



Time Watch Investments Limited  
時計寶投資有限公司  
(Incorporated in the Cayman Islands with limited liability)  
Stock code: 2033

INTERIM REPORT  
*2014*

The background of the page is a light beige color with a subtle grid pattern. Overlaid on this are several large, semi-transparent illustrations of watch gears and mechanical parts in a darker beige tone. These include various sizes of gears, some with teeth, and circular components that resemble watch movements or case parts. The overall aesthetic is clean and technical, reflecting the company's focus on watch manufacturing.

## 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.



## **Time Watch**

Investments Limited

### **INTERIM REPORT**

*2014*

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## FINANCIAL HIGHLIGHTS

	<b>Six months ended 31 December 2013 HK\$'000 (Unaudited)</b>	Six months ended 31 December 2012 HK\$'000 (Audited)
Revenue	<b>1,154,836</b>	931,895
Gross profit	<b>743,451</b>	550,444
Gross margin (%)	<b>64.4%</b>	59.1
Profit attributable to owners of the Company	<b>150,443</b>	104,216
Profit attributable to owners of the Company (excluding listing expenses)	<b>150,443</b>	125,218
	<b>As at 31 December 2013 HK\$'000 (Unaudited)</b>	As at 30 June 2013 HK\$'000 (Audited)
Total assets	<b>1,721,900</b>	1,620,275
Total liabilities	<b>328,471</b>	287,827
Equity attributable to owners of the Company	<b>1,334,770</b>	1,286,488
Average Inventory Turnover Days (days)	<b>224</b>	220
Average Trade Receivables Turnover Days (days)	<b>55</b>	55
Average Trade Payables Turnover Days (days)	<b>55</b>	55

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

#### Revenue

Revenue of the Group has increased by approximately HK\$222.9 million, or approximately 23.9% from approximately HK\$931.9 million for the six months ended 31 December 2012 ("1HFY2013") to approximately HK\$1,154.8 million for the six months ended 31 December 2013 ("1HFY2014").

#### *Tian Wang Watches*

Sales of Tian Wang watches continued to be the Group's main source of revenue and accounted for approximately 67.8% of the total revenue of the Group for 1HFY2014 (1HFY2013: 61.8%). Sales of Tian Wang watches recorded a revenue of approximately HK\$783.1 million for 1HFY2014, representing an increase of approximately HK\$207.3 million or approximately 36.0% as compared with approximately HK\$575.8 million for 1HFY2013. The growth in the current period was mainly fuelled by the expansion of the retail network which had an increase of approximately 15.1% from 1,514 POS as at 30 June 2013 to 1,742 POS as at 31 December 2013. The average monthly revenue per POS of Tian Wang watches remained stable at approximately HK\$70,000 for 1HFY2014 (1HFY2013: HK\$71,000).

#### *Balco Watches*

Sales of Balco watches increased by approximately HK\$17.9 million or approximately 27.0% from approximately HK\$66.3 million for 1HFY2013 to approximately HK\$84.2 million for 1HFY2014, and accounted for approximately 7.3% of the total revenue of the Group for 1HFY2014 (1HFY2013: 7.1%). The increase was primarily due to the increase in the number of POS which increased by approximately 12.3% from 405 POS as at 30 June 2013 to 455 POS as at 31 December 2013. In addition, sales to multi-brand watch distributors in Hong Kong, Macau and Taiwan and sales to the Group's corporate customers increased from approximately HK\$16.7 million for 1HFY2013 to approximately HK\$23.1 million for 1HFY2014, representing an increase of approximately HK\$6.4 million or 38.3%.





### ***Other Brands Watches***

Sales of well-known branded watches other than Tian Wang and Balco brands (“Other Brands”) watches increased by approximately HK\$17.8 million or approximately 14.2% from approximately HK\$124.8 million for 1HFY2013 to approximately HK\$142.5 million for 1HFY2014, and accounted for approximately 12.3% of the total revenue of the Group for 1HFY2014 (1HFY2013: 13.4%). The increase in sales of Other Brands watches can be attributed to Time Watch (Sichuan) Company Limited (“Time Watch Sichuan”) which contributed approximately HK\$14.0 million to the revenue of the Group for 1HFY2014. As Time Watch Sichuan was only fully operational from June 2013 onwards, no revenue had been recorded for 1HFY2013.

### ***Watch Movements Trading Business***

Trading of watch movements accounted for approximately 12.6% of the Group’s total revenue for 1HFY2014 (1HFY2013: 17.7%). For 1HFY2014, revenue from trading of watch movements was approximately HK\$145.0 million, representing a decrease of approximately HK\$20.0 million or approximately 12.1% as compared with approximately HK\$165.0 million for 1HFY2013. The decrease was primarily due to less watch movements spared for trading after allocation for production of Tian Wang watches.



## Gross Profit

The Group's gross profit increased by approximately HK\$193.0 million or approximately 35.1% from approximately HK\$550.4 million for 1HFY2013 to approximately HK\$743.5 million for 1HFY2014, while the gross profit margin improved to approximately 64.4% for 1HFY2014 from approximately 59.1% for 1HFY2013. The increase in gross profit and improvement in gross profit margin was primarily due to increase in sales contribution of Tian Wang watches from approximately 61.8% for 1HFY2013 to approximately 67.8% for 1HFY2014 of the Group's total revenue, as well as improvement in gross profit margin of Tian Wang watches from approximately 77.5% for 1HFY2013 to approximately 79.6% for 1HFY2014, as a result of increased sales of regular-priced watch models.

## Other Gains and Income and Other Expenses

The Group's other income increased from approximately HK\$10.6 million for 1HFY2013 to approximately HK\$13.9 million for 1HFY2014, representing an increase of approximately HK\$3.3 million or approximately 31.0%. This was primarily due to increase in bank interest income, as well as refund of VAT and unconditional government grants received during the six months ended 31 December 2013. The Group's other expenses for 1HFY2013 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\$149.1 million or approximately 42.3% from approximately HK\$352.1 million for 1HFY2013 to approximately HK\$501.2 million for 1HFY2014, representing approximately 43.4% of the Group's total revenue for 1HFY2014 (1HFY2013: 37.8%). The increase was mainly due to (i) an increase in concessionaire and rental fees of approximately HK\$54.7 million as a result of increase in revenue, (ii) an increase in salaries of sales personnel of approximately HK\$36.4 million as a result of increase in number of sales staff which was in line with increased number of POS and increased sales commissions which was in line with increased revenue, (iii) an increase in advertising and promotion fee of approximately HK\$25.0 million; (iv) an increase of approximately HK\$33.0 million in other sales related costs such as depreciation, packing, entertainment expenses, service charges and management fee, which were in connection with the Group's market expansion.



## **Administrative Expenses**

The Group's administrative expenses increased to approximately HK\$55.5 million for 1HFY2014 from approximately HK\$38.0 million for 1HFY2013, representing an increase of approximately HK\$17.4 million or approximately 45.8%, primarily due to an increase in salaries for administrative staff of approximately HK\$8.4 million and an increase in PRC local regulatory surcharges (such as city construction tax and education levy) of approximately HK\$3.7 million which was in line with increase in revenue.

## **Finance Costs and Income Tax Expenses**

The Group's finance costs decreased by approximately HK\$5.1 million or approximately 92.6% from approximately HK\$5.5 million for 1HFY2013 to approximately HK\$0.4 million for 1HFY2014 as a result of decreased bank borrowings during the current financial period. The Group's income tax increased from approximately HK\$38.4 million for 1HFY2013 to approximately HK\$46.3 million for 1HFY2014, representing an increase of approximately HK\$7.9 million or approximately 20.5%. The Group's effective tax rate (exclusive of listing expenses) remained stable at approximately 23.1% for 1HFY2014 (1HFY2013: 23.2%).

## **Profit for the Period**

For the factors above, the Group's net profit for the period increased by approximately HK\$48.0 million or approximately 45.3% from approximately HK\$106.0 million for 1HFY2013 to approximately HK\$154.0 million for 1HFY2014. The net profit margin improved from approximately 11.4% for 1HFY2013 to approximately 13.3% for 1HFY2014.





## Business Review

### Overview

During the period under review, the Group's business primarily focused on the manufacture and retail sales of its two proprietary brands watches (namely, Tian Wang and Balco), the retail sales of the Other Brands watches in the PRC and its ancillary watch movements trading business.

The Group achieved a sales growth of approximately 23.9% for 1HFY2014. Tian Wang watches continued to be the Group's core brand business, which contributed approximately 67.8% of the total revenue of the Group for 1HFY2014.

The Group recorded a same store sales growth of approximately 4.2% for 1HFY2014, as compared with approximately 18.3% for 1HFY2013. The same store sales growth of Tian Wang watches was approximately 4.2% for 1HFY2014, as compared to approximately 21.8% for 1HFY2013. The decrease in same store sales growth could be attributed to the declining confidence among domestic consumers in the PRC which resulted in slower growth in sales, as well as high base for comparison from last year. In light of the decrease of same store sales growth rate for 1HFY2014 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 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 inside department stores which are directly managed and controlled by the Group. Over 85.0% 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 frontline staff and customers. 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.

Besides, as part of the strategic expansion of the Group, apart from opening new POS, the Group will also form new joint ventures with other independent local operators which shall inject their existing retail network into the joint venture companies formed. During the six months ended 31 December 2013, the Group has formed two new joint ventures, namely, Time Watch (Chengdu) Company Limited and Zhengzhou Time Watch Company Limited, which are in addition to the existing joint ventures of the Group, namely Suzhou Paragon Watch Co., Ltd, Time Watch (Hefei) Timepieces Company Limited, Time Watch (Shanghai) Timepieces Company Limited and Time Watch Sichuan.

As at 31 December 2013, the Group's retail network of Tian Wang watches had 1,742 POS, a net increase of 228 and 358 POS as compared to 30 June 2013 and 31 December 2012 respectively. The retail network of Balco watches and Other Brands watches had 455 and 90 POS respectively as at 31 December 2013, a net increase of 50 and 12 POS respectively as compared to the number of POS as at 30 June 2013, and a net increase of 74 and 24 POS respectively as compared to the number of POS as at 31 December 2012.



## **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 67.8% of the Group's total revenue for 1HFY2014 (1HFY2013: 61.8%). During 1HFY2014, the Group launched not less than 80 new models of Tian Wang watches with price ranging from approximately RMB100 to RMB8,000 for direct retail sales, corporate sales and e-commerce. The wide price range can fit the different requirements from 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. In 1HFY2014, revenue from Balco watches was approximately HK\$84.2 million as compared with approximately HK\$66.3 million in 1HFY2013, representing an increase of approximately HK\$17.9 million or approximately 27.0%. Sales of Balco watches had accounted for approximately 7.3% of the Group's total revenue for 1HFY2014 (1HFY2013: 7.1%). 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 in the sales of Balco watches to Hong Kong, Macau and Taiwan through multi-brand watches distributors and the sales to the Group's corporate customers. Revenue from these sales increased from approximately HK\$16.7 million for 1HFY2013 to approximately HK\$23.1 million for 1HFY2014.

### ***Other Brands Watches***

Revenue from sales of Other Brands watches was approximately HK\$142.5 million for 1HFY2014 as compared with approximately HK\$124.8 million for 1HFY2013, an increase of approximately HK\$17.8 million or approximately 14.2% and accounted for approximately 12.3% of the Group's total revenue for 1HFY2014 (1HFY2013: 13.4%). The increase in sales of Other Brands watches was mainly attributed to contribution of six months' revenue from Time Watch Sichuan for 1HFY2014 as the subsidiary was fully operational from June 2013 onwards.

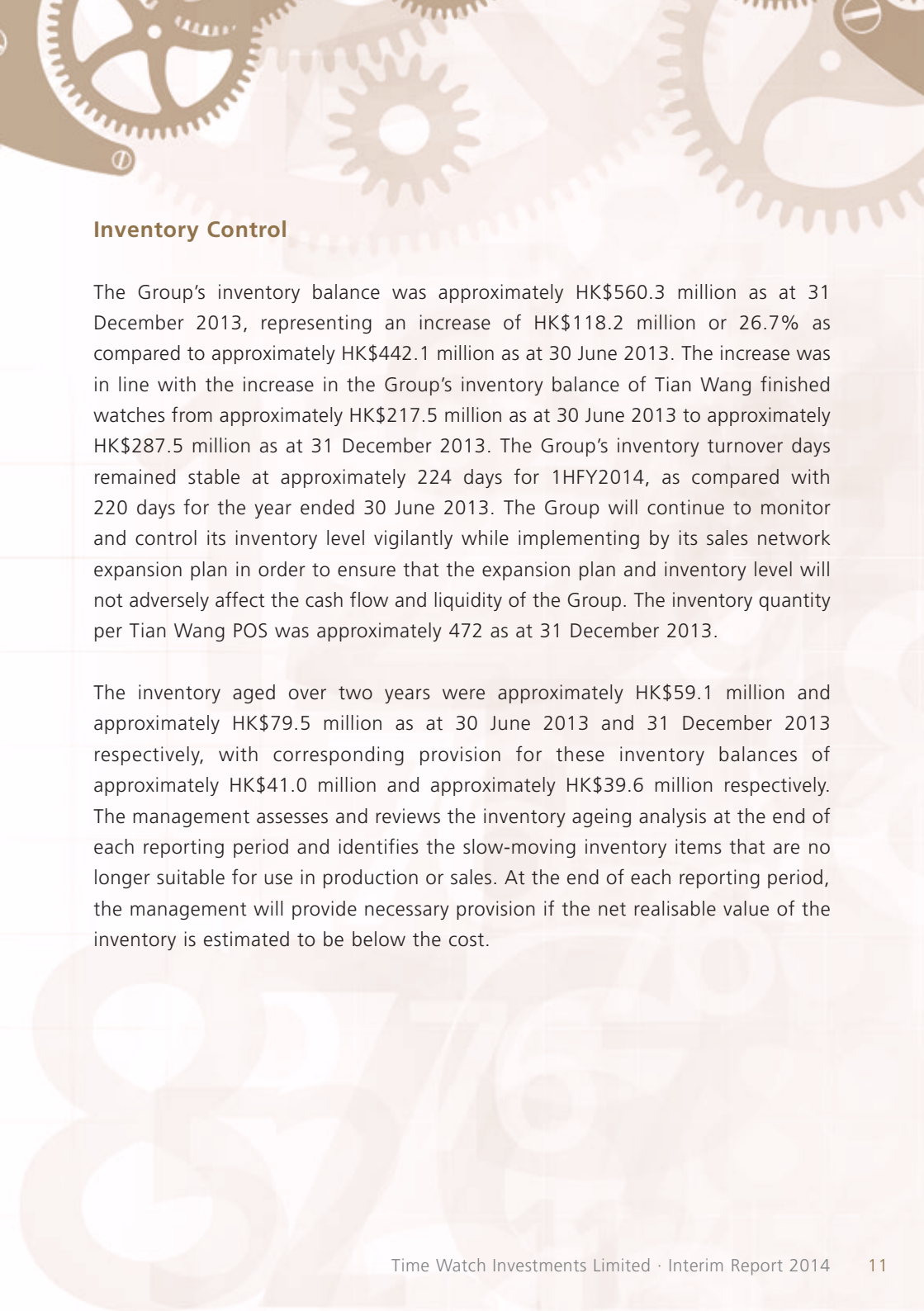


## **Watch Movements Trading Business**

The Directors consider that the in-house watch movement 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.

## **E-commerce**

In March 2013, the Group had established a 70%-owned subsidiary, Shenzhen Time Watch Trading Company Limited ("Shenzhen Time Watch"), which has signed co-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. In 1HFY2014, sales of watches through e-commerce channel was approximately HK\$81.5 million (six months ended 30 June 2013: HK\$9.2 million).



## Inventory Control

The Group's inventory balance was approximately HK\$560.3 million as at 31 December 2013, representing an increase of HK\$118.2 million or 26.7% as compared to 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\$287.5 million as at 31 December 2013. The Group's inventory turnover days remained stable at approximately 224 days for 1HFY2014, as compared with 220 days for the year ended 30 June 2013. The Group will continue to monitor and control its inventory level vigilantly while implementing by 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 quantity per Tian Wang POS was approximately 472 as at 31 December 2013.

The inventory aged over two years were approximately HK\$59.1 million and approximately HK\$79.5 million as at 30 June 2013 and 31 December 2013 respectively, with corresponding provision for these inventory balances of approximately HK\$41.0 million and approximately HK\$39.6 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\$618.2 million and approximately HK\$537.2 million as at 31 December 2013 and 30 June 2013 respectively.

The Group's net cash generated from operating activities for 1HFY2014 was approximately HK\$71.6 million. The amount was primarily attributable to profit before taxation of approximately HK\$200.3 million from the Group's operations adjusted for non-cash items of approximately HK\$22.4 million, increase of working capital balances of approximately HK\$121.5 million, income taxes paid of approximately HK\$33.7 million and interest received of approximately HK\$4.1 million.

The Group's net cash generated from investing activities for 1HFY2014 was approximately HK\$105.3 million, which was mainly attributable to withdrawal of short-term deposit of HK\$150.0 million, partially offset by purchase of property, plant and equipment of approximately HK\$44.7 million.

The Group's net cash used in financing activities for 1HFY2014 was approximately HK\$96.7 million, which was mainly attributable to dividends paid of approximately HK\$104.0 million and repayment of bank borrowings of approximately HK\$152.8 million, partially offset by borrowings raised of approximately HK\$148.1 million, capital injected by non-controlling shareholders of subsidiaries of approximately HK\$12.4 million. The Group's bank borrowings were approximately HK\$35.8 million and approximately HK\$40.5 million as at 31 December 2013 and 30 June 2013 respectively.



The Group has a net cash position as at 31 December 2013 and 30 June 2013. As at 31 December 2013, the Group's total equity was approximately HK\$1,393.4 million, representing an increase of approximately HK\$61.0 million from approximately HK\$1,332.4 million as at 30 June 2013. The Group's working capital was approximately HK\$1,325.8 million as at 31 December 2013, an improvement of approximately HK\$44.7 million as compared with approximately HK\$1,281.1 million as at 30 June 2013.

Details of the Group's bank borrowings as at 31 December 2013 are set out in note 13 to the condensed consolidated financial statements.

### **Charge on Group Assets**

There was no charge on the Group's assets as at 31 December 2013 and 30 June 2013.

### **Contingent Liabilities**

The Group did not have any material contingent liabilities as at 31 December 2013 and 30 June 2013.

### **Capital Commitments**

The Group did not have any material capital commitments as at 31 December 2013 and 30 June 2013.



## **Foreign Exchange Risks**

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

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

## **Employees and Emoluments Policies**

As at 31 December 2013, the Group employed a total of approximately 3,800 full time employees (30 June 2013: approximately 2,800) engaging in design, purchasing, production, sales and marketing and administration. The staff costs incurred during 1HFY2014 was approximately HK\$149.9 million (1HFY2013: HK\$103.8 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.

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## Outlook

It is expected that the growth of consumer market in China will continue to slow down for the six months ending 30 June 2014. For retail sales, we will continue to execute our plan of opening not less than 200 POS for Tian Wang per year. These new POS will be mainly located in 2nd or 3rd tier cities in China, where the purchasing power is improving in these years along with the development of China. They will become the revenue drivers for our Tian Wang retail sales in the coming years. Besides, the Group will continue to allocate more resources on the development of the e-commerce business. The target customers of our e-commerce business are mainly the younger generation, and the products sold through our e-commerce channels are exclusive and different from those sold in Tian Wang POS. Hence, the competition between Tian Wang retail business and Tian Wang e-commerce business is minimised. We have confidence that the e-commerce business is complementary to Tian Wang retail business, and the higher growth in revenue generated from the e-commerce business will compensate for some slow down in the growth of retail sales in the future. On the above basis, the Directors are confident that the Group will maintain steady growth in its business in the near future.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

		Six months ended 31 December	
	NOTES	2013 HK\$'000 (Unaudited)	2012 HK\$'000 (Audited)
Revenue	3	1,154,836	931,895
Cost of sales		<b>(411,385)</b>	(381,451)
Gross profit		<b>743,451</b>	550,444
Other gains and income	4	<b>13,920</b>	10,626
Other expenses	4	–	(21,002)
Selling and distribution costs		<b>(501,179)</b>	(352,102)
Administrative expenses		<b>(55,481)</b>	(38,049)
Finance costs	5	<b>(408)</b>	(5,515)
Profit before taxation		<b>200,303</b>	144,402
Income tax	6	<b>(46,296)</b>	(38,410)
Profit for the period	7	<b>154,007</b>	105,992
Other comprehensive income which will not be reclassified subsequently to profit or loss: Exchange differences arising on translation		<b>1,639</b>	7,293
Total comprehensive income for the period		<b>155,646</b>	113,285
Profit for the period attributable to:			
Owners of the Company		<b>150,443</b>	104,216
Non-controlling interests		<b>3,564</b>	1,776
		<b>154,007</b>	105,992
Total comprehensive income attributable to:			
Owners of the Company		<b>152,279</b>	111,130
Non-controlling interests		<b>3,367</b>	2,155
		<b>155,646</b>	113,285
Earnings per share, basic (HK cents)	9	<b>7.2</b>	6.9



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

		As at 31 December 2013 <i>HK\$'000</i> (Unaudited)	As at 30 June 2013 <i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment		<b>94,640</b>	69,868
Deferred tax assets	15	<b>12,023</b>	12,023
		<b>106,663</b>	81,891
Current assets			
Inventories	10	<b>560,308</b>	442,097
Trade receivables	11	<b>347,981</b>	340,529
Other receivables, deposits and prepayments		<b>88,784</b>	68,518
Short-term deposit		–	150,000
Bank balances and cash		<b>618,164</b>	537,240
		<b>1,615,237</b>	1,538,384
Current liabilities			
Trade payables and bills payable	12	<b>142,701</b>	105,372
Other payables and accrued charges		<b>77,370</b>	82,048
Tax liabilities		<b>33,612</b>	29,343
Bank borrowings	13	<b>35,762</b>	40,511
		<b>289,445</b>	257,274
Net current assets		<b>1,325,792</b>	1,281,110
Total assets less current liabilities		<b>1,432,455</b>	1,363,001

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

AT 31 DECEMBER 2013

		<b>As at 31 December 2013 HK\$'000 (Unaudited)</b>	As at 30 June 2013 HK\$'000 (Audited)
Capital and reserves			
Share capital	14	<b>207,995</b>	207,995
Reserves		<b>1,126,775</b>	1,078,493
Equity attributable to owners of the Company		<b>1,334,770</b>	1,286,488
Non-controlling interests		<b>58,659</b>	45,960
Total equity		<b>1,393,429</b>	1,332,448
Non-current liabilities			
Deferred tax liabilities	15	<b>39,026</b>	30,553
		<b>1,432,455</b>	1,363,001

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

	Attributable to owners of the Company						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			Total HK\$'000
At 1 July 2013	207,995	534,101	(234,378)	57,223	16,363	705,184	1,286,488	45,960	1,332,448
Profit for the period	-	-	-	-	-	150,443	150,443	3,564	154,007
Other comprehensive income for the period	-	-	-	1,836	-	-	1,836	(197)	1,639
Total comprehensive income for the period	-	-	-	1,836	-	150,443	152,279	3,367	155,646
Appropriation to reserve	-	-	-	-	872	(872)	-	-	-
Dividend recognised as distribution during the period (Note 8)	-	(23,000)	-	-	-	(80,997)	(103,997)	-	(103,997)
Dividends declared by a subsidiary to non-controlling shareholder	-	-	-	-	-	-	-	(3,102)	(3,102)
Incorporation of non-wholly owned subsidiaries	-	-	-	-	-	-	-	12,434	12,434
At 31 December 2013 (unaudited)	207,995	511,101	(234,378)	59,059	17,235	773,758	1,334,770	58,659	1,393,429
At 1 July 2012	100	66,727	(234,378)	32,860	15,227	496,583	377,119	37,829	414,948
Profit for the period	-	-	-	-	-	104,216	104,216	1,776	105,992
Other comprehensive income for the period	-	-	-	6,914	-	-	6,914	379	7,293
Total comprehensive income for the period	-	-	-	6,914	-	104,216	111,130	2,155	113,285
Appropriation to reserve	-	-	-	-	1,110	(1,110)	-	-	-
Dividend recognised as distribution during the period	-	(66,727)	-	-	-	(3,814)	(70,541)	(2,992)	(73,533)
At 31 December 2012 (audited)	100	-	(234,378)	39,774	16,337	595,875	417,708	36,992	454,700

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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)**  
*FOR THE SIX MONTHS ENDED 31 DECEMBER 2013*

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 reorganization which occurred in prior period.
- (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").

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

	Six months ended	
	31 December	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
NET CASH FROM OPERATING ACTIVITIES	<u>71,604</u>	<u>91,297</u>
INVESTING ACTIVITIES		
Withdrawal of short-term deposit	150,000	–
Purchases of property, plant and equipment	(44,706)	(21,860)
Repayment from fellow subsidiaries	–	834
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<u>105,294</u>	<u>(21,026)</u>



**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (cont'd)**  
 FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
<b>FINANCING ACTIVITIES</b>		
Dividend paid	<b>(103,997)</b>	(70,541)
Interest paid	<b>(408)</b>	(5,515)
Bank borrowings raised	<b>148,064</b>	158,186
Repayment of bank borrowings	<b>(152,813)</b>	(169,899)
Capital injected by non-controlling shareholders of subsidiaries upon incorporation of subsidiaries	<b>12,434</b>	–
Advance from a Director	–	7,406
Repayment to a Director	–	(279)
Repayment to fellow subsidiaries	–	(316)
Advance from a non-controlling shareholder of a subsidiary	–	3,787
<b>NET CASH (USED IN) FINANCING ACTIVITIES</b>	<b>(96,720)</b>	(77,171)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>80,178</b>	(6,900)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD</b>	<b>537,240</b>	156,512
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES</b>	<b>746</b>	1,487
<b>CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash</b>	<b>618,164</b>	151,099

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the condensed consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2013 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2013.

In the current period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 1 Amendments	<i>Amendments to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans</i>
HKFRS 7 Amendments	<i>Amendments to HKFRS 7 Financial Instruments: Disclosures-Offsetting Financial Assets and Financial Liabilities</i>
HKFRS 10	<i>Consolidated Financial Statements</i>
HKFRS 11	<i>Joint Arrangements</i>
HKFRS 12	<i>Disclosure of Interests in Other Entities</i>
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	<i>Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – Transition Guidance</i>
HKFRS 13	<i>Fair Value Measurement</i>
HKAS 19 (Revised 2011)	<i>Employee Benefits</i>
HKAS 27 (Revised 2011)	<i>Separate Financial Statements</i>
HKAS 28 (Revised 2011)	<i>Investments in Associates and Joint Ventures</i>
Annual Improvements 2009-2011 Cycle	<i>Amendments to a number of HKFRSs issued in June 2012</i>

## 2. PRINCIPAL ACCOUNTING POLICIES (cont'd)

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in the condensed consolidated financial statements.

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

Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures <sup>3</sup>
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities <sup>1</sup>
HKFRS 9	Financial instruments <sup>3</sup>
Amendments to HKAS 19	Defined benefit plans: employee contributions <sup>2</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>
Amendments to HKFRSs	Annual improvements to HKFRS 2010-2012 cycle <sup>4</sup>
Amendments to HKFRSs	Annual improvements to HKFRS 2011-2012 cycle <sup>2</sup>
HK(IFRIC) – INT 21	Levies <sup>3</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> Available for application – the mandatory effective date will be determined when the outstanding phase of HKFRS 9 are finalised

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

### 3. REVENUE AND SEGMENT INFORMATION

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

- a. Manufacturing, trading of own branded and retailing business of watches – Tian Wang Watch (“Tian Wang Watch Business”);
- b. Trading of own branded and retailing business of watches – Balco Watch (“Balco Watch Business”);
- c. Trading of watch movements (“Watch Movements Trading Business”); and
- d. 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.

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

#### Segment revenue and results

Six months ended 31 December 2013 (unaudited)

	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	783,102	84,207	144,998	142,529	1,154,836
Inter-segment sales	-	-	48,758	-	48,758
Segment revenue	<u>783,102</u>	<u>84,207</u>	<u>193,756</u>	<u>142,529</u>	1,203,594
Elimination					<u>(48,758)</u>
Group revenue					<u>1,154,836</u>
<b>Results</b>					
Segment results	<u>202,267</u>	<u>3,323</u>	<u>7,221</u>	<u>579</u>	213,390
Interest income					4,160
Central administration costs					(16,839)
Finance costs					<u>(408)</u>
Profit before taxation					<u>200,303</u>



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

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

Six months ended 31 December 2012 (audited)

	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	575,829	66,321	164,981	124,764	931,895
Inter-segment sales	-	-	14,951	-	14,951
Segment revenue	575,829	66,321	179,932	124,764	946,846
Elimination					(14,951)
Group revenue					931,895
<b>Results</b>					
Segment results	155,993	7,323	7,634	8,650	179,600
Interest income					1,135
Financial guarantee income					4,000
Central administration costs					(34,818)
Finance costs					(5,515)
Profit before taxation					144,402

Segment results represents the results of each segment without allocation of corporate items, including interest income, financial guarantee income, listing expenses, 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.

#### 4. OTHER GAINS AND INCOME/OTHER EXPENSES

	Six months ended	
	31 December	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
<u>Other gains and income</u>		
Bank interest income	4,160	1,135
Financial guarantee income	–	4,000
Refund of Value Added Tax (“VAT”) (Note a)	2,744	–
Government grants (Note b)	950	–
Others	6,066	5,491
	<u>13,920</u>	<u>10,626</u>
<u>Other expenses</u>		
Listing expenses	–	21,002

#### Notes:

- (a) Under the current PRC tax regulation, Tian Wang Electronics (Shenzhen) Co., Ltd (“Tian Wang Shenzhen”) is entitled to a refund of VAT paid in respect of its qualification as a high and new technology enterprise.
- (b) This amount relates to unconditional government grants received during the six months ended 31 December 2013, which was granted to reimburse the expenses incurred by Tian Wang Shenzhen for research and development activities in the PRC.

#### 5. FINANCE COSTS

	Six months ended	
	31 December	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
The finance costs represent interests on:		
Bank borrowings wholly repayable within five years	408	5,515

## 6. INCOME TAX

	Six months ended	
	31 December	
	2013	2012
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Audited)
Current tax:		
Hong Kong	<b>1,638</b>	–
PRC Enterprise Income Tax	<b>36,882</b>	31,198
PRC withholding tax	<b>1,266</b>	3,095
	<b>39,786</b>	34,293
Overprovision in prior years:		
PRC Enterprise Income Tax	<b>(1,963)</b>	(280)
	<b>37,823</b>	34,013
Deferred taxation ( <i>Note 15</i> )	<b>8,473</b>	4,397
	<b>46,296</b>	38,410

The Company and its subsidiaries incorporated in Cayman Islands and BVI are exempted under the tax laws of the Cayman Islands and the BVI respectively.

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 prior period, as the Group's subsidiaries subject to Hong Kong Profits Tax either incurred tax losses or their assessable profits are wholly absorbed by tax losses brought forward.

## 6. INCOME TAX (cont'd)

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of EIT Law, the tax rate of the PRC subsidiaries for both periods is 25%, except for Tian Wang Shenzhen.

Tian Wang Shenzhen obtained the qualification as a high and new technology enterprise on 23 February 2011, which is valid for three years, and completed the relevant filing requirements with the competent tax authorities on 18 April 2012. Hence, Tian Wang Shenzhen is subject to the preferential tax treatment and the applicable tax rate for both periods is 15%.

Under the EIT Law, PRC withholding income tax is applicable to dividends payable to investors that are "non-PRC tax resident enterprises", which do not have an establishment or place of business in the PRC, or which have such establishment or place of business but the relevant income is not effectively connected with the establishment or place of business, to the extent such dividends have their sources within the PRC. Under such circumstances, dividends distributed from the PRC subsidiaries to non-PRC tax resident group entities in Hong Kong in respect of profits generated after 1 January 2008 shall be subject to the withholding tax at 5%. Deferred tax in relation to withholding income tax for the undistributed profits of the PRC subsidiaries has 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 15.

## 7. PROFIT FOR THE PERIOD

	Six months ended	
	31 December	
	2013	2012
	<b>HK\$'000</b>	<b>HK\$'000</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
Profit for the period has been arrived at after charging (crediting):		
Staff costs (including Directors' remuneration)	<b>133,122</b>	93,985
Retirement benefits scheme contributions (including Directors' remuneration)	<b>16,797</b>	9,789
Total staff costs	<b>149,919</b>	103,774
Depreciation of property, plant and equipment	<b>17,584</b>	11,905
Allowance (reversal of allowance) for obsolete inventories recognised as cost of sales	<b>5,000</b>	(329)
Allowance for doubtful debts	<b>1,000</b>	–
Loss on disposal and write off of property, plant and equipment	<b>2,526</b>	1,087
Concessionaire fee ( <i>Note</i> )	<b>227,869</b>	177,595

*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.

## 8. DIVIDEND

During the six months ended 31 December 2013, the Company declared and paid final and special dividends of HK3 cents and HK2 cents per share, amounting to approximately HK\$62,398,000 and HK\$41,599,000 respectively. During the six months ended 31 December 2012, the Company declared and paid a total dividend of HK\$70,541,000 to its immediate holding company.

For the six months ended 31 December 2013, the Directors have recommended an interim dividend of HK2 cents (six months ended 31 December 2012: nil) per share, amounting to approximately HK\$41,599,000.

## 9. EARNINGS PER SHARE

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

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	<b>150,443</b>	104,216
	<b>'000</b>	'000
Numbers of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	<b>2,079,946</b>	1,500,000

There was no diluted earnings per share for the six months ended 31 December 2013 and 2012 as there were no potential ordinary shares in issue during the six months ended 31 December 2013 and 2012.



## 10. INVENTORIES

	<b>As at 31 December 2013 HK\$'000 (Unaudited)</b>	<b>As at 30 June 2013 HK\$'000 (Audited)</b>
Raw materials and consumables	<b>64,630</b>	41,309
Work in progress	<b>14,900</b>	11,280
Finished goods	<b>480,778</b>	389,508
	<b>560,308</b>	442,097

## 11. TRADE RECEIVABLES

	<b>As at 31 December 2013 HK\$'000 (Unaudited)</b>	<b>As at 30 June 2013 HK\$'000 (Audited)</b>
Trade receivables from third parties	<b>342,197</b>	332,557
Trade receivable from a fellow subsidiary	<b>5,625</b>	6,563
Trade receivables from related companies	<b>1,531</b>	1,842
Less: allowance for doubtful debts	<b>(1,372)</b>	(433)
	<b>347,981</b>	340,529

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.

## 11. TRADE RECEIVABLES (cont'd)

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, as at 31 December 2013 and 30 June 2013:

	<b>As at 31 December 2013 HK\$'000 (Unaudited)</b>	As at 30 June 2013 HK\$'000 (Audited)
0 to 60 days	<b>275,468</b>	276,770
61 to 120 days	<b>36,888</b>	38,549
121 to 180 days	<b>21,157</b>	6,781
Over 180 days	<b>7,312</b>	10,024
	<b>340,825</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, as at 31 December 2013 and 30 June 2013:

	<b>As at 31 December 2013 HK\$'000 (Unaudited)</b>	As at 30 June 2013 HK\$'000 (Audited)
0 to 60 days	<b>5,625</b>	4,407
61 to 120 days	-	2,156
	<b>5,625</b>	6,563

## 11. TRADE RECEIVABLES (cont'd)

The following is an aged analysis of trade receivables from related companies (in which a Director of the Company, Mr. Tung Koon Ming ("Mr. Tung") has control) presented based on the date of delivery of goods, which approximates to the date of revenue recognition, as at 31 December 2013 and 30 June 2013:

	<b>As at 31 December 2013 HK\$'000 (Unaudited)</b>	<b>As at 30 June 2013 HK\$'000 (Audited)</b>
0 to 60 days	<b>1,531</b>	1,100
61 to 120 days	<b>—</b>	742
	<b>1,531</b>	1,842

## 12. TRADE PAYABLES AND BILLS PAYABLE

	<b>As at 31 December 2013 HK\$'000 (Unaudited)</b>	<b>As at 30 June 2013 HK\$'000 (Audited)</b>
Trade payables	<b>129,652</b>	95,801
Bills payable	<b>8,079</b>	8,455
Trade payables to entities owned by non-controlling shareholders of subsidiaries	<b>4,970</b>	1,116
	<b>142,701</b>	105,372

## 12. TRADE PAYABLES AND BILLS PAYABLE (cont'd)

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 as at 31 December 2013 and 30 June 2013:

	<b>As at 31 December 2013 HK\$'000 (Unaudited)</b>	<b>As at 30 June 2013 HK\$'000 (Audited)</b>
0 to 30 days	<b>69,971</b>	52,222
31 to 60 days	<b>31,452</b>	23,860
61 to 90 days	<b>13,048</b>	12,101
Over 90 days	<b>15,181</b>	7,618
	<b>129,652</b>	95,801

The entities owned by non-controlling shareholders of subsidiaries did not have a specified credit period policy granted 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 the invoice date as at 31 December 2013 and 30 June 2013:

	<b>As at 31 December 2013 HK\$'000 (Unaudited)</b>	<b>As at 30 June 2013 HK\$'000 (Audited)</b>
0 to 30 days	<b>2,801</b>	1,116
31 to 60 days	<b>290</b>	-
61 to 90 days	<b>1,692</b>	-
Over 90 days	<b>187</b>	-
	<b>4,970</b>	1,116

Bills payable as at 31 December 2013 and 30 June 2013 is aged within 30 days based on goods receipt date.

### 13. BANK BORROWINGS

	<b>As at 31 December 2013 HK\$'000 (Unaudited)</b>	As at 30 June 2013 HK\$'000 (Audited)
Unsecured:		
Trust receipts loans	<b>17,762</b>	27,511
Bank loans	<b>18,000</b>	13,000
	<b>35,762</b>	40,511

### 14. SHARE CAPITAL

	<b>Number of shares</b>	<b>Share capital HK\$'000</b>
<i>Ordinary shares of HK\$0.1 each</i>		
<i>Issued and fully paid:</i>		
At 1 July 2012 and 31 December 2012 (audited)	1,000,000	100
At 1 July 2013 and 31 December 2013 (unaudited)	2,079,946,000	207,995

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

## 15. DEFERRED TAXATION

The following are the major deferred tax (assets) liabilities recognised and movement during the period:

	Allowance for 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 2013 (audited)	(7,207)	(4,816)	533	30,020	18,530
Charge to profit or loss	-	-	-	8,473	8,473
At 31 December 2013 (unaudited)	(7,207)	(4,816)	533	38,493	27,003

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

	As at <b>31 December 2013</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 30 June 2013 <i>HK\$'000</i> (Audited)
Deferred tax assets	<b>12,023</b>	12,023
Deferred tax liabilities	<b>39,026</b>	30,553

The Group had unused tax losses of approximately HK\$67,837,000 and HK\$54,042,000 as at 31 December 2013 and 30 June 2013 respectively. 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.



## 16. COMMITMENTS

### a. Operating lease commitments

At 31 December 2013 and 30 June 2013, the Group had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>As at 31 December 2013 HK\$'000 (Unaudited)</b>	As at 30 June 2013 HK\$'000 (Audited)
Within one year	<b>27,378</b>	15,294
In the second to fifth years inclusive	<b>18,111</b>	10,536
Over five years	–	332
	<b>45,489</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.

## 17. INCORPORATION OF SUBSIDIARIES

During the six months ended 31 December 2013, the Group incorporated two subsidiaries, namely Time Watch (Chengdu) Company Limited and Zhengzhou Time Watch Company Limited, in which the Group owned 51% equity interests for both companies. The aggregated capital injection to these subsidiaries by the Group and by the non-controlling shareholders were HK\$26.0 million and HK\$12.4 million, respectively.

## 18. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in the condensed consolidated financial statements, the Group had the following related party transactions during the period:

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Sales to a fellow subsidiary	<b>14,486</b>	8,428
Sales to a related company ( <i>Note a</i> )	<b>2,614</b>	2,590
Sales commission paid/payable to a fellow subsidiary	<b>654</b>	–
Purchase from entities owned by non-controlling shareholders of subsidiaries	<b>964</b>	2,693
Rental expenses paid/payable to a Director and a related company ( <i>Note b</i> )	<b>57</b>	86
Rental expenses paid/payable to non-controlling shareholder of a subsidiary	<b>46</b>	44
Rental expenses paid/payable to a fellow subsidiary	<b>2,040</b>	2,040
Service fee paid/payable to non-controlling shareholders of subsidiaries	<b>5,070</b>	3,664
Promotion fee paid/payable to a fellow subsidiary	<b>261</b>	–
Promotion fee paid/payable to a related company ( <i>Note c</i> )	<b>120</b>	–
Consultancy fee paid/payable to a fellow subsidiary	<b>210</b>	–
Consultancy fee paid/payable to a related company ( <i>Note c</i> )	<b>180</b>	–
Dividend paid/payable to non-controlling shareholder of a subsidiary	<b>3,102</b>	2,992

## 18. 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 fees and consultancy fees paid to a related company in which Mr. Tung has control.

On 14 June 2012, Mr. Tung, several fellow subsidiaries including the intermediate holding company, Winning Metal, and the ultimate holding company, Red Rewarding, provide personal and corporate guarantees to a bank for a banking facility of HK\$45,000,000 granted to a subsidiary. The personal and corporate guarantees were released on 5 February 2013.

Time Watch (Zheng Zhou) Property Management Company Limited, a fellow subsidiary, pledged certain properties in the PRC to a bank for a banking facility of RMB70,000,000 granted to Tian Wang Shenzhen during the six months ended 31 December 2012. This banking facility is also under the personal guarantees provided by Mr. Tung. Both the pledged properties and personal guarantee were released on 5 February 2013.

### Compensation of key management personnel

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

	Six months ended 31 December	
	2013	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Short-term benefits	5,277	4,976
Post-employment benefits	82	66
	<b>5,359</b>	5,042



## **ADDITIONAL INFORMATION**

### **Purchase, Sale or Redemption of Listed Securities of the Company**

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2013.

### **Corporate Governance Practices**

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules. Save as disclosed below, during the six months ended 31 December 2013, the Company had complied with the code provisions of the CG Code.

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. Taking into account of Mr. Tung Koon Ming'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 Koon Ming enables more effective and efficient overall business planning, decision making and implementation thereof by the Group. In order to maintain good corporate governance and fully comply 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 as set out in Appendix 10 to the Listing Rules (the "Model Code"). 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 during the six months ended 31 December 2013.

## **Audit Committee**

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Company for the six months ended 31 December 2013 and discussed the financial related matters with the management of the Group.

## **Interim Dividend**

The Directors have recommended an interim dividend of HK2.0 cents per share, amounting to approximately HK\$41.6 million for the six months ended 31 December 2013 (six months ended 31 December 2012: nil) to the shareholders of the Company. The proposed interim dividend will be paid to shareholders whose name appears on the register of members of the Company at the close of business on 14 March 2014. It is expected that the proposed interim dividend will be paid on or about 21 March, 2014.



## Closure of Register of Members

The register of members of the Company will be closed on 14 March 2014 and no transfer of shares will be effected on that date. In order to qualify for the proposed interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 13 March 2014.

## Share Option Scheme

A share option scheme (the "Scheme") of the Company was adopted pursuant to a written resolution of the sole shareholder of the Company passed on 11 January 2013. No options have been granted, exercised or cancelled since the adoption of the Scheme up to the date of this interim 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 31 December 2013, the interests and short positions of the Directors and 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 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)	1,416,421,000 Shares (L)	68.10%



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 are held by Red Glory Investments Limited ("Red Glory"), which is wholly owned by Mr. Tung.

Save as disclosed above, as at 31 December 2013, none of the Directors or 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.

### **Substantial Shareholders' Interests and Short Positions in Shares and Underlying Shares of the Company**

As at 31 December 2013, 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 the SFO were as follows:

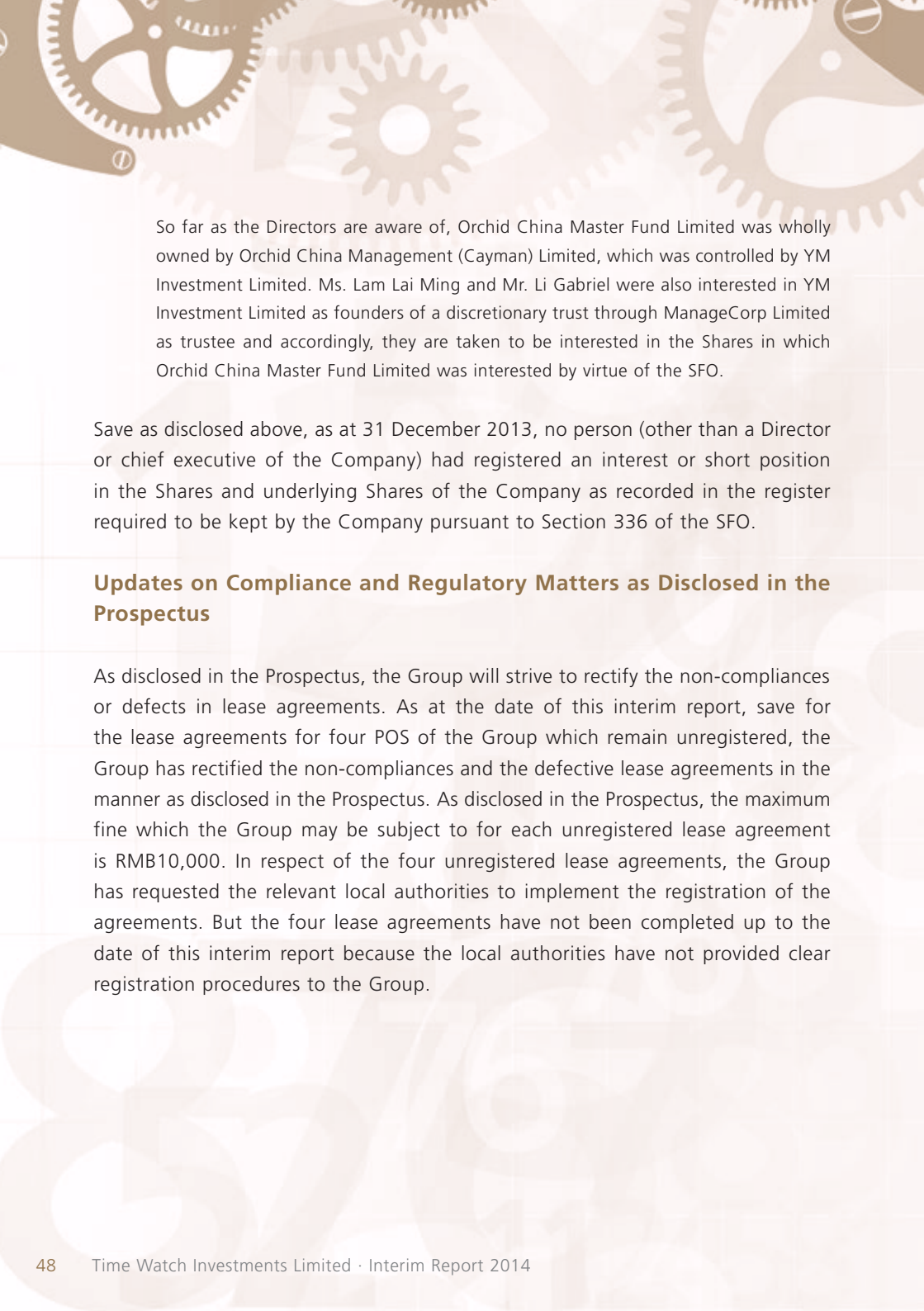
<b>Name of shareholders</b>	<b>Capacity/nature of interest</b>	<b>Number and class of securities</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
Red Glory	Beneficial owner <i>(Note 2)</i>	1,416,421,000 Shares (L)	68.10%
Ms. Tam Fun Hung ("Ms. Tam")	Interest of spouse <i>(Note 3)</i>	1,416,421,000 Shares (L)	68.10%

<b>Name of shareholders</b>	<b>Capacity/nature of interest</b>	<b>Number and class of securities</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
Orchid Asia V, LP	Beneficial owner <i>(Note 4)</i>	166,450,000 Shares (L)	8.00%
OAV Holdings, L.P.	Interest of a controlled corporation <i>(Note 4)</i>	166,450,000 Shares (L)	8.00%
Orchid Asia V GP, Limited	Interest of a controlled corporation <i>(Note 4)</i>	166,450,000 Shares (L)	8.00%
Orchid Asia V Group Management, Limited	Interest of a controlled corporation <i>(Note 4)</i>	166,450,000 Shares (L)	8.00%
Orchid Asia V Group, Limited	Interest of a controlled corporation <i>(Note 4)</i>	166,450,000 Shares (L)	8.00%
Areo Holdings Limited	Interest of a controlled corporation <i>(Note 4)</i>	151,294,000 Shares (L)	7.56%
Lam Lai Ming	Interest of a controlled corporation <i>(Note 4)</i>	188,056,000 Shares (L)	9.04%
Li Gabriel	Interest in a controlled corporation <i>(Note 4)</i>	188,056,000 Shares (L)	9.04%

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1. The letter "L" denotes a person's long position in the Shares or underlying Shares of the Company.
  2. These Shares are held by Red Glory, which is wholly owned by Mr. Tung.
  3. Ms. Tam is the spouse of Mr. Tung. Ms. Tam is taken to be interested in the Shares in which Mr. Tung is 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 section.
  4. So far as the Directors are aware of, these Shares were beneficial owned as to 166,450,000 Shares by Orchid Asia V, L.P., 4,538,000 Shares by Orchid Asia V Co-Investment, Limited, and 9,724,000 Shares by Orchid China Master Fund Limited.

So far as the Directors are aware of, Orchid Asia V, L.P. was wholly owned 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 owned 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.



So far as the Directors are aware of, Orchid China Master Fund Limited was wholly owned by Orchid China Management (Cayman) Limited, which was controlled by YM Investment Limited. Ms. Lam Lai Ming and Mr. Li Gabriel were also interested in YM Investment Limited as founders of a discretionary trust through ManageCorp Limited as trustee and accordingly, they are taken to be interested in the Shares in which Orchid China Master Fund Limited was interested by virtue of the SFO.

Save as disclosed above, as at 31 December 2013, no person (other than a Director or chief executive of the Company) had registered 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.

### **Updates on Compliance and Regulatory Matters as Disclosed in the Prospectus**

As disclosed in the Prospectus, the Group will strive to rectify the non-compliances or defects in lease agreements. As at the date of this interim 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 interim report because the local authorities have not provided clear registration procedures to the Group.

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## CORPORATE INFORMATION

### Chairman

Mr. Tung Koon Ming

### Board of Directors

#### *Executive Directors*

Mr. Tung Koon Ming

Mr. Lo Wing Sang

Mr. Hou Qinghai

Mr. Tung Wai Kit

#### *Independent Non-Executive Directors*

Mr. Ma Ching Nam

Mr. Choi Ho Yan

Mr. Wong Wing Keung Meyrick

### 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. Lo Wing Sang (*CPA, ACS, CA, FCCA*)

## **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 Adviser**

Patrick Mak & Tse (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  
P.O. 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  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

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## **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: 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](mailto:investor_relations@timewatch.com.hk)

## **Website**

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