

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)

INTERIM
REPORT
2017





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MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The Group is a domestic watch brand-owner of economical quartz analogue watches, an OEM manufacturer of quartz analogue watches in the PRC and brand-owner of mid to high-end watches. The Group has three principal lines of business operations, being (i) OEM watches business, (ii) economical watches business and (iii) mid to high-end watches business.

The Group's net loss for the six months ended 30 June 2017 amounted to approximately RMB134.5 million, increased from loss of approximately RMB43.7 million for the six months ended 30 June 2016. Such change was mainly due to (i) decrease in revenue which was attributable to the decrease in sales volume of our branded watches and OEM watches and continual decrease in the average selling price of both branded watches and OEM watches and (ii) increase in realised and unrealised loss on financial assets through profit or loss of approximately RMB76.7 million.

DIVIDEND PAYMENT

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2017 (2016: Nil).

FINANCIAL REVIEW

Revenue

Our revenue decreased by approximately RMB79.4 million or 49.0% from approximately RMB162.1 million for the six months ended 30 June 2016 to approximately RMB82.7 million for the six months ended 30 June 2017. The decrease in revenue was mainly attributable to the decrease in sales volume of our branded watches and OEM watches and continual decrease in the average selling price of both branded watches and OEM watches.

Cost of sales

Our cost of sales decreased by approximately RMB63.3 million or 48.6% from approximately RMB130.3 million for the six months ended 30 June 2016 to approximately RMB67.0 million for the six months ended 30 June 2017. The decrease primarily reflected the decrease in revenue by 49.0% for the period.

Gross profit and gross profit margin

Our gross profit decreased by approximately RMB16.1 million or 50.7% from approximately RMB31.8 million for the six months ended 30 June 2016 to approximately RMB15.7 million for the six months ended 30 June 2017. Our overall gross profit margin also decreased from 19.6% for the six months ended 30 June 2016 to 19.0% for the six months ended 30 June 2017. The decrease of gross profit margin was mainly due to continual decrease in the average selling price of both branded watches and OEM watches.

MANAGEMENT DISCUSSION AND ANALYSIS

Other gain and loss

Our other gain and loss recognised a loss of approximately RMB76.3 million for the six months ended 30 June 2017, representing an increase from loss of approximately RMB21.0 million for the six months ended 30 June 2016. The loss was primarily attributable to the realised and unrealised loss on financial assets at fair value through profit or loss of approximately RMB24.3 million and RMB52.4 million respectively. For details of the realised and unrealised loss, please refer to significant investments section.

Selling and distribution expenses

Our selling and distribution expenses increased by approximately RMB19.1 million or 60.4% from approximately RMB31.6 million for the six months ended 30 June 2016 to approximately RMB50.7 million for the six months ended 30 June 2017. The increase was primarily attributable to the increase in advertising expense.

Administrative expenses

Our administrative expenses increased by approximately RMB4.5 million or 19.1% from approximately RMB23.9 million for the six months ended 30 June 2016 to approximately RMB28.4 million for the six months ended 30 June 2017. The increase was mainly attributable to increase in administrative expenses incurred for Hong Kong operations.

Finance costs

Our finance costs increased by approximately RMB1.5 million or 197.2% from approximately RMB0.7 million for the six months ended 30 June 2016 to approximately RMB2.2 million for the six months ended 30 June 2017. The increase was mainly attributable to the finance cost arose from finance leases entered into by the Group during the six months ended 30 June 2017.

Loss before taxation

As a result of the foregoing, our loss before taxation amounted to approximately RMB141.9 million for the six months ended 30 June 2017 (2016: loss before taxation of approximately RMB45.4 million).

Loss for the period

As a result of the foregoing, loss for the period increased from approximately RMB43.7 million for the six months ended 30 June 2016 to approximately RMB134.5 million for the six months ended 30 June 2017. Such change was primarily due to the decrease in revenue and the increase in realised and unrealised loss on financial assets at fair value through profit or loss.



MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK AND FUTURE PROSPECTS

The principal business objective of the Group is to become one of the leading fashion watch brand owners internationally. Going forward, the Group aims to further strengthen its established market position and competitiveness not only in the PRC, but also globally. The Group has three principal lines of business operations, mainly being (i) OEM watches business, (ii) economical watches business and (iii) mid to high-end watches business.

The Group intends to expand the OEM watches business in the overseas market by procuring sales order from international brand owners. The Directors consider the OEM business is experiencing stable development in the global watches market.

In the past, the Group had faced intense competition in the economical watch industry from other companies. In view of this, the Group had put in much effort and spent ample amount of resources on the promotion and marketing of economical watches. However, the sales order of the economical watches received remains unsatisfactory, which had been dragging down the financial results of the Group. The Company intends to manufacture the economical watches on an on-demand basis.

The Directors believe there is a strong force behind the consumption of mid to high-end watches and they foresee that the mid to high-ended watches business will eventually become the major line of the Group's operations. The Group intends to continue to focus on the expansion of the mid to high-end watches domestically and internationally in the forthcoming years. The Company has not entered and has not proposed to enter into any agreement, arrangement, understanding or undertaking, whether formal or informal and whether expressed or implied, and negotiated (whether concluded or not) with an intention to dispose of or downsize the business of the Group, and/or acquire other companies/ businesses as at the date of this report.

The Group aims to achieve aforesaid objectives by (i) further expanding of its existing branded and OEM watches business operation domestically and internationally by intensifying the marketing activities to promote the brand awareness of the Group's brands; (ii) procuring production facilities to enhance the production efficiency and capacities; (iii) strengthening core competitiveness by improving the watch design and development capabilities through enhancing the design knowledge of existing design team and recruiting of additional talents; and (iv) expanding of sales network and marketing activities in PRC. The Directors believe the strategies can maximise the interest of the Group and the shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

The Directors are of the view that as a result of:

- (i) the reduction in fixed overhead costs (including but not limited to the cost of maintaining the factory complexes and plant and machineries, direct labour cost and manufacturing overheads) in future months upon Completion;
- (ii) the continual development of aforesaid existing business segments; and
- (iii) as at the date of this report, the Company has received certain sales orders and/or backlog orders which are translated or expected to translate into revenue of the Group. For examples, the Company has entered into the memorandum of understanding with Memorigin Watch Company Limited (“Memorigin”) as announced on 9 June 2017 and received certain sales order of the tourbillion watches under “Memorigin x Jonquet”. The Company expects the business relationship with Memorigin to last for at least three years. The Directors expect the sales volume for the tourbillion watches to increase after launch, the Group will be able to turnaround from the current loss-marking positing in the near-future.

FINANCIAL POSITION

The Group funded its liquidity and capital requirements primarily through cash inflows from operating activities, bank borrowings and capital market.

As at 30 June 2017, the Group’s total cash and bank balances were approximately RMB44.6 million (31 December 2016: approximately RMB306.9 million), most of which are held in RMB. The current ratio (defined as current assets divided by current liabilities) of the Group decreased from 8.2 times as at 31 December 2016 to 7.4 times as at 30 June 2017. The gearing ratio (defined as total interest-bearing borrowings divided by shareholders’ equity) of the Group increased from approximately 4.5% as at 31 December 2016 to approximately 5.5% as at 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

USE OF NET PROCEEDS FROM FUND RAISING ACTIVITIES

The Company completed a rights issue on 18 July 2016, pursuant to which the Company has issued 2,304,000,000 rights shares at HK\$0.14 per rights share. The net proceeds of the rights issue were approximately HK\$319.0 million. As at 30 June 2017, the Group had utilized the net proceeds of the rights issue as follows:

Date of announcement, circular and prospectus	Event	Net proceeds raised	Intended use of net proceeds	Actual use of proceeds
11 May 2016, 27 May 2016, 28 June 2016, 20 July 2016	Rights issue of 2,304,000,000 rights shares at HK\$0.14 per share	Approximately HK\$319.0 million	<ul style="list-style-type: none"> (i) Approximately HK\$183.1 million for the possible acquisition pursuant to the memorandum of understanding dated 5 February 2016 or other investment opportunities including but not limited to design and/or manufacturing company in watch industry; (ii) Approximately HK\$99.1 million for expansion of sales network and marketing activities in the PRC; (iii) Approximately HK\$27.0 million for the acquisition of the remaining equity interest in a non-wholly owned subsidiary of the Company pursuant to the Shares Transfer Agreement; and (iv) Approximately HK\$9.8 million for repayment of debts of the Group. 	<ul style="list-style-type: none"> (i) Approximately HK\$18.0 million was used to acquire a subsidiary, Soho Jewellery Company Limited; Approximately HK\$136.5 million was used to invest in prestige and high-end watches projects; Approximately HK\$28.6 million of unused proceed was placed in the bank accounts of the Group. (ii) Approximately HK\$12.3 million was used to perform marketing activities in the PRC; Approximately HK\$86.8 million was used to establish additional retail stores in 4 regions in the PRC. (iii) Approximately HK\$11.5 million was paid to acquire the remaining equity interest in a non-wholly owned subsidiary of the Company; Approximately HK\$15.5 million of unused proceed was placed in the bank accounts of the Group. (iv) Approximately HK\$9.8 million was used to repay the debts of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

DEBTS AND CHARGE ON ASSETS

The Group had total bank borrowings of approximately RMB30.5 million as at 30 June 2017, while that as at 31 December 2016 was approximately RMB31.0 million. These bank borrowings are secured by the Group's assets with an aggregate carrying amount of approximately RMB43.6 million and RMB23.3 million as at 30 June 2017 and 31 December 2016 respectively.

The Group had finance lease payable of approximately RMB43.5 million as at 30 June 2017 (31 December 2016: Nil). These finance lease payable are secured by the Group's assets with an aggregate carrying amount of approximately RMB41.4 million as at 30 June 2017 (31 December 2016: Nil).

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 2017, 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 2017 are set out in Note 15 to the condensed consolidated interim financial statements.

CONTINGENT LIABILITY

The Group did not have any significant contingent liabilities as at 30 June 2017 and 31 December 2016.

SIGNIFICANT ACQUISITIONS OR DISPOSALS

During the six months ended 30 June 2017, there were no material acquisitions or disposals of subsidiaries and associated companies.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENTS

At 30 June 2017, detail of the significant investments are as follows:

Name of investee	As at 1 January 2017 RMB'000	Loss on disposal RMB'000	Fair value loss RMB'000	As at 30 June 2017 RMB'000	Percentage to the Group's audited total assets as at 30 June 2017 %	Number of shares held by the Group as at 1 January 2017	Percentage of shareholding held by the Group as at 1 January 2017 %	Number of shares held by the Group as at 30 June 2017	Percentage of shareholding held by the Group as at 30 June 2017 %
Significant investments									
Greater China Professional Services Limited ("GreaterChina") (stock code: 8193.HK) (note (a))	63,092	(20,487)	(36,729)	2,601	0.4%	110,005,000	2.26%	69,675,000	1.43%
Luen Wong Group Holdings Limited ("Luen Wong") (stock code: 8217.HK) (note (b))	4,015	(3,817)	-	-	0.0%	200,000	0.02%	-	-
Hao Wen Holdings Limited ("HW") (stock code: 8019.HK) (note (c))	9,522	-	(5,298)	4,015	0.6%	62,500,000	3.49%	62,500,000	2.91%
Sub-total	76,629	(24,304)	(42,027)	6,616	1.0%				
Other listed securities	17,776	-	(10,418)	15,990	2.4%				
Total	94,405	(24,304)	(52,445)	22,606	3.4%				

Notes:

- GreaterChina is principally engaged in sub-leasing of office, provision of asset appraisal, corporate consultancy services, property agency services, media advertising services, financial credit services, securities broking, placing and underwriting services and trading of securities. Based on GreaterChina's annual report for the year ended 31 March 2017, revenue and loss of GreaterChina was approximately HK\$63,013,000 and HK\$122,500,000 respectively.
- Luen Wong is principally engaged in provision of civil engineering works and investment holding. Based on Luen Wong's annual report for the year ended 31 March 2017, revenue and profit of Luen Wong was approximately HK\$735,330,000 and HK\$30,549,000 respectively.
- HW is principally engaged in money lending business, trading and manufacturing of biomass fuel and trading of electronic parts. Based on HW's interim result announcement for the six months ended 30 June 2017, revenue and loss of HW was approximately RMB22,318,000 and RMB32,591,000 respectively.

The future performance of the listed securities may be influenced by the Hong Kong stock market. In this regard, the Group will continue to maintain a diversified investment portfolio and closely monitor the performance of its investments and the market trends to adjust its investment strategies.

Except the significant investments disclosed above, at 30 June 2017, there was no investment held by the Group the value of which was more than 1% of the total assets of the Group and no investment held by the Group contributed more than 10% of the realised or unrealised loss for the six months ended 30 June 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had a total of 477 (31 December 2016: 481) employees. The total remuneration costs incurred by the Group for the six months ended 30 June 2017 were approximately RMB8.4 million (2016: approximately RMB23.6 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 2017, 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 2017, 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	10.25%
Ms. Yan Xiaotong ("Ms. Yan")	Interest in controlled corporation (Note)	354,367,020	10.25%

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 in the last 12 months of the Company, and 38% by Ms. Yan. 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.

Save as disclosed above, as at 30 June 2017, 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.



MANAGEMENT DISCUSSION AND ANALYSIS

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

As at 30 June 2017, 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	10.25%

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 in the last 12 months of the Company, and 38% by Ms. Yan. 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 2017, 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 2017 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 2017.

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 2017.

CORPORATE GOVERNANCE CODE

Throughout the six months ended 30 June 2017, 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:

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. Yu Chon Man and Mr. Nie Xing, were unable to attend the annual general meeting of the Company held on 7 June 2017.

Upon the retirement of Mr. Nie Xing and Mr. Chang Wei on 7 June 2017, the Board comprises three executive Directors and one independent non-executive Director. As a result, the number of independent non-executive Director has fallen short of the minimum number as required under Rule 3.10(1) of the Listing Rules. At the same time, the number of members of the Audit Committee has fallen below the minimum number as required under Rule 3.21 of the Listing Rules.

On 16 August 2017, the Company has appointed Ms. Duan Baili as an independent non-executive director, member of the remuneration committee, the audit committee and nomination committee.

The Company is endeavouring to identify suitable candidate(s) to fill the vacanc(ies) as soon as practicable, with the relevant appointment to be made on or before 6 September 2017 to meet the requirements under Rule 3.11 and Rule 3.23 of the Listing Rules. The Company will make further announcement(s) as and when appropriate.

AUDIT COMMITTEE

The Audit Committee of the Company, comprising two 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 2017.



MANAGEMENT DISCUSSION AND ANALYSIS

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 2017.

BOARD OF DIRECTORS

As at 30 June 2017, the Board comprises three Executive Directors and one Independent Non-executive Director as follows:

Executive Directors

Mr. See Ching Chuen

Mr. Yang Xi

Mr. Zou Weikang

Independent Non-Executive Director

Mr. Yu Chon Man

By Order of the Board
Time2U International Holding Limited
Yang Xi
Executive Director

31 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

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 2017, together with the comparative unaudited figures for the corresponding period in 2016 as follows:

	Notes	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Revenue	3	82,708	162,136
Cost of sales		(67,023)	(130,331)
Gross profit		15,685	31,805
Other gain and loss	4	(76,341)	(20,986)
Selling and distribution expenses		(50,688)	(31,593)
Administrative expenses		(28,396)	(23,852)
Finance costs	5	(2,199)	(740)
Loss before taxation		(141,939)	(45,366)
Taxation	6	7,399	1,691
Loss for the period	7	(134,540)	(43,675)
Other comprehensive (loss)/income for the period, net of tax			
Exchange differences on translation of foreign operations		(9,010)	1,242
Other comprehensive (loss)/income for the period, net of tax		(9,010)	1,242
Total comprehensive loss for the period		(143,550)	(42,433)
(Loss)/profit for the period attributable to:			
– Owners of the Company		(132,046)	(44,527)
– Non-controlling interests		(2,494)	852
		(134,540)	(43,675)



CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	Six months ended 30 June	
		2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Total comprehensive (loss)/profit for the period attributable to:			
– Owners of the Company		(141,056)	(43,285)
– Non-controlling interests		(2,494)	852
		(143,550)	(42,433)
Loss per share attributable to owners of the Company			
– Basic and diluted (RMB) (cents)	8	(3.8)	(3.9)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
ASSETS AND LIABILITIES			
NON-CURRENT ASSETS			
Property, plant and equipment	10	114,183	85,163
Prepaid lease payments		12,422	12,586
Goodwill		12,416	12,826
		139,021	110,575
CURRENT ASSETS			
Prepaid lease payments		327	327
Inventories		106,403	93,232
Trade receivables	11	110,146	80,020
Deposits, prepayments and other receivables		232,243	102,356
Financial assets at fair value through profit or loss		22,606	94,405
Tax receivables		86	116
Cash and bank balances		44,636	306,917
		516,447	677,373
CURRENT LIABILITIES			
Trade payables	12	8,894	391
Accruals and other payables		18,341	51,214
Bank borrowings	13	30,500	31,000
Obligations under finance leases – due within one year	14	11,784	–
		69,519	82,605
NET CURRENT ASSETS		446,928	594,768
TOTAL ASSETS LESS CURRENT LIABILITIES		585,949	705,343
NON-CURRENT LIABILITIES			
Deferred taxation		–	7,604
Obligations under finance leases – due after one year	14	31,760	–
		31,760	7,604
NET ASSETS		554,189	697,739
CAPITAL AND RESERVES			
Share capital	15	29,181	29,181
Reserves		521,817	662,873
Equity attributable to owners of the Company		550,998	692,054
Non-controlling interests		3,191	5,685
TOTAL EQUITY		554,189	697,739

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	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

	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 2017 (Audited)	29,181	471,765	22,076	17,055	9,775	11	3,173	139,018	692,054	5,685	697,739
Loss for the period	-	-	-	-	-	-	-	(132,046)	(132,046)	(2,494)	(134,540)
Other comprehensive loss for the period	-	-	-	(9,010)	-	-	-	-	(9,010)	-	(9,010)
Total comprehensive loss for the period	-	-	-	(9,010)	-	-	-	(132,046)	(141,056)	(2,494)	(143,550)
Lapse of share options	-	-	-	-	(762)	-	-	762	-	-	-
At 30 June 2017 (Unaudited)	29,181	471,765	22,076	8,045	9,013	11	3,173	7,734	550,998	3,191	554,189

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

For the six months ended 30 June 2017

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(251,861)	(35,491)
Net cash generated from investing activities	53	66,570
Net cash used in financing activities	(1,463)	(45,325)
Net decrease in cash and cash equivalents	(253,271)	(14,246)
Effect of foreign exchange rates changes	(9,010)	1,331
Cash and cash equivalents at the beginning of the period	306,917	135,075
Cash and cash equivalents at the end of the period	44,636	122,160



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements for the six months ended 30 June 2017 (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”)

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments has had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented in this interim financial report.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 2017

3. OPERATING SEGMENT (Continued)

Turnover from major products

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Economical watches:		
Time2U Watch	3,100	32,341
Color Watch	2,419	19,253
Nordic Design Watch	3,008	–
M.O.D. Watch	2,055	–
Mid to high-end watches:		
Jonquet Watch	42,982	17,312
Extreme Watch	1,140	–
OEM watches	14,141	93,230
Third-party watches	13,863	–
	82,708	162,136

Geographical information

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

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
The PRC	13,342	130,524
Asia (excluding the PRC)	64,838	8,645
America	–	10,464
Europe	4,528	12,234
Oceania	–	269
	82,708	162,136

Information about major customer

No information about major customers is presented as no single customer contributed over 10% of the total revenue of the Group during the six months ended 30 June 2017 and 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

4. OTHER GAIN AND LOSS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Realised loss on financial assets		
at fair value through profit or loss	(24,303)	(3,048)
Unrealised loss on financial assets		
at fair value through profit or loss	(52,445)	(21,782)
Others	407	3,844
	(76,341)	(20,986)

5. FINANCE COSTS

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest arising from finance leases	1,236	–
Interest on borrowings wholly repayable within five years	963	740
	2,199	740

6. TAXATION

	Six months ended 30 June	
	2017	2016
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Hong Kong profits tax	93	–
Deferred taxation reversed in Hong Kong	(7,492)	(1,691)
	(7,399)	(1,691)

Hong Kong

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

7. LOSS FOR THE PERIOD

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Loss for the period has been arrived at after charging:		
Total employee expenses (including directors' remuneration)	8,447	23,569
Advertising expenses	32,299	17,354
Amortisation of prepaid lease payments	164	164
Cost of inventories recognised as an expense	67,023	130,331
Depreciation of property, plant and equipment	14,524	23,720
Operating lease rental expenses in respect of rented premises	227	275
Research and development	6,840	6,946

8. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	Six months ended 30 June	
	2017 RMB'000 (Unaudited)	2016 RMB'000 (Unaudited)
Loss		
Loss for the purposes of basic and diluted loss per share, loss for the period attributable to the owners of the Company	(132,046)	(44,527)

	Six months ended 30 June	
	2017 '000 (Unaudited)	2016 '000 (Unaudited)

Number of shares

Weighted average number of ordinary shares for the purpose of basic loss per share	3,456,000	1,134,066
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The calculation of the diluted loss per share for both periods did not assume the exercise of the Company's outstanding share options as the effect is anti-dilutive.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

9. INTERIM DIVIDENDS

The board of directors do not recommend the payment of interim dividend for the six months ended 30 June 2017 (2016: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group had acquired property, plant and equipment amounting to approximately RMB43,544,000 (2016: Nil).

11. TRADE RECEIVABLES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade receivables	110,146	80,020

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 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
0 to 30 days	17,496	27,190
31 to 60 days	87	48,173
61 to 90 days	25,326	2,645
91 to 180 days	18,635	1,302
Over 180 days	48,602	710
	110,146	80,020

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

12. TRADE PAYABLES

The Group

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Trade payables	8,894	391

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

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
0 to 30 days	6,314	326
31 to 60 days	–	53
61 to 90 days	3	–
91 to 180 days	1,618	3
Over 180 days	959	9
	8,894	391

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

13. BANK BORROWINGS

The Group

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Secured bank borrowings		
– fixed rate	30,500	31,000
Carrying amounts repayable		
– within one year	30,500	31,000
Less: Amounts classified as current liabilities secured term loan due within 1 year or contain a repayment on demand clause	(30,500)	(31,000)
Amounts classified as non-current liabilities	–	–

14. OBLIGATIONS UNDER FINANCE LEASES

	30 June 2017 RMB'000 (Unaudited)	31 December 2016 RMB'000 (Audited)
Analysis for reporting purpose as:		
Current liabilities	11,784	–
Non-current liabilities	31,760	–
	43,544	–

The Group leased certain plant and equipment under finance lease. As at 30 June 2017, the lease terms ranged from 4 to 5 years. (31 December 2016: N/A).

The Group's obligations under finance leases are secured by the lessor's title to the leased assets.

Finance leases obligations are denominated in Hong Kong dollars.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

15. SHARE CAPITAL

	Number of shares '000	Nominal value HK'000	
Authorised:			
Ordinary shares of HK\$0.01 each			
As at 1 January 2017 (Audited) and 30 June 2017 (Unaudited)	13,000,000	13,000	
	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 2017 (Audited) and 30 June 2017 (Unaudited)	3,456,000	34,560	29,181

16. 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 2017 and 30 June 2016, no 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 2017 '000	Exercised during the period '000	Lapse/ forfeited during the period '000	Outstanding at 30 June 2017 '000
Other employees and consultants	16 June 2015	HK\$0.726	16 December 2015 to 15 June 2025	4,910	–	–	4,910
	16 June 2015	HK\$0.726	16 June 2015 to 15 June 2025	34,210	–	(3,050)	31,160
Total				39,120	–	(3,050)	36,070



NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2017

16. 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.

17. EVENTS AFTER REPORTING PERIOD

On 16 August 2017, Ms. Duan Baili has been appointed as independent non-executive director of the Company with effective from 16 August 2017. For details, please refer to the Company's announcement dated 16 August 2017.