



Time Watch Investments Limited  
時計寶投資有限公司

(Incorporated in the Cayman Islands with limited liability)  
Stock code: 2033

MEASURE THE SITUATION

PLAN FOR THE FUTURE

INTERIM REPORT 2017



## 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. 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.

## CONTENTS

- 2 Financial Highlights
- 3 Management Discussion and Analysis
- 15 Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
- 16 Condensed Consolidated Statement of Financial Position
- 18 Condensed Consolidated Statement of Changes in Equity
- 20 Condensed Consolidated Statement of Cash Flows
- 21 Notes to the Condensed Consolidated Financial Statements
- 43 Additional Information
- 49 Corporate Information

## FINANCIAL HIGHLIGHTS

	<b>Six months ended 31 December 2016 HK\$'000 (Unaudited)</b>	Six months ended 31 December 2015 HK\$'000 (Unaudited)
Revenue	<b>1,404,217</b>	1,291,069
Gross profit	<b>908,339</b>	877,671
Gross margin (%)	<b>64.7%</b>	68.0%
Profit attributable to owners of the Company	<b>101,455</b>	169,488

	<b>As at 31 December 2016 HK\$'000 (Unaudited)</b>	As at 30 June 2016 HK\$'000 (Audited)
Total assets	<b>2,325,211</b>	2,210,167
Total liabilities	<b>547,995</b>	438,406
Equity attributable to owners of the Company	<b>1,785,623</b>	1,752,053
Average Inventory Turnover Days (days)	<b>243</b>	281
Average Trade Receivables Turnover Days (days)	<b>53</b>	58
Average Trade Payables Turnover Days (days)	<b>50</b>	51

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

#### Revenue

Revenue of the Group increased by approximately HK\$113.1 million or approximately 8.8% from approximately HK\$1,291.1 million for the six months ended 31 December 2015 ("1HFY2016") to approximately HK\$1,404.2 million for the six months ended 31 December 2016 ("1HFY2017").

#### *Tian Wang Watches*

Sales of Tian Wang watches continued to be the Group's main source of revenue which accounted for approximately 65.5% of the total revenue of the Group for 1HFY2017 (1HFY2016: approximately 72.1%). Sales of Tian Wang watches recorded a revenue of approximately HK\$920.1 million for 1HFY2017, representing a decrease of approximately HK\$11.3 million or approximately 1.2% as compared with approximately HK\$931.4 million for 1HFY2016. The size of retail network of the Group increased by approximately 6.1% from 2,398 point of sale ("POS") as at 30 June 2016 to 2,544 POS as at 31 December 2016. The decrease in the retail sales (which was mainly due to depreciation of Renminbi) was offset by the growth in sales of watches through e-commerce channels by approximately HK\$41.2 million or approximately 28.6% from approximately HK\$143.9 million for 1HFY2016 to approximately HK\$185.1 million for 1HFY2017.

#### *Balco Watches*

Sales of Balco watches decreased by approximately HK\$23.9 million or approximately 25.8% from approximately HK\$92.7 million for 1HFY2016 to approximately HK\$68.8 million for 1HFY2017, which accounted for approximately 4.9% of the total revenue of the Group for 1HFY2017 (1HFY2016: approximately 7.2%). The decrease was primarily due to the decrease in sales of Balco watches to multi-brand watch distributors in Hong Kong, Macau and Taiwan of approximately HK\$20.1 million or approximately 54.2% from approximately HK\$37.1 million for 1HFY2016 to approximately HK\$17.0 million for 1HFY2017.

### ***Other Brands (PRC) Watches***

Retail sales of other well-known brand (“Other Brands (PRC)”) watches other than Tian Wang and Balco brands in the PRC decreased by approximately HK\$20.1 million or approximately 14.2% from approximately HK\$141.1 million for 1HFY2016 to approximately HK\$121.0 million for 1HFY2017, which accounted for approximately 8.6% of the total revenue of the Group for 1HFY2017 (1HFY2016: approximately 10.9%).

### ***Other Brands (Global) Watches***

Global distribution of certain owned and licensed international brands (“Other Brands (Global)”) of watches, which is a new business segment of the Group established in November 2015, recorded an increase in sales of approximately HK\$170.7 million or approximately 449.7% from approximately HK\$38.0 million for 1HFY2016 to a full period contribution of approximately HK\$208.7 million for 1HFY2017, which accounted for approximately 14.9% of the total revenue of the Group for 1HFY2017 (1HFY2016: approximately 3.0%).

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

Revenue from the Group’s watch movements trading business (the “Watch Movements Trading Business”) accounted for approximately 6.1% of the Group’s total revenue for 1HFY2017 (1HFY2016: approximately 6.8%). For 1HFY2017, revenue from trading of watch movements was approximately HK\$85.6 million, representing a decrease of approximately HK\$2.3 million or approximately 2.6% from approximately HK\$87.9 million for 1HFY2016.

## Gross Profit

The Group's gross profit increased by approximately HK\$30.7 million or approximately 3.5% from approximately HK\$877.7 million for 1HFY2016 to approximately HK\$908.3 million for 1HFY2017. The increase was mainly due to the full period contribution of gross profit from the new business segment, namely, Other Brands (Global) watches, which was established in November 2015. The Group's gross profit margin decreased to approximately 64.7% for 1HFY2017 from approximately 68.0% for 1HFY2016, which was primarily due to the contribution of the lower gross margin from Other Brands (Global) watches. The gross profit margin of Tian Wang remained stable at approximately 81.9% for 1HFY2017 as compared with approximately 81.8% for 1HFY2016.

## Other Income, Gains and Losses and Other Expenses

The Group's other income, gains and losses increased from approximately HK\$0.5 million for 1HFY2016 to approximately HK\$13.3 million for 1HFY2017, representing an increase of approximately HK\$12.8 million or approximately 2,840.1%. This was primarily due to (i) the decrease in net exchange loss and (ii) the increase in government subsidies. Other expenses for 1HFY2016 represented legal and professional fee and consultancy fee incurred for the acquisition of a business.

## Selling and Distribution Costs

The Group's selling and distribution costs increased by approximately HK\$83.8 million or approximately 13.7% from approximately HK\$610.1 million for 1HFY2016 to approximately HK\$693.9 million for 1HFY2017, which accounted for approximately 49.4% of the Group's total revenue for 1HFY2017 (1HFY2016: approximately 47.3%). The increase was mainly due to (i) the increase in the license fee for global brands; (ii) the increase in advertising and promotion fees and (iii) the increase in salaries of sales personnel as a result of increase in number of sales staff, which was in line with the increase of number of POS.

### Administrative Expenses

The Group's administrative expenses increased to approximately HK\$104.5 million for 1HFY2017 from approximately HK\$73.5 million for 1HFY2016, representing an increase of approximately HK\$30.9 million or approximately 42.0%. The increase was primarily due to the increase in staff costs and general office expenses for the new business segment, namely, Other Brands (Global) watches.

### Finance Costs and Income Tax Expenses

The Group's finance costs increased by approximately HK\$2.3 million or approximately 272.7% from approximately HK\$0.8 million for 1HFY2016 to approximately HK\$3.2 million for 1HFY2017 as a result of an increase in borrowings and bank overdraft during 1HFY2017. The Group's income tax expenses increased from approximately HK\$28.2 million for 1HFY2016 to approximately HK\$45.5 million for 1HFY2017, representing an increase of approximately HK\$17.3 million or approximately 61.2%. The increase was mainly due to the absence in 1HFY2017 of the one-off gain arising from the reverse of the overprovision for the PRC Enterprise Income Tax for 1HFY2016 as a result of preferential tax treatment for the calendar year ended 31 December 2015. The Group's effective tax rate increased from approximately 15.2% for 1HFY2016 to approximately 37.9% for 1HFY2017.

### Profit for the Period

As a combined result of the factors discussed above, the profit attributable to the owners of the Company for 1HFY2017 decreased by approximately HK\$68.0 million or approximately 40.1% from approximately HK\$169.5 million for 1HFY2016 to approximately HK\$101.5 million for 1HFY2017.

## Business Review

### Overview

During 1HFY2017, the Group's principal business remained manufacture and retail sales of its two proprietary brands watches (namely, Tian Wang and Balco watches), retail sales of Other Brands watches in the PRC, global distribution of Other Brands of watches and its ancillary Watch Movements Trading Business.

During 1HFY2017, the Group's sales increased by approximately 8.8% as compared to that of the corresponding period in previous financial year. Such increase was mainly due to the full period contribution of sales from Other Brands (Global) watches business. Tian Wang watches continued to be the Group's core business, which contributed approximately 65.5% of the total revenue of the Group during 1HFY2017.

### Retail Network

The Group's retail network principally comprises sales counters located in department stores which are directly managed and controlled by the Group. Over 87% of the Group's sales of Tian Wang and Balco watches was made through the Group's directly managed POS. Since the Group sells most of its watches to its retail customers directly, the Group has been able to obtain first hand market information and direct feedback from customers through its frontline staff. The Group considers that this is a comparative advantage over its competitors, which generally do not have fully direct managed sales network and therefore sell their products through distributors.

As at 31 December 2016, number of the Group's POS for Tian Wang watches was 2,544, representing a net increase of 146 POS and 171 POS as compared to the number of POS for Tian Wang watches as at 30 June 2016 and 31 December 2015, respectively. As at 31 December 2016, number of the Group's POS for Balco watches was 452, representing a net decrease of 10 POS and 11 POS as compared to the number of POS for Balco watches as at 30 June 2016 and 31 December 2015, respectively. As at 31 December 2016, number of the Group's POS for Other Brands (PRC) watches was 92, representing a net decrease of 6 POS and 8 POS as compared to the number of POS for Other Brands (PRC) watches as at 30 June 2016 and 31 December 2015, respectively.

## Proprietary Watches of the Group

### *Tian Wang Watches*

Sales of Tian Wang watches remained the Group's major source of revenue, which contributed approximately 65.5% of the Group's total revenue for 1HFY2017 (1HFY2016: approximately 72.1%). For 1HFY2017, revenue from Tian Wang watches was approximately HK\$920.1 million as compared with approximately HK\$931.4 million for 1HFY2016, representing a decrease of approximately HK\$11.3 million or approximately 1.2%. During 1HFY2017, the Group launched approximately 58 new models of Tian Wang watches with price ranging from approximately RMB300 to RMB3,600 per watch which were sold through direct retail sales, corporate sales and e-commerce channels. The wide price range of Tian Wang watches allowed the Group to cater for the different needs of customers, and allowed the Group to capture more demand from customers of different income level.

### *Balco Watches*

Balco watches are assembled and imported from Switzerland. The Group faces keen competition from other imported watches of similar price range, including Citizen, Casio, Titoni and Enicar. Sales of Balco watches accounted for approximately 4.9% of the Group's total revenue for 1HFY2017 (1HFY2016: approximately 7.2%). For 1HFY2017, revenue from Balco watches was approximately HK\$68.8 million as compared with approximately HK\$92.7 million for 1HFY2016, representing a decrease of approximately HK\$23.9 million or approximately 25.8%. The Group continued to seek other ways to develop its Balco watch business, which includes broadening its sales and distribution channels within and outside of the PRC.

### ***Other Brands (PRC) Watches***

Revenue from sales of Other Brands (PRC) watches was approximately HK\$121.0 million for 1HFY2017 as compared with approximately HK\$141.1 million for 1HFY2016, representing a decrease of approximately HK\$20.1 million or approximately 14.2%. Revenue from sales of Other Brands (PRC) watches accounted for approximately 8.6% of the Group's total revenue for 1HFY2017 (1HFY2016: approximately 10.9%). The decrease in sales of Other Brands (PRC) watches was due to the general decline in the retail market in the PRC, especially for the imported mid-range and high-end watches.

### ***Other Brands (Global) Watches***

Revenue from global distribution of Other Brands (Global) watches was approximately HK\$208.7 million for 1HFY2017 as compared with approximately HK\$38.0 million for 1HFY2016, representing an increase of approximately HK\$170.7 million or approximately 449.7%, which accounted for approximately 14.9% of the Group's total revenue for 1HFY2017 (1HFY2016: approximately 3.0%).

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

The directors of the Company (the "Directors") consider that the in-house watch movements procurement and trading arm of the Group is an integral segment of the Group's overall business operation for providing a reliable and stable supply of watch movements for the assembly of its Tian Wang watches and bringing revenue to the Group through its Watch Movements Trading Business with other watch manufacturers and distributors when there is a surplus of watch movements which are not used for the Group's manufacture of watches for its Tian Wang Watch Business. For 1HFY2017, sales of watch movements accounted for approximately 6.1% of the Group's total revenue (1HFY2016: approximately 6.8%). There was a decrease in sales of approximately HK\$2.3 million or approximately 2.6% from approximately HK\$87.9 million for 1HFY2016 to approximately HK\$85.6 million for 1HFY2017.

### ***E-commerce Business***

In March 2013, the Company established a 70%-owned subsidiary, Shenzhen Time Watch Trading Company Limited, which entered into operation agreements with several online sales platform (including but not limited to Jingdong mall and Tmall) and offered sales of lower-priced watches and new youth watch series products to younger generation in order to capture their rising consumption power. The Directors believe that a wide variety of watches will enable the Group to reach out to an extensive range of customers across different age groups. For 1HFY2017, there was an increase in sales of watches through e-commerce channels by approximately HK\$41.2 million or approximately 28.6% from approximately HK\$143.9 million for 1HFY2016 to approximately HK\$185.1 million for 1HFY2017.

### **Inventory Control**

The Group's inventory balance was approximately HK\$664.6 million as at 31 December 2016, representing an increase of approximately HK\$19.6 million or approximately 3.0% as compared with approximately HK\$645.0 million as at 30 June 2016. The increase was in line with the increase in the Group's inventory balance of Tian Wang finished watches from approximately HK\$250.7 million as at 30 June 2016 to approximately HK\$281.2 million as at 31 December 2016. The Group's inventory turnover days decreased to approximately 243 days for 1HFY2017, as compared with approximately 281 days for the year ended 30 June 2016. The Group will continue to monitor and control its inventory level vigilantly while implementing its sales network expansion plan in order to ensure that the expansion plan and inventory level will not adversely affect the cash flow and liquidity of the Group. The inventory quantities per Tian Wang, Balco and Other Brands (PRC) POS were approximately 445, 395 and 568 respectively as at 31 December 2016 (30 June 2016: approximately 434 (Tian Wang), 342 (Balco) and 578 (Other Brands (PRC))).

The inventory aged over two years were approximately HK\$128.9 million and approximately HK\$112.7 million as at 31 December 2016 and 30 June 2016, respectively, with corresponding provision for these inventory balances of approximately HK\$87.3 million and approximately HK\$71.6 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 adopts a conservative treasury policy. The Group monitors and maintains a level of cash and cash equivalents which are deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The Group financed its operations primarily through cash flows from operations and bank loans. The cash and cash equivalents were approximately HK\$617.5 million and approximately HK\$493.2 million as at 31 December 2016 and 30 June 2016, respectively.

The Group's net cash generated from operating activities for 1HFY2017 was approximately HK\$153.3 million. The amount was primarily attributable to profit before taxation of approximately HK\$120.1 million from the Group's operations adjusted for non-cash items of approximately HK\$65.7 million, decrease in working capital balances of approximately HK\$9.5 million, income taxes paid of approximately HK\$45.1 million and interest received of approximately HK\$3.1 million.

The Group's net cash generated from investing activities for 1HFY2017 was approximately HK\$24.8 million, which was mainly attributable to withdrawal of short-term deposits of approximately HK\$80.0 million and proceeds from disposal of intangible assets of approximately HK\$4.7 million, which was offset by purchase of property, plant and equipment of approximately HK\$41.3 million and purchase of available-for-sale investments of approximately HK\$18.6 million.

The Group's net cash used in financing activities for 1HFY2017 was approximately HK\$46.2 million, which was mainly attributable to dividends paid of approximately HK\$63.3 million and repayment of borrowings of approximately HK\$362.1 million, which was partially offset by borrowings raised of approximately HK\$382.4 million. The Group's borrowings were approximately HK\$130.5 million and approximately HK\$110.2 million as at 31 December 2016 and 30 June 2016, respectively.

The Group had a net cash position as at 31 December 2016 and 30 June 2016. As at 31 December 2016, the Group's total equity was approximately HK\$1,777.2 million, representing an increase of approximately HK\$5.5 million from approximately HK\$1,771.8 million as at 30 June 2016. The Group's working capital was approximately HK\$1,576.8 million as at 31 December 2016, representing a decrease of approximately HK\$9.4 million as compared with approximately HK\$1,586.1 million as at 30 June 2016.

As at 31 December 2016, the Group's bank balances and cash were mainly denominated in Renminbi and Hong Kong dollar. As at 31 December 2016, all the Group's borrowings were principally denominated in Hong Kong dollar and United States dollar, and were subject to variable interest rates and variable repayment terms.

The gearing ratio being calculated as total debt over total equity was approximately 7.3% and approximately 6.2% as at 31 December 2016 and 30 June 2016, respectively.

## Charge on Group Assets

There was no material charge on the Group's assets as at 31 December 2016 and 30 June 2016.

## Contingent Liabilities

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

## Capital Commitments

The Group did not have any material capital commitments as at 31 December 2016 and 30 June 2016.

## Foreign Currency Exposure

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

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

## Employees and emoluments policies

As at 31 December 2016, the Group employed a total of approximately 5,100 full time employees (30 June 2016: approximately 5,000) engaging in design, purchasing, production, sales and marketing and administration. The staff costs incurred during 1HFY2017 was approximately HK\$245.2 million (1HFY2016: approximately HK\$222.8 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.

## Outlook

It is expected that the growth of consumer market in the PRC will continue to slow down for the six months ending 30 June 2017. For retail sales, the Group will continue to execute its plan of opening not less than 100 POS for Tian Wang per year. These new POS will be located mainly in 2nd, 3rd or 4th tier cities in the PRC, where the purchasing power is improving in recent years along with the development of the PRC. These new POS will become the revenue drivers for the Group's Tian Wang retail sales in the coming years. Besides, the Group will continue to allocate more resources on the development of its e-commerce business. Target customers of the Group's e-commerce business are mainly the younger generation, and the products sold through the e-commerce channels are exclusive and are different from those sold in the 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 2016

	Notes	Six months ended 31 December 2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	3	<b>1,404,217</b>	1,291,069
Cost of sales		<b>(495,878)</b>	(413,398)
Gross profit		<b>908,339</b>	877,671
Other income, gains and losses	4	<b>13,260</b>	451
Selling and distribution costs		<b>(693,872)</b>	(610,087)
Administrative expenses		<b>(104,473)</b>	(73,548)
Other expenses	4	–	(8,491)
Finance costs	5	<b>(3,164)</b>	(849)
Profit before taxation		<b>120,090</b>	185,147
Income tax	6	<b>(45,477)</b>	(28,215)
Profit for the period	7	<b>74,613</b>	156,932
Other comprehensive income (expense)			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of leasehold land and buildings		<b>180</b>	–
Exchange differences arising on translation		<b>(4,715)</b>	(34,478)
Items that may be reclassified subsequently to profit or loss:			
Fair value change of available-for-sale investments		<b>(1,487)</b>	–
Reclassified to profit or loss on disposal of available-for-sale investments		<b>206</b>	–
Total comprehensive income for the period		<b>68,797</b>	122,454
Profit (loss) for the period attributable to:			
Owners of the Company		<b>101,455</b>	169,488
Non-controlling interests		<b>(26,842)</b>	(12,556)
		<b>74,613</b>	156,932
Total comprehensive income (expense) attributable to:			
Owners of the Company		<b>95,968</b>	136,812
Non-controlling interests		<b>(27,171)</b>	(14,358)
		<b>68,797</b>	122,454
Earnings per share, basic (HK cents)	9	<b>4.9</b>	8.1

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	As at 31 December 2016 HK\$'000 (Unaudited)	As at 30 June 2016 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	10	<b>166,894</b>	172,655
Prepaid lease payments		<b>38,788</b>	39,608
Intangible assets		<b>4,185</b>	7,086
Available-for-sale investments	11	<b>65,387</b>	36,006
Deposits paid for acquisition of property, plant and equipment		<b>7,988</b>	507
Deferred tax assets	16	<b>26,008</b>	22,145
		<b>309,250</b>	278,007
<b>Current assets</b>			
Inventories	12	<b>664,594</b>	645,041
Prepaid lease payment		<b>1,351</b>	1,339
Trade receivables	13	<b>405,019</b>	409,023
Other receivables, deposits and prepayments		<b>164,628</b>	131,613
Available-for-sale investments	11	<b>52,963</b>	65,018
Pledged bank deposit		<b>2,000</b>	2,000
Short-term deposits		<b>100,000</b>	180,000
Bank balances and cash		<b>625,406</b>	498,126
		<b>2,015,961</b>	1,932,160
<b>Current liabilities</b>			
Trade payables and bills payable	14	<b>153,526</b>	117,736
Other payables and accrued charges		<b>182,205</b>	132,700
Tax liabilities		<b>33,156</b>	35,072
Borrowings and bank overdraft		<b>70,308</b>	60,511
		<b>439,195</b>	346,019
Net current assets		<b>1,576,766</b>	1,586,141
Total assets less current liabilities		<b>1,886,016</b>	1,864,148

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

At 31 December 2016

	Notes	As at 31 December 2016 HK\$'000 (Unaudited)	As at 30 June 2016 HK\$'000 (Audited)
Capital and reserves			
Share capital	15	207,995	207,995
Reserves		1,577,628	1,544,058
Equity attributable to owners of the Company		1,785,623	1,752,053
Non-controlling interests		(8,407)	19,708
Total equity		1,777,216	1,771,761
Non-current liabilities			
Deferred tax liabilities	16	48,622	42,706
Borrowings		60,178	49,681
		108,800	92,387
		1,886,016	1,864,148

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Attributable to owners of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000 (Note a)	Translation reserve HK\$'000	Investment revaluation reserve HK\$'000	Properties revaluation reserve HK\$'000	Statutory surplus reserves HK\$'000 (Note b)	Accumulated profits HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 July 2016	207,995	511,101	(232,078)	(26,387)	(1,271)	349	68,946	1,223,398	1,752,053	19,708	1,771,761
Profit (loss) for the period	-	-	-	-	-	-	-	101,455	101,455	(26,842)	74,613
Exchange differences arising on translation	-	-	-	(4,386)	-	-	-	-	(4,386)	(329)	(4,715)
Gain on revaluation of leasehold land and buildings	-	-	-	-	-	180	-	-	180	-	180
Fair value change of available-for-sale investments	-	-	-	-	(1,487)	-	-	-	(1,487)	-	(1,487)
Reclassified to profit or loss on disposal of available-for-sale investments	-	-	-	-	206	-	-	-	206	-	206
Total comprehensive (expense) income for the period	-	-	-	(4,386)	(1,281)	180	-	101,455	95,968	(27,171)	68,797
Appropriation to reserve	-	-	-	-	-	-	614	(614)	-	-	-
Dividends recognised as distribution during the period (Note 8)	-	-	-	-	-	-	-	(62,398)	(62,398)	-	(62,398)
Dividends declared by a subsidiary to non-controlling shareholder	-	-	-	-	-	-	-	-	-	(944)	(944)
At 31 December 2016 (unaudited)	207,995	511,101	(232,078)	(30,773)	(2,552)	529	69,560	1,261,841	1,785,623	(8,407)	1,777,216
At 1 July 2015	207,995	511,101	(234,378)	45,429	-	-	65,553	1,034,447	1,630,147	65,704	1,695,851
Profit (loss) for the period	-	-	-	-	-	-	-	169,488	169,488	(12,556)	156,932
Exchange differences arising on translation	-	-	-	(32,676)	-	-	-	-	(32,676)	(1,802)	(34,478)
Total comprehensive (expense) income for the period	-	-	-	(32,676)	-	-	-	169,488	136,812	(14,358)	122,454
Appropriation to reserve	-	-	-	-	-	-	1,846	(1,846)	-	-	-
Dividends recognised as distribution during the period (Note 8)	-	-	-	-	-	-	-	(62,398)	(62,398)	-	(62,398)
Dividends declared by a subsidiary to non-controlling shareholder	-	-	-	-	-	-	-	-	-	(4,601)	(4,601)
Incorporation of a non-wholly owned subsidiary	-	-	-	-	-	-	-	-	-	18,992	18,992
Contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	3,629	3,629
At 31 December 2015 (unaudited)	207,995	511,101	(234,378)	12,753	-	-	67,399	1,139,691	1,704,561	69,366	1,773,927

## **CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)**

*FOR THE SIX MONTHS ENDED 31 DECEMBER 2016*

*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 years.
- (b) The statutory surplus reserves represent enterprise development and general reserve fund appropriated from the profit after taxation of subsidiaries established in the PRC.

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

	Six months ended 31 December 2016 <i>HK\$'000</i> <b>(Unaudited)</b>	2015 <i>HK\$'000</i> (Unaudited)
NET CASH FROM OPERATING ACTIVITIES	<u>153,269</u>	127,218
NET CASH FROM (USED IN) INVESTING ACTIVITIES	<u>24,786</u>	(53,134)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>(46,204)</u>	8,256
NET INCREASE IN CASH AND CASH EQUIVALENTS	<b>131,851</b>	82,340
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>498,126</b>	675,610
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<u>(4,571)</u>	(35,764)
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by Bank balances and cash Bank overdraft	<u><b>625,406</b></u> <b>(7,907)</b>	722,186 (132)
	<u><b>617,499</b></u>	722,054

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

### 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 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2016.

The Group has applied the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA for the first time in the current period:

Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKAS 1	Disclosure initiative
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants
Amendments to HKAS 27	Equity method in separate financial statements
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 – 2014 cycle

The application of the amendments to HKFRSs in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in the condensed consolidated financial statements.

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

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

HKFRS 9	Financial instruments <sup>1</sup>
HKFRS 15	Revenue from contracts with customers <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from contracts with customers <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture <sup>3</sup>
Amendments to HKAS 7	Disclosure initiative <sup>4</sup>
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses <sup>4</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017

### 3. REVENUE AND SEGMENT INFORMATION

For management purpose, the Group is currently organised into five 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”);
- d. Retailing business of imported watches mainly of well-known brands in the People’s Republic of China (“PRC”) (“Other Brands (PRC)”); and
- e. Global distributing of owned and licensed international brands of watches (“Other Brands (Global)”).

These operating divisions are the basis of internal reports about components which are regularly reviewed by the chief operating decision maker (“CODM”), 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.

During the six months ended 31 December 2015, the Group and an independent third party incorporated a company, namely TWB Investments Limited (“TWB”), for the acquisition of the Other Brands (Global) business. The CODM reviewed the results of TWB and its subsidiary being consolidated by the Group and the Other Brands (Global) business has been regarded as a reportable segment of the Group during the period.



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

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

Six months ended 31 December 2015 (Unaudited)

	Tian Wang Watch Business HK\$'000	Balco Watch Business HK\$'000	Watch Movements Trading Business HK\$'000	Other Brands (PRC) HK\$'000	Other Brands (Global) HK\$'000	Consolidated HK\$'000
<b>Revenue</b>						
External sales	931,423	92,681	87,874	141,122	37,969	1,291,069
Inter-segment sales	-	-	19,127	-	-	19,127
Segment revenue	<u>931,423</u>	<u>92,681</u>	<u>107,001</u>	<u>141,122</u>	<u>37,969</u>	<u>1,310,196</u>
Elimination						<u>(19,127)</u>
Group revenue						<u>1,291,069</u>
<b>Results</b>						
Segment results	<u>236,963</u>	<u>(9,908)</u>	<u>971</u>	<u>(8,556)</u>	<u>(11,289)</u>	<u>208,181</u>
Interest income						5,211
Central administration costs						(18,905)
Other expenses						(8,491)
Finance costs						<u>(849)</u>
Profit before taxation						<u>185,147</u>

Segment results represent the results of each segment without allocation of corporate items, including interest income, central administration costs, other expenses and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

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

	Six months ended	
	31 December	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Bank interest income	<b>1,657</b>	5,211
Interest income on available-for-sale investments	<b>2,472</b>	–
Allowance for doubtful debts	–	(257)
Loss on disposal and written off of property, plant and equipment	<b>(4,382)</b>	(5,255)
Watch repair and maintenance services income	<b>4,291</b>	3,162
Net exchange loss	<b>(3,461)</b>	(9,399)
Government subsidies ( <i>Note</i> )	<b>8,543</b>	4,337
Loss on disposal of intangible assets	<b>(2,172)</b>	–
Rental income	<b>1,690</b>	–
Others	<b>4,622</b>	2,652
	<b>13,260</b>	451

*Note:* The amount represents (i) government subsidies from local finance bureau which are calculated by reference to the amount of tax paid and certain conditions in accordance with the rules and regulations issued by the local government; and (ii) unconditional government grants for the reimbursement of expenses incurred for research and development activities in the PRC.

#### Other expenses

Other expenses during the six months ended 31 December 2015 represented legal and professional fee and consultancy fee incurred for the acquisition of a business.

## 5. FINANCE COSTS

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
The finance costs represent interests on:		
Bank borrowings and overdraft	<b>1,490</b>	849
Imputed interest on loan from a non-controlling interest of a subsidiary	<b>1,245</b>	–
Interest on loan from a related party	<b>429</b>	–
	<b>3,164</b>	849

## 6. INCOME TAX

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Current tax:		
Hong Kong Profits Tax	–	1,212
PRC Enterprise Income Tax	<b>40,374</b>	39,625
PRC withholding tax	<b>3,183</b>	7,949
	<b>43,557</b>	48,786
Overprovision in prior years:		
PRC Enterprise Income Tax	<b>(133)</b>	(23,415)
	<b>43,424</b>	25,371
Deferred taxation	<b>2,053</b>	2,844
	<b>45,477</b>	28,215

## 6. INCOME TAX (cont'd)

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits.

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of EIT Law, the Enterprise Income Tax rate is 25%. On 7 December 2015, a subsidiary, Tian Wang Electronics (Shenzhen) Company Limited ("Tian Wang Shenzhen"), obtained an approval notice from relevant authority, which approved Tian Wang Shenzhen's application of qualification as a high and new technology enterprise, which is valid for the 3 calendar years ended 31 December 2017. Hence, Tian Wang Shenzhen is subject to the preferential tax treatment and the applicable tax rate for the calendar year ended 31 December 2015 was 15% and the difference between the previous tax provision for the six months ended 30 June 2015 as calculated by the general tax rate of 25% and the above mentioned reduced tax rate was hence considered as overprovision and credited to profit or loss for the six months ended 31 December 2015.

The subsidiary in the USA is subject to Federal Income Tax up to 35% and State Income Tax ranging from 0% to 12% on the estimated taxable income for both periods. No provision of tax has been made for both periods since this subsidiary incurred tax loss during both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Dividends distributed from the PRC subsidiaries are subject to withholding tax at 5% to 10%. Deferred tax in relation to withholding income tax for the undistributed profits of the PRC subsidiaries have been provided. Details of the movement of the deferred tax recognised in respect to withholding income tax for the undistributed profits are set out in note 16.

## 7. PROFIT FOR THE PERIOD

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Profit for the period has been arrived at after charging:		
Staff costs (including Directors' remuneration)	<b>220,264</b>	199,655
Retirement benefits scheme contributions (including Directors' remuneration)	<b>24,953</b>	23,147
Total staff costs	<b>245,217</b>	222,802
Depreciation of property, plant and equipment	<b>42,334</b>	37,972
Allowance for obsolete inventories recognised as cost of sales	<b>16,061</b>	17,743
Concessionaire fee ( <i>Note</i> )	<b>238,488</b>	257,629

*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. DIVIDENDS

	<b>Six months ended 31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Dividends recognised as distribution during the period:		
2016 Final – HK3 cents per share	<b>62,398</b>	–
2015 Final – HK3 cents per share	–	62,398
	<b>62,398</b>	62,398

## 9. EARNINGS PER SHARE

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

	<b>Six months ended 31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	<b>101,455</b>	169,488
	<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>	2,079,946

No diluted earnings per share is presented as there is no potential ordinary shares outstanding for both periods.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 31 December 2016, the Group purchased property, plant and equipment of approximately HK\$41,320,000 (six months ended 31 December 2015: approximately HK\$47,738,000) and wrote off property, plant and equipment of approximately HK\$4,441,000 (six months ended 31 December 2015: approximately HK\$5,370,000).

## 11. AVAILABLE-FOR-SALE INVESTMENTS

	<b>As at 31 December 2016 HK\$'000 (Unaudited)</b>	As at 30 June 2016 HK\$'000 (Audited)
Debt securities	<b>95,065</b>	101,024
Investment fund	<b>23,285</b>	–
	<b>118,350</b>	101,024
Analysed for reporting purposes as:		
Non-current assets	<b>65,387</b>	36,006
Current assets	<b>52,963</b>	65,018
	<b>118,350</b>	101,024

## 12. INVENTORIES

	<b>As at</b> <b>31 December</b> <b>2016</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 30 June 2016 <i>HK\$'000</i> (Audited)
Raw materials and consumables	<b>65,570</b>	63,340
Work in progress	<b>11,391</b>	7,459
Finished goods	<b>587,633</b>	574,242
	<b>664,594</b>	645,041

## 13. TRADE RECEIVABLES

	<b>As at</b> <b>31 December</b> <b>2016</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 30 June 2016 <i>HK\$'000</i> (Audited)
Trade receivables from third parties	<b>405,843</b>	407,655
Trade receivables from related companies	<b>3,106</b>	5,308
Less: allowance for doubtful debts	<b>(3,930)</b>	(3,940)
	<b>405,019</b>	409,023

### 13. TRADE RECEIVABLES (cont'd)

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

The following is an aged analysis of trade receivables from third parties net of allowance for doubtful debts presented based on the date of delivery of goods which approximates to the respective date of revenue recognition, as at 31 December 2016 and 30 June 2016:

	<b>As at 31 December 2016 HK\$'000 (Unaudited)</b>	As at 30 June 2016 HK\$'000 (Audited)
0 to 60 days	<b>333,934</b>	336,500
61 to 120 days	<b>43,371</b>	34,526
121 to 180 days	<b>11,938</b>	16,915
Over 180 days	<b>12,670</b>	15,774
	<b>401,913</b>	403,715

### 13. TRADE RECEIVABLES (cont'd)

The following is an aged analysis of trade receivables from related companies, including companies in which Mr. Tung Koon Ming, an executive Director ("Mr. Tung"), has control and entities related to a non-controlling shareholder of subsidiaries, presented based on the date of delivery of goods, which approximates to the date of revenue recognition, as at 31 December 2016 and 30 June 2016:

	<b>As at 31 December 2016 HK\$'000 (Unaudited)</b>	As at 30 June 2016 HK\$'000 (Audited)
0 to 60 days	<b>1,886</b>	4,111
61 to 120 days	<b>1,220</b>	460
Over 180 days	–	737
	<b>3,106</b>	5,308

### 14. TRADE PAYABLES AND BILLS PAYABLE

	<b>As at 31 December 2016 HK\$'000 (Unaudited)</b>	As at 30 June 2016 HK\$'000 (Audited)
Trade payables	<b>91,460</b>	78,229
Bills payable	<b>3,812</b>	7,174
Trade payables to related companies	<b>58,254</b>	32,333
	<b>153,526</b>	117,736

## 14. 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 2016 and 30 June 2016:

	<b>As at 31 December 2016 HK\$'000 (Unaudited)</b>	As at 30 June 2016 HK\$'000 (Audited)
0 to 30 days	<b>64,928</b>	46,273
31 to 60 days	<b>16,593</b>	8,767
61 to 90 days	<b>3,709</b>	4,764
Over 90 days	<b>6,230</b>	18,425
	<b>91,460</b>	78,229

The related companies, including companies in which Mr. Tung has control, entities owned by non-controlling shareholders of subsidiaries and entities related to a non-controlling shareholder of subsidiaries, did not have a specified credit period policy granting to the Group and the Group normally settled trade payables within three months. The following is an aged analysis of trade payables to related companies based on the invoice date as at 31 December 2016 and 30 June 2016:

	<b>As at 31 December 2016 HK\$'000 (Unaudited)</b>	As at 30 June 2016 HK\$'000 (Audited)
0 to 30 days	<b>35,414</b>	22,931
31 to 60 days	<b>18,557</b>	2,626
61 to 90 days	<b>3,589</b>	-
Over 90 days	<b>694</b>	6,776
	<b>58,254</b>	32,333

Bills payable as at 31 December 2016 and 30 June 2016 is aged within 30 days based on goods receipt date.

## 15. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
<i>Ordinary shares of HK\$0.1 each</i>		
<i>Issued and fully paid:</i>		
At 1 July 2015 and 31 December 2015 (unaudited)	2,079,946,000	207,995
At 1 July 2016 and 31 December 2016 (unaudited)	<b>2,079,946,000</b>	<b>207,995</b>

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

## 16. DEFERRED TAXATION

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

	Allowance for obsolete inventories	Unrealised profit	Accelerated tax depreciation	Withholding tax arising from PRC subsidiaries	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 July 2016 (audited)	(17,251)	(4,894)	1,633	41,073	20,561
(Credit) charge to profit or loss	(3,863)	-	-	5,916	2,053
At 31 December 2016 (unaudited)	(21,114)	(4,894)	1,633	46,989	22,614

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

	As at 31 December 2016 HK\$'000 (Unaudited)	As at 30 June 2016 HK\$'000 (Audited)
Deferred tax assets	<b>26,008</b>	22,145
Deferred tax liabilities	<b>48,622</b>	42,706

The Group had unused tax losses of approximately HK\$348,384,000 and HK\$271,642,000 as at 31 December 2016 and 30 June 2016 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.

## 17. COMMITMENTS

### a. Operating lease commitments

#### *The Group as lessee*

At 31 December 2016 and 30 June 2016, the Group had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>As at 31 December 2016 HK\$'000 (Unaudited)</b>	<b>As at 30 June 2016 HK\$'000 (Audited)</b>
Within one year	<b>27,654</b>	31,314
In the second to fifth year inclusive	<b>46,737</b>	53,250
Over five years	<b>1,099</b>	2,206
	<b>75,490</b>	86,770

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.

## 17. COMMITMENTS (cont'd)

### a. Operating lease commitments (cont'd)

#### *The Group as lessor*

At 31 December 2016 and 30 June 2016, the Group had contracted with tenants for the following future minimum lease payments:

	<b>As at</b>	As at
	<b>31 December</b>	30 June
	<b>2016</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Within one year	<b>3,760</b>	3,716
In the second to fifth year inclusive	<b>9,155</b>	11,039
	<b>12,915</b>	14,755

### 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.

## 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>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Sales to related companies ( <i>Notes a &amp; d</i> )	<b>3,179</b>	15,637
Sales to entities related to a non-controlling shareholder of subsidiaries ( <i>Note d</i> )	<b>7,495</b>	–
Sales commission paid/payable to a related company ( <i>Notes a &amp; d</i> )	<b>19</b>	80
Sales commission paid/payable to an entity related to non-controlling shareholders of subsidiaries ( <i>Note d</i> )	<b>450</b>	–
Purchase from entities owned by non-controlling shareholders of subsidiaries	<b>3,601</b>	2,922
Purchase from entities related to a non-controlling shareholder of subsidiaries ( <i>Note d</i> )	<b>93,229</b>	–
Rental expenses paid/payable to a Director and a related company ( <i>Note b</i> )	<b>159</b>	168
Rental expenses paid/payable to a fellow subsidiary	<b>2,142</b>	2,142
Refund of service fee received/receivable from non-controlling shareholders of subsidiaries	<b>331</b>	1,220
Service fee received/receivable from an entity related to a non-controlling shareholder of subsidiaries ( <i>Note d</i> )	<b>11</b>	–
Promotion fee paid/payable to related companies ( <i>Notes c &amp; d</i> )	<b>34</b>	132
Service fee paid/payable to entities related to a non-controlling shareholder of subsidiaries ( <i>Note d</i> )	<b>1,481</b>	–
Dividend paid/payable to non-controlling shareholders of subsidiaries	<b>945</b>	4,641
Interest expense paid/payable to a related party ( <i>Note e</i> )	<b>429</b>	–
Imputed interest expense paid/payable to a non-controlling shareholder of subsidiaries	<b>1,245</b>	–

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

Notes:

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

### Compensation of key management personnel

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

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Short-term benefits	<b>6,687</b>	5,362
Post-employment benefits	<b>92</b>	85
	<b>6,779</b>	5,447

## 19. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measure is observed.

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)
	31 December 2016	30 June 2016		
	HK\$'000 (Unaudited)	HK\$'000 (Audited)		
Available-for-sale investments				
Debts securities	<b>95,065</b>	101,024	Level 2	Quoted bid prices from a bank.
– Corporate bonds traded in inter-bank market				
Investment fund	<b>23,285</b>	–	Level 2	Quoted prices from a financial institution.
	<b>118,350</b>	101,024		

## 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 2016.

### Material Acquisition and Disposal of Subsidiaries and Associated Companies

During the six months ended 31 December 2016, there was no material acquisition or disposal of subsidiaries or associated companies by the Company.

### 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 Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its code of corporate governance practices. Save as disclosed below, during the six months ended 31 December 2016, 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 2016.

## **Audit Committee**

The audit committee of the Company has reviewed the unaudited condensed consolidated financial statements of the Company for the six months ended 31 December 2016 and discussed the financial related matters with the management of the Group.

## **Interim Dividend**

The Directors have declared an interim dividend of HK2 cents per share (six months ended 31 December 2015: HK2 cents per share), amounting to approximately HK\$41.6 million for the six months ended 31 December 2016 (six months ended 31 December 2015: approximately HK\$41.6 million) to the shareholders of the Company. The interim dividend will be paid to shareholders whose name appears on the register of members of the Company at the close of business on 13 March 2017. It is expected that the interim dividend will be paid on or about 22 March 2017.

## **Closure of Register of Members**

The register of members of the Company will be closed on 13 March 2017 and no transfer of shares will be effected on that date. In order to qualify for the 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 Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 10 March 2017.

## 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 2016, 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:

<b>Name of Director</b>	<b>Name of Group member/ associated corporation</b>	<b>Capacity/ nature of interest</b>	<b>Number and class of securities</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
Mr. Tung Koon Ming ("Mr. Tung")	Company	Interest of controlled corporation <i>(Note 2)</i>	1,443,087,000 Shares (L)	69.38%

Notes:

- The letter "L" denotes a long position in the shares of the Company or the relevant associated corporation.

2. These Company's Shares were held by Red Glory Investments Limited ("Red Glory"), which was wholly owned by Mr. Tung. Mr. Tung was deemed to be interested in all the Shares in which Red Glory, was interested by virtue of the SFO.

Save as disclosed above, as at 31 December 2016, 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 2016, 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:

Name of shareholders	Capacity/ nature of interest	Number and class of securities (Note 1)	Approximate percentage of shareholding
Red Glory	Beneficial owner	1,443,087,000 Shares (L)	69.38%
Ms. Tam Fun Hung ("Ms. Tam")	Interest of spouse (Note 2)	1,443,087,000 Shares (L)	69.38%
Areo Holdings Limited	Interest of a controlled corporation (Note 3)	189,148,000 Shares (L)	9.09%

<b>Name of shareholders</b>	<b>Capacity/ nature of interest</b>	<b>Number and class of securities (Note 1)</b>	<b>Approximate percentage of shareholding</b>
Lam Lai Ming	Interest of a controlled corporation (Note 3)	189,148,000 Shares (L)	9.09%
Li Gabriel	Interest in a controlled corporation (Note 3)	189,148,000 Shares (L)	9.09%
Orchid Asia V, L.P.	Beneficial owner (Note 3)	183,516,000 Shares (L)	8.82%
OAV Holdings, L.P.	Interest of a controlled corporation (Note 3)	183,516,000 Shares (L)	8.82%
Orchid Asia V GP, Limited	Interest of a controlled corporation (Note 3)	183,516,000 Shares (L)	8.82%
Orchid Asia V Group Management, Limited	Interest of a controlled corporation (Note 3)	183,516,000 Shares (L)	8.82%
Orchid Asia V Group, Limited	Interest of a controlled corporation (Note 3)	183,516,000 Shares (L)	8.82%

1. The letter "L" denotes a person's long position in the Shares or underlying Shares of the Company.
2. Ms. Tam was the spouse of Mr. Tung. Ms. Tam was deemed to be interested in the Shares in which Mr. Tung was interested by virtue of the SFO. Details of Mr. Tung's interests in the Shares are disclosed in note 2 to the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" in this interim report.

3. So far as the Directors are aware of, these Shares were beneficial owned as to 183,516,000 Shares by Orchid Asia V, L.P. and 5,632,000 Shares by Orchid Asia V Co-Investment, Limited. So far as the Directors are aware of, Orchid Asia V, L.P. was wholly-controlled by OAV Holdings, L.P., which was in turn wholly-owned by Orchid Asia V GP, Limited. Orchid Asia V GP, Limited was wholly-owned by Orchid Asia V Group Management, Limited, which was in turn wholly-owned by Orchid Asia V Group, Limited. Orchid Asia V Group, Limited was wholly-owned by Areo Holdings Limited.

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

Save as disclosed above, as at 31 December 2016, no person (other than a Director or chief executive of the Company) had an interest or short position in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

## CORPORATE INFORMATION

### Chairman

Mr. Tung Koon Ming (*Chief Executive Officer*)

### Board of Directors

#### *Executive Directors*

Mr. Tung Koon Ming

Mr. Hou Qinghai

Mr. Tung Wai Kit

Mr. Deng Guanglei

#### *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**

Ms. Hui Wai Man, Shirley

### **Auditor**

#### **Deloitte Touche Tohmatsu**

Certified Public Accountants

35th Floor, One Pacific Place

88 Queensway

Hong Kong

## Legal Adviser

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

## Cayman Islands Principal Share Registrar

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

## Hong Kong Branch Share Registrar

Tricor Investor Services Limited  
Level 22, Hopewell Centre,  
183 Queen's Road East,  
Hong Kong

## Registered Office

Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

## Headquarters and Principal Place of Business in Hong Kong

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

## **Stock Code on the Hong Kong Stock Exchange**

2033

## **Investor Information**

For more information about the Group, please contact the Investor Relations Department at: 27th Floor, CEO Tower, 77 Wing Hong Street, Kowloon, Hong Kong

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