



Time Watch Investments Limited

時計寶投資有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 2033

2014

ANNUAL REPORT

*Stride Toward a  
Bright Future*

# CORPORATE PROFILE

Time Watch Investments Limited (the “Company” or “Time Watch”) and its subsidiaries (collectively, the “Group”) are the leading manufacturer, brand-owner and retailer of watches in the People’s Republic of China (“PRC”) national brand watch market. Established in 1988, the Group’s core proprietary brand, Tian Wang (天王), has been developed into a well-known brand in the PRC. Tian Wang was the top national watch brand in the PRC in 2011, with a market share of approximately 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 in the PRC in terms of both retail sales value and retail sales volume in 2011. Another proprietary brand of the Group, Balco (拜戈), which was initially registered in Switzerland in 1986 by an independent third party and acquired by the Group in 2002, offers Swiss-made watches targeting younger mid-income consumers in the PRC.

## 2014 RESULTS AT A GLANCE

Profit attributable to owners of the Company:

**HK\$309.9m** (2013: HK\$213.6m) +45.1%

EBITDA:

**HK\$467.0m** (2013: HK\$327.6m) +42.6%

Equity attributable to owners of the Company:

**HK\$1,434.8m** (2013: HK\$1,286.5m) +11.5%

Earnings per share – basic:

**HK14.9 cents** (2013: HK12.4 cents) +20.2%

Return on average equity attributable to owners of the Company:

**22.8%** (2013: 25.7%) -11.3%

Current ratio:

**5.5** (2013: 6.0) -8.3%

Average inventory turnover days:

**217 days** (2013: 220 days) -1.4%

## CORE BUSINESSES OF THE GROUP



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**ON THE GREAT  
CLOCK OF TIME  
THERE IS BUT ONE  
WORD -- "NOW".**

*Shakespeare*

## FINANCIAL HIGHLIGHTS

### FINANCIAL SUMMARY

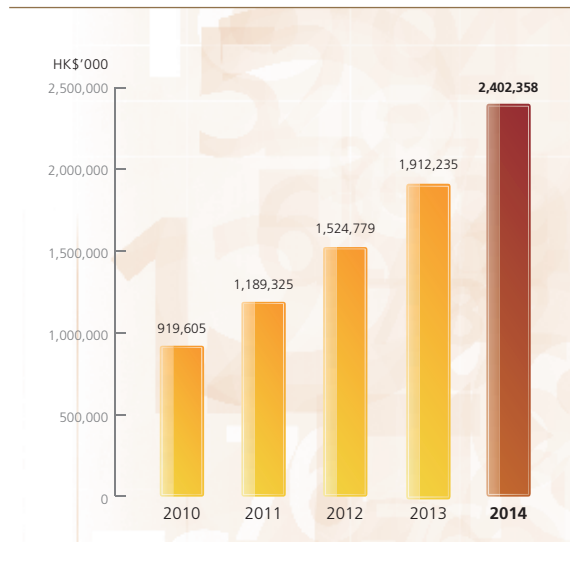
The following is a summary of the published results of the Group for the last five financial years. The financial information for the years ended 30 June 2013 and 2014 is extracted from the consolidated financial statements in this annual report while such information for the years ended 30 June 2010, 2011 and 2012 is extracted from the prospectus of the Company dated 24 January 2013.

	2010	2011	2012	2013	2014
<b>For the year ended 30 June</b>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	919,605	1,189,325	1,524,779	1,912,235	<b>2,402,358</b>
Gross Profit	445,127	695,385	918,460	1,159,357	<b>1,561,313</b>
Gross Margin	48.4%	58.5%	60.2%	60.6%	<b>65.0%</b>
Profit attributable to owners of the Company	60,717	134,603	184,093	213,551	<b>309,890</b>
Profit attributable to owners of the Company (excluding listing expenses)	60,717	134,603	202,023	239,291	<b>309,890</b>

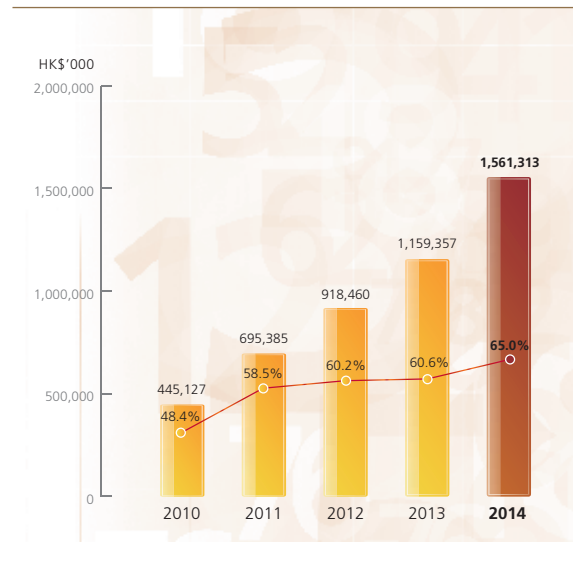
	2010	2011	2012	2013	2014
<b>As at 30 June</b>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	719,233	940,721	972,423	1,620,275	<b>1,850,687</b>
Total liabilities	429,706	472,293	557,475	287,827	<b>347,796</b>
Equity attributable to owners of the Company	277,069	452,015	377,119	1,286,488	<b>1,434,770</b>
Average Inventory Turnover Days (days)	160	197	231	220	<b>217</b>
Average Trade Receivables Turnover Days (days)	40	44	49	55	<b>56</b>
Average Trade Payables Turnover Days (days)	53	63	63	55	<b>49</b>

# FINANCIAL HIGHLIGHTS

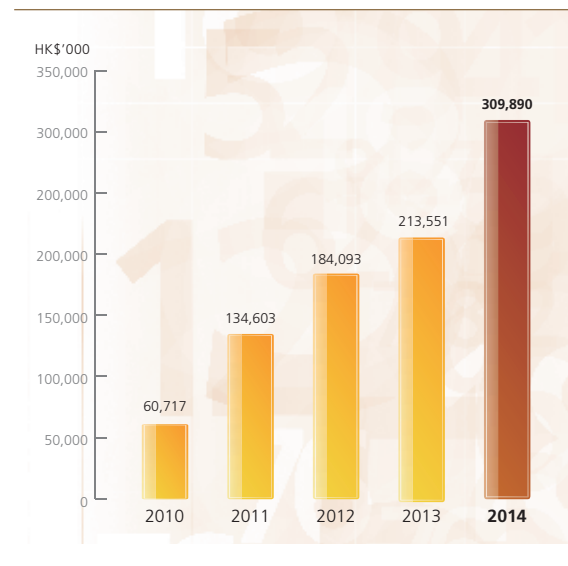
## Revenue



## Gross Profit and Gross Margin

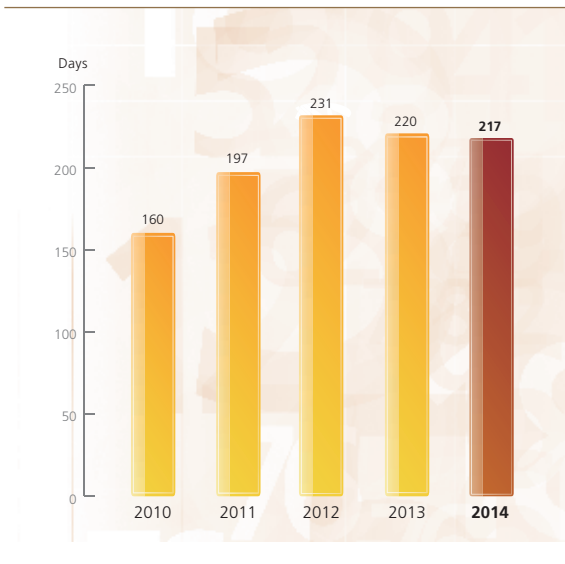


## Profit attributable to owners of the Company

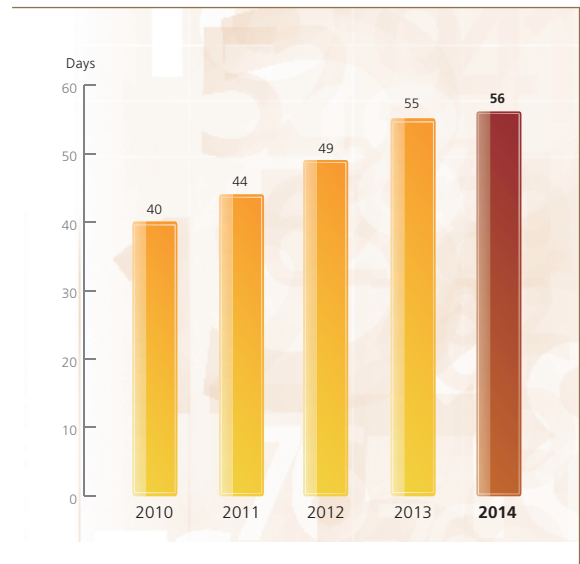


# FINANCIAL HIGHLIGHTS

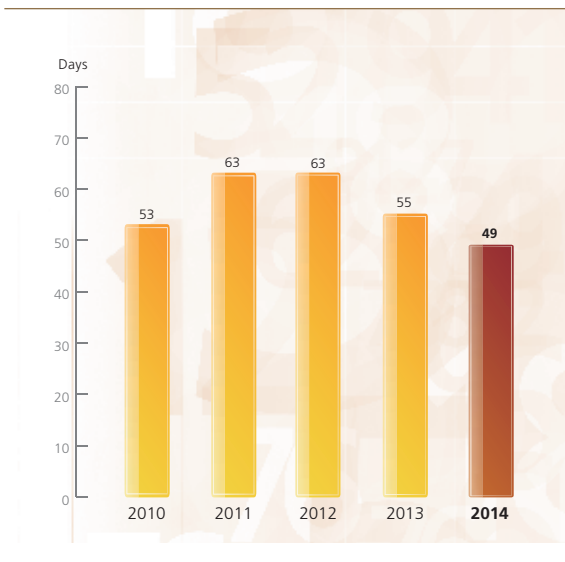
Average Inventory Turnover Days



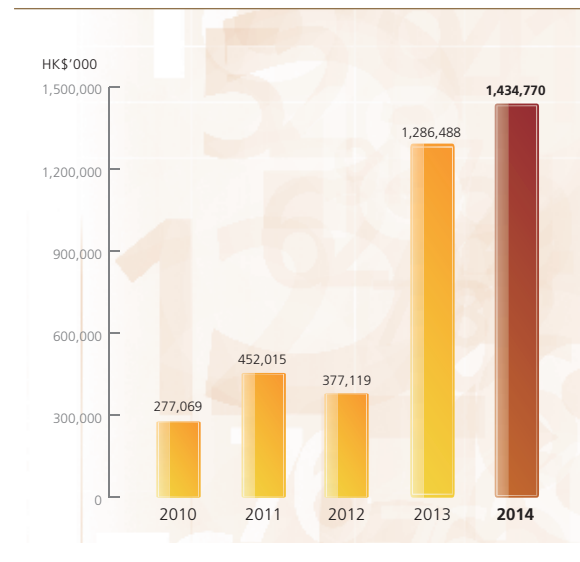
Average Trade Receivables Turnover Days



Average Trade Payables Turnover Days



Equity attributable to owners of the Company





**THE MOST PROMISING  
SUCCESSOR IS NOT THE  
TALENTED, BUT THOSE  
WHO ARE GOOD AT SEIZING  
EVERY OPPORTUNITY TO  
EXPLORE.**



## CHAIRMAN'S STATEMENT

Looking ahead, Time Watch will not only sustain its revenue growth from its existing POS of Tian Wang, but will also proactively expand its retail network to cover second- and third-tier cities to develop both the middle-class and mass markets. The Group plans to open more than 200 new POS for Tian Wang for the financial year ending 30 June 2015. Moreover, e-commerce platform has been emerging as one of the Group's key sales channel in recent years. The Group targeted to generate 25% of its total revenue through e-commerce platforms in the coming three years. The Group will continue to stay abreast of the market and adopt flexible strategy to achieve quality and healthy growth, and generate fruitful return to its shareholders.

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### REVIEW OF THE FINANCIAL YEAR ENDED 30 JUNE 2014

On behalf of Time Watch Investments Limited (the "Company", together with its subsidiaries, the "Group"), I am pleased to inform you that during the financial year ended 30 June 2014 ("FY2014"), the Group generated a total revenue of approximately HK\$2,402.4 million, representing a growth of approximately 25.6% as compared with that in that previous year. Profit attributable to owners of the Company increased by approximately 45.1% to approximately HK\$309.9 million with an earnings per share of HK14.9 cents. The board (the "Board") of directors (the "Directors") of the Company has resolved to recommend the payment of a final dividend of HK3 cents per share of the Company, representing a payout of approximately 20.1% of the profit attributable to owners of the Company and a special dividend of HK2 cents per share of the Company, which are subject to shareholders' approval in the coming annual general meeting of the Company, each as a separate resolution.

In 2014, China's retail watch market saw relatively mild improvement as compared to that in the previous financial year. During FY2014, the Group continued to optimize product design and concentrate on the production of low-end as well as youth series watches. The Group is steadily expanding its retail network by opening new point of sales ("POS") across the country, with an aim of penetrating into second-, third- and lower tier cities with business potential. Besides, we

strived to refine our operation through stricter control over site selection of new POS and stores, which enhanced the quality of both new POS and individual stores.

In the era of information technology with mobile computing, cloud computing, big data analytics, and social technology becoming popular, the Group is committed to keep pace with the world information technology development and has adopted a new information system to better serve its customers and achieve a closer customer relationship. The system helped customers to have a better understanding of the Group's products and enhanced a better relationship between the Group's frontline staff and staff working in the headquarters. The information system also let the Group to have an updated data for different marketing analysis that allowed the Group to apply effective marketing strategies to increase market share and visibility. E-commerce is very common nowadays. Everyone now at home or on the road can enjoy online shopping. Customers can keep up with the Group's trends and grasp all offers in details by surfing our online sales platform. Moreover, our Group is implementing an online POS mobile device which is based on 3G technology. The Group's store's sales team can update sales data and stock level instantly by using the device. As all information is synchronized to the Group's headquarter system, the Group is also provided with the most updated sales movement in no time. All data are stored in the Group's Data Centre



## CHAIRMAN'S STATEMENT

and are analysed by the Group's system, namely, Super Report. This is a system developed by the Group to find out the market trend of demand. The Group has invested in this information technology project for over RMB5.0 million that showed the Group's determination in developing information technology system. The Group believes that this project will bring huge benefits to the Group. Data analysis helps the Group to apply different marketing strategies to satisfy different customers' needs.

### OUTLOOK

Despite global economic uncertainties, the Group believes that opportunities are present in the following years alongside challenges. The PRC government's efforts to enhance economic stability is creating a solid economic environment, which the Group believes will generate new opportunities for the industry and provide favorable conditions for the Group's long-term development.

Although the slowdown of Mainland China economy is dampening the consumption of high-end watches, consumers' demand for mid to low-end watches remains largely unaffected and is expected to increase in the coming years. It is expected that the Group will continue to lead in the mid to low-end watch market.

Last but not least, I would like to take this chance to thank the board of directors for their contribution to the Group for further growth in the future. I would also like to thank the Group's hard-working and loyal employees for their concerted effort and collective contributions to the Group.

**Mr. Tung Koon Ming**

*Chairman*

Hong Kong, 29 September 2014



**WE ALWAYS HAVE  
TIME ENOUGH, IF  
WE WILL BUT USE  
IT ARIGHT.**

*Goethe*

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Revenue

Revenue of the Group increased by approximately HK\$490.2 million or approximately 25.6% from approximately HK\$1,912.2 million for the financial year ended 30 June 2013 (“FY2013”) to approximately HK\$2,402.4 million for FY2014.

### *Tian Wang Watches*

Sales of Tian Wang watches continued to be the Group’s main source of revenue and accounted for approximately 69.3% of the total revenue of the Group during FY2014 (FY2013: approximately 64.4%). Sales of Tian Wang watches recorded a revenue of approximately HK\$1,665.2 million for FY2014, representing an increase of approximately HK\$433.7 million or approximately 35.2% as compared with approximately HK\$1,231.5 million for FY2013. The growth during FY2014 was mainly driven by (i) the expansion of the retail network which had an increase of approximately 25.5% from 1,514 POS as at 30 June 2013 to 1,900 POS as at 30 June 2014; and (ii) the rapid growth in sales of watches through e-commerce channel from approximately HK\$9.2 million for FY2013 to approximately HK\$176.8 million for FY2014. The average monthly revenue per POS of Tian Wang watches remained stable at approximately HK\$71,000 for both years. The same store sales growth rate of Tian Wang watches was approximately 6.1% for FY2014 (FY2013: approximately 10.1%).

### *Balco Watches*

Sales of Balco watches increased by approximately HK\$18.0 million or approximately 12.0% from approximately HK\$150.1 million for FY2013 to approximately HK\$168.1 million for FY2014, and accounted for approximately 7.0% of the total revenue of the Group for FY2014 (FY2013: approximately 7.8%). The increase was primarily due to (i) the increase in the number of POS which increased by approximately 21.5% from 405 POS as at 30 June 2013

to 492 POS as at 30 June 2014; and (ii) the increase in sales to multi-brand watch distributors in Hong Kong, Macau and Taiwan from approximately HK\$33.4 million for FY2013 to approximately HK\$46.7 million for FY2014, representing an increase of approximately HK\$13.3 million or approximately 39.8%.

### *Other Brands Watches*

Sales of well-known brand watches other than Tian Wang and Balco brands (“Other Brands”) increased by approximately HK\$58.0 million or approximately 23.3% from approximately HK\$248.6 million for FY2013 to approximately HK\$306.6 million for FY2014 and accounted for approximately 12.8% of the total revenue of the Group for FY2014 (FY2013: approximately 13.0%). The increase in sales of Other Brands watches was primarily attributed to (i) the contribution of full year’s revenue of approximately HK\$30.0 million for FY2014 (FY2013: approximately HK\$3.6 million) from a joint venture company, Time Watch (Sichuan) Company Limited (“Time Watch Sichuan”), which was established in December 2012; and (ii) the contribution of revenue of approximately HK\$15.2 million for FY2014 from a new joint venture company, Time Watch (Chengdu) Company Limited (“Time Watch Chengdu”) which was established in December 2013.

### *Watch Movements Trading Business*

Trading of watch movements accounted for approximately 10.9% of the Group’s total revenue for FY2014 (FY2013: approximately 14.8%). For FY2014, revenue from trading of watch movements was approximately HK\$262.4 million, representing a decrease of approximately HK\$19.7 million or approximately 7.0% as compared with approximately HK\$282.1 million for FY2013. The decrease was primarily due to less watch movements spared for trading after allocation of watch movements for the production of Tian Wang watches.

## MANAGEMENT DISCUSSION AND ANALYSIS



### Gross Profit

The Group's gross profit increased by approximately HK\$401.9 million or approximately 34.7% from approximately HK\$1,159.4 million for FY2013 to approximately HK\$1,561.3 million for FY2014, while the gross profit margin increased to approximately 65.0% for FY2014 from approximately 60.6% for FY2013. The increase in gross profit and improvement in gross profit margin were primarily due to the increase in sales contribution of Tian Wang watches from approximately 64.4% of the Group's total revenue for FY2013 to approximately 69.3% for FY2014, as well as the improvement in gross profit margin of Tian Wang watches from approximately 77.8% for FY2013 to approximately 79.3% for FY2014, as a result of increased sales of regular-priced watch models.

### Other Income, Gains and Losses/ Other Expenses

The Group's other income, gains and losses increased from approximately HK\$12.9 million for FY2013 to approximately HK\$15.6 million for FY2014, representing an increase of approximately HK\$2.7 million or approximately 20.9%. This was primarily due to the increase in bank interest income, watch repair and maintenance services income and government subsidies received during FY2014. The Group's other expenses for FY2013 represented professional fees incurred for the initial public offering of the ordinary shares ("Shares") of HK\$0.10 each in the share capital of the Company.

### Selling and Distribution Costs

The Group's selling and distribution costs increased by approximately HK\$281.3 million or approximately 37.1% from approximately HK\$758.9 million for FY2013 to approximately HK\$1,040.2 million for FY2014, which accounted for approximately 43.3% of the Group's total revenue for FY2014 (FY2013: approximately 39.7%). The increase was mainly due to (i) the increase in concessionaire and rental fees of approximately HK\$117.2 million as a result of increase in revenue; (ii) the increase in salaries of sales personnel of approximately HK\$68.6 million as a result of increase in number of sales staff which was in line with the increase of number of POS and the increase of sales commissions together with the increase of revenue; (iii) the increase in advertising and promotion fees of approximately HK\$41.4 million; and (iv) the increase in other sales related costs such as depreciation, packing, entertainment expenses, service charges and management fee of approximately HK\$54.1 million, which were in connection with the Group's market expansion.

# MANAGEMENT DISCUSSION AND ANALYSIS

## Administrative Expenses

The Group's administrative expenses increased to approximately HK\$113.7 million for FY2014 from approximately HK\$87.4 million for FY2013, representing an increase of approximately HK\$26.3 million or approximately 30.1%. The increase was primarily due to (i) the increase in salaries for administrative staff of approximately HK\$10.0 million; and (ii) the increase in the PRC local regulatory surcharges (such as city construction tax and education levy) of approximately HK\$4.8 million which was in line with the increase in revenue.

## Finance Costs and Income Tax Expenses

The Group's finance costs decreased by approximately HK\$6.8 million or approximately 84.0% from approximately HK\$8.1 million for FY2013 to approximately HK\$1.3 million for FY2014 as a result of decreased bank borrowings during FY2014. The Group's income tax increased from approximately HK\$76.7 million for FY2013 to approximately HK\$106.7 million for FY2014, representing an increase of approximately HK\$30.0 million or approximately 39.1%. The Group's effective tax rate (exclusive of listing expenses) increased from approximately 24.1% for FY2013 to approximately 25.3% for FY2014.

## Profit for the Year

For the factors above, the Group's net profit for FY2014 increased by approximately HK\$99.8 million or approximately 46.4% from approximately HK\$215.3 million for FY2013 to approximately HK\$315.1 million for FY2014. The net profit margin increased from approximately 11.3% for FY2013 to approximately 13.1% for FY2014.



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### Overview

During FY2014, the Group's principal business remained manufacture and retail sales of its two proprietary brands watches (namely, Tian Wang and Balco), retail sales of the Other Brands watches in the PRC and Watch Movements Trading Business.

Notwithstanding the continuing weakness in the global economy throughout FY2014, the Group achieved a sales growth of approximately 25.6% over previous year. FY2014 was a year which was full of challenges and uncertainties for the PRC watch industry. Since watches are not a necessity to daily lives, its market demand is particularly sensitive to changes in economic conditions and consumer confidence. Overall performance of the Group for the year was, to a certain extent, affected by the declining confidence among domestic consumers in the PRC, resulting in a slower growth in sales and a downward pressure on profitability. It is the major reason for the decrease in the same store sales growth of Tian Wang watches from approximately 10.1% for FY2013 to approximately 6.1% for FY2014. Nevertheless, building on its competitive advantages developed over years, the Group continued to maintain its leading position in the PRC national watch market.

Tian Wang watches continued to be the Group's core brand business, which contributed approximately 69.3% of the total revenue of the Group during FY2014. Its over-25-year brand heritage and reputation of delivering high quality and precise watches are key factors of Tian Wang watches' continued success and widespread brand recognition. Based on the information gathered from customers through the Group's national wide POS network, the Group can strive to cater to Chinese customers' increasing demand for high quality and trendy watches.

The Group recorded a same store sales growth of approximately 6.1% for FY2014, representing a drop of approximately 4.0% as compared with approximately 10.1% for FY2013, due to the economic slowdown and uncertainty throughout the year and a high base for comparison from last year. In light of the decrease of same store sales growth rate for FY2014 and the slowdown of the PRC economy, to boost the same store sales growth in the coming year, the Group will adopt the following measures: (i) organising more promotion and marketing activities including but not limited to inviting celebrities and/or models to attend promotion functions taken place at the Group's POS or locations in the PRC with great pedestrian flow; (ii) setting up some temporary promotion counters in shopping malls or department stores to enhance the atmosphere for the Group's promotion activities; (iii) launching a series of television commercials featuring the new spokesperson of Tian Wang brand after the Group has engaged the new spokesperson; and (iv) introducing more new models of watches to the market such that the Group can cater for the needs of a wider range of consumers.

#### Retail Network

The Group's retail network principally comprises sales counters located in department stores which are directly managed and controlled by the Group. Over 85% of the sales of Tian Wang and Balco watches by the Group were made through the Group's directly managed sales network. Since the Group sells most of its watches directly to retail customers, the Group has been able to obtain first hand market information and direct feedback from customers through its frontline staff. The Group considers that this is a competitive advantage over its competitors which do not have fully directly managed sales network and thus mainly sell their products through their distributors.

## MANAGEMENT DISCUSSION AND ANALYSIS

# Effective retail management through the Group's directly managed sales network

### Number of POS of the Group as at 30 June

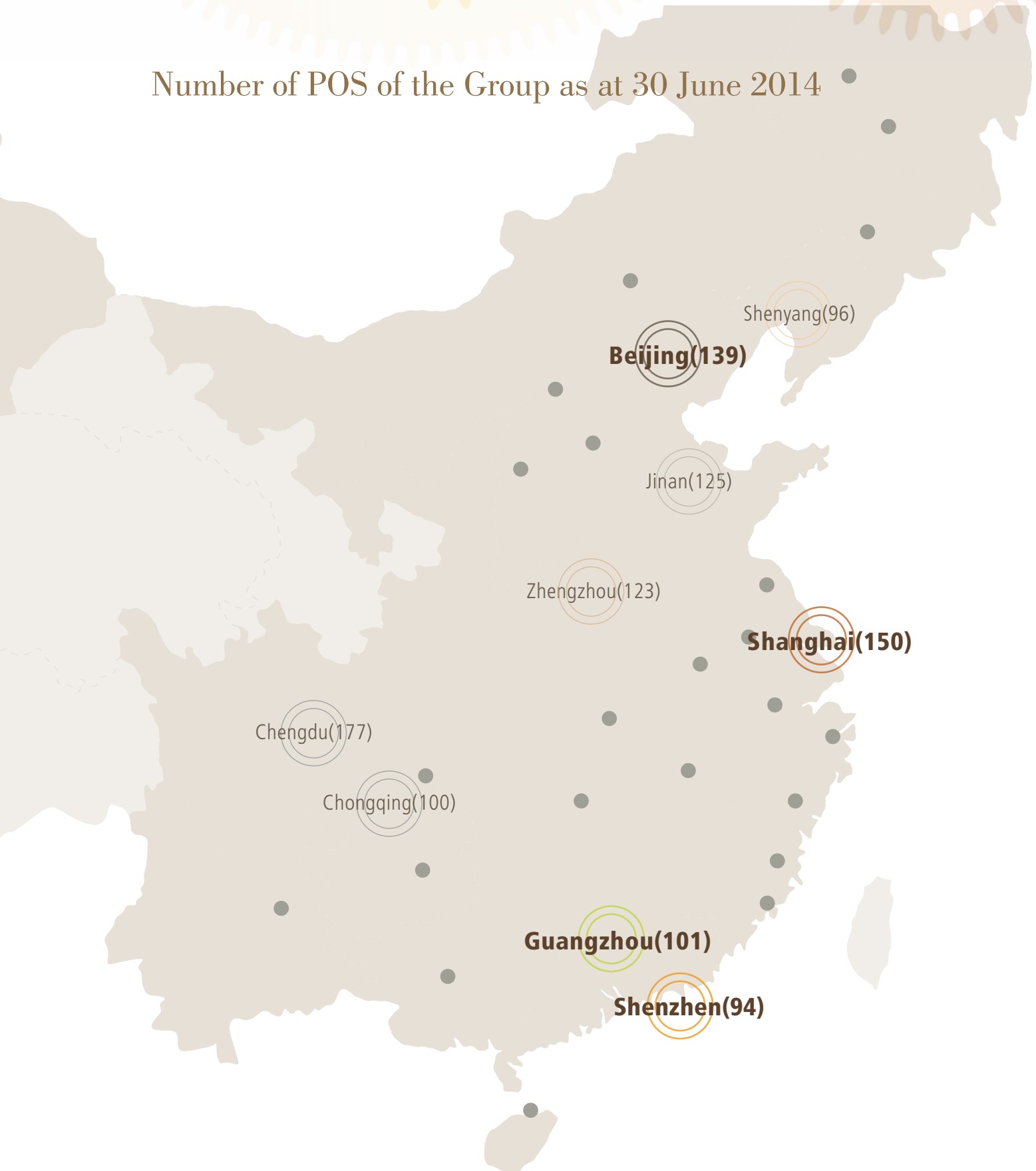
	Tian Wang		Balco		Other Brands		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Sales regions in Tier I cities</b>								
● Shanghai	83	90	41	32	26	27	150	149
● Beijing	102	91	37	35			139	126
● Guangzhou	74	62	27	29			101	91
● Shenzhen	87	72	7	7			94	79
	346	315	112	103	26	27	484	445
<b>Sales regions in Tier II &amp; other cities</b>								
Top five sales regions								
● Chengdu	95	69	69	57	13		177	126
● Jinan	98	90	27	26			125	116
● Zhengzhou	95	73	28	27			123	100
● Chongqing	66	50	26	20	8	6	100	76
● Shenyang	79	65	17	13			96	78
Other sales regions	1121	852	213	159	51	45	1385	1056
	1554	1199	380	302	72	51	2006	1552
Total No. of POS	1900	1514	492	405	98	78	2490	1997

- Extensive sales network covering 30 of 31 Provinces in the PRC



## MANAGEMENT DISCUSSION AND ANALYSIS

Number of POS of the Group as at 30 June 2014





## MANAGEMENT DISCUSSION AND ANALYSIS

Besides, as part of the strategic expansion of the Group, apart from opening new POS, the Group has formed new joint ventures with other independent local operators which shall inject their existing retail network into the joint venture companies formed. During FY2014, the Group has formed two new joint ventures, namely, Time Watch Chengdu and Zhengzhou Time Watch Company Limited (“Zhengzhou Time Watch”), which are in addition to the existing joint ventures of the Group, namely Suzhou Paragon Watch Company Limited (“Suzhou Paragon”), Time Watch (Hefei) Timepieces Company Limited (“Time Watch Hefei”), Time Watch (Shanghai) Timepieces Company Limited (“Time Watch Shanghai”) and Time Watch Sichuan.

As at 30 June 2014, the Group’s retail network of Tian Wang watches had 1,900 POS, representing a net increase of 386 POS as compared with the number of POS for Tian Wang watches as at 30 June 2013. The Group plans to open an estimate of 200 more Tian Wang POS for the year ending 30 June 2015. As at 30 June 2014, the retail network of Balco watches and Other Brands watches had 492 POS and 98 POS, respectively, representing a net increase of 87 POS and 20 POS, respectively as compared with the number of POS for Balco watches and Other Brands watches as at 30 June 2013.

### **Proprietary Watches of the Group**

#### ***Tian Wang Watches***

Sales of Tian Wang watches were still the major source of revenue of the Group, which contributed approximately 69.3% of the Group’s total revenue for FY2014 (FY2013: approximately 64.4%). During FY2014, the Group has launched not less than 100 new models of Tian Wang watches with price ranging from approximately RMB100 to RMB8,000 per watch for direct retail sales, corporate sales and e-commerce. The wide price range of Tian Wang watches can cater for the different needs of customers, and can capture more customers from different income level.

#### ***Balco Watches***

Balco watches are assembled and imported from Switzerland. The Group faces keen competition from other imported watches of similar price range, including Citizen, Casio, Titoni and Enicar. Sales of Balco watches had accounted for approximately 7.0% of the Group’s total revenue for FY2014 (FY2013: approximately 7.8%). For FY2014, revenue from Balco watches was approximately HK\$168.1 million as compared with approximately HK\$150.1 million for FY2013, representing an increase of approximately HK\$18.0 million or approximately 12.0%. There is an increase in sales of Balco watches in the PRC by approximately HK\$4.8 million or approximately 4.1% from approximately HK\$116.7 million for FY2013 to approximately HK\$121.5 million for FY2014. The Group continued to seek other ways to develop the Balco watch business, including broadening its sales and distribution channels in and outside of the PRC. There is an increase of approximately HK\$13.3 million or approximately 39.8% in the sales of Balco watches to Hong Kong, Macau and Taiwan through multi-brand watches distributors. Revenue from these sales increased from approximately HK\$33.4 million for FY2013 to approximately HK\$46.7 million for FY2014.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Other Brands Watches

Revenue from sales of Other Brands watches was approximately HK\$306.6 million for FY2014 as compared with approximately HK\$248.6 million for FY2013, representing an increase of approximately HK\$58.0 million or approximately 23.3%. Revenue from sales of Other Brands watches accounted for approximately 12.8% of the Group's total revenue for FY2014 (FY2013: approximately 13.0%). The increase in sales of Other Brands watches was mainly due to contribution of full year's revenue from Time Watch Sichuan and a new joint venture company, Time Watch Chengdu.

### Watch Movements Trading Business

The Directors consider that the in-house watch movements procurement and trading arm of the Group is an integral segment of the Group's overall business operation for providing reliable and stable supply of watch movements for the assembly of its Tian Wang watches and bringing revenue to the Group through the Watch Movements Trading Business with other watch manufacturers and distributors when there is surplus of watch movements. For FY2014, sales of watch movements had accounted for approximately 10.9% of the Group's total revenue (FY2013: approximately 14.8%). There is a decrease in sales of approximately HK\$19.7 million or approximately 7.0% from approximately HK\$282.1 million for FY2013 to approximately HK\$262.4 million for FY2014.

### E-commerce

In March 2013, the Company had established a 70%-owned subsidiary, Shenzhen Time Watch Trading Company Limited ("Shenzhen Time Watch"), which has signed operation agreements with several online sales platform (including but not limited to Paipai (Tencent QQ), Jingdong mall and Tmall) and offered sales of lower-priced watches and new youth series watches products for the younger generation to capture their growing consumption power. The Directors believe that a wide variety of watches can enable the Group to reach out to an extensive range of customers across different age groups. For FY2014, there is a significant increase in sales of watches through e-commerce channel of approximately HK\$167.6 million or approximately 1,821.7% from approximately HK\$9.2 million for FY2013 to approximately HK\$176.8 million for FY2014 as there is full year contribution from Shenzhen Time Watch for FY2014, compared with three months contribution for FY2013.

### INVENTORY CONTROL

The Group's inventory balance was approximately HK\$556.0 million as at 30 June 2014, representing an increase of approximately HK\$113.9 million or approximately 25.8% as compared with approximately HK\$442.1 million as at 30 June 2013. The increase was in line with the increase in the Group's inventory balance of Tian Wang finished watches from approximately HK\$217.5 million as at 30 June 2013 to approximately HK\$291.6 million as at 30 June 2014. The Group's inventory turnover days remained stable at approximately 217 days for FY2014, as compared with 220 days for FY2013. The Group will continue to monitor and control its inventory level vigilantly while implementing its sales network expansion plan in order to ensure that the expansion plan and inventory level will not adversely affect the cash flow and liquidity of the Group. The inventory quantities per Tian Wang, Balco and Other Brands POS were approximately 562, 206 and 566 respectively as at 30 June 2014.



## MANAGEMENT DISCUSSION AND ANALYSIS

The inventory aged over two years were approximately HK\$78.6 million and approximately HK\$59.1 million as at 30 June 2014 and 30 June 2013 respectively, with corresponding provision for these inventory balances of approximately HK\$44.0 million and approximately HK\$41.0 million respectively. The management assesses and reviews the inventory ageing analysis at the end of each reporting period and identifies the slow-moving inventory items that are no longer suitable for use in production or sales. At the end of each reporting period, the management will provide necessary provision if the net realisable value of the inventory is estimated to be below the cost.

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group financed its operations primarily through cash flows from operations and short-term bank loans. The cash and cash equivalents were approximately HK\$660.1 million and approximately HK\$537.2 million as at 30 June 2014 and 30 June 2013 respectively.

The Group's net cash generated from operating activities for FY2014 was approximately HK\$215.9 million, representing an increase of approximately HK\$37.9 million from approximately HK\$178.0 million for FY2013. The amount was primarily attributable to profit before taxation of approximately HK\$421.8 million from the Group's operations adjusted for non-cash items of approximately HK\$70.1 million, decrease of working capital balances of approximately HK\$201.6 million, income taxes paid of approximately HK\$83.2 million and interest received of approximately HK\$8.8 million.

The Group's net cash generated from investing activities for FY2014 was approximately HK\$50.0 million, which was mainly attributable to withdrawal of short-term deposit of approximately HK\$150.0 million, partially offset by purchase of property, plant and equipment of approximately HK\$100.0 million.

The Group's net cash used in financing activities for FY2014 was approximately HK\$137.5 million, which was mainly attributable to dividends paid of approximately HK\$145.6 million and repayment of bank borrowings of approximately HK\$263.5 million, partially offset by borrowings raised of approximately HK\$258.9 million, capital injected by non-controlling shareholders of subsidiaries of approximately HK\$21.5 million. The Group's bank borrowings were approximately HK\$36.0 million and approximately HK\$40.5 million as at 30 June 2014 and 30 June 2013 respectively.

The Group has a net cash position as at 30 June 2014 and 30 June 2013. As at 30 June 2014, the Group's total equity was approximately HK\$1,502.9 million, representing an increase of approximately HK\$170.5 million from approximately HK\$1,332.4 million as at 30 June 2013. The Group's working capital was approximately HK\$1,396.0 million as at 30 June 2014, representing an improvement of approximately HK\$114.9 million as compared with approximately HK\$1,281.1 million as at 30 June 2013.

Details of the Group's bank borrowings as at 30 June 2014 are set out in note 21 to this annual report.

The gearing ratio being calculated as total debt over total equity was approximately 2.4% and approximately 3.0% as at 30 June 2014 and 30 June 2013 respectively.

### CHARGE ON GROUP ASSETS

There was no material charge on the Group's assets as at 30 June 2014 and 2013.

### CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 June 2014 and 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS

### CAPITAL COMMITMENTS

The Group did not have any material capital commitments as at 30 June 2014 and 2013.

### FOREIGN CURRENCY EXPOSURE

The Group has foreign currency sales, which expose itself to foreign currency risk. In addition, certain trade and other receivables, bank balances, other payables and accrued charges, and bank borrowings of the Group and intra-group balances are denominated in foreign currencies of the relevant group entities.

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

### EMPLOYEES AND EMOLUMENTS POLICIES

As at 30 June 2014, the Group employed a total of approximately 5,130 full time employees (30 June 2013: approximately 2,800) engaging in design, purchasing, production, sales and marketing and administration. The staff costs incurred during FY2014 was approximately HK\$322.6 million (FY2013: approximately HK\$225.3 million). The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme and medical insurance, discretionary bonuses are also awarded to employees according to the assessment of individual performance.

### SOCIAL RESPONSIBILITY

The Group's charitable and other donations for FY2014 amounted to approximately HK\$64,200 (FY2013: approximately HK\$1.6 million), which is used to help the poor in the PRC. No donations were made to political parties.

### USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering ("IPO") of the Company in February 2013 amounted to approximately HK\$742.0 million, of which approximately HK\$223.1 million had been utilized for FY2013. For FY2014, the Company had further utilized approximately HK\$139.0 million of the proceeds in the manner set out in the following table.

	Amount of net proceeds allocated and unutilised as at 1 July 2013 (HK\$'m)	Amount of net proceeds utilised for FY2014 (HK\$'m)	Balance as at 30 June 2014 (HK\$'m)	Actual business progress up to 30 June 2014
Opening of approximately 200 POS in each of the years ending 30 June 2014, 2015, 2016, 2017 and 2018	196.2	71.5	124.7	Approximately HK\$71.5 million of IPO proceeds was used for opening 250 new POS during FY2014.

## MANAGEMENT DISCUSSION AND ANALYSIS

	<b>Amount of net proceeds allocated and unutilised as at 1 July 2013 (HK\$'m)</b>	<b>Amount of net proceeds utilised for FY2014 (HK\$'m)</b>	<b>Balance as at 30 June 2014 (HK\$'m)</b>	<b>Actual business progress up to 30 June 2014</b>
Establishing joint ventures with experienced operators of watch sales network and acquiring their inventories	158.6	32.5	126.1	Approximately HK\$32.5 million of IPO proceeds was used for injection of share capital into Time Watch Sichuan and two new joint venture companies namely, Time Watch Chengdu and Zhengzhou Time Watch.
Marketing and promotional activities for Tian Wang for the years ending 30 June 2014, 2015 and 2016 including (i) engaging an active and well-known Chinese television and movie actor celebrity as the new spokesperson for Tian Wang brand; (ii) production of television commercials focusing on the new Tian Wang spokesperson; and (iii) rolling-out advertisement on television and various other media	139.0	35.0	104.0	As at 30 June 2014, approximately HK\$35.0 million of IPO proceeds was used for rolling-out advertisement on television and various other media. The Group is still looking for suitable candidate whose image is in line with the brand image and recognition of Tian Wang brand and the proposed large-scale nationwide marketing campaign for Tian Wang brand.
Enhancing product design and development capabilities	25.1	–	25.1	The Group has been looking for international designer to enhance product design and has not identified suitable candidate.
<b>TOTAL</b>	<b>518.9</b>	<b>139.0</b>	<b>379.9</b>	

Actual application of the net proceeds, except for opening of POS was lower as compared to the planned application due to the reasons as explained above and/or the weak economic condition and declining confidence among domestic consumers in the PRC.

## PROSPECTS AND STRATEGIES

Despite the weak economic conditions in the PRC and the PRC government's measures against consumption of luxury goods during FY2014, the revenue and profit of the Group continues to achieve steady growth in FY2014 as the Group concentrates to develop the market of low-end and medium-end watches as well as youth series watches. During FY2014, the Group has adopted the strategy of steady expansion of its retail network by opening new POS in second, third and lower tier cities across the country and has increased its efforts in selling new youth series watches products through e-commerce channels.

The economic environment is likely to be uncertain in the year ending 30 June 2015. The management believes that the strategy of opening new POS and increase in investment in e-commerce channels continues to be the major revenue drivers for the Group in the coming year. The sales for Tian Wang watches increased by approximately HK\$91.4 million (representing an increase of approximately 26.6%) during the fourth quarter of FY2014 as compared with the sales during the fourth quarter of last year, and based on the Board's preliminary review of the unaudited consolidated management accounts of the Group for the two months ended 31 August 2014 which have not been audited by the auditors of the Company nor reviewed by the audit committee of the Board, the growth was maintained in July and August 2014. In view of the above, the Directors are confident that the Group can forge through the economic headwinds and will achieve steady growth in its business.

## Tian Wang Watch Legend Series

Reaching back into history, the wise, at the right time, could always be able to find the fire of legend and fulfill the legendary oath with achievements, by virtue of their perseverance.

Nothing is impossible to a willing heart. Under the smooth outline and delicate appearance, the legend series of Tian Wang Watch reveal a grand demeanor; with the modest and implicit design, the legend series radiate a refined and graceful temperament. The concise pointers walk in a melody of elegance through minutes and seconds, recording precisely the mottled footprint of life. Swearing with time and pursuing the dream, the legend series sculpture, with unremitting persistence, each and every step along the journey of legend.

Leaping over centuries, the legend series of Tian Wang Watch become more of a legend!





## Brand Awards Granted to Balco Watch in Greater China

Balco Watch, the Swiss watch brand acquired by the Group, was awarded by Eastweek Magazine as an “Excellent Brand in Greater China” on 17 September 2014.

Swiss Balco Watch, with a history of nearly 100 years, is a member of the Federation of the Swiss Watch Industry FH. Tung Wai Kit, an executive Director of the Company, mentioned in his thank-you speech at the award ceremony that Balco Watch will continue to uphold the exceptional tradition and technology of the Swiss watch industry, and strive to reward consumers with high quality workmanship.



# Tian Wang Watch Zhengzhou Zijingshan Flagship Store Opening



## MAJOR EVENTS

Zhengzhou Zijingshan flagship store, the largest flagship store of Tian Wang Watch, was opened on 26 October 2013. The famous movie star Peter Ho, was invited to be present on that day, witnessed the launch of legend series of Tian Wang Watch while cut the ribbon at the opening ceremony.



# “The Legend • The Genesis” Introducing the Journey of Legend of Tian Wang Watch at the 25th Anniversary



Zhengzhou



Shenyang



Tangshan



## MAJOR EVENTS

Tian Wang Watch ushered in its 25th anniversary of foundation in 2013. To commemorate the milestone moment, Tian Wang Watch launched the Legend Series with honor, and meanwhile commenced the national tour of “The Legend • The Genesis – the 25th anniversary celebration campaign” to publicize the legendary journey of Tian Wang Watch. The tour, covering a number of cities and witnessed by celebrities including Jia Nailiang, Daniel Chan, Leon Jay Williams and Peter Ho, had also presented a magnificent feast to the 25th anniversary celebration campaign.



## Tian Wang Watch Unveiled at 2014 Shenzhen Watch & Clock Fair

The 25th Shenzhen Watch & Clock Fair, the largest professional exhibition of watch & clock in China, was opened at Shenzhen Convention and Exhibition Center on 26 June 2014.

This year, with series of classic watches gracefully displayed in the 240-square-meter booth, the largest as it was in the previous year, Tian Wang Watch manifested its brand spirit and cultural ambience of "Promoting a positive and aggressive life attitude with profound connotation and accumulation", in return, it was awarded as "The booth with the most distinctive cultural characteristics".





# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Tung Koon Ming (董觀明)**, aged 63, is the founder of the Group, Chairman, executive Director and chief executive officer of the Company. Mr. Tung is the father of Mr. Tung Wai Kit, an executive Director. He was appointed as an executive Director on 21 September 2011. He is responsible for the overall direction, management and daily operation of the Group. He is also a director of all subsidiaries of the Group, except for Ye Guang Li Electronics (Meizhou) Company Limited (“Ye Guang Li”), Balco Switzerland SAGL, Time Watch Hefei and Time Watch Shanghai, Time Watch Sichuan, Time Watch Chengdu and Shenzhen Time Watch.

Mr. Tung has over 30 years of experience in the manufacturing and trading of watches business. Mr. Tung is the founder and chairman of Winning Metal Products Manufacturing Company Limited (“Winning Metal”) since its incorporation in 1980. He has been the chairman, chief executive officer and director of Time Watch Investments Private Limited (“Time Watch Singapore”), a company which was listed on the Singapore Stock Exchange (“SGX”) until it was privatised in June 2011, since 8 November 2005 after the completion of a reverse take-over of Winning Metal group by Time Watch Singapore. Through Winning Metal and Time Watch Singapore, Mr. Tung established the Group’s watch movements trading business; developed two brands of watches (namely, Tian Wang and Balco) and sales network of the Group in the PRC. Mr. Tung was awarded the Top Ten Persons of the Year (十大風雲人物獎) by the China Watch and Clock Top Forum in 2005 and the outstanding entrepreneurship award by Enterprise Asia in September 2013. He was also a member of the 8th, 9th and 10th Hunan Province People’s Political Consultative Committee since 1998. Apart from his interest in the Group, Mr. Tung is also one of the indirect owners of Winning Metal and its subsidiaries. Mr. Tung is currently a director of Red Glory Investments Limited, Winning Metal, Time Watch Singapore and Red Rewarding Limited, all being controlling shareholders (within the meaning of the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”)) of the Company.

**Mr. Lo Wing Sang (勞永生)**, aged 48, was appointed as an executive Director on 10 January 2013. He is the deputy chief executive officer and is responsible for the Group’s corporate strategic development and operation. He was the Company Secretary of the Company during the year and resigned from the post of Company Secretary with effect from 3 July 2014 (details of his resignation were set out in the announcement of the Company dated 3 July 2014). He is also a director of Time Watch Hefei, Time Watch Sichuan and Shenzhen Time Watch Management Consulting Limited, all being subsidiaries of the Company.

Mr. Lo has over 20 years of experience in accounting and finance. He is a practising member of the Hong Kong Institute of Certified Public Accountants, an associate member of both the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Chartered Secretaries. He is also a fellow member of the Association of Chartered Certified Accountants. He first joined the Group as the chief financial officer in July 2006, left in October 2007. Then, he rejoined the Group in August 2011. He is also an independent non-executive director of PPS International (Holdings) Limited, a company whose shares are listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8201), with effect from 4 August 2014.



## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Hou Qinghai (侯慶海)**, aged 65, was appointed as an executive Director on 10 January 2013. Mr. Hou is responsible for the Group's daily operation and production of Tian Wang watches. He is currently a director and general manager of Ye Guang Li, a director, deputy general manager of Tian Wang Electronics (Shenzhen) Company Limited ("Tian Wang Shenzhen") and a director of Suzhou Paragon.

Mr. Hou has over 20 years of experience in manufacturing of watches. He graduated from Harbin Worker Part-time University with a diploma in the manufacture of machinery and equipment course in October 1976. In July 1990, he joined Tian Wang Electronics Co., Ltd. (a limited liability company incorporated in the PRC on 30 August 1988 and was dissolved on 1 December 2009, and was indirectly owned as to approximately 98.17% by Winning Metal before dissolution) as a deputy general manager in which he was responsible for the production of our Tian Wang brand of watches. He continues to work in Tian Wang Shenzhen since 2003. In 2009, he was the permanent vice-president of 11th Council of Shenzhen Watch & Clock Association. He is currently the vice president of Shenzhen City Watch & Clock Association.

**Mr. Tung Wai Kit (董偉傑)**, aged 40, was appointed as an executive Director on 21 September 2011. Mr. Tung Wai Kit is the son of Mr. Tung Koon Ming, the Chairman, executive Director and chief executive officer of Company. Mr. Tung Wai Kit is the Group's marketing and administrative controller and is responsible for the marketing, production and administration of the Group's brand of Balco. Mr. Tung Wai Kit has over 13 years of experience in sales and marketing. He is currently a director of Ye Guang Li, Time Watch Hefei, Time Watch Shanghai, Time Watch Sichuan, Time Watch Chengdu, Shenzhen Time Watch and Shenzhen Time Watch Management Consulting Limited. Mr. Tung Wai Kit is currently a director of Time Watch Singapore, one of the controlling shareholders (within the meaning of Listing Rules) of the Company.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ma Ching Nam, J.P. (馬清楠)**, aged 61, was appointed as an independent non-executive Director on 10 January 2013.

Mr. Ma obtained a degree of Bachelor of Science in Economics with honours from The University of Hull in July 1977. Mr. Ma has been practising law for more than 30 years. He is currently a partner of Hastings & Co, Solicitors & Notaries and also a Notary Public, China Appointed Attesting Officer and Civil Celebrant.

Mr. Ma currently serves as directors of Heptacontinental group of companies, Ma Kam Ming Company Limited, Tai Sang Bank Limited, Ma's Enterprises Company Limited and Ma Kam Ming Charitable Foundation. Mr. Ma is also the president of the Hong Kong Society of Notaries. He has been a director of Po Leung Kuk since 2009. He was an appointed member of Political and Consultative Conference in Hunan Province, the PRC since 2008 and a visiting professor of the China Agricultural University since 1999.



## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Wong Wing Keung Meyrick (王泳強)**, aged 55, was appointed as an independent non-executive Director on 10 January 2013.

In August 1987, Mr. Wong obtained his Bachelor of Laws from The University of London as an external student. He was called to the degree of utter barrister of the Honourable Society of Gray's Inn in April 1989. In 1990, he started his practice as a barrister-at-law in Hong Kong. Mr. Wong also obtained Master of Laws in international economic law from The Chinese University of Hong Kong in December 2009 and Postgraduate Diploma in Corporate Governance and Directorship jointly issued by the School of Business, Hong Kong Baptist University and The Hong Kong Institute of Directors in June 2011. He obtained a degree in Master of Science in Corporate Governance and Directorship (Distinction) issued by the School of Business, Hong Kong Baptist University in 2011. He is also a Chartered Engineer, a member of the Institute of Energy, the Institution of Mechanical Engineers and the Institution of Engineering and Technology.

From November 2005 to June 2011, he served as an independent non-executive director of the Time Watch Singapore, one of the controlling shareholders (within the meaning of Listing Rules) of the Company, whose shares were listed on the SGX until its delisting in June 2011.

**Mr. Choi Ho Yan (蔡浩仁)**, aged 38, was appointed as an independent non-executive Director on 10 May 2013. Mr. Choi attained his qualification as a certified public accountant in the American Institute of Certified Public Accountants in 2002. Mr. Choi obtained a degree of Bachelor of Arts in Accounting from the University of Hertfordshire in July 1998. He has over 14 years of experience in auditing, accounting, corporate finance and investors relations. Mr. Choi worked in Ernst and Young as an accountant, and subsequently a senior accountant, from September 1998 to August 2004. Mr. Choi is currently an assistant company secretary and a director of Gold Tat Group International Limited (formerly known as Mobile Telecom Network (Holdings) Limited), a company whose shares are listed on the Growth Enterprise Market of the Stock Exchange (stock code: 8266).

### SENIOR MANAGEMENT

**Mr. Deng Guanglei (鄧光磊)**, aged 44, is the general manager of the sales and marketing department of the Group. He is responsible for overseeing the operation of the Group's sales and marketing departments and sales network. Mr. Deng graduated from Anhui Finance and Trade College with a diploma in accounting in June 1994. Mr. Deng has over 15 years of experience in sales and marketing. He has been the general manager of the sales and marketing department of Tian Wang Shenzhen since September 2007.

**Mr. Li Yu Zhong (李育忠)**, aged 48, is the factory general manager of Tian Wang Shenzhen and the head of the manufacturing and assembly department of the Group. He is responsible for the manufacturing and assembly department of the Group. Mr. Li has more than 20 years of experience in the watch manufacturing business. In 2007, he obtained the qualification of watch repair examiner issued by Shenzhen Occupational Skill Testing Authority. He graduated from Guangdong Boluo Province Botong Agricultural Vocational School in 1984. Starting from 2008, he becomes a committee member of Materials and External Watch Parts Subcommittee on National Technical Committee on Watches of Standardisation Administration of China.

## PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

**Ms. Low Mui Kee (劉美琪)**, aged 39, was the chief financial officer of the Group until her resignation with effect from 1 March 2014 (details of which were set out in the announcement of the Company dated 3 March 2014). She was responsible for the overall financial management and planning of the Group. She has over 14 years of experience in auditing, accounting and finance. She was appointed as a director of Time Watch Singapore in September 2011. Before joining Time Watch Singapore, Ms. Low worked in Ernst & Young from 1997 to 2007. She graduated from Nanyang Technological University with a Bachelor of Accountancy degree in 1997. She is a CPA of the Institute of Certified Public Accountants of Singapore since 2002.

**Ms. Cheung Mei Chu, Clara (張美珠)**, aged 40, is the chief financial officer of the Group with effect from 1 March 2014. Ms. Cheung is a Certified Public Accountant of The Hong Kong Institute of Certified Public Accountants and a Fellow Member of The Association of Chartered Certified Accountants in the United Kingdom since 2000. She has obtained a Master Degree in Business Administration from The Hong Kong University of Science and Technology in 2006. Prior to joining the Company, she was the Chief Financial Officer and Finance Director of Regent Pacific Group Limited which is a company listed on the Main Board of the Stock Exchange of Hong Kong Limited (stock code: 575), since March 2002 and January 2004 respectively. She has also gained extensive experience in auditing and accounting during her service with Deloitte Touche Tohmatsu from 1997 to 2002.

**Ms. Wong Siu Yu Rachel (黃少如)**, aged 44, is the financial controller of the Group. She is responsible for overseeing the Group's financial matters and the accounts of the PRC subsidiaries and the joint venture companies of the Group. She is also a director of Time Watch Shanghai, Time Watch Chengdu, Zhengzhou Time Watch, Shenzhen Time Watch and Shenzhen Time Watch Management Consulting Limited. She has more than 10 years of experience in accounting and finance. She obtained Bachelor of Business (major in accounting and manufacturing management) from the Swinburne University of Technology in 1999.



# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board and the Company are always committed to maintaining high standards of corporate governance. Apart from adopting the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the “CG Code”) as the Company’s corporate governance code, the Company has also established a corporate governance committee (the “CG Committee”) with corporate governance functions set out in code provision D.3 of the CG Code. The Company and the CG Committee periodically review the Company’s corporate governance practice to ensure its continuous compliance with the CG Code. During FY2014 and up to the date of this annual report, save as disclosed below, the Company has complied with the code provisions set out in the CG Code.

### CODE PROVISION A.2.1

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Under the current corporate structure of the Group, Mr. Tung performs both the roles of the Chairman and the Chief Executive Officer of the Company. Although the responsibilities of the Chairman and the Chief Executive Officer are vested in one person, all major decisions are made in consultation with the Board members and the senior management of the Company. As there are three independent non-executive Directors in the Board, the Board considers that there is sufficient balance of power in the Board. Also, taking into account of Mr. Tung’s strong expertise and insight of the watch industry, the Board considered that the roles of chairman and chief executive officer being performed by Mr. Tung enables more effective and efficient overall business planning, decision making and implementation thereof by the Group.

In order to maintain good corporate governance and to ensure Company’s compliance with code provisions of the CG Code, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all the Directors, the Company is satisfied that and the Directors confirmed that they have fully complied with the required standard set out in the Model Code and the Company’s code of conduct regarding directors’ securities transaction up to the date of this annual report.

## BOARD OF DIRECTORS

The Board has a balance of skills and experience and a balanced composition of executive and independent non-executive Directors. As at 30 June 2014, the Board comprised seven Directors, four of whom are executive Directors and three of whom are independent non-executive Directors as set out below:

### Executive Directors

Mr. Tung Koon Ming (*Chairman and chief executive officer*)  
Mr. Lo Wing Sang  
Mr. Hou Qinghai  
Mr. Tung Wai Kit

## CORPORATE GOVERNANCE REPORT

### Independent non-executive Directors

Mr. Ma Ching Nam  
Mr. Wong Wing Keung Meyrick  
Mr. Choi Ho Yan

The Board is responsible for overseeing management of the Group's business and affairs. The Board has delegated the day-to-day responsibility to the executive Directors and senior management of the Company who are closely supervised by the Board to ensure compliance with the Company's policy and strategy.

Save for the father and son relationship between Mr. Tung Koon Ming and Mr. Tung Wai Kit, both being executive Directors, there is no relationship including financial, business, family or other material or relevant relationships, between board members.

### DIRECTORS' ATTENDANCE AT BOARD MEETINGS AND GENERAL MEETINGS

During FY2014, the Company had held seven board meetings and one general meeting which was the annual general meeting. The attendance of each of the Directors at these board meetings and general meeting, by name, is set out below:

<b>Directors</b>	<b>Attendance/ Number of board meetings held</b>	<b>Attendance/ Number of general meetings held</b>
<b>Executive Directors</b>		
Mr. Tung Koon Ming ( <i>Chairman</i> )	7/7	1/1
Mr. Lo Wing Sang	7/7	1/1
Mr. Hou Qinghai	7/7	0/1
Mr. Tung Wai Kit	7/7	1/1
<b>Independent non-executive Directors</b>		
Mr. Ma Ching Nam	7/7	1/1
Mr. Wong Wing Keung Meyrick	7/7	1/1
Mr. Choi Ho Yan	7/7	1/1

For the individual attendance record of the Directors at the meetings of the remuneration committee, the audit committee, the nomination committee and the CG Committee of the Board, please refer to the paragraphs headed "remuneration committee", "audit committee", "nomination committee" and "corporate governance committee" respectively of this corporate governance report.

Minutes of meetings of the Board and committees are recorded in appropriate detail and are kept by the Company Secretary of the Company. The minutes are circulated to the Directors for review within reasonable time after each meeting.

The Directors are able, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide independent professional advice to assist the relevant Directors to discharge their duties.

# CORPORATE GOVERNANCE REPORT

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Based on these confirmations, the Company considers that each of the independent non-executive Directors to be independent.

## TERMS OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors is appointed for an initial term of two years which shall be renewable automatically for a successive term of one year each commencing from the next day after the expiry of the then current term of his appointment, unless terminated by either party by giving not less than three month's written notice expiring at the end of the initial term or any time thereafter. The appointment of the independent non-executive Directors is subject to the provisions of the articles of association of the Company with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

## DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

Pursuant to code provision A.6.5 of the CG Code, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

During FY2014, all the Directors have participated in continuous professional development and provided a record of training they received to the Company.

The individual training record of each of the Directors received for FY2014 is set out below:

<b>Directors</b>	<b>Briefings and updates on the business, operations and corporate governance matters</b>	<b>Reading regulatory update</b>	<b>Attending or participating in seminars/ workshops or working in technical committee relevant to the business/ directors' duties</b>
<b>Executive Directors</b>			
Mr. Tung Koon Ming ( <i>Chairman</i> )	✓	✓	✓
Mr. Lo Wing Sang	✓	✓	✓
Mr. Hou Qinghai	✓	✓	✓
Mr. Tung Wai Kit	✓	✓	✓
<b>Independent non-Executive Directors</b>			
Mr. Ma Ching Nam	✓	✓	✓
Mr. Wong Wing Keung Meyrick	✓	✓	✓
Mr. Choi Ho Yan	✓	✓	✓

## CORPORATE GOVERNANCE REPORT

### REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") of the Board pursuant to a resolution of the Directors passed on 11 January 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules. The primary functions of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review performance based remuneration and ensure none of the Directors determine their own remuneration. During FY2014, the Remuneration Committee reviewed the remuneration policy and packages of the Directors and the senior management.

The Remuneration Committee currently comprises three independent non-executive Directors. Three Remuneration Committee meetings were held during FY2014. Members of the Remuneration Committee and the attendance record of each member are set out below:

<b>Members</b>	<b>Attendance/ Number of meetings held</b>
Mr. Wong Wing Keung Meyrick ( <i>Chairman</i> )	3/3
Mr. Ma Ching Nam	3/3
Mr. Choi Ho Yan	3/3

### AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") of the Board pursuant to a resolution of the Directors passed on 11 January 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting and oversee the internal control procedures of the Company. During FY2014, the Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group and discussed the audit, internal control and financial reporting matters in relation to the annual report of the Group for the year ended 30 June 2013.

The Audit Committee currently comprises three independent non-executive Directors. Two Audit Committee meetings were held during FY2014. Members of the Audit Committee and the attendance record of each member are set out below:

<b>Members</b>	<b>Attendance/ Number of meetings held</b>
Mr. Choi Ho Yan ( <i>Chairman</i> )	2/2
Mr. Wong Wing Keung Meyrick	2/2
Mr. Ma Ching Nam	2/2



# CORPORATE GOVERNANCE REPORT

## NOMINATION COMMITTEE

The Company has established a nomination committee (the “Nomination Committee”) of the Board pursuant to a resolution of Directors passed on 11 January 2013 with written terms of reference in compliance with code provision A.5.1 of the CG Code. The primary functions of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board.

The Nomination Committee follows a set of procedures when recommending candidates for directorship. The following criteria are considered in selecting a candidate:

- Integrity, objectivity, and intelligence of the person, with reputations for sound judgment and open mind, and a demonstrated capacity for thoughtful group decision-making;
- Qualification and career experience; and
- Understanding of the Company and its corporate mission.

When a candidate is proposed for directorship of the Company, he or she shall be evaluated on the basis of the criteria set out in the procedures mentioned above. Selection of the suitable candidate is based on a majority vote. Each committee member will be asked to express his or her view before voting. After voting, the chairman of the Nomination Committee will report its recommendations to the Board.

The Board has adopted a board diversity policy with effect from 1 September 2013 setting out the approach to diversity of members of the Board. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The following measurable objectives have been set for implementing the board diversity policy:

- (a) at least 70% of the members of the Board shall have attained education from university;
- (b) at least 40% of the members of the Board shall have obtained accounting or other professional qualifications;
- (c) at least 20% of the members of the Board shall have China-related work experience; and
- (d) at least 40% of the members of the Board shall be independent non-executive directors.

As at the date hereof, the above objectives have been achieved. The Nomination Committee would regularly review the policy and the measurable objectives to ensure its effectiveness to achieve diversity on the Board.



## CORPORATE GOVERNANCE REPORT

The Nomination Committee currently comprises one executive Director and two independent non-executive Directors. One Nomination Committee meeting was held during FY2014. Members of the Nomination Committee and attendance record of the members are set out below:

<b>Members</b>	<b>Attendance/ Number of meeting held</b>
Mr. Tung Koon Ming ( <i>Chairman</i> )	1/1
Mr. Ma Ching Nam	1/1
Mr. Wong Wing Keung Meyrick	1/1

### CORPORATE GOVERNANCE COMMITTEE

The Company has established the CG Committee pursuant to a resolution of the Directors passed on 11 January 2013 with written terms of reference in compliance with paragraph D.3.1 of the CG Code. The primary functions of the CG Committee are to keep the effectiveness of the corporate governance and system of internal non-financial controls of the Group.

The CG Committee currently comprises three independent non-executive Directors. One CG Committee meeting was held during FY2014 to review the policies and practices on corporate governance of the Group. Members of the CG Committee and the attendance record of each member are set out below:

<b>Members</b>	<b>Attendance/ Number of meeting held</b>
Mr. Ma Ching Nam ( <i>Chairman</i> )	1/1
Mr. Choi Ho Yan	1/1
Mr. Wong Wing Keung Meyrick	1/1

### AUDITOR'S REMUNERATION

The fees in relation to the audit service provided by Deloitte Touche Tohmatsu, the external auditors of the Company, for FY2014 amounted to approximately HK\$1,837,000 (2013: approximately HK\$2,981,000). No non-audit services were provided by Deloitte Touche Tohmatsu during the year under review.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of the financial statements of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the financial statements for FY2014, suitable accounting policies have been adopted and applied consistently. The financial statements for the reporting year have been prepared on a going concern basis.



# CORPORATE GOVERNANCE REPORT

## INTERNAL CONTROLS

The Board has overall responsibility for the effectiveness of the internal control system and monitors the internal control systems through the Group's outsourced internal auditors, Baker Tilly Hong Kong ("Baker Tilly"). Baker Tilly reviews the material controls of the Group on a continuous basis and aims to cover all major operations of the Group on a cyclical basis. Overall, internal audits are designed to provide the Board with reasonable assurance that the internal control systems of the Group are sound and effective. The Board also reviews regularly the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. No material irregularities were found during FY2014.

## COMPLIANCE AND ENFORCEMENT OF THE NON-COMPETE UNDERTAKING FROM CONTROLLING SHAREHOLDERS

As disclosed in the prospectus of the Company dated 24 January 2013 (the "Prospectus"), Mr. Tung, Red Rewarding Limited, Time Watch Investments Private Limited, Winning Metal Products Manufacturing Company Limited and Red Glory Investments Limited, being the controlling shareholders of the Company (the "Controlling Shareholders"), through various companies controlled by them or any of them, are interested in some other different businesses, including but not limited to the (1) retail sales of multi-brand watches outside the PRC; (2) minority investments in various companies that distribute multi-brand watches; (3) minority investments in various companies that manufacture and supply third-party brands of watches and accessories on OEM basis and manufacture and supply of packaging materials for third-party brands of watches; and (4) property investment in the PRC and Hong Kong. Please refer to the section headed "Relationship with our controlling shareholders" of the prospectus for details of the excluded business, including but not limited to its management, nature, scope, size, how such business may compete with the Group's business and how the Group is capable of carrying on its business independently of, and at arm's length from such excluded business. Having made reasonable enquiry, the Directors confirm that details of the excluded business as disclosed in the Prospectus have not changed since the publication of the Prospectus.

To protect the Group from any potential competition, the Controlling Shareholders have given an irrevocable non-compete undertaking (the "Non-compete Undertaking") in favour of the Company on 11 January 2013 pursuant to which each of the Controlling Shareholders has, among other matters, undertaken with the Company that each of the Controlling Shareholders and their respective associates (other than the Group) shall not, save as to the extent permitted pursuant to the Non-compete Undertaking, engaged in any business which will or may compete with the business currently and from time to time engaged by the Group. Details of the Non-compete Undertaking have been set out in paragraph headed "Relationship with our controlling shareholders – Non-compete undertaking" of the Prospectus.

## CORPORATE GOVERNANCE REPORT

In order to properly manage any potential or actual conflict of interests between the Group and the Controlling Shareholders in relation to the compliance and enforcement of the Non-compete Undertaking, the Group has adopted the following corporate governance measures:

- (i) the independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Non-compete Undertaking by the Controlling Shareholders;
- (ii) any decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Non-compete Undertaking shall be disclosed either through the Company's annual report or by way of announcement;
- (iii) how the terms of the Non-compete Undertaking have been complied with and enforced shall be disclosed in the corporate governance report of the Company's annual report;
- (iv) in the event that any of the Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the Non-compete Undertaking, he/she may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the articles of association of the Company; and
- (v) the Group is committed that the Board should include a balanced composition of executives and non-executive Directors (including independent non-executive Directors).

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the shareholders, in particular, the minority shareholders of the Company.

The Company has received the annual declaration from each of the Controlling Shareholders in respect of their respective compliance with the terms of the Non-compete Undertaking during FY2014. The independent non-executive Directors, having reviewed the annual declarations and made reasonable enquiry, are satisfied that the Controlling Shareholders have complied with the terms of the Non-compete Undertaking during FY2014.

### COMPANY SECRETARY

Mr. Lo Wing Sang ("Mr. Lo") who is an Executive Director has served as the Company Secretary of the Company during FY2014 until 3 July 2014 when he resigned from the office of the Company Secretary so that he can concentrate on his work on business development of the Group. Mr. Chen Kwok Wang has been appointed as the Company Secretary of the Company with effect from 3 July 2014 to fill the vacancy. Mr. Chen is a qualified solicitor in Hong Kong. Ms. Cheung Mei Chu, Clara, who is the chief financial officer of the Group, is the primary point of contact at the Company with the Company Secretary.

# CORPORATE GOVERNANCE REPORT

## SHAREHOLDERS' RIGHTS

### 1. Procedures for shareholders to convene an extraordinary general meeting

1.1 The following procedures for shareholders (the "Shareholders", each a "Shareholder") of the Company to convene an extraordinary general meeting ("EGM") of the Company are prepared in accordance with Article 64 of the articles of association of the Company:

- (1) One or more Shareholders (the "Requisitionist(s)") holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice (the "Requisition"), to require an EGM to be called by the Directors for the transaction of any business specified therein.
- (2) Such Requisition shall be made in writing to the Board or the Company Secretary of the Company at 27th Floor, CEO Tower, 77 Wing Hong Street, Kowloon, Hong Kong or via email at [investor\\_relations@timewatch.com.hk](mailto:investor_relations@timewatch.com.hk).
- (3) The EGM shall be held within two months after the deposit of such Requisition.
- (4) If the Directors fail to proceed to convene such meeting within twenty-one (21) days of the deposit of such Requisition, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the Requisitionist(s) by the Company.

### 2. Procedures for raising enquiries

2.1 Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar in Hong Kong, details of which are as follows:

#### **Tricor Investor Services Limited**

Address: Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong

Email: [is-enquiries@hk.tricorglobal.com](mailto:is-enquiries@hk.tricorglobal.com)

Tel: (852) 2980 1333

Fax: (852) 2861 1465

## CORPORATE GOVERNANCE REPORT

- 2.2 Shareholders may at any time raise any enquiry in respect of the Company at the following designated contacts, correspondence addresses, email addresses and enquiry hotlines of the Company:

Address: 27th Floor, CEO Tower, 77 Wing Hong Street, Kowloon, Hong Kong

Email: investor\_relations@timewatch.com.hk

Tel: (852) 2411 3567

Fax: (852) 3585 2083

Attention: Company Secretary/Board of Directors

- 2.3 Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

### 3. Procedures and contact details for putting forward proposals at shareholders' meetings

- 3.1 To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of his/her/its proposal (the "Proposal") with his/her/its detailed contact information at the Company's principal place of business at 27th Floor, CEO Tower, 77 Wing Hong Street, Kowloon, Hong Kong.
- 3.2 The request will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the request is proper and in order and made by a Shareholder, the Board of Directors will be asked to include the Proposal in the agenda for the general meeting.
- 3.3 The notice period to be given to all the Shareholders for consideration of the Proposal raised by the Shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:
- (a) Notice of not less than 21 clear days and not less than 20 clear business days in writing if the Proposal requires an ordinary resolution or a special resolution of the Company in an annual general meeting of the Company;
  - (b) Notice of not less than 21 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of a special resolution of the Company in an extraordinary general meeting of the Company; and
  - (c) Notice of not less than 14 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of an ordinary resolution of the Company in an extraordinary general meeting of the Company.

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's principal place of business in Hong Kong at 27th Floor, CEO Tower, 77 Wing Hong Street, Kowloon, Hong Kong.



# CORPORATE GOVERNANCE REPORT

## COMMUNICATION WITH SHAREHOLDERS

The management of the Group endeavours to maintain effective communications with the shareholders and potential investor. The Company meets the shareholders at the annual general meeting, publish interim and annual reports on the Company's website ([www.timewatch.com.hk](http://www.timewatch.com.hk)) and the Stock Exchange, and release press releases on the Company's website to keep the shareholders and potential investors abreast of the Group's business and development.

## CONSTITUTIONAL DOCUMENTS

During FY2014 and up to the date of this report, there is no change in the Company's constitutional documents.

## UPDATES ON COMPLIANCE AND REGULATORY MATTERS AS DISCLOSED IN THE PROSPECTUS

### Failure to contribute to social insurance and housing provident fund

As disclosed in the Prospectus and the annual report of the Company for FY2013, Tian Wang Shenzhen failed to make full contributions into the social insurance and housing provident fund before the listing date. The Group has made up contributions for all entitled employees of Tian Wang Shenzhen in accordance with the PRC national laws and regulations since July 2012 and has incorporated an enforceable written policy for social insurance and housing provident fund contribution into its human resources management policy as stated in the Prospectus. As there is no established mechanism for enterprises to make up historical deficient contributions, particularly for those contributions which have been outstanding for a certain period of time, the Group has made provision, which cover for both of the employer's and the employee's portions of the unpaid social insurance and housing provident fund contributions, in the consolidated financial statements. As at the date of this report, the Group has not received any notification or orders from the relevant authorities in relation to the previously unpaid social insurance and housing provident fund.

### Defects in relation to lease agreements of the Group

As disclosed in the Prospectus and the annual report of the Company for FY2013, the Group strives to rectify the non-compliances or defects in lease agreements (please refer to the section headed "Our business – Litigation and compliance" of the Prospectus for details of such non-compliance). As at the date of this annual report, save for the lease agreements for four POS of the Group which remain unregistered, the Group has rectified the non-compliances and the defective lease agreements in the manner as disclosed in the Prospectus. As disclosed in the Prospectus, the maximum fine which the Group may be subject to for each unregistered lease agreement is RMB10,000. In respect of the four unregistered lease agreements, the Group has requested the relevant local authorities to implement the registration of the agreements. But the four lease agreements have not been completed up to the date of this annual report because the local authorities have not provided clear registration procedures to the Group.

## DIRECTORS' REPORT

The Board of Directors of the Company is pleased to present this annual report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for FY2014.

### PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 28 to the consolidated financial statements.

### MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for less than 4.9% of the Group's total turnover of the year and purchase from the Group's five largest suppliers accounted for approximately 46.6% of the Group's total purchase of the year and purchase from the largest supplier of the Group accounted for approximately 13.6% of the total purchase of the year.

None of the Directors nor any of their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) of the Company had any interest in the Group's five largest customers or suppliers.

### RESULTS AND DIVIDENDS

The results of the Group for FY2014 are set out in the consolidated statement of profit or loss and other comprehensive income on page 58 of this annual report and the state of affairs of the Group as at 30 June 2014 are set out in the consolidated statement of financial position on page 59 of this annual report.

The Directors have recommended the payment of a final dividend of HK3 cents per Share for FY2014 amounting to approximately HK\$62.4 million and the payment of a special dividend of HK2 cents per Share for FY2014, amounting to approximately HK\$41.6 million which is subject to shareholders' approval in the coming annual general meeting of the Company, each as a separate resolution. For FY2013, the Company has paid a final dividend of HK3 cents per Share and a special dividend of HK2 cents per Share. Subject to the approval of the shareholders at the forthcoming annual general meeting (the "Annual General Meeting") of the Company to be held on 25 November 2014, each as a separate resolution, the proposed final dividend and the proposed special dividend will be paid to Shareholders whose name appears on the register of members of the Company at the close of business on 2 December 2014. It is expected that the proposed final dividend and the proposed special dividend will be paid on or about 10 December 2014.

### CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining members who are qualified for attending the Annual General Meeting, the register of members of the Company will be closed from 21 November 2014 to 25 November 2014 (both days inclusive), during which period no transfer of Share of the Company will be effected. In order to qualify for attending the Annual General Meeting, all transfers of Shares of the Company accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on 20 November 2014.



## DIRECTORS' REPORT

For the purpose of determining members who are qualified for each of the proposed final dividend for FY2014 and the proposed special dividend for FY2014 which is subject to approval by the shareholders, each as a separate resolution, at the Annual General Meeting, the register of members of the Company will be closed on 2 December 2014, during which no transfer of share of the Company will be effected. In order to qualify for the entitlement to the proposed final dividend and the proposed special dividend, all transfers of shares of the Company accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at the above address for registration no later than 4:30 p.m. on 1 December 2014.

### RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

The Directors considered that the Company's reserves available for distribution to shareholders comprise the share premium and the retained earnings which amounted to approximately HK\$678.6 million for FY2014 (FY2013: approximately HK\$600.3 million). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

### RETIREMENT BENEFIT SCHEMES

Details of retirement schemes of the Group are set out in note 25 to the consolidated financial statements in this annual report.

### PROPERTY, PLANT AND EQUIPMENT

During the year, the Group paid for leasehold improvements at a cost of approximately HK\$4.5 million, acquired furniture and fixtures at a cost of approximately HK\$0.6 million, computer equipment at a cost of approximately HK\$3.5 million, tools, machinery, factory equipment and fittings at a cost of approximately HK\$85.5 million and motor vehicles at a cost of approximately HK\$6.1 million.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements in this annual report.

### SHARE CAPITAL

Details of the issued share capital of the Company during the year are set out in note 22 to the consolidated financial statements in this annual report.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company during the year and up to the date of this report were:

#### Executive Directors

Mr. Tung Koon Ming (*Chairman*)  
Mr. Lo Wing Sang  
Mr. Hou Qinghai  
Mr. Tung Wai Kit



## DIRECTORS' REPORT

### Independent Non-Executive Directors

Mr. Ma Ching Nam  
Mr. Wong Wing Keung Meyrick  
Mr. Choi Ho Yan

In accordance with article 105(A) of the Company's articles of association, Mr. Hou Qinghai, Mr. Ma Ching Nam and Mr. Wong Wing Keung Meyrick (collectively, the "Retiring Directors") will retire at the Annual General Meeting. The Retiring Directors, being eligible, will offer themselves for re-election.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Based on these confirmations, the Company considers that each of the independent non-executive Directors to be independent.

No Directors proposed for re-election at the Annual General Meeting of the Company has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors' fees are subject to Shareholders' approval at general meeting of the Company. Other emoluments are determined by the Board of Directors with reference to Directors' duties, responsibilities and performance and the results of the Group.

The remuneration of the senior management by band for FY2014 is set out below:

<b>Remuneration bands</b>	<b>Number of employees</b>
HK\$ nil to HK\$1,000,000	3
HK\$1,000,001 to HK\$1,500,000	1
HK\$1,500,001 to HK\$2,000,000	–
HK\$2,000,001 to HK\$2,500,000	1

Further details of the Directors' remuneration and the five highest paid employees are set out in notes 8 and 9 to the consolidated financial statements in this annual report respectively.

# DIRECTORS' REPORT

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2014, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules were as follows:

Name of Director	Name of Group member/associated corporation	Capacity/nature of interest	Number and class of securities (note 1)	Approximate percentage of shareholding
Mr. Tung Koon Ming ("Mr. Tung")	Company	Interest of controlled corporation (note 2)	1,423,133,000 (L)	68.42%
	Red Glory Investments Limited ("Red Glory")	Beneficial Owner (note 2)	1 share of US\$1.00 (L)	100%
Mr. Lo Wing Sang ("Mr. Lo")	Company	Interest of spouse (note 3)	1,000,000 (L)	0.05%

notes:

1. The letter "L" denotes a long position in the shares of the Company or the relevant associated corporation.
2. These Company's Shares were held by Red Glory, which was wholly owned by Mr. Tung. Mr. Tung was deemed to be interested in all the Shares in which Red Glory, was interested by virtue of the SFO.
3. These Shares were held by Ms. Leung Hoi Yan, Sylvia, the spouse of Mr. Lo. Mr. Lo was deemed to be interested in these Shares by virtue of the SFO.

Save as disclosed above, as at 30 June 2014, none of the Directors or the chief executive of the Company had an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' REPORT

### SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

So far as the Directors are aware of, as at 30 June 2014, the interests and short positions of the persons (other than a Director or chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of SFO and based on the information available were as follows:

<b>Name of shareholders</b>	<b>Capacity/nature of interest</b>	<b>Number and class of securities (note 1)</b>	<b>Approximate percentage of shareholding</b>
Red Glory	Beneficial owner	1,423,133,000 Shares (L)	68.42%
Ms. Tam Fun Hung ("Ms. Tam")	Interest of spouse (note 2)	1,423,133,000 Shares (L)	68.42%
Orchid Asia V, LP	Beneficial owner (note 3)	183,566,000 Shares (L)	8.83%
OAV Holdings, L.P.	Interest of a controlled corporation (note 3)	183,566,000 Shares (L)	8.83%
Orchid Asia V GP, Limited	Interest of a controlled corporation (note 3)	183,566,000 Shares (L)	8.83%
Orchid Asia V Group Management, Limited	Interest of a controlled corporation (note 3)	183,566,000 Shares (L)	8.83%
Orchid Asia V Group, Limited	Interest of a controlled corporation (note 3)	183,566,000 Shares (L)	8.83%
Areo Holdings Limited	Interest of a controlled corporation (note 3)	189,198,000 Shares (L)	9.10%
Lam Lai Ming	Interest of a controlled corporation (note 3)	189,198,000 Shares (L)	9.10%
Li Gabriel	Interest of a controlled corporation (note 3)	189,198,000 Shares (L)	9.10%



## DIRECTORS' REPORT

1. The letter "L" denotes a person's long position in the Shares or underlying Shares of the Company.
2. Ms. Tam was the spouse of Mr. Tung. Ms. Tam was deemed to be interested in the Shares in which Mr. Tung was interested by virtue of the SFO. Details of Mr. Tung's interests in the Shares are disclosed in note 2 to the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" in this annual report.
3. So far as the Directors are aware of, these Shares were beneficial owned as to 183,566,000 Shares by Orchid Asia V, L.P. and 5,632,000 Shares by Orchid Asia V Co-Investment, Limited, So far as the Directors are aware of, Orchid Asia V, L.P. was wholly-controlled by OAV Holdings, L.P., which was in turn wholly-owned by Orchid Asia V GP, Limited. Orchid Asia V GP, Limited was wholly-owned by Orchid Asia V Group Management, Limited, which was in turn wholly-owned by Orchid Asia V Group, Limited. Orchid Asia V Group, Limited was wholly-owned by Areo Holdings Limited.

So far as the Directors are aware of, Orchid Asia V Co-Investment, Limited was also wholly-controlled by Areo Holdings Limited. Areo Holdings Limited was wholly-owned by Ms. Lam Lai Ming. Areo Holdings Limited is also controlled by Mr. Li Gabriel by virtue of his directorship therein. Accordingly, Ms. Lam Lai Ming and Mr. Li Gabriel were taken to be interested in the Shares in which Areo Holdings Limited was interested by virtue of the SFO.

Save as disclosed above, as at 30 June 2014, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## DIRECTORS' REPORT

### **MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

During FY2014, there was no material acquisition or disposal of subsidiaries or associated companies by the Company.

### **SHARE OPTION SCHEME**

A share option scheme (the "Scheme") was conditionally approved by the then sole shareholder of the Company on 11 January 2013 for the purpose of providing incentives or rewards to eligible participants for their contribution to the Group.

Eligible participants of the Scheme include, (i) any employee (whether full time or part time, including any executive director) of the Company, its subsidiaries or invested entity; (ii) any non-executive directors (including independent non-executive directors) of the Company, its subsidiaries or invested entity; (iii) any supplier or customer of the Group or any invested entity; (iv) any person or entity that provides research, development or other technological support to the Group or any invested entity; (v) any shareholder of any member of the Group or any invested entity or any holder of any securities issued by any member of the Group or any invested entity; (vi) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any invested entity; (vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and (viii) any company wholly owned by one or more eligible participants as referred to in (i) to (vii) above.

The maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The maximum number of Shares issuable upon the exercise of options granted under the Scheme and any other share option scheme adopted by the Group (including both exercised or outstanding options) to each grantee within any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a Director, chief executive or substantial shareholder of the Company, or any of their associates must be approved by the independent non-executive Directors (excluding independent non-executive Director who or whose associates is the proposed grantee of the options).

In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company or to any of their associates, in excess of 0.1% of the Shares in issue at any time and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The total number of shares which may be issued upon exercise of all options (excluding for this purpose options which have lapsed) to be granted under the Scheme and any other share option schemes must not in aggregate exceed 200,000,000 shares, representing approximately 10% and 9.62% of shares in issue as at 5 February 2013 (the date of which the shares of the Company were listed on the Stock Exchange) and as at the date of this annual report, respectively.



## DIRECTORS' REPORT

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, which period may commence from the date of the offer of the share options, and shall end on a date which is not later than 10 years from the date of grant of the share options subject to the provisions for early termination thereof.

The subscription price for the shares under the Scheme shall be determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

Subject to the earlier termination of the Scheme in accordance with the rules thereof, the Scheme will remain in force for a period of 10 years commencing on 11 January 2013, which was the date of adoption of the Scheme and will expire on 10 January 2023.

During FY2014, no share option was granted, exercised, cancelled or lapsed under the Scheme.

### **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

Save as disclosed in note 27 to the consolidated financial statements and in the section headed "Connected transactions" in this annual report, no Director had a material interest, whether directly or indirectly, in any contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, subsisting during or at the end of the year.

Save as disclosed in note 27 to the consolidated financial statements and in the section headed "Connected transactions" in this annual report, no contract of significance had been entered into between the Company or any of its subsidiaries, and any controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

During the year ended 30 June 2014 and up to the date of this report, except for Mr. Tung Koon Ming who is one of the controlling shareholders (within the meaning of Listing Rules) of the Company currently engaging in Excluded Businesses (as defined in the Prospectus on page 240) and Exempted Business (as defined in the Prospectus at page 261), none of the Directors of the Company are considered to have direct or indirect interests in businesses which compete or are likely to compete with businesses of the Group pursuant to the Listing Rules.

### CONNECTED TRANSACTIONS

#### Continuing Connected Transactions

During FY2014, the Group has conducted the following continuing connected transactions which were required to be disclosed pursuant to Rule 14A.71 of the Listing Rules:

- (a) Pursuant to a tenancy agreement entered into between Winning Asia Holdings Group Limited ("Winning Asia") and the Group dated 3 July 2012, the Group agreed to lease from Winning Asia a premises located at Hong Kong as the Group's head office for a term of three years commencing from 1 July 2012 (subject to the right for the Group to terminate the agreement by serving not less than one month prior written notice) at an annual rent of HK\$4,080,000, inclusive of repairing and maintenance fee, government rent and rates, management fees, electricity and water bills and other fees in relation to the use of the premises but exclude other utility charges. During FY2014, the rent paid by the Group to Winning Asia for rental of the said premises for FY2014 was HK\$4,080,000 (FY2013: HK\$4,080,000).

As Winning Asia is a direct wholly-owned subsidiary of Red Frame Group Limited ("Red Frame") which, in turn, is wholly owned by Mr. Tung, an executive Director and substantial shareholder of the Company, Winning Asia is a connected person of the Company.

- (b) Pursuant to a tenancy agreement entered into between Zhengzhou Hengdi Investment Company Limited ("Zhengzhou Hengdi") and the Group dated 1 June 2012, the Group agreed to lease from Zhengzhou Hengdi a premises located at Zhengzhou, PRC for the Group's representative office for a term of three years commencing from 1 June 2012 (subject to the right for the Group to terminate the agreement by serving not less than one month prior written notice) at an annual rent of RMB90,000 exclusive of water, electricity, management fee and other utility charges, rates, management fees and other fees in relation to the use of the premises. During FY2014, the rent paid by the Group to Zhengzhou Hengdi for rental of the said premises for FY2014 was RMB90,000 (FY2013: RMB90,000).

As Zhengzhou Hengdi is wholly-owned by Mr. Tung, an executive Director and substantial shareholder of the Company, Zhengzhou Hengdi is a connected person of the Company.

- (c) Pursuant to a distribution agreement entered into between Fortune Silver Holdings Limited ("Fortune Silver") and the Group dated 19 December 2012 and which shall be expired on 30 June 2015 unless terminated earlier by three months' written notice by either party, the Group agreed to sell its Tian Wang and Balco watches to Fortune Silver on consignment basis with the purchase price of each watch sold during the relevant calendar month to be determined by reference to a variable percentage discount to the recommended retail price of such watch in Hong Kong, in a sliding scale based on the quantity of watches sold during the relevant calendar month. During FY2014, the aggregate purchase price receivable from Fortune Silver amounted to approximately HK\$24.1 million (FY2013: HK\$19.1 million), representing approximately 1.0% of the total revenue of the Group (FY2013: 1.0%).

As Fortune Silver is owned as to 51% by Fine Jade International Limited, a direct wholly-owned subsidiary of Red Frame which, in turn, is wholly-owned by Mr. Tung, an executive Director and substantial shareholder of the Company, Fortune Silver is a connected person of the Company.



## DIRECTORS' REPORT

- (d) Pursuant to a distribution agreement entered into between Time Watch Enterprise Company Limited ("Time Watch Taiwan") and the Group dated 19 December 2012 and which was expired on 30 June 2013 unless terminated earlier by three months' written notice by either party, the Group agreed to sell its Tian Wang and Balco watches to Time Watch Taiwan on wholesale basis with the purchase price of each watch under each purchase order to be determined by reference to a fixed percentage discount to the recommended retail price of each watch in Hong Kong at the time of the purchase order. During FY2014, the aggregate purchase price receivable from Time Watch Taiwan amounted to approximately HK\$4.7 million (FY2013: approximately HK\$6.3 million), representing approximately 0.2% of the total revenue of the Group (FY2013: approximately 0.3%).

As Time Watch Taiwan is owned as to 51% by Fortune Best International Enterprise Limited, which is owned as to 42% by Prince Success Limited, which, in turn, is wholly-owned by Mr. Tung, Time Watch Taiwan is a connected person of the Company.

The independent non-executive Directors have, for the purpose of Rule 14A.55 of the Listing Rules, reviewed and confirmed that the aforementioned continuing connected transactions undertaken by the Group were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. Deloitte Touche Tohmatsu, auditors of the Company, has issued a letter to the Company to confirm the matters stated in Rule 14A.56 of the Listing Rules.

The Company also confirmed that it has complied with the disclosure requirements as applicable to the aforementioned continuing connected transactions under Chapter 14A of the Listing Rules.

### USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the IPO of the Company in February 2013, after the deduction of expenses, amounted to approximately HK\$742.0 million which comprise approximately HK\$640.0 million from the global offering and approximately HK\$102.0 million from the partial exercise of over-allotment option, of which approximately HK\$139.0 million and approximately HK\$223.1 million had been utilised in FY2014 and FY2013 respectively.

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float as required under the Listing Rules as at the latest practicable date prior to the issue of this annual report.

### DONATIONS

The Group's charitable and other donations for FY2014 amounted to approximately HK\$64,200 (FY2013: HK\$1.6 million), which is used to help the poor in the PRC. No donations were made to political parties.



## DIRECTORS' REPORT

### FIVE YEARS FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 3 of this annual report.

### EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or by the Group after 30 June 2014 and up to the date of this annual report.

### CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 34 to page 44 of this Annual Report.

### AUDIT COMMITTEE

The Audit Committee of the Board has reviewed the management and the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including review of the audited financial statements for FY2014.

### PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws in the Cayman Islands, the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

### AUDITORS

The Company has appointed Deloitte Touche Tohmatsu as auditors of the Company for FY2014 which will retire as the Company's auditors at the end of the forthcoming Annual General Meeting of the Company, and being eligible, will offer themselves for re-appointment. A resolution to re-appoint Deloitte Touche Tohmatsu as auditors of the Company for the year ending 30 June 2015 will be proposed at the forthcoming Annual General Meeting of the Company.

On behalf of the Board

**Tung Koon Ming**

*Chairman*

Hong Kong, 29 September 2014

# INDEPENDENT AUDITOR'S REPORT

**Deloitte.**  
**德勤**

德勤•關黃陳方會計師行  
香港金鐘道88號  
太古廣場一座35樓

Deloitte Touche Tohmatsu  
35/F, One Pacific Place  
88 Queensway  
Hong Kong

## TO THE MEMBERS OF TIME WATCH INVESTMENTS LIMITED

(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Time Watch Investments Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 58 to 112, which comprise the consolidated statement of financial position as at 30 June 2014, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## INDEPENDENT AUDITOR'S REPORT

### OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

29 September 2014

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2014

	NOTES	2014 HK\$'000	2013 HK\$'000
<b>Revenue</b>	7	<b>2,402,358</b>	1,912,235
Cost of sales		<b>(841,045)</b>	(752,878)
Gross profit		<b>1,561,313</b>	1,159,357
Other income, gains and losses	10	<b>15,634</b>	12,906
Other expenses	10	–	(25,740)
Selling and distribution costs		<b>(1,040,192)</b>	(758,943)
Administrative expenses		<b>(113,663)</b>	(87,434)
Finance costs	11	<b>(1,339)</b>	(8,104)
<b>Profit before taxation</b>		<b>421,753</b>	292,042
Income tax	12	<b>(106,689)</b>	(76,733)
<b>Profit for the year</b>	13	<b>315,064</b>	215,309
Other comprehensive (expense) income which will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		<b>(17,398)</b>	25,749
<b>Total comprehensive income for the year</b>		<b>297,666</b>	241,058
<b>Profit for the year attributable to:</b>			
Owners of the Company		<b>309,890</b>	213,551
Non-controlling interests		<b>5,174</b>	1,758
		<b>315,064</b>	215,309
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		<b>293,878</b>	237,914
Non-controlling interests		<b>3,788</b>	3,144
		<b>297,666</b>	241,058
<b>Earnings per share</b>	15		
– Basic and diluted (HK cents)		<b>14.9</b>	12.4

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	NOTES	2014 HK\$'000	2013 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	16	117,651	69,868
Deferred tax assets	23	27,295	12,023
		<b>144,946</b>	81,891
<b>Current assets</b>			
Inventories	17	555,961	442,097
Trade receivables	18	391,521	340,529
Other receivables, deposits and prepayments	18	98,194	68,518
Short-term deposit	19	–	150,000
Bank balances and cash	19	660,065	537,240
		<b>1,705,741</b>	1,538,384
<b>Current liabilities</b>			
Trade payables and bills payable	20	122,623	105,372
Other payables and accrued charges	20	91,748	82,048
Tax liabilities		59,434	29,343
Bank borrowings	21	35,958	40,511
		<b>309,763</b>	257,274
<b>Net current assets</b>		<b>1,395,978</b>	1,281,110
<b>Total assets less current liabilities</b>		<b>1,540,924</b>	1,363,001

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	NOTES	2014 HK\$'000	2013 HK\$'000
<b>Capital and reserves</b>			
Share capital	22	207,995	207,995
Reserves		<u>1,226,775</u>	<u>1,078,493</u>
Equity attributable to owners of the Company		<b>1,434,770</b>	1,286,488
Non-controlling interests		<u>68,121</u>	<u>45,960</u>
<b>Total equity</b>		<b>1,502,891</b>	1,332,448
<b>Non-current liabilities</b>			
Deferred tax liabilities	23	<u>38,033</u>	<u>30,553</u>
		<u><b>1,540,924</b></u>	<u>1,363,001</u>

The consolidated financial statements on pages 58 to 112 were approved and authorised for issue by the Board of Directors on 29 September 2014 and are signed on its behalf by:

**Mr. Tung Koon Ming**  
DIRECTOR

**Mr. Tung Wai Kit**  
DIRECTOR

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2014

	Attributable to owners of the Company						Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note a)	Translation reserve HK\$'000	Statutory surplus reserves HK\$'000 (Note b)	Accumulated profits HK\$'000			
At 1 July 2012	100	66,727	(234,378)	32,860	15,227	496,583	377,119	37,829	414,948
Profit for the year	-	-	-	-	-	213,551	213,551	1,758	215,309
Exchange differences arising on translation	-	-	-	24,363	-	-	24,363	1,386	25,749
Total comprehensive income for the year	-	-	-	24,363	-	213,551	237,914	3,144	241,058
Appropriation to reserve	-	-	-	-	1,136	(1,136)	-	-	-
Dividends recognised as distribution during the year (note 14)	-	(66,727)	-	-	-	(3,814)	(70,541)	-	(70,541)
Dividends declared by a subsidiary to non-controlling shareholder	-	-	-	-	-	-	-	(2,992)	(2,992)
Issue of shares	57,995	724,932	-	-	-	-	782,927	-	782,927
Capitalisation issue	149,900	(149,900)	-	-	-	-	-	-	-
Transaction costs attributable to issue of new shares	-	(40,931)	-	-	-	-	(40,931)	-	(40,931)
Contribution from non-controlling interests	-	-	-	-	-	-	-	7,979	7,979
At 30 June 2013	207,995	534,101	(234,378)	57,223	16,363	705,184	1,286,488	45,960	1,332,448
Profit for the year	-	-	-	-	-	309,890	309,890	5,174	315,064
Exchange differences arising on translation	-	-	-	(16,012)	-	-	(16,012)	(1,386)	(17,398)
Total comprehensive (expense) income for the year	-	-	-	(16,012)	-	309,890	293,878	3,788	297,666
Appropriation to reserve	-	-	-	-	11,226	(11,226)	-	-	-
Dividends recognised as distribution during the year (note 14)	-	(23,000)	-	-	-	(122,596)	(145,596)	-	(145,596)
Dividends declared by a subsidiary to non-controlling shareholder	-	-	-	-	-	-	-	(3,097)	(3,097)
Contribution from non-controlling interests	-	-	-	-	-	-	-	21,470	21,470
At 30 June 2014	207,995	511,101	(234,378)	41,211	27,589	881,252	1,434,770	68,121	1,502,891

Notes:

- (a) The special reserve represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the share capital of the acquired subsidiaries as well as financial guarantee provided to ultimate holding company as a result of group reorganisation which occurred in prior years.
- (b) The statutory surplus reserves represent enterprise development and general reserve fund appropriated from the profit after taxation of subsidiaries established in the People's Republic of China ("PRC").

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	421,753	292,042
Adjustments for:		
Allowance for obsolete inventories	25,722	5,128
Allowance for doubtful debts	1,390	–
Depreciation of property, plant and equipment	43,870	27,490
Loss on disposal and written-off of property, plant and equipment	6,653	3,937
Interest expenses	1,339	8,104
Financial guarantee income	–	(4,000)
Bank interest income	(8,821)	(3,000)
Operating cash flows before movements in working capital	491,906	329,701
(Increase) decrease in inventories	(145,985)	35,605
Increase in trade receivables	(56,961)	(100,412)
Increase in other receivables, deposits and prepayments	(30,367)	(10,859)
Decrease in amounts due from related companies	–	60
Increase (decrease) in trade payables and bills payable	18,497	(18,550)
Increase (decrease) in other payables and accrued charges	13,193	(995)
Cash generated from operations	290,283	234,550
Bank interest received	8,821	2,470
Income tax paid	(83,159)	(59,001)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>215,945</b>	<b>178,019</b>
<b>INVESTING ACTIVITIES</b>		
New short-term deposit placed	–	(150,000)
Withdrawal of short-term deposit	150,000	–
Purchases of property, plant and equipment	(100,078)	(52,220)
Proceeds from disposal of property, plant and equipment	89	200
Repayment from fellow subsidiaries	–	834
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b>50,011</b>	<b>(201,186)</b>



## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2014

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
<b>FINANCING ACTIVITIES</b>		
Dividends paid	(145,596)	(70,541)
Dividends paid to a non-controlling shareholder of a subsidiary	(6,194)	–
Proceeds from issue of shares	–	782,927
Share issue expenses	–	(40,931)
Contribution from non-controlling shareholders of subsidiaries	21,470	7,979
Interest paid	(1,339)	(8,104)
Borrowings raised	258,940	335,064
Repayment of bank borrowings	(263,493)	(580,490)
Advance from a director	–	7,406
Repayment to a director	–	(40,889)
Repayment to fellow subsidiaries	–	(316)
Advance from a non-controlling shareholder of a subsidiary	–	5,056
Repayment to a non-controlling shareholder of a subsidiary	(1,321)	–
<b>NET CASH (USED IN) FROM FINANCING ACTIVITIES</b>	<b>(137,533)</b>	397,161
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>128,423</b>	373,994
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>537,240</b>	156,512
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>(5,598)</b>	6,734
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash</b>	<b>660,065</b>	537,240

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 1. GENERAL

The Company was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law (2007 Revision) Chapter 22 of the Cayman Islands. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate and ultimate holding company is Red Glory Investments Limited ("Red Glory"), a company incorporated in the British Virgin Islands ("BVI") and wholly owned by Mr. Tung Koon Ming ("Mr. Tung"), a director of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in the annual report.

The Company is an investment holding company. Details of the principal activities of its subsidiaries are set out in note 28.

The functional currency of the Company is Renminbi ("RMB"), while the consolidated financial statements is presented in Hong Kong dollar ("HK\$"), which the management of the Group considered that it is more beneficial for the users of the consolidated financial statements, as the Company's shares are listed on the Stock Exchange.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s)

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 – 2011 cycle
Amendments to HKFRS 7	Disclosures – Offsetting financial assets and financial liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement
HKAS 19 (as revised in 2011)	Employee benefits
HKAS 27 (as revised in 2011)	Separate financial statements
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures
HK(IFRIC) – INT 20	Stripping costs in the production phase of a surface mine

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”s) (cont’d)

### Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and separate financial statements” that deal with consolidated financial statements and HK(SIC) INT – 12 “Consolidation – Special purpose entities”. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its investee as at 1 July 2013.

### New and revised HKFRSs in issue but not yet effective

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2010 – 2012 cycle <sup>3</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2011 – 2013 cycle <sup>2</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities <sup>1</sup>
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations <sup>4</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation <sup>4</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants <sup>4</sup>
Amendments to HKAS 19	Defined benefit plans: Employee contributions <sup>2</sup>
Amendments to HKAS 27	Equity method in separate financial statements <sup>4</sup>
Amendments to HKAS 32	Offsetting financial assets and financial liabilities <sup>1</sup>
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets <sup>1</sup>
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting <sup>1</sup>
HKFRS 9	Financial instruments <sup>6</sup>
HKFRS 15	Revenue from contracts with customers <sup>5</sup>
HK(IFRIC) – INT 21	Levies <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014.

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014.

<sup>3</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2016.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2017.

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2018.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS"s) (cont'd)

### **New and revised HKFRSs in issue but not yet effective (cont'd)**

The directors of the Company anticipate that the application of these new and revised HKFRSs will have no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies adopted are set out below.

### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

## ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains 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 the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

Interest income from a financial asset is recognised when it is probable that economic benefits will flow to the 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.

#### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### ***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK\$) using exchange rates prevailing at the end of each reporting period. Income and expenses are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Retirement benefits costs

Payments to state-managed retirement benefits schemes and the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as expenses when employees have rendered services entitling them to the contributions.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Taxation (cont'd)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

### Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets 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.

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 the 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### **Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a 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.

### **Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

### **Financial assets**

Financial assets are classified into loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, short-term deposit, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.



# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Financial instruments (cont'd)

#### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of each 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, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's 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 assets' 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 loss 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Financial instruments (cont'd)

#### *Financial liabilities and equity instruments*

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### *Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

#### *Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

#### *Financial liabilities*

Financial liabilities including trade payables and bills payable, other payables and accrued charges and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

#### **Derecognition**

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the assets to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

#### **Impairment on tangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

#### **Research and development expenditure**

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Research and development expenditure (cont'd)

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any).

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

### Allowance for obsolete inventories

Management of the Group reviews the inventory aging analysis at the end of the reporting period and identifies the slow-moving inventory items that are no longer suitable for use in production or sales. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. In addition, the Group carries out an inventory review on a product-by-product basis at the end of each reporting period and provides necessary allowance if the net realisable value is estimated to be below the cost.

Allowance for obsolete inventories of approximately HK\$25,722,000 (2013: HK\$5,128,000) was provided during the year ended 30 June 2014.

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

### Allowance for doubtful debts

The allowance for doubtful debts of the Group is based on the evaluation of collectability and aging analysis of individual trade debts performed by the management. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Allowance for doubtful debts of approximately HK\$1,390,000 (2013: nil) was made for the year ended 30 June 2014.

## 5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes bank borrowings as disclosed in note 21, and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

Management of the Group reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through issuance of new shares and the raise of bank borrowings or the repayment of the existing bank borrowings.

## 6. FINANCIAL INSTRUMENTS

### Categories of financial instruments

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Financial assets		
Loans and receivables (including cash and cash equivalents)	<b>1,073,162</b>	1,045,755
Financial liabilities		
Amortised cost	<b>219,996</b>	186,253

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 6. FINANCIAL INSTRUMENTS (cont'd)

### Financial risk management objectives and policies

The Group's financial instruments include trade receivables, other receivables, short-term deposit, bank balances and cash, trade payables and bills payable, other payables and accrued charges and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

### Currency risk

The Group has foreign currency sales, which expose itself to foreign currency risk. In addition, certain trade and other receivables, bank balances, other payables and accrued charges, and bank borrowings of the Group and intra-group balances are denominated in foreign currencies of the relevant group entities.

The currency risk of the Group is mainly arising from exchange rate of RMB against HK\$, HK\$ against RMB and Swiss Franc ("CHF") against HK\$.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HK\$	173,198	311,633	20,692	3,059
RMB	153	225	–	–
CHF	5,820	4,681	745	10,730

Other than above, several subsidiaries of the Group have the following intra-group receivables/payables denominated in HK\$, CHF and RMB, which are foreign currencies of the relevant group entities.

	Amounts due from group entities		Amounts due to group entities	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
HK\$	755,525	556,109	541,169	227,386
RMB	40,565	–	11,542	16,792
CHF	23,548	11,672	–	–

The Group currently does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 6. FINANCIAL INSTRUMENTS (cont'd)

### Financial risk management objectives and policies (cont'd)

#### Currency risk (cont'd)

##### Sensitivity analysis

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against HK\$, HK\$ against RMB and CHF against HK\$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as well as amounts due from and to group entities where the denomination of the balance is in a foreign currency of the group entity. A positive number below indicates an increase in post-tax profit for the year where the HK\$ strengthen 5% against RMB and CHF. For a 5% weakening of the HK\$ against RMB and CHF, there would be an equal and opposite impact on the post-tax profit for the year.

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Increase in post-tax profit for the year	<u>15,925</u>	<u>24,731</u>

#### Interest rate risk

The Group's fair value interest rate risk relates primarily to the fixed rate short-term deposit. The Group's cash flow interest rate risk relates to the bank balances as well as variable rate bank borrowings (note 21 for details of bank borrowings). The bank borrowings were mainly exposed to fluctuation of Hong Kong Interbank Offered Rate ("HIBOR").

The Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to cash flows interest rate risk. However, the management of the Group will consider hedging significant interest rate exposure should the need arise.

##### Sensitivity analysis

In the opinion of management of the Group, the expected change in interest rate on bank balances will not be significant in the near future, hence sensitivity analysis is not presented.

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. For variable rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 6. FINANCIAL INSTRUMENTS (cont'd)

### Financial risk management objectives and policies (cont'd)

#### Interest rate risk (cont'd)

##### Sensitivity analysis (cont'd)

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the impact on the Group's post-tax profit for the year ended 30 June 2014 and 2013 would be:

	2014 HK\$'000	2013 HK\$'000
Decrease/increase	<u>135</u>	<u>152</u>

#### Credit risk

As at 30 June 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group had no concentration of credit risk in respect of trade receivables, with exposure spread over a number of counterparties.

In order to minimise the credit risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management of the Group considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned.



# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 6. FINANCIAL INSTRUMENTS (cont'd)

### Financial risk management objectives and policies (cont'd)

#### Liquidity risk

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. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate %	Repayable on demand or less than 3 months HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
<b>As at 30 June 2014</b>				
<b>Non-derivative financial liabilities</b>				
Trade payables and bills payable	N/A	122,623	122,623	122,623
Other payables and accrued charges	N/A	61,415	61,415	61,415
Bank borrowings	1.87	35,958	35,958	35,958
		<b>219,996</b>	<b>219,996</b>	<b>219,996</b>
<b>As at 30 June 2013</b>				
<b>Non-derivative financial liabilities</b>				
Trade payables and bills payable	N/A	105,372	105,372	105,372
Other payables and accrued charges	N/A	40,370	40,370	40,370
Bank borrowings	2.21	40,511	40,511	40,511
		<b>186,253</b>	<b>186,253</b>	<b>186,253</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 6. FINANCIAL INSTRUMENTS (cont'd)

### Financial risk management objectives and policies (cont'd)

#### Liquidity risk (cont'd)

Bank borrowings with a repayment on demand clause are included in the "Repayment on demand or less than 3 months" time band in the above maturity analysis. As at 30 June 2014, the aggregate carrying amount of these bank loans amounted to HK\$35,958,000 (2013: HK\$40,511,000). Taking into account the Group's financial position, management does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. Management of the Group believes that such bank loans of the Group will be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to HK\$36,014,000 (2013: HK\$40,644,000).

For the purpose of managing liquidity risk, management reviews the expected cash flow information of the Group's bank borrowings based on the scheduled repayment dates set out in the bank borrowings agreements as set out in the table below:

	Weighted average effective interest rate %	Repayable less than 3 months HK\$'000	3 – 6 months HK\$'000	Total undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
<b>Bank borrowings:</b>					
As at 30 June 2014	1.87	35,263	751	36,014	35,958
As at 30 June 2013	2.21	37,473	3,171	40,644	40,511

### Fair value of financial instruments

#### Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 7. REVENUE AND SEGMENT INFORMATION

For management purpose, the Group is currently organised into four operating divisions:

- Manufacturing, trading of own branded and retailing business of watches – Tian Wang Watch (“Tian Wang Watch Business”);
- Trading of own branded and retailing business of watches – Balco Watch (“Balco Watch Business”);
- Trading of watch movements (“Watch Movements Trading Business”); and
- Retailing business of imported watches mainly of well-known brands (“Other Brands”).

These operating divisions are the basis of internal reports about components which are regularly reviewed by the chief operating decision maker, the chief executive officer of the Company, for the purposes of resources allocation and assessing their performance. Each of the operating division represents an operating segment.

### Segment revenue and results

Year ended 30 June 2014

	Tian Wang Watch Business HK\$'000	Balco Watch Business HK\$'000	Watch Movements Trading Business HK\$'000	Other Brands HK\$'000	Consolidated HK\$'000
<b>Revenue</b>					
External sales	1,665,167	168,149	262,397	306,645	2,402,358
Inter-segment sales	–	–	96,200	–	96,200
Segment revenue	<u>1,665,167</u>	<u>168,149</u>	<u>358,597</u>	<u>306,645</u>	<u>2,498,558</u>
Elimination					<u>(96,200)</u>
Group revenue					<u>2,402,358</u>
<b>Results</b>					
Segment results	<u>437,739</u>	<u>3,700</u>	<u>9,131</u>	<u>5,287</u>	<u>455,857</u>
Interest income					8,821
Central administration costs					(41,586)
Finance costs					<u>(1,339)</u>
Profit before taxation					<u>421,753</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 7. REVENUE AND SEGMENT INFORMATION (cont'd)

### Segment revenue and results (cont'd)

Year ended 30 June 2013

	Tian Wang Watch Business <i>HK\$'000</i>	Balco Watch Business <i>HK\$'000</i>	Watch Movements Trading Business <i>HK\$'000</i>	Other Brands <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>Revenue</b>					
External sales	1,231,497	150,108	282,061	248,569	1,912,235
Inter-segment sales	–	–	40,789	–	40,789
Segment revenue	<u>1,231,497</u>	<u>150,108</u>	<u>322,850</u>	<u>248,569</u>	1,953,024
Elimination					<u>(40,789)</u>
Group revenue					<u>1,912,235</u>
<b>Results</b>					
Segment results	<u>330,797</u>	<u>8,774</u>	<u>8,708</u>	<u>10,315</u>	358,594
Interest income					3,000
Financial guarantee income					4,000
Central administration costs					(65,448)
Finance costs					<u>(8,104)</u>
Profit before taxation					<u>292,042</u>

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the results of each segment without allocation of corporate items, including interest income, financial guarantee income, central administration costs and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 7. REVENUE AND SEGMENT INFORMATION (cont'd)

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating segment:

As at 30 June 2014

	Tian Wang Watch Business <i>HK\$'000</i>	Balco Watch Business <i>HK\$'000</i>	Watch Movements Trading Business <i>HK\$'000</i>	Other Brands <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>					
Segment assets	749,400	151,966	45,360	213,342	1,160,068
Bank balances and cash					660,065
Deferred tax assets					27,295
Other assets					3,259
Consolidated total assets					<u>1,850,687</u>
<b>LIABILITIES</b>					
Segment liabilities	109,796	24,994	22,109	48,959	205,858
Tax liabilities					59,434
Bank borrowings					35,958
Deferred tax liabilities					38,033
Other liabilities					8,513
Consolidated total liabilities					<u>347,796</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 7. REVENUE AND SEGMENT INFORMATION (cont'd)

### Segment assets and liabilities (cont'd)

As at 30 June 2013

	Tian Wang Watch Business <i>HK\$'000</i>	Balco Watch Business <i>HK\$'000</i>	Watch Movements Trading Business <i>HK\$'000</i>	Other Brands <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>					
Segment assets	585,198	119,611	58,930	157,273	921,012
Short-term deposit					150,000
Bank balances and cash					537,240
Deferred tax assets					<u>12,023</u>
Consolidated total assets					<u>1,620,275</u>
<b>LIABILITIES</b>					
Segment liabilities	112,993	19,164	24,012	27,593	183,762
Tax liabilities					29,343
Bank borrowings					40,511
Deferred tax liabilities					30,553
Other liabilities					<u>3,658</u>
Consolidated total liabilities					<u>287,827</u>

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments, other than short-term deposit, bank balances and cash, deferred tax assets and certain corporate assets.
- all liabilities are allocated to operating segments, other than tax liabilities, bank borrowings, deferred tax liabilities and certain corporate liabilities.

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 7. REVENUE AND SEGMENT INFORMATION (cont'd)

### Other segment information

#### Year ended 30 June 2014

	Tian Wang Watch Business HK\$'000	Balco Watch Business HK\$'000	Watch Movements Trading Business HK\$'000	Other Brands HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit or segment assets:						
Additions of property, plant and equipment	84,935	7,948	32	3,849	3,314	100,078
Depreciation of property, plant and equipment	37,190	3,522	58	3,045	55	43,870
Loss on disposal and written-off of property, plant and equipment	6,612	–	3	38	–	6,653
Allowance for obsolete inventories	21,157	–	–	4,565	–	25,722
Allowance for doubtful debts	1,361	29	–	–	–	1,390

#### Year ended 30 June 2013

	Tian Wang Watch Business HK\$'000	Balco Watch Business HK\$'000	Watch Movements Trading Business HK\$'000	Other Brands HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Amounts included in the measure of segment profit or segment assets:						
Additions of property, plant and equipment	41,396	6,314	973	3,537	–	52,220
Depreciation of property, plant and equipment	23,741	1,320	644	1,785	–	27,490
Loss on disposal and written-off of property, plant and equipment	3,810	–	127	–	–	3,937
Allowance (reversal of allowance) for obsolete inventories	2,995	3,133	(1,000)	–	–	5,128

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 7. REVENUE AND SEGMENT INFORMATION (cont'd)

### Information about major customers

There is no single customer contributing over 10% of total revenue of the Group for the years ended 30 June 2014 and 2013.

### Geographical information

The Group's operations are located in the PRC and Hong Kong. The Group's revenue from external customers based on the location of the customer and information about its non-current assets by geographical location of the assets are detailed below:

#### Revenue by geographical location:

	2014 HK\$'000	2013 HK\$'000
Hong Kong and others	309,072	315,466
The PRC	2,093,286	1,596,769
	<b>2,402,358</b>	<b>1,912,235</b>

#### Non-current assets other than deferred tax assets by geographical location:

	2014 HK\$'000	2013 HK\$'000
Hong Kong	7,397	4,046
The PRC	110,254	65,822
	<b>117,651</b>	<b>69,868</b>



# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 8. DIRECTORS' REMUNERATION

Details of the remuneration paid or payable to the Company's directors were as follows:

	Mr. Tung HK\$'000 (Note b)	Mr. Tung Wai Kit HK\$'000	Mr. Hou Qing Hai HK\$'000	Mr. Lo Wing Sang HK\$'000	Mr. Choi Ho Yan HK\$'000	Mr. Wong Wing Keung Meyrick HK\$'000	Mr. Ma Ching Nam HK\$'000	Total HK\$'000
<b>For the year ended 30 June 2014</b>								
Fee	90	90	90	90	223	223	223	1,029
Salaries and allowances	3,645	594	568	1,560	-	-	-	6,367
Bonus (Note a)	5,000	113	185	263	-	-	-	5,561
Contributions to retirement benefit scheme	15	15	-	15	-	-	-	45
<b>Total remuneration</b>	<b>8,750</b>	<b>812</b>	<b>843</b>	<b>1,928</b>	<b>223</b>	<b>223</b>	<b>223</b>	<b>13,002</b>

	Mr. Tung HK\$'000 (Note b)	Mr. Tung Wai Kit HK\$'000	Mr. Hou Qing Hai HK\$'000 (Note c)	Mr. Lo Wing Sang HK\$'000 (Note c)	Dr. Tam Hok Lam Tommy HK\$'000 (Note d)	Mr. Choi Ho Yan HK\$'000 (Note e)	Mr. Wong Wing Keung Meyrick HK\$'000 (Note f)	Mr. Ma Ching Nam HK\$'000 (Note f)	Total HK\$'000
<b>For the year ended 30 June 2013</b>									
Fee	45	45	45	45	74	37	112	112	515
Salaries and allowances	3,600	428	542	1,484	-	-	-	-	6,054
Bonus (Note a)	-	87	675	832	-	-	-	-	1,594
Contributions to retirement benefit scheme	15	15	-	15	-	-	-	-	45
<b>Total remuneration</b>	<b>3,660</b>	<b>575</b>	<b>1,262</b>	<b>2,376</b>	<b>74</b>	<b>37</b>	<b>112</b>	<b>112</b>	<b>8,208</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 8. DIRECTORS' REMUNERATION (cont'd)

Notes:

- (a) Incentive performance bonuses were determined by the board of directors of the Company having regard to the performance of directors and the Group's operating results.
- (b) Mr. Tung is also the chief executive officer of the Group and his emoluments disclosed above included those for services rendered by him as the chief executive officer. Based on the service contract entered into between Mr. Tung and the Company on 1 July 2012 for his appointment as the chief executive officer of the Group, Mr. Tung is only entitled to discretionary performance bonus with effect from 1 July 2013.
- (c) Mr. Hou Qing Hai and Mr. Lo Wing Sang were appointed on 10 January 2013.
- (d) Dr. Tam Hok Lam Tommy was appointed on 10 January 2013 and resigned on 10 May 2013.
- (e) Mr. Choi Ho Yan was appointed on 10 May 2013.
- (f) Mr. Wong Wing Keung Meyrick and Mr. Ma Ching Nam were appointed on 10 January 2013.

During the years ended 30 June 2014 and 2013, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration in both years.

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals include two directors of the Company for the year ended 30 June 2014 (2013: three). The emoluments of the remaining three individuals for the year ended 30 June 2014 (2013: two) are as follows:

	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Salaries and other benefits	<b>3,959</b>	2,413
Contributions to retirement benefit scheme	<b>122</b>	81
	<b>4,081</b>	2,494

The emoluments of the individuals with the highest emoluments are within the following bands:

	<b>2014</b> <b>Number of</b> <b>individuals</b>	2013 Number of individuals
HK\$nil to HK\$1,000,000	<b>1</b>	1
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	–
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	–

During the years ended 30 June 2014 and 2013, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 10. OTHER INCOME, GAINS AND LOSSES/OTHER EXPENSES

	2014 HK\$'000	2013 HK\$'000
<b>Other income, gains and losses</b>		
Bank interest income	8,821	3,000
Allowance for doubtful debts	(1,390)	–
Loss on disposal and written-off of property, plant and equipment	(6,653)	(3,937)
Watch repair and maintenance services income	4,563	2,508
Net exchange (loss) gain	(1,984)	3,623
Financial guarantee income (Note a)	–	4,000
Government subsidies (Note b)	6,157	2,263
Others	6,120	1,449
	<b>15,634</b>	<b>12,906</b>
<b>Other expenses</b>		
Listing expenses	–	25,740

Notes:

- (a) During the year ended 30 June 2012, several subsidiaries of the Group provided financial guarantees to Red Rewarding, the ultimate holding company. On 12 November 2012, the financial guarantees were released by a bank and the financial guarantee income of HK\$4,000,000 was recognised in profit or loss during the year ended 30 June 2013.
- (b) The amount represents (i) government subsidies from local finance bureau which are calculated by reference to the amount of tax paid and certain conditions in accordance with the rules and regulations issued by the local government; and (ii) unconditional government grants for the reimbursement of expenses incurred for research and development activities in the PRC.

## 11. FINANCE COSTS

	2014 HK\$'000	2013 HK\$'000
The finance costs represent interests on:		
Borrowings wholly repayable within five years	1,339	8,104

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 12. INCOME TAX

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Current tax:		
Hong Kong Profits Tax	2,391	–
PRC Enterprise Income Tax	102,290	62,804
PRC withholding tax	12,019	4,971
	<b>116,700</b>	67,775
Overprovision in prior years:		
Hong Kong Profits Tax	(308)	–
PRC Enterprise Income Tax	(1,911)	(425)
	<b>114,481</b>	67,350
Deferred taxation ( <i>note 23</i> )	(7,792)	9,383
	<b>106,689</b>	76,733

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits. No provision for Hong Kong Profits Tax has been made for the year ended 30 June 2013, as the Group's subsidiaries subject to Hong Kong Profits Tax either incurred tax losses or their assessable profits were wholly absorbed by tax losses brought forward.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of EIT Law, the Enterprise Income Tax rate is 25%. Subject to certain preferential tax treatment, the applicable tax rate of the PRC subsidiaries is ranging from 15% to 25% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Dividends distributed from the PRC subsidiaries are subject to withholding tax at 5% to 10%. Deferred tax in relation to withholding income tax for the undistributed profits of the PRC subsidiaries have been provided. Details of the movement of the deferred tax recognised in respect to withholding income tax for the undistributed profits are set out in note 23.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 12. INCOME TAX (cont'd)

The tax charge for the years can be reconciled to the profit before taxation as follows:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Profit before taxation	<b>421,753</b>	292,042
Tax at the PRC Enterprise Income Tax rate of 25%	<b>105,438</b>	73,011
Tax effect of expenses not deductible for tax purpose	<b>6,259</b>	13,629
Tax effect of income not taxable for tax purpose	<b>(2,051)</b>	(28)
Income tax on concession and preferential tax rates	<b>(23,625)</b>	(29,022)
Tax effect of tax loss not recognised	<b>8,530</b>	9,119
Tax effect of utilisation of tax losses previously not recognised	–	(109)
Overprovision in prior years	<b>(2,219)</b>	(425)
Additional tax benefit to the Group ( <i>Note</i> )	<b>(4,202)</b>	(3,819)
Withholding tax for distributable earnings of PRC subsidiaries	<b>18,559</b>	14,377
Tax charge for the year	<b>106,689</b>	76,733

*Note:* Pursuant to the relevant tax rules and regulation, expenses in research nature are deductible at 150% of the cost incurred. The related tax benefit amounted to HK\$4,202,000 for the year ended 30 June 2014 (2013: HK\$3,819,000).

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 13. PROFIT FOR THE YEAR

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Profit for the year has been arrived at after charging:		
Auditor's remuneration	1,837	2,981
Directors' remuneration ( <i>note 8</i> )		
Fees	1,029	515
Other emoluments	11,928	7,648
Retirement benefits scheme contributions	45	45
	<b>13,002</b>	8,208
Other staff costs	275,392	193,656
Retirement benefits scheme contributions	34,192	23,469
Total staff costs	<b>322,586</b>	225,333
Depreciation of property, plant and equipment	43,870	27,490
Cost of inventories recognised as cost of sales	777,417	709,324
Research and development cost recognised as cost of sales	37,906	38,426
Allowance for obsolete inventories recognised as cost of sales	25,722	5,128
Concessionaire fee ( <i>Note</i> )	485,553	374,116
Operating lease payment in respect of shop counters and shops	34,893	29,161
Operating lease payment for office premises and factories	8,255	6,727

*Note:* Certain shop counters of the Group paid concessionaire fee to department stores based on monthly sales recognised by these shop counters pursuant to the terms and conditions as set out in the respective agreements signed with individual department stores.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 14. DIVIDENDS

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Dividends recognised as distribution during the year:		
2014 Interim – HK2 cents per share	41,599	–
2013 Final – HK3 cents per share	62,398	–
2013 Special – HK2 cents per share	41,599	–
2012 Final	–	70,541
	<u>145,596</u>	<u>70,541</u>

Subsequent to the end of the reporting period, a final and a special dividend in respect of the year ended 30 June 2014 of HK3 cents and HK2 cents per share have been proposed by the directors and are subject to the approval by the shareholders of the Company in the forthcoming annual general meeting of the Company.

## 15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Earnings:		
Earnings for the purposes of calculating basic and diluted earnings per share (profit for the year attributable to owners of the Company)	<u>309,890</u>	213,551
	<u>'000</u>	<u>'000</u>

Number of shares:

Weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per share	<u>2,079,946</u>	1,725,846
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During the year ended 30 June 2013, the weighted average number of ordinary shares for the purposes of calculating basic and diluted earnings per share has been adjusted for the effect of group reorganisation for the Company's shares listed on the Stock Exchange on 5 February 2013.

The over-allotment options of the Company expired during the year ended 30 June 2013 did not have a dilutive effect to the Company's earnings per share during the year ended 30 June 2013 because the exercise price of such option was higher than the average market prices of the Company's share during the period when the options were exercisable.

No diluted earnings per share was presented as there was no potential ordinary share outstanding for both years.



# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Machinery HK\$'000	Furniture and fixtures HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Light boxes HK\$'000	Total HK\$'000
<b>COST</b>							
At 1 July 2012	14,940	2,370	1,969	4,798	12,815	61,237	98,129
Exchange adjustments	645	92	51	196	296	2,864	4,144
Additions	5,367	397	206	1,613	2,297	42,340	52,220
Disposals and written-off	-	-	(12)	-	(403)	(11,028)	(11,443)
At 30 June 2013	20,952	2,859	2,214	6,607	15,005	95,413	143,050
Exchange adjustments	(344)	(62)	(36)	(139)	(174)	(2,440)	(3,195)
Additions	4,450	1,297	567	3,507	6,061	84,196	100,078
Disposals and written-off	(2,579)	-	(13)	(60)	(305)	(17,269)	(20,226)
At 30 June 2014	<b>22,479</b>	<b>4,094</b>	<b>2,732</b>	<b>9,915</b>	<b>20,587</b>	<b>159,900</b>	<b>219,707</b>
<b>DEPRECIATION</b>							
At 1 July 2012	11,176	852	1,037	1,974	4,933	30,860	50,832
Exchange adjustments	494	38	39	82	138	1,375	2,166
Provided for the year	3,481	374	213	606	1,852	20,964	27,490
Eliminated on disposals and written-off	-	-	(4)	-	(76)	(7,226)	(7,306)
At 30 June 2013	15,151	1,264	1,285	2,662	6,847	45,973	73,182
Exchange adjustments	(268)	(27)	(22)	(77)	(89)	(1,029)	(1,512)
Provided for the year	4,551	548	249	2,724	1,976	33,822	43,870
Eliminated on disposals and written-off	(2,468)	-	(2)	(23)	(274)	(10,717)	(13,484)
At 30 June 2014	<b>16,966</b>	<b>1,785</b>	<b>1,510</b>	<b>5,286</b>	<b>8,460</b>	<b>68,049</b>	<b>102,056</b>
<b>CARRYING VALUES</b>							
At 30 June 2013	5,801	1,595	929	3,945	8,158	49,440	69,868
At 30 June 2014	<b>5,513</b>	<b>2,309</b>	<b>1,222</b>	<b>4,629</b>	<b>12,127</b>	<b>91,851</b>	<b>117,651</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 16. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Depreciation is charged to write off the cost of property, plant and equipment less residual value, if any on a straight-line basis, at the following rates per annum:

Leasehold improvements	Shorter of 10% – 20% and over the lease terms
Machinery	10% – 20%
Furniture and fixtures	10% – 33%
Computer equipment	33%
Motor vehicles	10% – 33%
Light boxes	33%

## 17. INVENTORIES

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Raw materials and consumables	59,242	41,309
Work in progress	12,816	11,280
Finished goods	483,903	389,508
	<b>555,961</b>	442,097

During the year ended 30 June 2013, certain inventories previously provided for impairment were sold and hence, allowance for obsolete inventories of HK\$1,329,000 was reversed.

## 18. TRADE AND OTHER RECEIVABLES

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trade receivables from third parties	389,499	332,557
Trade receivable from a fellow subsidiary	2,660	6,563
Trade receivable from a related company	704	1,842
Less: allowance for doubtful debts	(1,342)	(433)
	<b>391,521</b>	340,529
Other receivables, deposits and prepayments	98,194	68,518
Total trade and other receivables	<b>489,715</b>	409,047

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 30 June 2014

**18. TRADE AND OTHER RECEIVABLES (cont'd)**

Trade receivables from third parties mainly represent receivables from department stores in relation to the collection of sales proceeds from concessionaire sales of merchandise to customers. The average credit period granted to the department stores is 60 days. The Group did not have a credit period policy to its related party customers and the related party customers normally settled trade receivables within three months.

The following is an aged analysis of trade receivables from third parties net of allowance for doubtful debts presented based on the date of delivery of goods, which approximates to the respective date of revenue recognition, at the end of the reporting period:

	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
0 to 60 days	<b>340,821</b>	276,770
61 to 120 days	<b>29,172</b>	38,549
121 to 180 days	<b>13,366</b>	6,781
Over 180 days	<b>4,798</b>	10,024
	<b>388,157</b>	332,124

The following is an aged analysis of trade receivable from a fellow subsidiary presented based on the date of delivery of goods, which approximates to the respective date of revenue recognition, at the end of the reporting period:

	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
0 to 60 days	<b>1,913</b>	4,407
61 to 120 days	<b>747</b>	2,156
	<b>2,660</b>	6,563

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 18. TRADE AND OTHER RECEIVABLES (cont'd)

The following is an aged analysis of trade receivable from a related company (in which Mr. Tung has control) presented based on the date of delivery of goods, which approximates to the respective date of revenue recognition, at the end of the reporting period:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0 to 60 days	698	1,100
61 to 120 days	6	742
	<b>704</b>	<b>1,842</b>

As at 30 June 2014, included in the Group's trade receivables were debtors with a carrying amount of HK\$47,336,000 (2013: HK\$55,354,000), which were past due at the end of the reporting period for which the Group did not provide for impairment loss as there were subsequent settlement or no historical default of payments by the respective customers and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables as at 30 June 2014 is 114 days (2013: 114 days).

### Aging of trade receivables from third parties past due but not impaired

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
61 to 120 days	29,172	38,549
121 to 180 days	13,366	6,781
Over 180 days	4,798	10,024
	<b>47,336</b>	<b>55,354</b>

### Movement in the allowance for doubtful debts

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Balance at beginning of the year	433	430
Exchange adjustments	(16)	3
Allowance for doubtful debts	1,390	–
Amounts written off as uncollectible	(465)	–
Balance at end of the year	<b>1,342</b>	<b>433</b>

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 18. TRADE AND OTHER RECEIVABLES (cont'd)

### Movement in the allowance for doubtful debts (cont'd)

Included in the allowance for doubtful debts are impaired trade receivables with a balance of HK\$1,390,000 (2013: nil) which were past due over 180 days and considered not recoverable.

The concentration of credit risk is limited due to the customer base being large and unrelated. Management of the Group believes that there is no further credit provision required in excess of the allowance for doubtful debts.

The trade and other receivables that are denominated in foreign currencies of the relevant group entities are set out below:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
CHF	4,554	4,247
HK\$	540	471

## 19. SHORT-TERM DEPOSIT AND BANK BALANCES AND CASH

Bank balances and cash comprise cash and short-term deposit with original maturity of three months or less and carrying interest at average market rates of 1.2% (2013: 1.1%) per annum. At 30 June 2013, the short-term deposit of HK\$150,000,000 was bank deposit with original maturity over three months and carrying a fixed interest rate of 0.81% per annum.

Both bank balances and short-term deposit are matured within 12 months from the end of the reporting period and therefore classified as current assets.

At 30 June 2014, the bank balances and cash of HK\$462,084,000 (2013: HK\$236,072,000) are denominated in RMB, which are not freely convertible into other currencies.

Short-term deposit and bank balances and cash that are denominated in foreign currencies of the relevant group entities are set out below:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
HK\$	172,658	311,162
CHF	1,266	434
RMB	153	225

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 20. TRADE PAYABLES AND BILLS PAYABLE, OTHER PAYABLES AND ACCRUED CHARGES

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
<i>Trade payables and bills payable:</i>		
Trade payables	109,264	95,801
Bills payable	3,067	8,455
Trade payables to entities owned by non-controlling shareholders of subsidiaries	10,292	1,116
	<u>122,623</u>	<u>105,372</u>
<i>Other payables and accrued charges:</i>		
Other tax payables	30,333	31,768
Accrued directors' remuneration	6,029	440
Accrued advertising expenses	1,601	1,590
Accrued staff related costs	11,631	12,679
Other payables and accrued charges	38,419	27,418
Amount due to a non-controlling shareholder of a subsidiary	3,735	5,056
Dividend payable to a non-controlling shareholder of a subsidiary	–	3,097
	<u>91,748</u>	<u>82,048</u>
	<u>214,371</u>	<u>187,420</u>

The average credit period on purchases of goods is 30 to 60 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0 – 30 days	63,966	52,222
31 – 60 days	20,686	23,860
61 – 90 days	9,249	12,101
Over 90 days	15,363	7,618
	<u>109,264</u>	<u>95,801</u>

① **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

For the year ended 30 June 2014

**20. TRADE PAYABLES AND BILLS PAYABLE, OTHER PAYABLES AND ACCRUED CHARGES (cont'd)**

The entities owned by non-controlling shareholders of subsidiaries did not have a specified credit period policy granting to the Group and the Group normally settled trade payables within three months. The following is an aged analysis of trade payables to entities owned by non-controlling shareholders of subsidiaries based on invoice date at the end of the reporting period:

	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
0 – 60 days	<b>10,108</b>	1,116
Over 90 days	<b>184</b>	–
	<b>10,292</b>	1,116

Bills payable at the end of the reporting period is aged within 30 days based on goods receipt date.

Amount due to a non-controlling shareholder of a subsidiary is unsecured, interest-free and repayable on demand.

The other payables and accrued charges that are denominated in foreign currency of the relevant group entities are set out below:

	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
HK\$	<b>20,692</b>	3,059

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 21. BANK BORROWINGS

	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Trust receipts loans	<b>27,958</b>	27,511
Bank loans	<b>8,000</b>	13,000
	<b>35,958</b>	40,511

The trust receipts loans and bank loans are unsecured and repayable on demand and within one year.

The bank borrowings that are denominated in foreign currency of the relevant group entities are set out below:

	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
CHF	<b>745</b>	10,730

Trust receipts loans and bank loans are arranged at floating rates at interest rates ranging from HIBOR plus 1.25% to 2.00%, and the average interest rate is approximately 1.87% per annum as at 30 June 2014 (2013: 2.21% per annum). Thus the Group exposes to cash flow interest rate risk.



# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 22. SHARE CAPITAL

	Number of shares '000	Share capital HK\$'000
<i>Ordinary shares of HK\$0.1 each</i>		
<i>Authorised:</i>		
At 1 July 2012	3,500	350
Increased during the year (Note a(i))	99,996,500	9,999,650
At 30 June 2013 and 2014	100,000,000	10,000,000
<i>Issued:</i>		
At 1 July 2012	1,000	100
Capitalisation issue (Note a(ii))	1,499,000	149,900
Issue of new shares upon listing (Note b)	500,000	50,000
Issue of shares upon exercise of over-allotment options (Note c)	79,946	7,995
At 30 June 2013 and 2014	2,079,946	207,995

*Notes:*

- (a) Pursuant to a written resolution of the sole shareholder passed on 11 January 2013:
- (i) the authorised share capital of the Company was increased from HK\$350,000 to HK\$10,000,000,000 by the creation of 99,996,500,000 new shares of HK\$0.10 each; and
- (ii) conditional on the share premium account of the Company being credited as a result of the offering of the shares of the Company to the public in Hong Kong and placing of the Company's shares, the directors were authorised to capitalise HK\$149,900,000 standing to the credit of the share premium account of the Company applying such sum in paying up in full at par 1,499,000,000 shares for allotment and issue to the holder of shares whose name appears on the register of the members of the Company at the close of business on 11 January 2013. The increase in authorised share capital and capitalisation of HK\$149,900,000 standing to the credit of the share premium account became unconditional upon the listing of the Company's shares on 5 February 2013.
- (b) On 5 February 2013, the Company issued 500,000,000 new shares at HK\$1.35 per share and the Company's shares were listed on the Stock Exchange on 5 February 2013.
- (c) On 5 March 2013, 79,946,000 over-allotment options were exercised and the Company issued 79,946,000 new shares of HK\$1.35 per share.

All the shares issued rank pari passu with the existing shares in all respects.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 23. DEFERRED TAXATION

The following are the major deferred tax (assets) liabilities recognised and movements during the year:

	Allowance for obsolete inventories <i>HK\$'000</i>	Unrealised profit <i>HK\$'000</i>	Accelerated tax depreciation <i>HK\$'000</i>	Withholding tax arising from PRC subsidiaries <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2012	(7,000)	(5,000)	533	20,614	9,147
(Credited) charged to profit or loss	(207)	184	–	9,406	9,383
At 30 June 2013	(7,207)	(4,816)	533	30,020	18,530
(Credited) charged to profit or loss	(8,635)	(6,637)	940	6,540	(7,792)
At 30 June 2014	(15,842)	(11,453)	1,473	36,560	10,738

For the purpose of presentation in the consolidated statement of financial position, the following is the analysis of the deferred taxation.

	<b>2014</b> <b>HK\$'000</b>	2013 <i>HK\$'000</i>
Deferred tax assets	<b>27,295</b>	12,023
Deferred tax liabilities	<b>38,033</b>	30,553

The Group had unused tax losses of approximately HK\$88,162,000 as at 30 June 2014 (2013: HK\$54,042,000). No deferred tax assets have been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 24. COMMITMENTS

### a. Operating lease commitments

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Within one year	<b>23,731</b>	15,294
In the second to fifth year inclusive	<b>12,802</b>	10,536
Over five years	–	332
	<b>36,533</b>	26,162

The Group leases its office premises, factories, shops and shop counters under operating lease arrangements. Leases for office premises, factories, shops and shop counters are negotiated for fixed terms ranged from 2 to 6 years.

### b. Concessionaire fee commitments

Certain shop counters of the Group paid concessionaire fee to department stores based on monthly sales recognised by these shop counters pursuant to the terms and conditions as set out in the respective agreements signed with individual department stores. In the opinion of the directors of the Company, as the future sales of these shop counters could not be estimated reliably, the concessionaire fee commitments has not been quantified and presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 25. RETIREMENT BENEFITS SCHEMES

The Group operates defined contribution retirement benefits plans for all qualifying employees in Hong Kong. Contributions are made based on a percentage of the employee's basic salary with a cap of HK\$1,250 per month and charged to profit or loss as they become payable in accordance with the rules of MPF Scheme. The assets of the plans are held separately from those of the Group in funds under the control of trustees.

The Group's PRC subsidiaries and a Swiss subsidiary are required to make contributions to the state-managed retirement schemes operated by respective local governments based on certain percentage of the monthly salaries of their current employees to fund the benefits. The employees are entitled to retirement pension calculated with reference to their basic salaries on retirement and their length of service in accordance with the relevant government regulations. The only obligation of these subsidiaries with respect to the state-managed schemes is to make the specified contributions.

As at 30 June 2014 and 2013, there were no outstanding contributions payable to the schemes.

## 26. SHARE OPTION SCHEME

On 11 January 2013, the Company conditionally adopted a share option scheme pursuant to a resolution passed by its sole shareholder on 11 January 2013, where eligible employees and directors of the Group, among others, may be granted options entitling them to subscribe for the Company's shares. The adoption of the share option scheme became unconditional upon the listing of the Company on 5 February 2013. No share option has been granted since the adoption of the scheme.

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 27. RELATED PARTY TRANSACTIONS

Other than trade receivable from a fellow subsidiary and a related company and trade payables to entities owned by non-controlling shareholders of subsidiaries as disclosed in notes 18 and 20, respectively, the Group had the following related party transactions during the year:

	<b>2014</b> <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Sales to a fellow subsidiary ( <i>Note d</i> )	<b>24,129</b>	19,079
Sales to a related company ( <i>Note a &amp; d</i> )	<b>4,677</b>	6,255
Sales commission paid/payable to a fellow subsidiary	<b>950</b>	276
Purchases from entities owned by non-controlling shareholders of subsidiaries	<b>26,722</b>	9,659
Rental expense paid/payable to a director and a related company ( <i>Note b &amp; d</i> )	<b>114</b>	158
Rental expense paid/payable to a non-controlling shareholder of a subsidiary	–	89
Rental expense paid/payable to a fellow subsidiary ( <i>Note d</i> )	<b>4,080</b>	4,080
Service fee paid/payable to a non-controlling shareholder of a subsidiary	<b>5,070</b>	3,664
Promotion fee paid/payable to a fellow subsidiary	<b>496</b>	744
Promotion fee paid/payable to a related party ( <i>Note c</i> )	<b>335</b>	200
Consultancy fee paid/payable to a fellow subsidiary	<b>420</b>	65
Consultancy fee paid/payable to a related party ( <i>Note c</i> )	<b>360</b>	300
Dividend paid/payable to a non-controlling shareholder of a subsidiary	<b>3,097</b>	2,992

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 27. RELATED PARTY TRANSACTIONS (cont'd)

Notes:

- (a) The amount represented the sales of watches to a related company in which Mr. Tung has control.
- (b) The related company is wholly owned and controlled by Mr. Tung.
- (c) The amounts represented promotion fee and consultancy fee paid to a related company in which Mr. Tung has control.
- (d) The related party transactions are also defined as continuing connected transactions under the Listing Rules.

### Compensation of key management personnel

The remuneration of directors and other members of key management were as follows:

	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Short-term benefits	<b>18,157</b>	11,854
Post-employment benefits	<b>224</b>	167
	<b>18,381</b>	12,021

The remuneration of key management is determined by the board of directors having regard to the performance of individuals and market trends.

# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 28. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Country/ place of incorporation/ establishment	Country/ Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group		Principal activities
				As at 30 June 2014	2013	
<b>Directly:</b>						
Immense Ocean Investments Limited	BVI	Hong Kong	1 share of US\$1	100%	100%	Investment holding
<b>Indirectly:</b>						
Win Source Trading Limited 偉鑫貿易有限公司	Hong Kong	Hong Kong	1 share of HK\$1	100%	100%	Trading of watch movements
Win Sun International Limited 捷新國際有限公司	Hong Kong	Hong Kong	1 share of HK\$1	100%	100%	Trading of watches
Gold Joy Investments Limited 金愉投資有限公司	Hong Kong	Hong Kong	1 share of HK\$1	100%	100%	Investment holding
Sky Sun Investments Limited 天新投資有限公司	Hong Kong	Hong Kong	1 share of HK\$1	100%	100%	Investment holding
Gold Reach Investments Limited 金達投資有限公司	Hong Kong	Hong Kong	1 share of HK\$1	100%	100%	Investment holding
Top World Trading Limited 上華貿易有限公司	Hong Kong	Hong Kong	1 share of HK\$1	100%	100%	Trading of watch parts
Ye Guang Li Electronics (Meizhou) Company Limited <sup>1</sup> 業廣利電子(梅州)有限公司	PRC	PRC	HK\$3,880,000	100%	100%	Assembling and trading of watches
Suzhou Paragon Watch Company Limited <sup>2</sup> 蘇州寶利辰表行有限公司	PRC	PRC	RMB20,000,000	51%	51%	Sales of watches
Tian Wang Electronics (Shenzhen) Company Limited <sup>1</sup> 天王電子(深圳)有限公司	PRC	PRC	HK\$99,000,000	100%	100%	Assembling and trading of own branded watches
Time Watch (Hefei) Timepieces Company Limited <sup>2</sup> 時計寶(合肥)鐘表有限公司	PRC	PRC	RMB14,000,000	51%	51%	Sales of watches

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 28. PARTICULARS OF SUBSIDIARIES (cont'd)

Name of subsidiary	Country/ place of incorporation/ establishment	Country/ Place of operation	Issued and fully paid share capital/ registered capital	Attributable equity interest of the Group As at 30 June		Principal activities
				2014	2013	
Time Watch (Shanghai) Timepieces Company Limited <sup>2</sup> 時計寶 (上海) 鐘表有限公司	PRC	PRC	RMB14,000,000	51%	51%	Sales of watches
Balco Switzerland SAGL	Switzerland	Switzerland	20 shares of CHF1,000 each	100%	100%	Sales of watches
Shenzhen Time Watch Management Consulting Limited <sup>3</sup> 深圳時計寶管理諮詢有限公司	PRC	PRC	RMB6,000,000	100%	100%	Marketing and consulting
Time Watch (Sichuan) Company Limited ("Time Watch Sichuan") <sup>2</sup> 時計寶 (四川) 鐘表有限公司	PRC	PRC	RMB20,000,000 (note)	51%	51%	Sales of watches
Shenzhen Time Watch Trading Company Limited <sup>3</sup> 深圳時計寶商貿有限公司	PRC	PRC	RMB5,000,000	70%	70%	Sales of watches
Time Watch (Chengdu) Company Limited ("Time Watch Chengdu") <sup>2</sup> 時計寶 (成都) 鐘表有限公司	PRC	PRC	RMB20,000,000 (note)	51%	–	Sales of watches
Zhengzhou Time Watch Company Limited <sup>2</sup> 鄭州時計寶鐘表有限公司	PRC	PRC	RMB20,000,000	51%	–	Sales of watches

<sup>1</sup> Established in the PRC in the form of wholly foreign-owned enterprise.

<sup>2</sup> Established in the PRC in the form of sino-foreign equity joint venture.

<sup>3</sup> Established in the PRC in the form of domestic-invested enterprise.

*Note:* As at 30 June 2014, capital contributions from non-controlling shareholders of Time Watch Sichuan and Time Watch Chengdu of HK\$3,611,000 and HK\$5,976,000 have not been received respectively.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

In the opinion of the directors, the Group has no material non-controlling interests and the summarised financial information about these subsidiaries is not disclosed.



# ① NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 29. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2014 <i>HK\$'000</i>	2013 <i>HK\$'000</i>
Non-current assets		
Unlisted investments in subsidiaries, at cost	<b>132,149</b>	123,759
Amounts due from subsidiaries	<b>407,846</b>	342,396
	<b>539,995</b>	466,155
Current assets		
Other receivables, deposits and prepayments	<b>24</b>	2,180
Amount due from a subsidiary	<b>131,820</b>	–
Short-term deposit	–	150,000
Bank balances	<b>157,483</b>	159,496
Dividend receivable from a subsidiary	<b>58,700</b>	57,000
	<b>348,027</b>	368,676
Current liabilities		
Other payables and accrued charges	<b>1,029</b>	561
Amounts due to subsidiaries	–	10,224
	<b>1,029</b>	10,785
Net current assets	<b>346,998</b>	357,891
Total assets less current liabilities	<b>886,993</b>	824,046
Capital and reserves		
Share capital	<b>207,995</b>	207,995
Reserves	<b>678,998</b>	616,051
Total equity	<b>886,993</b>	824,046

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2014

## 29. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (cont'd)

### Reserves of the Company

	Share premium <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated (loss) profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2012	66,727	–	(18,074)	48,653
Profit and comprehensive income for the year	–	15,710	88,128	103,838
Dividend recognised as distribution during the year ( <i>note 14</i> )	(66,727)	–	(3,814)	(70,541)
Issue of shares	724,932	–	–	724,932
Capitalisation issue	(149,900)	–	–	(149,900)
Transaction costs attributable to issue of new shares	(40,931)	–	–	(40,931)
At 30 June 2013	534,101	15,710	66,240	616,051
Profit and comprehensive (expense) income for the year	–	(15,343)	223,886	208,543
Dividend recognised as distribution during the year ( <i>note 14</i> )	(23,000)	–	(122,596)	(145,596)
At 30 June 2014	511,101	367	167,530	678,998

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years, as extracted from the published audited financial information and consolidated financial statements, is set out below.

	For the year ended 30 June				
	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000
<b>Results</b>					
Revenue	<b>2,402,358</b>	1,912,235	1,524,779	1,189,325	919,605
Profit for the year attributable to owners of the Company	<b>309,890</b>	213,551	184,093	134,603	60,717
	At 30 June				
	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000
<b>Assets and liabilities</b>					
Total assets	<b>1,850,687</b>	1,620,275	972,423	940,721	719,233
Total liabilities	<b>(347,796)</b>	(287,827)	(557,475)	(472,293)	(429,706)
	<b>1,502,891</b>	1,332,448	414,948	468,428	289,527
Equity attributable to the owners of the Company	<b>1,434,770</b>	1,286,488	377,119	452,015	277,069
Non-controlling interests	<b>68,121</b>	45,960	37,829	16,413	12,458
	<b>1,502,891</b>	1,332,448	414,948	468,428	289,527

*Note:* The Company was incorporated in the Cayman Islands on 21 September 2011 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 30 June 2010, 2011 and 2012 have been prepared as if the current group structure had been in existence throughout the year, or since the respective dates of incorporation or establishment, where this is a shorter period.

The financial data of the Company for the years ended 30 June 2010, 2011 and 2012 and information as to its financial position as at 30 June 2010, 2011 and 2012 are extracted from the Company's prospectus dated 24 January 2013.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Tung Koon Ming  
*(Chairman and chief executive officer)*  
Mr. Lo Wing Sang  
Mr. Hou Qinghai  
Mr. Tung Wai Kit

### Independent non-executive Directors

Mr. Ma Ching Nam  
Mr. Wong Wing Keung Meyrick  
Mr. Choi Ho Yan

## AUDIT COMMITTEE

Mr. Choi Ho Yan *(Chairman)*  
Mr. Ma Ching Nam  
Mr. Wong Wing Keung Meyrick

## NOMINATION COMMITTEE

Mr. Tung Koon Ming *(Chairman)*  
Mr. Ma Ching Nam  
Mr. Wong Wing Keung Meyrick

## REMUNERATION COMMITTEE

Mr. Wong Wing Keung Meyrick *(Chairman)*  
Mr. Choi Ho Yan  
Mr. Ma Ching Nam

## CORPORATE GOVERNANCE COMMITTEE

Mr. Ma Ching Nam *(Chairman)*  
Mr. Choi Ho Yan  
Mr. Wong Wing Keung Meyrick

## COMPANY SECRETARY

Mr. Chen Kwok Wang

## AUDITOR

Deloitte Touche Tohmatsu  
Certified Public Accountants  
35th Floor, One Pacific Place  
88 Queensway  
Hong Kong

## COMPLIANCE ADVISER

DBS Asia Capital Limited  
17th Floor, The Center  
99 Queen's Road Central  
Hong Kong

## LEGAL ADVISERS

Chiu & Partners (as to Hong Kong laws)  
Jingtian & Gongcheng (as to PRC laws)

## CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR

Codan Trust Company (Cayman) Limited  
Cricket Square, Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited  
26th Floor, Tesbury Centre  
28 Queen's Road East  
Wanchai, Hong Kong

## REGISTERED OFFICE

Cricket Square  
Hutchins Drive  
PO Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

27th Floor, CEO Tower, 77 Wing Hong Street,  
Kowloon, Hong Kong

## STOCK CODE ON THE HONG KONG STOCK EXCHANGE

2033

## INVESTOR INFORMATION

For more information about the Group, please contact the Investor Relations Department at:

Address: 27th Floor, CEO Tower, 77 Wing Hong Street, Kowloon, Hong Kong

Tel: (852) 2411 3567  
Fax: (852) 3585 2083  
Email: investor\_relations@timewatch.com.hk

## WEBSITE

[www.timewatch.com.hk](http://www.timewatch.com.hk)

## CORPORATE CALENDAR

Annual general meeting	25 November 2014
Payment of final and special dividends	On or about 10 December 2014
Announcement of interim results for six months ended 31 December 2014	February 2015
Announcement of final results for year ended 30 June 2015	September 2015