

Time2U

Time2U International Holding Limited

時間由你國際控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1327)



2016
INTERIM REPORT



CONTENTS

| | |
|---|----|
| Interim Results | 2 |
| Director's Statement | 3 |
| Management Discussion and Analysis | 4 |
| Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income | 14 |
| Condensed Consolidated Statement of Financial Position | 16 |
| Condensed Consolidated Statement of Changes In Equity | 17 |
| Condensed Consolidated Statement of Cash Flow | 18 |
| Notes to the Condensed Consolidated Interim Financial Statements | 19 |



INTERIM RESULTS

The Board of Directors (the “Board”) of Time2U International Holding Limited (the “Company”) presents the unaudited consolidated interim results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2016, along with the comparative figures and selected explanatory notes, which are prepared in accordance with the Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, and have been reviewed by the Audit Committee of the Company.

On behalf of the board (the "Board") of directors (the "Directors") of Time2U International Holding Limited (the "Company"), I am delighted to present the interim report of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2016.

BUSINESS REVIEW

During the period, the Group's principal business remained as design, production and assembly of watches for our OEM customers and the design, manufacture and sale of watches under the brand name Time2U, Jonquet and sub-brand name Color.

The Group's net loss for six months ended 30 June 2016 amounted to approximately RMB43.7 million, representing a turn around from profit of approximately RMB37.0 million for the corresponding six months ended 30 June 2015.

DIVIDEND PAYMENT

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (2015: Nil).

OUTLOOK AND FUTURE PROSPECTS

It is expected that the growth of retail market and overall economy in the People's Republic of China will continue to slow down. However, with the extensive product line and high cost effective watches as competitive advantage, the Group will continue on the expansion of our branded watches business operation domestically and internationally; introduce the trendy and popular watches in the international market to the young population of China to achieve a global synchronization of the China's young population.

Going forward, the Group will also allocate more resources on the development of Hong Kong market and develop the prestige and high-end watches. Besides, the Group will explore business opportunities which could complement the Group's business, continue to strengthen the watch design and development capabilities by upholding the design and artistic knowledge of the design team.

APPRECIATION

I would like to take this opportunity to express my gratitude to the Board for its brilliant leadership, to the shareholders for their strong support, and to the community for their enthusiastic help, and last but not least, to our staff for their dedicated efforts.

Zheng Qingjie

Executive Director

Hong Kong, 31 August 2016

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is a domestic watch brand-owner of economical quartz analogue watches and an OEM manufacturer of quartz analogue watches in the PRC. The Group has two principal lines of business operations, namely, the design, production and assembly of watches for our OEM customers and the design, manufacture and sale of watches under the brand name Time2U, Jonquet and sub-brand name Color.

The Group's net loss for the six months ended 30 June 2016 amounted to approximately RMB43.7 million, representing a turn around from profit of approximately RMB37.0 million for the six months ended 30 June 2015. Such change was mainly due to decrease in revenue which was attributable to the decrease in sales volume of our branded watches and OEM watches, continual decrease in the average selling price of both branded watches and OEM watches and sales return from customers of branded watches.

DIVIDEND PAYMENT

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (2015: Nil).

FINANCIAL REVIEW

Revenue

Our revenue decreased by approximately RMB225.1 million or 58.1% from approximately RMB387.2 million for the six months ended 30 June 2015 to approximately RMB162.1 million for the six months ended 30 June 2016. The decrease in revenue was mainly attributable to the decrease in sales volume of our branded watches and OEM watches, continual decrease in the average selling price of both branded watches and OEM watches and sales return from customers of branded watches.

Cost of sales

Our cost of sales decreased by approximately RMB135.9 million or 51.0% from approximately RMB266.2 million for the six months ended 30 June 2015 to approximately RMB130.3 million for the six months ended 30 June 2016. The decrease primarily reflected the decrease in revenue by 58.1% for the period.

Gross profit and gross profit margin

Our gross profit decreased by approximately RMB89.2 million or 73.7% from approximately RMB121.0 million for the six months ended 30 June 2015 to approximately RMB31.8 million for the six months ended 30 June 2016. Our overall gross profit margin also decreased from 31.3% for the six months ended 30 June 2015 to 19.6% for the six months ended 30 June 2016. The decrease of both gross profit and gross profit margin was mainly due to continual decrease in the average selling price of both branded watches and OEM watches and sales return from customers of branded watches.

Other gain and loss

Our other gain and loss recognised a loss of approximately RMB21.0 million for the six months ended 30 June 2016, representing a turn around from other gain of approximately RMB1.7 million for the six months ended 30 June 2015. The loss was primarily attributable to fair value loss on financial assets at fair value through profit or loss of approximately RMB24.3 million.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB13.3 million or 72.5% from approximately RMB18.3 million for the six months ended 30 June 2015 to approximately RMB31.6 million for the six months ended 30 June 2016. The increase was primarily attributable to the increase in advertising expense.

Administrative expenses

Our administrative expenses decreased by approximately RMB18.8 million or 44.1% from approximately RMB42.7 million for the six months ended 30 June 2015 to approximately RMB23.9 million for the six months ended 30 June 2016. The decrease was mainly attributable to the listing expenses recognised during the six months ended 30 June 2015 which mainly reflected our listing and the recognition of share based payment of approximately RMB20.6 million regarding the share options granted in June 2015.

Finance costs

Our finance costs decreased by approximately RMB0.5 million or 36.3% from approximately RMB1.2 million for the six months ended 30 June 2015 to approximately RMB0.7 million for the six months ended 30 June 2016. The decrease was primarily attributable to decrease in borrowings during the six months ended 30 June 2016 as compared to the balance during the six months ended 30 June 2015.

(Loss)/profit before taxation

As a result of the foregoing, our loss before taxation amounted to approximately RMB45.4 million for the six months ended 30 June 2016 (2015: profit before taxation of approximately RMB60.3 million).

(Loss)/profit for the period

As a result of the foregoing, result for the period turned around from profit of approximately RMB37.0 million for the six months ended 30 June 2015 to loss of approximately RMB43.7 million for the six months ended 30 June 2016. Such change was primarily due to the decrease in revenue and the fair value loss on financial assets at fair value through profit or loss.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL POSITION

The Group funded its liquidity and capital requirements primarily through cash inflows from operating activities, bank borrowings and capital market. On 30 January 2015, the Company issued a total of 260,000,000 ordinary shares of HK\$0.01 each (the "Shares") and raised approximately HK\$134.4 million as a result of the completion of the initial public offering.

As at 30 June 2016, the Group's total cash and bank balances were approximately RMB122.2 million (31 December 2015: approximately RMB185.1 million), most of which are held in RMB. The current ratio (defined as current assets divided by current liabilities) of the Group increased from 4.5 times as at 31 December 2015 to 10.1 times as at 30 June 2016. The gearing ratio (defined as total interest-bearing borrowings divided by shareholders' equity) of the Group decreased from approximately 8.7% as at 31 December 2015 to approximately 2.3% as at 30 June 2016.

USE OF NET PROCEEDS FROM FUND RAISING ACTIVITIES

- (i) The net proceeds from the Company's IPO (after deducting the underwriting fees and related expenses) amounted to approximately HK\$134.4 million, which are intended to be applied in the manner as disclosed in the prospectus of the Company dated 20 January 2015 (the "Prospectus").

During the period from 20 January 2015, being the date of the Prospectus, to 30 June 2016, the Group has applied the net proceeds as follows:

| | Amount available (HK\$'000) | Amount utilised (HK\$'000) | Amount unutilised (HK\$'000) |
|---|---|--|--|
| – Marketing activities for branded watches in the domestic market | 41,859 | 22,216 | 19,643 |
| – Further developing on-line retail stores for branded watches | 22,145 | 22,145 | – |
| – International expansion of sales network | 17,464 | 17,464 | – |
| – Upgrading existing watch components | 26,556 | 26,556 | – |
| – Addition of more technologically advanced machines and equipment | 10,532 | 10,532 | – |
| – Strengthening core competitiveness by improving watch design and development capabilities | 15,844 | 15,844 | – |
| | 134,400 | 114,757 | 19,643 |

The unutilised net proceeds are placed in the bank accounts of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

- (ii) The Company completed a placing and subscription on 12 August 2015 and 19 August 2015 respectively, pursuant to which the Company has allotted and issued 160,000,000 placing shares to not less than six placees at HK\$0.40 per placing share. The net proceeds of the placing were approximately HK\$62 million. As at 30 June 2016, the Group had utilized the net proceeds of the placing as follows:

| Date of announcement | Event | Net proceeds raised | Intended use of net proceeds | Actual use of proceeds |
|-----------------------------|--|--------------------------------|--|--|
| 5 August 2015 | Subscription of 160,000,000 new Shares at HK\$0.40 per Share (the "2015 Subscription") | Approximately HK\$62.0 million | To finance future business investment and development opportunities (including but not limited to the promotion of international image of branded watches) and/or as general working capital of the Group. | <p>(i) Approximately HK\$25.8 million was used for purchase of machines and equipment;</p> <p>(ii) Approximately HK\$19.6 million was used for promotion and marketing activities;</p> <p>(iii) Approximately HK\$5.7 million was used to purchase watch components;</p> <p>(iv) Approximately HK\$4.9 million was used for research and development work; and</p> <p>(v) Approximately HK\$6.0 million was used as general working capital.</p> |

MANAGEMENT DISCUSSION AND ANALYSIS

- (iii) The Company completed a placing on 18 January 2016, pursuant to which the Company has allotted 192,000,000 placing shares to not less than six placees at HK\$0.23 per placing share. The net proceeds of the placing were approximately HK\$43.06 million. As at 30 June 2016, the Group had utilized the net proceeds of the placing as follows:

| Date of announcement | Event | Net proceeds raised | Intended use of net proceeds | | Actual use of proceeds |
|----------------------|--|---------------------------------|---|------|--|
| | | | | | |
| 4 January 2016 | Placing of 192,000,000 new Shares of HK\$0.23 per Share under general mandate (the "2016 Placing") | Approximately HK\$43.06 million | As general working capital of the Group | (i) | Approximately HK\$9.25 million was used for general working capital of the Group; and |
| | | | | (ii) | Approximately HK\$33.81 million is placed in the bank and will be used for general working capital of the Group as intended. |

- (iv) On 11 May 2016, the Company announced a proposal to raise not less than approximately HK\$322.56 million and not more than approximately HK\$342.32 million, before expenses, by issuing not less than 2,304,000,000 rights shares and not more than 2,445,140,000 rights shares at the subscription price of HK\$0.14 per rights share on the basis of two (2) rights shares for every one (1) existing share. The rights issue was subsequently completed on 18 July 2016 with 2,304,000,000 rights shares issued. For details, please refer to the Company's announcement and circular dated 11 May 2016 and 27 May 2016 respectively, and the Company's prospectus and announcement dated 28 June 2016 and 20 July 2016 respectively.

As at 31 August 2016, the Group had utilized approximately HK\$7.26 million for the expansion of sales network and marketing activities in the PRC and approximately HK\$5.0 million for the acquisition of the remaining equity interest in a non-wholly owned subsidiary of the Company pursuant to the shares transfer agreement. The unutilized net proceeds are placed in the bank accounts of the Group.

DEBTS AND CHARGE ON ASSETS

The Group had total bank borrowings of approximately RMB16.0 million as at 30 June 2016, while that as at 31 December 2015 was approximately RMB60.6 million. These bank borrowings are secured by the Group's assets with an aggregate carrying amount of approximately RMB26.3 million and RMB76.7 million as at 30 June 2016 and 31 December 2015 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

EXCHANGE RISK EXPOSURE

The Group mainly operates in the PRC and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to RMB and United States dollars. During the six months ended 30 June 2016, the Group has not entered into any hedging arrangements. However the management will continue to monitor closely its foreign currency exposure and requirements and to arrange for hedging facilities when necessary.

CAPITAL STRUCTURE

Details of the movement in share capital of the Company during the six months ended 30 June 2016 are set out in Note 12 to the condensed consolidated interim financial statements.

CONTINGENT LIABILITY

The Group did not have any significant contingent liabilities as at 30 June 2016 and 31 December 2015.

SIGNIFICANT INVESTMENTS

At 30 June 2016, the Group held approximately 110 million shares of Greater China Professional Services Limited ("GCPS"). The shares of GCPS was listed on The Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. The Group's investment in GCPS was collectively referred to as the "Significant Investments".

Detail of the Significant Investments are as follows:

| | For the six months ended 30 June 2016 | | At 30 June 2016 | | At 31 December 2015 |
|---------|---|----------------------------|---|---|---------------------------|
| Company | Fair value loss RMB'000 | Market value RMB'000 | Approximate percentage of financial asset at FVTPL RMB'000 | Approximate percentage to the net assets | Market value |
| GCPS | 26,250 | 41,450 | 61.6% | 6% | 63,626 |

GCPS's business is provision of financial service upon its acquisition of associates and subsidiaries carrying money lending business and gold trading business. Furthermore, GCPS has recently completed a few business acquisitions and expansion of its operations to the media advertising and financial businesses. GCPS expected that the need for a leading professional advisor on asset value, procedures and regulations, as well as investment matching will remain.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking ahead, the Group believes that with the core business segments and the recent expansion of GCPS, GCPS should be able to achieving a sustainable growth and maximizing the interest of the shareholders. However, the value of the Significant Investments may be susceptible to the overall equity market conditions.

Except the Significant Investments, at 30 June 2016, there was no investment held by the Group which value was more than 5% of the net assets of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had a total of 1,481 (2015: 1,731) employees. The total remuneration costs incurred by the Group for the six months ended 30 June 2016 were approximately RMB23.6 million (2015: approximately RMB52.1 million). We review the performance of our employees annually and use the results of such review in our annual salary review and promotion appraisal, in order to attract and retain valuable employees.

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

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 30 June 2016, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying shares or debentures of the Company and its associated corporations, as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to Section 352 of the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers as contained in Appendix 10 to the Listing Rules ("Model Code"), were as follows:

Long position in issued ordinary shares of the Company

| Name | Capacity | Number of Shares | Approximate percentage of shareholding |
|---------------------------------|--|------------------|--|
| Mr. Lin Zhiqiang ("Mr. Lin") | Interest in controlled corporation (Note) | 354,367,020 | 30.76% |
| Ms. Yan Xiaotong ("Ms. Yan") | Interest in controlled corporation (Note) | 354,367,020 | 30.76% |

Note: These Shares are held by Visual Wise Limited (the "Visual Wise"), which is owned as to 62% by Mr. Lin, the chief executive officer, chairman and an executive Director, and 38% by Ms. Yan, an executive Director in the last 12 months of the Company. Ms. Yan is the spouse of Mr. Lin and they are deemed to have interest in the Shares in which his/her spouse is interested in.

MANAGEMENT DISCUSSION AND ANALYSIS

Save as disclosed above, as at 30 June 2016, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under 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 THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2016, the following persons (other than the Directors or chief executives of the Company) had interests or short positions 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:

Long position in issued ordinary shares of the Company

| Name | Capacity | Number of Shares | Approximate percentage of shareholding |
|-------------|------------------|------------------|--|
| Visual Wise | Beneficial owner | 354,367,020 | 30.76% |

Note: These Shares are held by Visual Wise Limited (the "Visual Wise"), which is owned as to 62% by Mr. Lin, the chief executive officer, chairman and an executive Director, and 38% by Ms. Yan, an executive Director in the last 12 months of the Company. By virtue of the SFO, Mr. Lin and Ms. Yan are deemed to be interested in the shares held by Visual Wise.

Save as disclosed above and in "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company", as at 30 June 2016, the Directors were not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than disclosed in "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company" above, at no time during the six months ended 30 June 2016 was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or the chief executive or their respective associates, of the Company to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any associated corporation and none of the Directors and chief executive, or their spouse and children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the six months ended 30 June 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

DIRECTOR'S INTEREST IN COMPETING INTERESTS

The Directors are not aware of any business or interest of the directors of the Company, the controlling shareholder of the Company and their respective associates (as defined under Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group during the six months ended 30 June 2016.

CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 June 2016, the Group had adopted and complied with the code provisions (the "Code Provisions") set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 to the Listing Rules, except the following deviation:

Under A.2.1 of the Code Provisions, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Concurrently, Mr. Lin Zhiqiang is the chairman of the Board and the chief executive officer of the Company.

Being aware of the said deviation from code provision A.2.1, but with the support of the management, vesting the roles of both chairman and chief executive officer by the same person can facilitate execution of the Group's business strategies and boost effectiveness of its operation. In addition, under the supervision by the Board which consists of three independent non-executive Directors, representing half of the Board, the interests of the shareholders of the Company will be safeguarded.

Code provision A.6.7 stipulates that independent non-executive directors should attend general meeting of the Company. Owing to other business engagements, two independent non-executive directors, Mr. Nie Xing and Mr. Chang Wei, were unable to attend the extraordinary general meeting of the Company held on 14 June 2016.

AUDIT COMMITTEE

The Audit Committee of the Company, comprising the three Independent Non-executive Directors, has reviewed the accounting principles and practices adopted by the Company and has discussed auditing, internal control and financial reporting matters. The Audit Committee has reviewed the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2016.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted a model code of practice for securities dealings by Directors on terms no less exacting than the required standard of dealings as set out in the Model Code set out in Appendix 10 to the Listing Rules. The Company has confirmed, after making specific enquiries with the Directors in accordance with the code of practice, that all the Directors have complied with the Model Code for the six months ended 30 June 2016.

BOARD OF DIRECTORS

As at 30 June 2016, the Board comprises three Executive Directors and three Independent Non-executive Directors as follows:

Executive Directors

Mr. Lin Zhiqiang
Mr. See Ching Chuen
Mr. Zheng Qingjie

Independent Non-Executive Directors

Mr. Chang Wei
Mr. Nie Xing
Mr. Yu Chon Man

By Order of the Board

Zheng Qingjie
Executive Director

31 August 2016

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

The Board of directors (the "Board") of Time2U International Holding Limited (the "Company") is pleased to present the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2016, together with the comparative unaudited figures for the corresponding period in 2015 as follows:

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------------|--------------------------------|
| | | 2016 RMB'000 (Unaudited) | 2015 RMB'000 (Unaudited) |
| Revenue | 3 | 162,136 | 387,229 |
| Cost of sales | | (130,331) | (266,214) |
| Gross profit | | 31,805 | 121,015 |
| Other gain and loss | | (20,986) | 1,673 |
| Selling and distribution expenses | | (31,593) | (18,312) |
| Administrative expenses | | (23,852) | (42,703) |
| Share of loss on an associate | | – | (200) |
| Finance costs | 4 | (740) | (1,161) |
| (Loss)/profit before taxation | | (45,366) | 60,312 |
| Taxation | 5 | 1,691 | (23,331) |
| (Loss)/profit for the period | 6 | (43,675) | 36,981 |
| Other comprehensive income/(loss) for the period, net of tax | | | |
| Exchange differences on translation of foreign operations | | 1,242 | (184) |
| Other comprehensive income/(loss) for the period, net of tax | | 1,242 | (184) |
| Total comprehensive (loss)/income for the period | | (42,433) | 36,797 |
| (Loss)/profit for the period attributable to: | | | |
| – Owners of the Company | | (44,527) | 35,050 |
| – Non-controlling interests | | 852 | 1,931 |
| | | (43,675) | 36,981 |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

| | Notes | Six months ended 30 June | |
|--|-------|--------------------------------|--------------------------------|
| | | 2016 RMB'000 (Unaudited) | 2015 RMB'000 (Unaudited) |
| Total comprehensive (loss)/income for the period attributable to: | | | |
| – Owners of the Company | | (43,285) | 34,866 |
| – Non-controlling interests | | 852 | 1,931 |
| | | (42,433) | 36,797 |
| (Loss)/earnings per share attributable to owners of the Company | | | |
| – Basic and diluted (RMB) (cents) | 7 | (3.9) | 4.5 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

| | Notes | 30 June 2016 RMB'000 (Unaudited) | 31 December 2015 RMB'000 (Audited) |
|---|-------|---|---|
| ASSETS AND LIABILITIES | | | |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 281,372 | 276,313 |
| Prepaid lease payments | | 12,752 | 12,913 |
| | | 294,124 | 289,226 |
| CURRENT ASSETS | | | |
| Prepaid lease payments | | 327 | 327 |
| Inventories | | 161,647 | 113,947 |
| Trade receivables | 9 | 47,097 | 137,147 |
| Deposits, prepayments and other receivables | | 67,878 | 60,944 |
| Financial assets at fair value through profit or loss | | 67,265 | 63,626 |
| Pledged bank deposit | | – | 50,000 |
| Cash and bank balances | | 122,160 | 135,075 |
| | | 466,374 | 561,066 |
| CURRENT LIABILITIES | | | |
| Trade payables | 10 | 9,574 | 42,744 |
| Accruals and other payables | | 15,592 | 18,364 |
| Income tax payables | | 4,824 | 3,882 |
| Bank borrowings | 11 | 16,000 | 60,585 |
| | | 45,990 | 125,575 |
| NET CURRENT ASSETS | | 420,384 | 435,491 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 714,508 | 724,717 |
| NON-CURRENT LIABILITIES | | | |
| Deferred taxation | | 5,134 | 9,096 |
| NET ASSETS | | 709,374 | 715,621 |
| CAPITAL AND RESERVES | | | |
| Share capital | 12 | 9,280 | 7,667 |
| Reserves | | 676,870 | 685,582 |
| Equity attributable to owners of the Company | | 686,150 | 693,249 |
| Non-controlling interests | | 23,224 | 22,372 |
| TOTAL EQUITY | | 709,374 | 715,621 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

| | Attributable to owners of the Company | | | | | | | | | | |
|--|---------------------------------------|--------------------------|--------------------------------------|---|---------------------------------|----------------------------|--------------------------|------------------------------|----------------------|--------------------------------------|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Statutory surplus reserve RMB'000 | Foreign currency translation reserve RMB'000 | Share option reserve RMB'000 | Capital reserve RMB'000 | Other reserve RMB'000 | Retained earnings RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2015 (Audited) | 1 | 15,911 | 20,540 | 5,790 | - | 11 | 3,173 | 360,179 | 405,605 | 19,444 | 425,049 |
| Profit for the period | - | - | - | - | - | - | - | 35,050 | 35,050 | 1,931 | 36,981 |
| Other comprehensive loss for the period | - | - | - | (184) | - | - | - | - | (184) | - | (184) |
| Total comprehensive (loss)/income for the period | - | - | - | (184) | - | - | - | 35,050 | 34,866 | 1,931 | 36,797 |
| Issues of shares under the capitalisation issue | 5,110 | (5,110) | - | - | - | - | - | - | - | - | - |
| Issues of shares under the global offering | 1,238 | 134,933 | - | - | - | - | - | - | 136,171 | - | 136,171 |
| Transaction costs attributable to issues of shares | - | (14,200) | - | - | - | - | - | - | (14,200) | - | (14,200) |
| Recognition of equity – settled share – based payments | - | - | - | - | 20,564 | - | - | - | 20,564 | - | 20,564 |
| Transfer to statutory reserve | - | - | 966 | - | - | - | - | (966) | - | - | - |
| At 30 June 2015 (Unaudited) | 6,349 | 131,534 | 21,506 | 5,606 | 20,564 | 11 | 3,173 | 394,263 | 583,006 | 21,375 | 604,381 |

| | Attributable to owners of the Company | | | | | | | | | | |
|--|---------------------------------------|--------------------------|--------------------------------------|---|---------------------------------|----------------------------|--------------------------|------------------------------|----------------------|--------------------------------------|------------------|
| | Share capital RMB'000 | Share premium RMB'000 | Statutory surplus reserve RMB'000 | Foreign currency translation reserve RMB'000 | Share option reserve RMB'000 | Capital reserve RMB'000 | Other reserve RMB'000 | Retained earnings RMB'000 | Sub-total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| At 1 January 2016 (Audited) | 7,667 | 181,552 | 22,076 | 7,463 | 23,405 | 11 | 3,173 | 447,902 | 693,249 | 22,372 | 715,621 |
| (Loss)/profit for the period | - | - | - | - | - | - | - | (44,527) | (44,527) | 852 | (43,675) |
| Other comprehensive income for the period | - | - | - | 1,242 | - | - | - | - | 1,242 | - | 1,242 |
| Total comprehensive income/(loss) for the period | - | - | - | 1,242 | - | - | - | (44,527) | (43,285) | 852 | (42,433) |
| Issues of shares upon share placement | 1,613 | 35,504 | - | - | - | - | - | - | 37,117 | - | 37,117 |
| Transaction costs attributable to issues of shares | - | (931) | - | - | - | - | - | - | (931) | - | (931) |
| Lapse of share options | - | - | - | - | (2,962) | - | - | 2,962 | - | - | - |
| At 30 June 2016 (Unaudited) | 9,280 | 216,125 | 22,076 | 8,705 | 20,443 | 11 | 3,173 | 406,337 | 686,150 | 23,224 | 709,374 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2016

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Net cash (used in)/generated from operating activities | (35,491) | 48,429 |
| Net cash generated from/(used in) investing activities | 66,570 | (5,545) |
| Net cash (used in)/generated from financing activities | (45,325) | 149,619 |
| Net (decrease)/increase in cash and cash equivalents | (14,246) | 192,503 |
| Effect of foreign exchange rates changes | 1,331 | (184) |
| Cash and cash equivalents at the beginning of the period | 135,075 | 82,763 |
| Cash and cash equivalents at the end of the period | 122,160 | 275,082 |

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2016 (the "Interim 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 (the "HKICPA") and with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Company is an investment company. The Group is principally engaged in the manufacture and sales of own-branded watches, OEM watches and third-party watches.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's presentation currency and the functional currency of the principal operating subsidiary of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current period, the Group has applied, for the first time, the following new standard, amendments and interpretations ("new HKFRSs") issued by HKICPA. The application of the new HKFRSs in the current period has no material effect on the amounts reported in these condensed consolidated interim financial statements and/or disclosure, set out in these condensed consolidated interim financial statements.

The nature of the impending changes in accounting policy on adoption is described below.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS") (Continued)

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

| | |
|--|--|
| HKFRSs (Amendments) | Annual Improvements 2012-2014 Cycle ¹ |
| Amendments to HKAS 1 | Disclosure Initiative ¹ |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation ¹ |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants ¹ |
| Amendments to HKAS 27 | Equity Method in Separate Financial Statements ¹ |
| HKFRS 9 (2014) | Financial Instruments ³ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ¹ |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 | Investment entities: Applying the Consolidation Exception ¹ |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations ¹ |
| HKFRS 14 | Regulatory Deferral Accounts ¹ |
| HKFRS 15 | Revenue from Contracts with Customers ² |

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2017

³ Effective for annual periods beginning on or after 1 January 2018

The Directors do not anticipate that the application of other HKFRSs will have a material impact on the Group's condensed consolidated financial statements.

3. OPERATING SEGMENT

Information reported internally to the chief operating decision makers for the purpose of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. The Group currently operates in one business segment in manufacturing, trading and retailing business of watches. A single management team reports to the chief operating decision makers who comprehensively manages the entire business. Accordingly, the Group does not have separately reportable segments.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016

3. OPERATING SEGMENT (Continued)

Turnover from major products

| | Six months ended 30 June | |
|------------------|--------------------------|-------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Branded watches: | | |
| Time2U Watch | 32,341 | 70,416 |
| Color Watch | 19,253 | 85,138 |
| Jonquet Watch | 17,312 | 32,755 |
| OEM watches | 93,230 | 198,920 |
| | 162,136 | 387,229 |

Geographical information

The Group's operations and non-current assets are located in the PRC. The Group's revenue from external customers based on the location of the customers is detailed as below:

| | Six months ended 30 June | |
|--------------------------|--------------------------|-------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| The PRC | 130,524 | 325,441 |
| Asia (excluding the PRC) | 8,645 | 9,629 |
| America | 10,464 | 47,818 |
| Europe | 12,234 | 4,341 |
| Oceania | 269 | – |
| | 162,136 | 387,229 |

Information about major customer

Revenue from customer contributing over 10% of total sales of the Group during the period is as follows:

| | Six months ended 30 June | |
|------------|--------------------------|-------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Customer A | – | 40,072 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016

4. FINANCE COSTS

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Interest on borrowings wholly repayable within five years | 740 | 1,161 |

5. TAXATION

| | Six months ended 30 June | |
|-----------------------------|--------------------------|-------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Income tax (credit)/expense | (1,691) | 23,331 |

Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit arising in or derived from Hong Kong.

The PRC

The PRC Enterprise Income Tax (the "PRC EIT") is calculated at the applicable tax rates in accordance with the relevant laws and regulations in the PRC.

Under the PRC Enterprise Income Tax Law (the "EIT Law") and Implementation Regulations of the EIT Law, the tax rate of a PRC subsidiary is 25% from 1 January 2008 onwards.

6. (LOSS)/PROFIT FOR THE PERIOD

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| (Loss)/profit for the period has been arrived at after charging: | | |
| Total employee expenses (including directors' remuneration) | 23,569 | 52,122 |
| Advertising expenses | 17,354 | 5,522 |
| Amortisation of prepaid lease payments | 164 | 164 |
| Cost of inventories recognised as an expense | 130,331 | 266,214 |
| Depreciation of property, plant and equipment | 23,720 | 19,857 |
| Operating lease rental expenses in respect of rented premises | 275 | 118 |
| Research and development | 6,946 | 3,970 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016

7. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic and diluted (loss)/earnings per share for the period is based on the following data:

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| (Loss)/earnings | | |
| (Loss)/earnings for the purposes of basic and diluted (loss)/earnings per share, (loss)/profit for the period attributable to the owners of the Company | (44,527) | 35,050 |
| | | |
| | Six months ended 30 June | |
| | 2016 | 2015 |
| | '000 | '000 |
| | (Unaudited) | (Unaudited) |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic (loss)/earnings per share | 1,134,066 | 774,867 |

The calculation of the diluted (loss)/earnings per share for both periods did not assume the exercise of the Company's outstanding share options as the effect is anti-dilutive.

8. INTERIM DIVIDENDS

The board of directors do not recommend the payment of interim dividend for the six months ended 30 June 2016 (2015: Nil).

9. TRADE RECEIVABLES

| | 30 June | 31 December |
|-------------------|---------------|-------------|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Audited) |
| Trade receivables | 47,097 | 137,147 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016

9. TRADE RECEIVABLES (Continued)

The Group generally allows credit period of 0 to 60 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period:

| | 30 June 2016 RMB'000 (Unaudited) | 31 December 2015 RMB'000 (Audited) |
|----------------|---|---|
| 0 to 30 days | 23,048 | 68,658 |
| 31 to 60 days | 14,318 | 35,445 |
| 61 to 90 days | 8,117 | 27,918 |
| 91 to 180 days | 1,476 | 4,469 |
| Over 180 days | 138 | 657 |
| | 47,097 | 137,147 |

10. TRADE PAYABLES

The Group

| | 30 June 2016 RMB'000 (Unaudited) | 31 December 2015 RMB'000 (Audited) |
|----------------|---|---|
| Trade payables | 9,574 | 42,744 |

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

| | 30 June 2016 RMB'000 (Unaudited) | 31 December 2015 RMB'000 (Audited) |
|----------------|---|---|
| 0 to 30 days | 8,237 | 37,135 |
| 31 to 60 days | 1,267 | 5,539 |
| 61 to 90 days | - | - |
| 91 to 180 days | - | 3 |
| Over 180 days | 70 | 67 |
| | 9,574 | 42,744 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016

11. BANK BORROWINGS

The Group

| | 30 June 2016 RMB'000 (Unaudited) | 31 December 2015 RMB'000 (Audited) |
|---|---|---|
| Secured bank borrowings | | |
| – fixed rate | 16,000 | 11,000 |
| – variable rate | – | 49,585 |
| | 16,000 | 60,585 |
| Carrying amounts repayable | | |
| – within one year | 16,000 | 60,585 |
| Less: Amounts classified as current liabilities | | |
| secured term loan due within 1 year | | |
| or contain a repayment on demand clause | (16,000) | (60,585) |
| Amounts classified as non-current liabilities | – | – |

12. SHARE CAPITAL

| | Number of shares '000 | Nominal value HK\$'000 |
|---------------------------------------|--------------------------------------|-----------------------------------|
| Authorised: | | |
| Ordinary shares of HK\$0.01 each | | |
| As at 1 January 2016 (Audited) | | |
| and 30 June 2016 (Unaudited) | 13,000,000 | 130,000 |

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016

12. SHARE CAPITAL (Continued)

| | Number of shares '000 | Nominal value of ordinary shares | |
|---|-----------------------------|-------------------------------------|--------------|
| | | HK\$'000 | RMB'000 |
| Issued and fully paid: | | | |
| Ordinary shares of HK\$0.01 each | | | |
| As at 1 January 2016 (Audited) | 960,000 | 9,600 | 7,667 |
| Issue of shares upon share placement (note) | 192,000 | 1,920 | 1,613 |
| As at 30 June 2016 (Unaudited) | 1,152,000 | 11,520 | 9,280 |

Note:

On 4 January 2016, the Company entered into the placing agreement with the placing agent, whereby the Company has conditionally agreed to place, through the placing agents, on a best effort basis, a maximum of 192,000,000 placing shares to not less than 6 independent Placers at a price of not less than HK\$0.23 per placing shares.

All conditions of the placing have been fulfilled and the completion of the placing took place on 18 January 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016

13. SHARE OPTION SCHEMES

The Company operates a share option scheme (the "Share Option Scheme") adopted on 30 January 2015. The Share Option Scheme will remain in force for a period of 10 years since the date of adoption. During the six months ended 30 June 2016, 70,570,000 share options have been granted under the Share Option Scheme.

Details of the movements in the number of share options under the Share Options Scheme during the period were as follows:

| | Date of grant | Exercised price | Exercised period | Outstanding at 1 January 2016 '000 | Exercised during the period '000 | Lapse/ forfeited during the period '000 | Outstanding at June 2016 '000 |
|--|---------------|-----------------|----------------------------------|---------------------------------------|-------------------------------------|--|----------------------------------|
| Executive Directors | | | | | | | |
| Lin Zhiqiang | 16 June 2015 | HK\$0.726 | 16 December 2015 to 15 June 2025 | 800 | - | - | 800 |
| Yan Xiatong (Note 1) | 16 June 2015 | HK\$0.726 | 16 December 2015 to 15 June 2025 | 800 | - | - | 800 |
| Subtotal | | | | 1,600 | - | - | 1,600 |
| Other employees and consultants | | | | | | | |
| | 16 June 2015 | HK\$0.726 | 16 December 2015 to 15 June 2025 | 12,370 | - | (4,060) | 8,310 |
| | 16 June 2015 | HK\$0.726 | 16 June 2015 to 15 June 2025 | 56,600 | - | (4,870) | 51,730 |
| Subtotal | | | | 68,970 | - | (8,930) | 60,040 |
| Total | | | | 70,570 | - | (8,930) | 61,640 |

Note:

- Ms. Yan Xiaotong was appointed as Executive Director of the Company in July 2014 and resigned in September 2015.

In relation to the options granted to directors of the Company during the period, all of the options will vest six months after the grant date. In relation to the options granted to employees and consultants during the period, 12,370,000 options will vest six months after the grant date, 56,600,000 options do not have vesting period.

The fair value of the options determined at the date of grant using the Black-Scholes option pricing model (the "Black-Scholes Model") was approximately RMB26,763,000 (equivalent to approximately HK\$34,023,000).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016

13. SHARE OPTION SCHEMES (Continued)

The following assumptions were used to calculate the fair values of share options:

| | 16 June 2015 |
|--|--------------|
| Closing price immediately before the date of grant | HK\$0.68 |
| Exercise price | HK\$0.726 |
| Expected volatility | 79% |
| Expected term | 5.06 years |
| Risk-free rate | 1.271% |
| Expected dividend yield | 0% |

The Black-Scholes Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of share options are based on directors' best estimate. Change in variables and assumptions may result in changes in fair value of the options.

The Company recognised share based payment amounting to approximately RMB20,564,000 in relation to share options during the six months ended 30 June 2015.

14. OPERATING LEASE ARRANGEMENT

The Group as lessee:

The Group entered into commercial leases on certain warehouses. Leases are generally negotiated for a term of three years. Rentals are fixed at the date of signing of lease agreement. At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follow:

| | 30 June 2016 RMB'000 (Unaudited) | 31 December 2015 RMB'000 (Audited) |
|---------------------------------------|---|---|
| Within one year | 543 | 543 |
| In the second to fifth year inclusive | 359 | 634 |
| | 902 | 1,177 |

15. EVENT AFTER THE REPORTING PERIOD

On 11 May 2016, the Company announced a proposal to raise not less than approximately HK\$322.56 million and not more than approximately HK\$342.32 million, before expenses, by issuing not less than 2,304,000,000 rights shares and not more than 2,445,140,000 rights shares at the subscription price of HK\$0.14 per rights share on the basis of two (2) rights shares for every one (1) existing share. The rights issue was subsequently completed on 18 July 2016 with 2,304,000,000 rights shares issued. For details, please refer to the Company's announcement and circular dated 11 May 2016 and 27 May 2016 respectively, and the Company's prospectus and announcement dated 28 June 2016 and 20 July 2016 respectively.