these ratios only consisted three months results which is not comparable with those for the years ended 30 June 2010, 2011 and 2012.

Gearing ratio

Gearing ratio is calculated based on total debts divided by the total equity at the end of the respective year. The gearing ratio decreased from 64.5% as at 30 June 2010 to 41.3% as at 30 June 2011 and increase to 68.8% as at 30 June 2012. The decrease was primarily due to an increase in total debts from HK$187.0 million as at 30 June 2010 to HK$193.7 million as at 30 June 2011 and further to HK$285.5 million as at 30 June 2012, whereas the total equity increased from HK$289.5 million as at 30 June 2010 to HK$468.4 million as at 30 June 2011 and decrease to HK$414.9 million as at 30 June 2012. The gearing ratio decreased from 68.8% as at 30 June 2012 to 59.4% as at 30 September 2012 mainly due to the decrease in total debt of HK$12.2 million coupled with an increase in total equity of HK$45.0 million.

Return on equity

Return on equity is calculated by dividing the profit for the year by the arithmetic mean of the opening and closing balances of total equity of the relevant year expressed as a percentage.

Our return on equity increased from 23.8% as at 30 June 2010 to 36.3% as at 30 June 2011. This increase was primarily due to the increase in profit for year 30 June 2011 by 124.1%. Our return on equity further increase to 42.7% as a result of the decrease in total equity as at 30 June 2012 by 11.4%.

Current ratio

Our current ratio increased from 1.1 as at 30 June 2010 to 1.4 as at 30 June 2011 and further increased to 1.7 as at 30 June 2012. The reason of the increase was mainly due to the increase of our current assets by 43.7% for the year ended 30 June 2011 and further increased by 41.8% for the year ended 30 June 2012 while the increase of our current liabilities by only 8.9% for the year ended 30 June 2011 and only 16.9% for the year ended 30 June 2012. The current ratio as at 30 September 2012 remained relatively stable at 1.8 compared to 1.7 as at 30 June 2012.

Quick ratio

Quick ratio is calculated by dividing current assets less inventories by current liabilities. Our quick ratio remained fairly stable throughout the Track Record Period.

Interest coverage

The increase in interest coverage from 25.6 for the year ended 30 June 2010 to 42.8 for the year ended 30 June 2011 was due mainly to the increase in profit before interest and tax, and this ratio remained fairly stable for the years ended 30 June 2011, 2012 and the three months ended 30 September 2012.

Return on total assets

Return on total assets is calculated by dividing the net profit for the year by the arithmetic mean of the opening and closing balances of total assets of the relevant year expressed as a percentage.

Our return on total assets increased from 9.3% as at 30 June 2010 to 16.6% as at 30 June 2011, and further increased to 19.7% as at 30 June 2012. These increases were primarily due to our growth in net profit year on year.

Debt to equity ratio

Debt to equity ratio is calculated by dividing the net debt by total equity expressed as a percentage, whereas net debt being bank borrowings (including obligations under finance leases) net of cash and cash equivalents.

Our debt to equity ratio decreased from 40.0% as at 30 June 2010 to 17.8% as at 30 June 2011, and increased to 31.1% as at 30 June 2012. The significant decrease from 40.0% as at 30 June 2010 to 17.8% as at 30 June 2011 was primarily due to (i) decrease in net debt; and (ii) increase in total equity. The subsequent increase to 31.1% as at 30 June 2012 was primarily due to the increase in net debt balance. This ratio remained relatively stable at 30.0% as at 30 September 2012 compared to that of 30 June 2012.

Measures on monitoring working capital

The finance department of the Group reviews the account payables report on a monthly basis and the management of the Group closely follows up with the settlement of account payables by analysing the aging of account payables outstanding and matching the liquidity position of the Group. The management of the Group monitors its liquidity position when making payment to settle the account payables by taking into account various factors including but not limited to, the credit terms offered by suppliers, the expected cash outflow to suppliers for settlement of purchase made by the Group after the relevant credit period offered, the remaining amount of the banking facilities available to the Group, the expected cash inflow from customers for settlement of purchase from the Group after the relevant credit period granted to them, and the prevailing market conditions which may affect the length of payable turnover.

In addition, the finance department of the Group continuously reviews the credit terms granted to the customers on a regular basis to ensure that the default risk of the customers is monitored, and to assess the credit limits granted to customers on regular basis by taking into account their credit worthiness. The management of the Group has also monitored its liquidity position when making purchase for raw materials, components and watch movements by taking into account various factors including but not limited to, the credit period granted by the bank, the expected cash inflow from customers for settlement of purchase from the Group after the relevant credit period granted to them, and the prevailing market conditions which may affect the length of receivable turnover.

A substantial part of our inventories consist of finished goods. To reduce the risk of building up excess aged inventory, our management performs monthly review of finished goods regular and considers whether provision is necessary to be made. We carry out physical stock counts 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. 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. Our management utilises the data generated by our U8 Data Management System to anticipate the expected demand of 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 products 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. 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. For further details of our inventory control measures, please refer to the section headed "Business – Inventory Management – Inventory control of our finished watches" in this prospectus.

The finance department of the Group is responsible for handling the liquidity risk management and directly reports to the Board generally twice per month. The department has built an appropriate liquidity risk management framework to meet the Group's short, medium and long-term funding and liquidity management requirements. As a result, the Group is able to manage liquidity risk by maintaining adequate reserves, banking facilities, continuously monitoring forecast and actual cash flows and matching the maturity profiles of assets and liabilities.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows. For details, please refer to the paragraph headed "Liquidity risk" under Note 6 of Appendix I of this prospectus.

In the event that additional working capital is required for business expansion, the Group may approach banks to obtain additional banking facilities and/or negotiate with its existing bank for an increase in banking facilities.

WORKING CAPITAL CONFIRMATION

The Directors are of the opinion that, after taking into account the financial resources available to us including the estimated net proceeds of the Global Offering, the available credit facilities and our internally generated funds, our Group has sufficient working capital to satisfy our requirements for our current operation and planned expansion for at least the next 12 months following the date of this prospectus.

OFF-BALANCE SHEET TRANSACTIONS

We have not entered into any off-balance sheet transactions.

QUANTITATIVE AND QUALITATIVE ANALYSIS ABOUT MARKET RISK

Currency risk

Certain group entities have foreign currency sales, which expose our Group to foreign currency risk. In addition, certain trade and other receivables, bank balances, other payables and accrued expenses, and bank borrowings of our Group and intra group balances are denominated in foreign currencies.

Cash flow interest rate risk

Our cash flow interest rate risk primarily relates to the bank balances as well as bank borrowings. We do not have an interest rate hedging policy. However, our management will consider hedging significant interest rate risk should the need arise.

Credit risk

Our maximum exposure to credit risk which will cause a financial loss to our Group due to failure to discharge the obligations by counterparties and financial guarantee provided by our Group to related parties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statements of financial position. We had no concentration of risk in respect of trade receivables from independent third parties, with exposure spread over a number of counterparties. Credit risk in respect of bank balances is limited because such amounts are placed in banks with good reputation.

For the financial guarantees, those guarantees are provided to related companies and the management of our Group continuously monitors the credit quality and financial conditions of the guaranteed parties that our Group issued financial guarantee contracts in favour of to ensure that our Group will not suffer significant credit losses as a result of the failure of the guaranteed parties on the repayment of the relevant loans. In this regard, the management of our Group considers that our credit risk is significantly reduced.

Liquidity risk

We monitor and maintain a level of cash and cash equivalents deemed adequate by management to finance our Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

Please refer to Note 6 of the Accountants' Report in Appendix I to this prospectus for further details on the above risks.

Listing Expenses

The total amount of listing expenses, commissions together with SFC transaction levy and Hong Kong Stock Exchange trading fee that will be borne by us in connection with the Global Offering is estimated to be approximately HK$71.8 million (based on the mid-point of our indicative price range for the Global Offering), of which approximately HK$31.3 million is expected to be capitalised after the listing. The remaining approximately HK$40.5 million fees and expenses was or is expected to be charged to our profit and loss accounts, of which HK$17.9 million and HK$2.3 million were charged for the year ended 30 June 2012 and the three months ended 30 September 2012, respectively, and approximately HK$20.3 million is expected to be charged for the three months ended 31 December 2012.

DIVIDEND POLICY

During the year ended 30 June 2010, WMP, which carried out our watch movement trading business and was the holding company of certain companies comprising our Group before Reorganisation, declared and paid a dividend of approximately HK$16.7 million to its then holding company. No dividend was paid or declared by our Company since its incorporation or the group entities to external parties during the three years ended 30 June 2012. In July and October 2012, we had distributed special dividends to its then Shareholder of approximately HK$33.3 million and HK$37.2 million, respectively.

Subject to below, it is our Company's dividend policy that not less than 30% of our net profits will be recommended for distribution in each financial year, commencing from the financial year ending 30 June 2013, in the form of interim dividend and final dividend. Our Directors consider that, in general, the amount of any future dividends to be declared by our Company will depend on our Group's results, working capital, cash position, capital requirements, the provisions of the relevant laws and other factors as may be considered relevant at such time by our Directors. Our Directors consider that our Company's dividend policy mentioned above will not materially affect our Group's working capital position in the coming years.

Future declarations of dividends may or may not reflect our Group's historical declarations of dividends and will be at the absolute discretion of our Directors. Future dividend payments by our Company will also depend upon the availability of dividends received from our subsidiaries in China. PRC laws require that dividends be paid only out of net profit calculated according to PRC accounting principles, which differ in many aspects from generally accepted accounting principles in other jurisdictions, including IFRS and HKFRS. PRC laws also require foreign-invested enterprises to set aside part of their net profit as statutory reserves, which are not available for distribution as cash dividends. Distributions from our subsidiaries may also be restricted if they incur debt or losses, or in accordance with any restrictive covenants in bank credit facilities or other agreements that our Company or our subsidiaries and associated companies may enter into in the future.

DISTRIBUTABLE RESERVES

The distributable reserves of our Company as at 30 September 2012 was approximately HK$68.4 million.

UNAUDITED PRO FORMA ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS

The following is an illustrative statement of unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of the Company, which has been prepared for the purpose of illustrating the effect of the Global Offering as if it had taken place on 30 September 2012. It is prepared based on our consolidated net assets of the Group attributable to owners of the Company as at 30 September 2012 as set out in the Accountants' Report in Appendix I to this prospectus, and adjusted as described below. The unaudited pro forma adjusted consolidated net tangible assets does not form part of the Accountants' Report in Appendix I to this prospectus. The pro forma adjusted consolidated net tangible assets have been prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the financial positions of the Group had the Global Offering been completed as at 30 September 2012 or any future dates.

	Audited consolidated net tangible assets of our Group attributable to owners of our Company as at 30 September 2012	Estimated net proceeds received by the Company from the Global Offering	Unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company	Unaudited pro forma adjusted consolidated net tangible asset of our Group attributable to owners of our Company per Share
	HK$'000	*HK$'000*	*HK$'000*	*HK$*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*
Based on an Offer Price of HK$1.11 per Offer Share	420,475	507,168	927,643	0.46
Based on an Offer Price of HK$1.35 per Offer Share	420,475	617,557	1,038,032	0.52

Notes:

(1) The audited consolidated net tangible assets of our Group attributable to owners of our Company as at 30 September 2012 is extracted from the Accountants' Report set out in "Appendix I – Accountants' Report".

(2) The estimated net proceeds received by the Company from the Global Offering are based on 500,000,000 Shares at the Offer Price of lower limit and upper limit of HK$1.11 and HK$1.35 per Offer Share, respectively, after deduction of the total estimated underwriting commissions and fees and other related expenses (excluding approximately HK$20.2 million listing expenses which has been accounted for prior to 30 September 2012) payable by our Company and without taking into account any shares which may be issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company does not take into account the effect of the profit subsequent to 30 September 2012.

(4) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of the Company per Share is arrived at on the basis that 2,000,000,000 Shares were in issue assuming that the Global Offering and the Capitalisation Issue had been completed on 30 September 2012 and without taking into account any shares which may be issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option.

(5) The unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of our Company does not take into account a special dividend of approximately HK$37.2 million declared by our Company to its then shareholders in October 2012. Had the special dividend been taken into account, the unaudited pro forma adjusted consolidated net tangible assets of our Group attributable to owners of the Company per Share would be HK$0.45 per Share (assuming an Offer Price of HK$1.11 per Share) and HK$0.50 per Share (assuming an Offer Price of HK$1.35 per Share), respectively.

PROFIT ESTIMATE FOR THE SIX MONTHS ENDED 31 DECEMBER 2012

The following set forth certain unaudited profit estimate data for the six months ended 31 December 2012. For the principal bases and assumptions, please refer to "Profit Estimate" in Appendix III to this prospectus for further details.

Estimated consolidated profit attributable to owners of the Company after taxation or our Group for the six months ended 31 December 2012 *(Note)*	Not less than HK$100 million
Unaudited pro forma estimated earnings per Share for the six months ended 31 December 2012 *(Note)*	Not less than HK$0.05

Note:

The unaudited pro forma estimated earnings per Share is based on (i) the estimated consolidated profit attributable to owners of the Company for the six months ended 31 December 2012, the bases of which are summarised in Section A of the section headed "Profit Estimate" included in Appendix III to this prospectus, and (ii) the weighted average 2,000,000,000 Shares assumed to be issued and outstanding during the six months ended 31 December 2012.

The calculation of the weighted average number of 2,000,000,000 Shares has taken into account the 1,000,000 Shares issued and outstanding for the period from 1 July 2012 to 31 December 2012, 1,499,000,000 Shares to be issued pursuant to the Capitalisation Issue and 500,000,000 Shares to be issued pursuant to the Global Offering assuming that the Global Offering and Capitalisation Issue had been completed on 1 July 2012, and does not take into account any shares that may be issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option.

Pursuant to Rule 11.18 of the Listing Rules, we have given an undertaking to the Stock Exchange that the interim report for the six months ended 31 December 2012 will be audited.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Company since 30 September 2012, being the last date of our latest audited financial results as set out in "Accountants' Report" in Appendix I to this prospectus, and up to the date of this prospectus.