



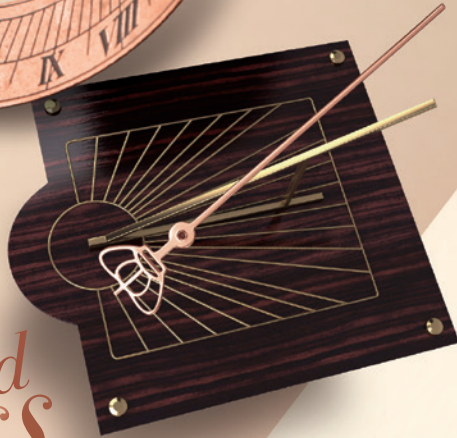
Time Watch Investments Limited  
時計寶投資有限公司

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



Interim  
Report  
2019

Steady  
Progress  
Toward  
Success



## *Who We Are*

We are the leading manufacturer, brand-owner and retailer of domestic watches in the People's Republic of China (the "PRC").

Established in 1988, the Group's core proprietary brand, Tian Wang (天王), has been developed into a well-known and one of the top national watch brands in the PRC, positioning for the mass market. Another proprietary brand of the Group, Balco, which was initially registered in Switzerland in 1986 by an independent third party and was acquired by the Group in 2002, offers Swiss-made watches targeting younger middle-income consumers in the PRC.

We operate through around 3,000 directly managed and controlled point of sales as well as e-commerce sales channels, with a strong sales network and long brand heritage and reputation in the PRC.

## *Mission*

We continue to improve our efficiency in production and store operation through strategically expanding sales network and devote greater effort on e-commerce, enhancing the Group's overall competitiveness.

We will continue to focus on achieving good financial performance to deliver stable returns and long term value to our shareholders.

We deliver quality experience to our customers through provision of excellence pre-sale and aftersale service.

We hire talents that participate in the success of the Company and will invest in the development of all our employees.

## *Vision*

We strive to provide stylish and high-quality watches with reasonable price to customers, strengthen our leading position in the market, deliver sustainable shareholder value to our shareholders and help our employees to grow and share the success of the Company.

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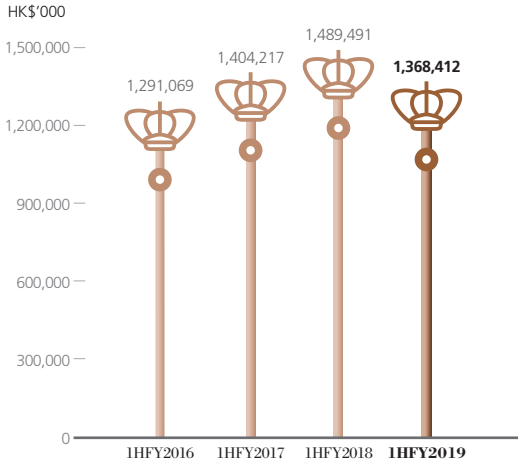
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## FINANCIAL HIGHLIGHTS

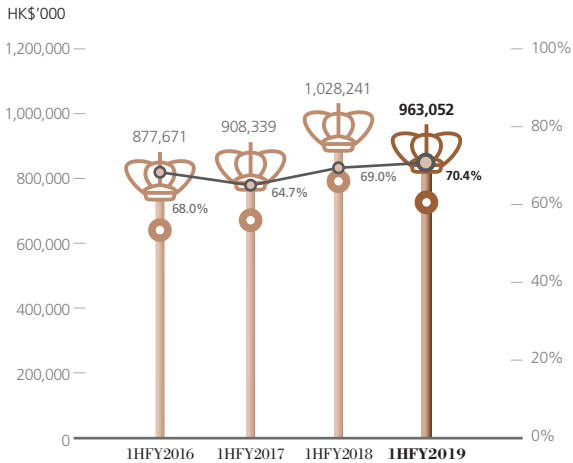
	<b>Six months ended 31 December 2018 HK\$'000 (Unaudited)</b>	Six months ended 31 December 2017 HK\$'000 (Unaudited)
Revenue	<b>1,368,412</b>	1,489,491
Gross profit	<b>963,052</b>	1,028,241
Gross margin (%)	<b>70.4%</b>	69.0%
Profit attributable to owners of the Company	<b>120,427</b>	146,169

	<b>As at 31 December 2018 HK\$'000 (Unaudited)</b>	As at 30 June 2018 HK\$'000 (Audited)
Total assets	<b>2,868,656</b>	2,669,756
Total liabilities	<b>854,067</b>	616,662
Equity attributable to owners of the Company	<b>2,058,759</b>	2,100,695
Average Inventory Turnover Days (days)	<b>258</b>	234
Average Trade Receivables Turnover Days (days)	<b>50</b>	52
Average Trade Payables Turnover Days (days)	<b>42</b>	44

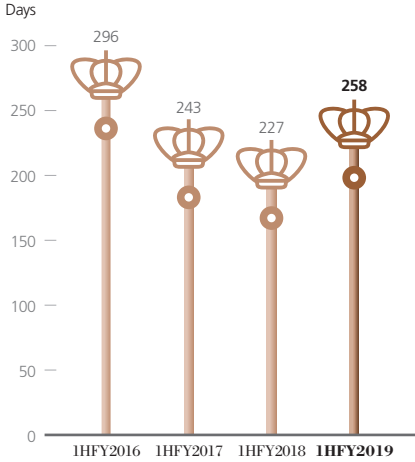
## Revenue



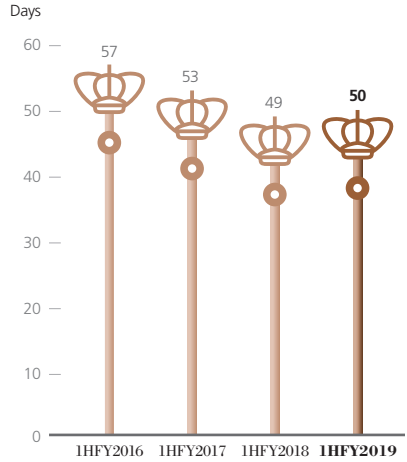
## Gross profit and gross margin



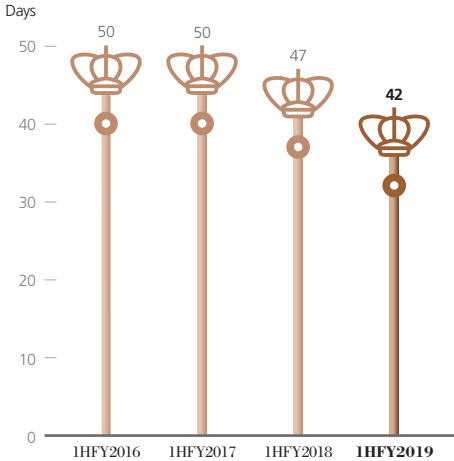
### Average inventory turnover days



### Average trade receivables turnover days



### Average trade payables turnover days



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

#### Revenue

Revenue of Time Watch Investments Limited (the “Company” or “Time Watch”) and its subsidiaries (collectively, the “Group”) decreased by approximately HK\$121.1 million or approximately 8.1% from approximately HK\$1,489.5 million for the six months ended 31 December 2017 (“1HFY2018”) to approximately HK\$1,368.4 million for the six months ended 31 December 2018 (“1HFY2019”). It was primarily due to the decrease of approximately 10.5% in the retail sales of Tian Wang Watch Business, the Group’s main source of revenue, for 1HFY2019 as compared to 1HFY2018 which has been affected by the weak performance of retail market.

#### *Tian Wang Watch Business*

Revenue of Tian Wang Watch Business, which accounted for approximately 70.9% of the total revenue of the Group for 1HFY2019 (1HFY2018: approximately 71.5%) and continued to be the Group’s main source of revenue, decreased by approximately HK\$95.0 million or approximately 8.9% from approximately HK\$1,065.3 million for 1HFY2018 to approximately HK\$970.3 million for 1HFY2019. The retail network remained stable from 2,585 point of sales (“POS”) as at 30 June 2018 to 2,559 POS as at 31 December 2018, with a net decrease of 26 POS. The retail sales recorded a decrease of approximately 10.5% as compared to 1HFY2018. Sales of watches through e-commerce channels dropped by approximately HK\$18.7 million or approximately 6.2% from approximately HK\$301.3 million for 1HFY2018 to approximately HK\$282.6 million for 1HFY2019.

#### *Balco Watch Business*

Revenue of Balco Watch Business, which accounted for approximately 3.0% of the total revenue of the Group for 1HFY2019 (1HFY2018: approximately 4.3%), decreased by approximately HK\$22.3 million or approximately 35.1% from approximately HK\$63.5 million for 1HFY2018 to approximately HK\$41.3 million for 1HFY2019. Sales of Balco Watch in the PRC decreased by approximately HK\$13.9 million or approximately 29.0% from approximately HK\$47.9 million for 1HFY2018 to approximately HK\$34.0 million for 1HFY2019. Sales of Balco Watch to multi-brand watch distributors in Hong Kong, Macau and Taiwan decreased by approximately HK\$8.4 million or approximately 53.8% from approximately HK\$15.6 million for 1HFY2018 to approximately HK\$7.2 million for 1HFY2019.

### ***Other Brands (PRC) Business***

Retail sales of well-known brand watches other than Tian Wang and Balco Watch decreased by approximately HK\$2.8 million or approximately 2.5% from approximately HK\$110.5 million for 1HFY2018 to approximately HK\$107.7 million for 1HFY2019, which accounted for approximately 7.9% of the total revenue of the Group for 1HFY2019 (1HFY2018: approximately 7.4%). The decrease in revenue of Other Brands (PRC) Business was mainly due to the general decline in the retail market of the PRC, especially for the imported mid-range and high-end watches and keen competition from other imported watches with similar price range.

### ***Other Brands (Global) Business***

Revenue of global distribution of certain owned and licensed international brands of watches increased by approximately HK\$3.4 million or approximately 2.0% from approximately HK\$172.8 million from 1HFY2018 to approximately HK\$176.2 million for 1HFY2019, which accounted for approximately 12.9% of the total revenue of the Group for 1HFY2019 (1HFY2018: approximately 11.6%). The segment results significantly improved by approximately HK\$20.0 million or approximately 264.5% from a loss of approximately HK\$7.5 million for 1HFY2018 to a profit of approximately HK\$12.4 million for 1HFY2019.

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

Revenue of Watch Movements Trading Business accounted for approximately 5.3% of the Group's total revenue for 1HFY2019 (1HFY2018: approximately 5.2%). For 1HFY2019, revenue from trading of watch movements was approximately HK\$72.9 million, representing a decrease of approximately HK\$4.4 million or approximately 5.7% from approximately HK\$77.4 million for 1HFY2018. The decline was primarily due to the slowdown of Watch Movements Trading Business in Hong Kong and the PRC during 1HFY2019.



## Gross Profit

The Group's gross profit decreased by approximately HK\$65.2 million or approximately 6.3% from approximately HK\$1,028.2 million for 1HFY2018 to approximately HK\$963.1 million for 1HFY2019. The drop was mainly due to the decrease in Tian Wang Watch Business which was in line with the decrease in its revenue. The Group's gross profit margin increased by approximately 1.4 percentage point from approximately 69.0% for 1HFY2018 to approximately 70.4% for 1HFY2019. The increase was mainly due to the contribution of the higher gross profit margin from Other Brands (Global) Business, Other Brands (PRC) Business and Tian Wang Watch Business.

## Other Income, Gains and Losses

The Group's other income, gains and losses increased by approximately HK\$16.1 million or approximately 323.6% from approximately HK\$5.0 million for 1HFY2018 to approximately HK\$21.1 million for 1HFY2019. The increase was mainly due to a combined effect of increase in bank interest income and rental income of approximately HK\$13.0 million and approximately HK\$2.1 million respectively, decrease in allowance for doubtful debts of approximately HK\$10.9 million and increase in net exchange loss of approximately HK\$21.5 million.

## Selling and Distribution Costs

The Group's selling and distribution costs decreased by approximately HK\$31.8 million or approximately 4.3% from approximately HK\$733.3 million for 1HFY2018 to approximately HK\$701.5 million for 1HFY2019. The decline was mainly due to (i) the decrease in concessionaire fee as in line with the decrease in revenue and (ii) the decrease in the overall selling and distribution expenses in Other Brands (Global) Business.

## **Administrative Expenses**

The Group's administrative expenses increased by approximately HK\$7.1 million or approximately 7.2% from approximately HK\$98.1 million for 1HFY2018 to approximately HK\$105.2 million for 1HFY2019. The increase was mainly due to increase in charity donations of approximately HK\$3.4 million and one-off expenses of approximately HK\$5.8 million for celebration of 30th anniversary of Tian Wang Watch Brand.

## **Finance Costs and Income Tax**

The Group's finance costs decreased by approximately HK\$0.1 million or approximately 2.5% from approximately HK\$3.9 million for 1HFY2018 to approximately HK\$3.8 million for 1HFY2019. The Group's income tax decreased by approximately HK\$8.7 million or approximately 15.2% from approximately HK\$57.1 million for 1HFY2018 to approximately HK\$48.4 million for 1HFY2019. The decrease was mainly due to the decrease in the Group's profit before tax for 1HFY2019 as compared to 1HFY2018.

## **Profit attributable to the owners of the Company**

As a combined result of the factors discussed above, the profit attributable to the owners of the Company for 1HFY2019 decreased by approximately HK\$25.7 million or approximately 17.6% from approximately HK\$146.2 million for 1HFY2018 to approximately HK\$120.4 million for 1HFY2019.

## **Business Review**

### **Overview**

During 1HFY2019, the Group's principal business remained manufacturing, retail sales and e-commerce business of its two proprietary brands watches (namely, Tian Wang and Balco Watch), retail sales of Other Brands of watches in the PRC, global distribution of Other Brands of watches and its ancillary Watch Movements Trading Business.

Tian Wang Watch Business continues to be the Group's core brand business, which contributed approximately 70.9% of the total revenue of the Group in 1HFY2019. Its over-30-years-long brand heritage and reputation of delivering high quality, precise and stylish watches are key factors of the success of Tian Wang Watch Business and widespread brand recognition. Based on the information gathered from customers through the Group's national wide POS network, the Group can strive to cater for increasing demand for high quality and trendy watches from different age group of the customers.

### **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 69% of the Group's sales of Tian Wang and Balco Watch were 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 sales staff. The Group considers that this is a competitive advantage over its competitors, which generally do not have fully and directly managed sales network and sell their products through distributors.

With the development of shopping malls and the increasing popularity of online shopping platforms, the consumption channels become more diversified. To further optimise the retail network, the Group reduced the number of sales counters located in department stores and increased the number of sales counters located in shopping malls. As at 31 December 2018, number of the Group's POS for Tian Wang Watch Business was 2,559, representing a net decrease of 26 POS as compared to the number of POS for Tian Wang Watch Business as at 30 June 2018. As at 31 December 2018, number of the Group's POS for Balco Watch Business was 365, representing a net decrease of 28 POS as compared to the number of POS for Balco Watch Business as at 30 June 2018. As at 31 December 2018, number of the Group's POS for Other Brands (PRC) Business was 75, representing a net decrease of 3 POS as compared to the number of POS for Other Brands (PRC) Business as at 30 June 2018.

## **Proprietary Watches of the Group**

### ***Tian Wang Watch***

Revenue of Tian Wang Watch Business remained the Group's major source of revenue, which contributed approximately 70.9% of the Group's total revenue for 1HFY2019 (1HFY2018: approximately 71.5%). The retail sales of Tian Wang Watch Business for 1HFY2019 decreased by approximately 10.5% as compared to 1HFY2018. It was primarily due to the reveal of the negative impacts of the Sino-US trade war in 1HFY2019. The uncertain domestic macroeconomic outlook affected the general consumer confidence and consumer sentiment, which has put the overall retail market under pressure. During 1HFY2019, the Group has launched not less than 30 new models of Tian Wang watches with price range from approximately RMB200 to RMB18,800 per watch for direct retail sales, e-commerce channels and corporate sales. The wide range of Tian Wang watches allowed the Group to cater for the different needs and increasing demand from customers of different income levels and age groups.

### ***Balco Watch***

Balco watches are assembled in and imported from Switzerland. For 1HFY2019, revenue from Balco Watch Business was approximately HK\$41.3 million as compared with approximately HK\$63.5 million for 1HFY2018, representing a decrease of approximately HK\$22.3 million or approximately 35.1%. The decrease was mainly resulted from the general decline in the retail market in Hong Kong, Macau and Taiwan and the keen competition from other imported watches of similar price range, including but not limited to Citizen, Casio, Titoni and Enicar. The Group continues to implement constructive business plans to improve the performance of Balco Watch Business, which includes optimising its sales and distribution channels within and outside of the PRC and launching new stylish models of Balco watches for younger generation.

### ***Other Brands (PRC) Business***

Revenue of Other Brands (PRC) Business was approximately HK\$107.7 million for 1HFY2019 as compared with approximately HK\$110.5 million for 1HFY2018, representing a decrease of approximately HK\$2.8 million or approximately 2.5%. The decrease in revenue of Other Brands (PRC) Business was mainly due to the general decline in the retail market of watches in the PRC, especially for the imported mid-range and high-end watches and keen competition from other imported watches with similar price range. By means of stringent inventory control and recovery of obsolete and slow-moving stock, a reversal of provision for inventory was resulted which improved the segment results by approximately HK\$2.1 million from approximately HK\$0.4 million for 1HFY2018 to approximately HK\$2.5 million for 1HFY2019.

### ***Other Brands (Global) Business***

Revenue from global distribution of Other Brands (Global) Business was approximately HK\$176.2 million for 1HFY2019 as compared with approximately HK\$172.8 million for 1HFY2018, representing a slight increase of approximately HK\$3.4 million or approximately 2.0%. The negative segment results of approximately HK\$7.5 million for 1HFY2018 was turned into a positive outcome of approximately HK\$12.4 million for 1HFY2019. The turnaround was primarily resulted from a series of operational restructuring plan adopted by the Group on this segment.

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

The Directors consider that the in-house watch movements procurement and trading arm of the Group is an integral segment of the Group's overall business operation for providing reliable and stable supply of watch movements for the assembly of its Tian Wang watches and generating 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 Tian Wang Watch Business.

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

The Group launched e-commerce business in 2013 and has started strategic cooperation with several major online sales platforms (including but not limited to Tmall and JD.com) since then. The watches sold through e-commerce business are exclusive and different from those selling in the Tian Wang POS in order to avoid overlapping of sales channel. Moreover, the watches available online are principally designed and targeted for younger generation in order to capture its rising consumption power. The Directors believe that a wide variety of watches enables the Group to reach out to an extensive range of customers across different age groups. For 1HFY2019, e-commerce business continued as one of the main drivers for the revenue of the Group but owing to keen competition, it recorded a slight decrease in sales of watches by approximately HK\$18.7 million or approximately 6.2% from approximately HK\$301.3 million for 1HFY2018 to approximately HK\$282.6 million for 1HFY2019. However, the sales from Tmall on Alibaba's "Single's Day" (November 11th) remained steady for 1HFY2019 as compared with 1HFY2018 and the Group continued to be top of the Tmall's domestic watch sales chart for five consecutive years.

## Inventory Control

The Group's inventory balance was approximately HK\$558.9 million as at 31 December 2018, representing a decrease of approximately HK\$24.8 million or approximately 4.2% as compared with approximately HK\$583.7 million as at 30 June 2018. The Group's inventory turnover days increased to approximately 258 days for 1HFY2019, as compared with 234 days for the year ended 30 June 2018. 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 aged over two years were approximately HK\$150.1 million and approximately HK\$154.1 million as at 31 December 2018 and 30 June 2018 respectively, with corresponding provision for these inventory balances of approximately HK\$89.9 million and approximately HK\$98.3 million respectively. The management of the Group regularly monitors the age, quality and quantity of inventory so as to make sure that the stocks are kept at their best value and optimal level that are most favorable for our business operation. It also 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 of the Group will make 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 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 short-term bank loans. The cash and cash equivalents, net with bank overdraft, were approximately HK\$562.8 million and approximately HK\$754.1 million as at 31 December 2018 and 30 June 2018 respectively.

The Group's net cash generated from operating activities for 1HFY2019 was approximately HK\$236.5 million, representing a decrease of approximately HK\$4.6 million from approximately HK\$241.1 million for 1HFY2018. The amount was primarily attributable to profit before taxation of approximately HK\$173.7 million from the Group's operations adjusted for non-cash items of approximately HK\$42.5 million, increase of working capital balances of approximately HK\$71.2 million, income taxes paid of approximately HK\$52.5 million and interest received of approximately HK\$1.6 million.

The Group's net cash used in investing activities for 1HFY2019 was approximately HK\$599.1 million, which was mainly attributable to purchase of property, plant and equipment of approximately HK\$62.0 million, new placement of bank structured deposits of approximately HK\$179.8 million and purchase of financial assets at fair value through profit or loss of approximately HK\$381.5 million which offset by redemption of debt instrument at fair value through other comprehensive income of approximately HK\$29.8 million.



The Group's net cash generated from financing activities for 1HFY2019 was approximately HK\$177.8 million, which was mainly attributable to the combined effect of net increase in bank borrowings of approximately HK\$258.8 million and dividends paid of approximately HK\$80.8 million. The Group had a net cash position as at 31 December 2018 and 30 June 2018. As at 31 December 2018, the Group's total equity was approximately HK\$2,014.6 million, representing a decrease of approximately HK\$38.5 million from approximately HK\$2,053.1 million as at 30 June 2018. The Group's working capital was approximately HK\$1,275.9 million as at 31 December 2018, representing a decrease of approximately HK\$455.7 million as compared with approximately HK\$1,731.6 million as at 30 June 2018.

As at 31 December 2018, the Group's bank balances and cash were mainly denominated in Renminbi and Hong Kong dollar. As at 31 December 2018, all the Group's bank borrowings were short-term bank borrowings that were principally denominated in Hong Kong dollar, Renminbi and United States dollar, were subject to variable and fixed interest rates and were repayable within one year.

The gearing ratio being calculated as total debt over total equity was approximately 22.9% and approximately 9.9% as at 31 December 2018 and 30 June 2018 respectively.

### **Charge on Group Assets**

There was no material charge on the Group's assets as at 31 December 2018 and 30 June 2018.

### **Contingent Liabilities**

The Group did not have any material contingent liabilities as at 31 December 2018 and 30 June 2018.

### **Capital Commitments**

The Group did not have any material capital commitments as at 31 December 2018 and 30 June 2018.

## **Foreign Currency Exposure**

The Group has foreign currency sales, which exposed itself to foreign currency risk. In addition, available-for-sale investments, certain trade and other receivables, pledged bank deposits, short-term deposits, bank balances, other payables and accrued charges, and bank borrowings and overdraft of the Group and intra-group balances are denominated in foreign currencies of the relevant group entities.

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

## **Employees and Emoluments Policies**

As at 31 December 2018, the Group employed a total of approximately 5,200 full time employees (30 June 2018: approximately 5,300). The staff costs incurred during 1HFY2019 was approximately HK\$252.9 million (1HFY2018: approximately HK\$255.8 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.

## **Social Responsibility**

The Group's charitable and other donations for 1HFY2019 amounted to approximately HK\$3.4 million (1HFY2018: approximately HK\$0.1 million). No donations were made to political parties.

## Prospects and Strategies

The expected steady slowdown of GDP growth in the PRC as well as recent Sino-US trade war caused a lot of uncertainties in economy, both locally and internationally, in 2019. Although Chinese government has imposed several financial measures, such as tax reliefs and cut in reserve requirement ratio, in order to maintain the momentum of economic development, the year of 2019 is expected to be another challenging year.

The Group would continue to increase its presence in retail business through opening new POS for Tian Wang Watch Business in the 2nd, 3rd and 4th tier cities in the PRC. However, the focus will be more on those shopping malls targeting younger generation instead of traditional department stores. At the same time, the Group will also closely monitor and assess the performance of all existing POS on a regular basis and optimise POS distribution network in order to achieve the best market coverage and profitability.

Besides, e-commerce business is expected to encounter very keen competition. With more new and existing brands, styles and models entering into the online market, the future of internet sales is extremely tough and challenging. The growth in e-commerce business is believed to be moderate to slow but the Group will continue to allocate resources and put more efforts on it in order to maintain online market share in watch sector.

For Other Brands (Global) Business, the outlook is quite encouraging as it achieved a positive result for the first time for 1HFY2019 since the Group acquired this business in 2015. The Group will continue to improve the segment performance by implementing various operational restructuring which would increase sales and control costs.

Based on the above, the Directors are confident that the Group will maintain a slight to moderate growth in overall financial performance in the future.

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

For the six months ended 31 December 2018

		<b>Six months ended</b>	
		<b>31 December</b>	
	<i>Notes</i>	<b>2018</b>	2017
		<b>HK\$'000</b>	HK\$'000
		<b>(Unaudited)</b>	(Unaudited)
Revenue	3	<b>1,368,412</b>	1,489,491
Cost of sales		<b>(405,360)</b>	(461,250)
Gross profit		<b>963,052</b>	1,028,241
Other income, gains and losses	4	<b>21,107</b>	4,983
Selling and distribution costs		<b>(701,463)</b>	(733,253)
Administrative expenses		<b>(105,198)</b>	(98,141)
Finance costs	5	<b>(3,812)</b>	(3,908)
Profit before taxation		<b>173,686</b>	197,922
Income tax	6	<b>(48,442)</b>	(57,093)
Profit for the period	7	<b>125,244</b>	140,829
Other comprehensive income (expense)			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of leasehold land and buildings		<b>245</b>	237
Fair value gain on debt instruments at fair value through other comprehensive income		<b>243</b>	–
Exchange differences arising on translation		<b>(79,645)</b>	27,040
Items that may be reclassified subsequently to profit or loss:			
Fair value change of available-for-sale investments		–	(170)
Reclassification adjustment relating to available-for-sale investment disposed of during the period		–	1,498
Total comprehensive income for the period		<b>46,087</b>	169,434

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR  
LOSS AND OTHER COMPREHENSIVE INCOME (cont'd)***For the six months ended 31 December 2018*

	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2018</b>	2017
<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
Profit (loss) for the period attributable to:		
Owners of the Company	<b>120,427</b>	146,169
Non-controlling interests	<b>4,817</b>	(5,340)
	<b>125,244</b>	140,829
Total comprehensive income (expense) attributable to:		
Owners of the Company	<b>42,062</b>	174,061
Non-controlling interests	<b>4,025</b>	(4,627)
	<b>46,087</b>	169,434
Earnings per share – basic ( <i>HK cents</i> )	<b>5.8</b>	7.0

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	<i>Notes</i>	<b>As at 31 December 2018 HK\$'000 (Unaudited)</b>	<b>As at 30 June 2018 HK\$'000 (Audited)</b>
<b>Non-current assets</b>			
Property, plant and equipment	10	<b>194,064</b>	180,143
Prepaid lease payments		<b>34,926</b>	37,501
Investment property	11	<b>111,000</b>	111,000
Interest in an associate		<b>5,620</b>	–
Deposits paid for acquisition of property, plant and equipment		<b>7,074</b>	3,958
Financial assets at fair value through profit or loss	12	<b>370,920</b>	–
Debt instrument at fair value through other comprehensive income	22	<b>19,218</b>	–
Available-for-sale investments	13	–	19,165
Deferred tax assets	19	<b>51,580</b>	51,216
		<b>794,402</b>	402,983
<b>Current assets</b>			
Inventories	14	<b>558,879</b>	583,650
Prepaid lease payments		<b>1,289</b>	1,359
Trade receivables	15	<b>330,567</b>	415,692
Other receivables, deposits and prepayments		<b>103,103</b>	129,608
Tax recoverable		<b>2,748</b>	7
Available-for-sale investments	13	–	29,617
Financial assets at fair value through profit or loss	12	<b>500,180</b>	337,725
Pledged bank deposits		<b>6,941</b>	6,953
Bank balances and cash		<b>570,547</b>	762,162
		<b>2,074,254</b>	2,266,773
<b>Current liabilities</b>			
Trade payables and bills payable	16	<b>97,334</b>	88,083
Other payables and accrued charges		<b>159,833</b>	185,004
Tax liabilities		<b>79,360</b>	59,433
Bank borrowings and overdraft	17	<b>318,317</b>	67,521
Other loans		<b>143,535</b>	135,118
		<b>798,379</b>	535,159
Net current assets		<b>1,275,875</b>	1,731,614
Total assets less current liabilities		<b>2,070,277</b>	2,134,597

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)***At 31 December 2018*

		<b>As at 31 December 2018</b>	As at 30 June 2018
	<i>Notes</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
		<b>(Unaudited)</b>	(Audited)
Capital and reserves			
Share capital	18	<b>207,995</b>	207,995
Reserves		<b>1,850,764</b>	1,892,700
Equity attributable to owners of the Company		<b>2,058,759</b>	2,100,695
Non-controlling interests		<b>(44,170)</b>	(47,601)
Total equity		<b>2,014,589</b>	2,053,094
Non-current liabilities			
Deferred tax liabilities	19	<b>55,688</b>	81,503
		<b>55,688</b>	81,503
		<b>2,070,277</b>	2,134,597

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2018

	Attributable to owners of the Company							Total	Non-controlling interests	Total equity	
	Share capital	Share premium	Special reserve	Translation reserve	Investment revaluation reserve	Properties revaluation reserve	Statutory surplus reserves				Accumulated profits
	HK\$'000	HK\$'000	HK\$'000 (Note a)	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note b)	HK\$'000	HK\$'000	HK\$'000	
At 30 June 2018 (audited)	207,995	511,101	(230,147)	(1,858)	(2,326)	4,389	71,687	1,539,854	2,100,695	(47,601)	2,053,094
Adjustment (Note 2)	-	-	-	-	-	-	-	(6,000)	(6,000)	-	(6,000)
At 1 July 2018 (restated)	207,995	511,101	(230,147)	(1,858)	(2,326)	4,389	71,687	1,533,854	2,094,695	(47,601)	2,047,094
Profit (loss) for the period	-	-	-	-	-	-	-	120,427	120,427	4,817	125,244
Exchange differences arising on translation	-	-	-	(78,853)	-	-	-	-	(78,853)	(792)	(79,645)
Gain on revaluation of leasehold land and buildings	-	-	-	-	-	245	-	-	245	-	245
Fair value gain on debt instruments at fair value through other comprehensive income	-	-	-	-	243	-	-	-	243	-	243
Total comprehensive (expense) income for the period	-	-	-	(78,853)	243	245	-	120,427	42,062	4,025	46,087
Appropriation to reserve	-	-	-	-	-	-	126	(126)	-	-	-
Dividends recognised as distribution during the period (Note 6)	-	-	-	-	-	-	-	(77,998)	(77,998)	-	(77,998)
Dividend declared by a subsidiary to a non-controlling interest	-	-	-	-	-	-	-	-	-	(2,753)	(2,753)
Contribution from a non-controlling interest	-	-	-	-	-	-	-	-	-	2,159	2,159
At 31 December 2018 (unaudited)	207,995	511,101	(230,147)	(80,711)	(2,083)	4,634	71,813	1,576,157	2,058,759	(44,170)	2,014,589
At 1 July 2017 (audited)	207,995	511,101	(230,345)	(36,342)	(2,389)	3,914	69,594	1,354,497	1,878,025	(29,923)	1,848,102
Profit (loss) for the period	-	-	-	-	-	-	-	146,169	146,169	(5,340)	140,829
Exchange differences arising on translation	-	-	-	26,327	-	-	-	-	26,327	713	27,040
Gain on revaluation of leasehold land and buildings	-	-	-	-	-	237	-	-	237	-	237
Fair value change of available-for-sale investments	-	-	-	-	(170)	-	-	-	(170)	-	(170)
Reclassified to profit or loss on disposal of available-for-sale investment	-	-	-	-	1,498	-	-	-	1,498	-	1,498
Total comprehensive income (expense) for the period	-	-	-	26,327	1,328	237	-	146,169	174,061	(4,627)	169,434
Appropriation to reserve	-	-	-	-	-	-	2,003	(2,003)	-	-	-
Dividends recognised as distribution during the period (Note 6)	-	-	-	-	-	-	-	(62,398)	(62,398)	-	(62,398)
Deemed contribution from non-controlling interest arising from loan from a non-controlling interest of a subsidiary	-	-	(231)	-	-	-	-	-	(231)	(222)	(453)
At 31 December 2017 (unaudited)	207,995	511,101	(230,576)	(10,015)	(1,061)	4,151	71,597	1,436,265	1,989,457	(34,772)	1,954,685



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

*For the six months ended 31 December 2018*

*Notes:*

- (a) The special reserve represents: (i) 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; (ii) financial guarantee provided to ultimate holding company as a result of group reorganisation which occurred in prior years; and (iii) the difference between the nominal amount and fair value of the loan advanced from a non-controlling interest of a subsidiary at initial recognition.
  
- (b) The statutory surplus reserves represent enterprise development and general reserve fund appropriated from the profit after taxation of subsidiaries established in the People's Republic of China ("PRC").

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2018

	Six months ended 31 December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
NET CASH FROM OPERATING ACTIVITIES	<b>236,466</b>	241,118
NET CASH USED IN INVESTING ACTIVITIES	<b>(599,121)</b>	(124,841)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	<b>177,834</b>	(34,694)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	<b>(184,821)</b>	81,583
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>762,162</b>	658,808
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	<b>(6,794)</b>	8,047
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by		
Bank balances and cash	<b>570,547</b>	748,438
Bank overdraft	<b>(7,760)</b>	(7,485)
	<b>562,787</b>	740,953

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 31 December 2018*

### 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 except for leasehold land and buildings, investment property and certain financial instruments, which are measured at revalued amounts and fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 30 June 2018.

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from contracts with customers
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

The application of the above amendments to HKFRSs in the current interim period in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

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

### **2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments**

In the current period, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, (2) expected credit losses (“ECL”) for financial assets and other items and (3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 July 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 July 2018. The difference between carrying amounts as at 30 June 2018 and the carrying amounts as at 1 July 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

#### ***2.1.1 Key changes in accounting policies resulting from application of HKFRS 9***

##### *Classification and measurement of financial assets*

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

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

### 2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (cont'd)

#### 2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (cont'd)

##### *Classification and measurement of financial assets (cont'd)*

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

##### *Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")*

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income ("OCI") and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the investment revaluation reserve.

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

### **2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (cont'd)**

#### ***2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (cont'd)***

*Equity instruments designated as at fair value through other comprehensive income ("FVTOCI") (cont'd)*

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income, gains and losses" line item in profit or loss.

*Financial assets at fair value through profit or loss ("FVTPL")*

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial asset and is included in the "other income, gains and losses" line item.

*Impairment of financial assets under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, pledged bank deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

### 2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (cont'd)

#### 2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (cont'd)

##### *Impairment of financial assets under ECL model (cont'd)*

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on trade receivables are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

##### *Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

### **2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (cont'd)**

#### ***2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (cont'd)***

##### *Significant increase in credit risk (cont'd)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when payments become past due, unless the Group has reasonable and supportable information that demonstrates otherwise.



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

### 2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (cont'd)

#### 2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (cont'd)

##### *Significant increase in credit risk (cont'd)*

The Group considers that default may occur when the instrument is more than 180 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

##### *Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

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

### **2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (cont'd)**

#### ***2.1.1 Key changes in accounting policies resulting from application of HKFRS 9 (cont'd)***

##### *Measurement and recognition of ECL (cont'd)*

As at 1 July 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.1.2.

##### *Classification and measurement of financial liabilities*

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

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

### 2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (cont'd)

#### 2.1.2 Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 July 2018.

Note	Available-for-sale investments HK\$'000	Debt instruments at FVTOCI HK\$'000	Amortised cost previously classified as loans and receivables HK\$'000	Financial liabilities at amortised cost HK\$'000	Deferred tax liabilities HK\$'000	Investment revaluation reserve HK\$'000	Accumulated profits HK\$'000	Non-controlling interests HK\$'000
Closing balance at 30 June 2018 – HKAS 39	48,782	-	1,579,147	441,778	81,503	(2,326)	1,539,854	(47,601)
Effect arising from initial application of HKFRS 9:								
Reclassification from available-for-sale investments (a)	(48,782)	48,782	-	-	-	-	-	-
Remeasurement of impairment under ECL model (b)	-	-	(6,000)	-	-	-	(6,000)	-
Opening balance at 1 July 2018	-	48,782	1,573,147	441,778	81,503	(2,326)	1,533,854	(47,601)

#### (a) Available-for-sale investments

From available-for-sale equity investments to FVTOCI

The Group elected to present in OCI for the fair value changes of all its debt investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS9, approximately HK\$48,782,000 were reclassified from available-for-sale investments to debt instruments at FVTOCI. The fair value loss of approximately HK\$2,326,000 relating to those investments previously carried at fair value continued to accumulate in investment revaluation reserve.

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

### **2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (cont'd)**

#### ***2.1.2 Summary of effects arising from initial application of HKFRS 9 (cont'd)***

*(b) Impairment of financial assets under ECL model*

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. To measure the ECL, trade receivables have been grouped based on shared credit risk characteristics.

Loss allowances for other financial assets at amortised cost are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 July 2018, the additional credit loss allowance of approximately HK\$6,000,000 has been recognised against accumulated profits. The additional loss allowance is charged against the respective asset.

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

### 2.1 Impacts and changes in accounting policies of application on HKFRS 9 Financial Instruments (cont'd)

#### 2.1.2 Summary of effects arising from initial application of HKFRS 9 (cont'd)

(b) Impairment of financial assets under ECL model (cont'd)

All loss allowances for financial assets including trade and other financial assets at amortised cost as at 30 June 2018 reconcile to the opening loss allowance as at 1 July 2018 as follows:

	<b>Opening loss allowance of trade receivables</b> <i>HK\$'000</i>	<b>Opening loss allowance of other financial assets at amortised cost</b> <i>HK\$'000</i>
At 30 June 2018 – HKAS 39	25,148	–
Amounts remeasured through opening accumulated profits	6,000	–
	<hr/>	<hr/>
At 1 July 2018	31,148	–

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

### **2.2 Impacts and changes in accounting policies of application on Amendments to HKAS 40 Transfers of Investment Property**

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existed at that date. There is no impact to the classification at 1 July 2018.

### **2.3 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers"**

The Group has applied HKFRS 15 for the first time in current interim period. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources:

- Manufacturing, trading and retailing business of owned brand watches – Tian Wang Watch;
- Trading and retailing business of owned brand watches – Balco Watch;
- Trading of watch movements;
- Retailing business of imported watches mainly of well-known brands; and
- Global distribution of owned and licensed international brands of watches.

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

### 2.3 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (cont'd)

The Group has applied HKFRS 15 retrospectively with the cumulated effect of initially applying this Standard recognised at the date of initial application, 1 July 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

#### *2.3.1 Key changes in accounting policies resulting from application of HKFRS 15*

HKFRS 15 introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance had been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

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

### 2.3 Impacts and changes in accounting policies of application on HKFRS 15 "Revenue from Contracts with Customers" (cont'd)

#### 2.3.1 Key changes in accounting policies resulting from application of HKFRS 15 (cont'd)

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

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

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

HKFRS 16	Leases <sup>1</sup>
HKFRS 17	Insurance Contracts <sup>3</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>1</sup>
Amendments to HKFRS 3	Definition of a Business <sup>4</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <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>2</sup>
Amendments to HKAS 1 and HKAS 8	Definition of Material <sup>5</sup>
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement <sup>1</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle <sup>1</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2020



### 3. REVENUE AND SEGMENT INFORMATION

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

- a. **Tian Wang Watch Business** – Manufacturing, trading and retailing business of owned brand watches – Tian Wang Watch;
- b. **Balco Watch Business** – Trading and retailing business of owned brand watches – Balco Watch;
- c. **Watch Movements Trading Business** – Trading of watch movements;
- d. **Other Brands (PRC) Business** – Retailing business of imported watches mainly of well-known brands; and
- e. **Other Brands (Global) Business** – Global distribution of owned and licensed international brands of watches.

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.



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

Six months ended 31 December 2017 (Unaudited)

	Tian Wang Watch Business HK\$'000	Balco Watch Business HK\$'000	Watch Movements Trading Business HK\$'000	Other Brands (PRC) Business HK\$'000	Other Brands (Global) Business HK\$'000	Consolidated HK\$'000
<b>Revenue</b>						
External sales	1,065,342	63,516	77,390	110,473	172,770	1,489,491
Inter-segment sales	-	-	45,668	-	-	45,668
Segment revenue	1,065,342	63,516	123,058	110,473	172,770	1,535,159
Elimination						(45,668)
Group revenue						1,489,491
<b>Results</b>						
Segment results	238,842	(14,538)	222	414	(7,543)	217,397
Interest income						7,428
Unallocated other income, gains and losses						(1,208)
Central administration costs						(21,787)
Finance costs						(3,908)
Profit before taxation						197,922

Segment results represent the results of each segment without allocation of corporate items, including interest income, certain other income, gains and losses, central administration costs 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

	Six months ended 31 December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
	<b>(Unaudited)</b>	(Unaudited)
<i>Other income:</i>		
Bank interest income	<b>18,808</b>	5,838
Interest income on available-for-sale investments	–	1,590
Interest income from debt instruments at fair value through other comprehensive income	<b>1,099</b>	–
Watch repair and maintenance services income	<b>3,713</b>	3,450
Government subsidies ( <i>Note</i> )	<b>6,731</b>	4,918
Rental income	<b>5,501</b>	3,353
Others	<b>10,393</b>	2,862
	<b>46,245</b>	22,011
<i>Other gains and losses:</i>		
Reversal of allowance for (allowance for) doubtful debts, net	<b>136</b>	(10,739)
Loss on disposal and written-off of property, plant and equipment	<b>(4,766)</b>	(5,608)
Loss on disposal of available-for-sale investments	–	(1,680)
Net exchange (loss) gain	<b>(20,508)</b>	999
	<b>(25,138)</b>	(17,028)
	<b>21,107</b>	4,983

*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.

## 5. FINANCE COSTS

	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings	1,425	1,096
Imputed interest on loan from a non-controlling interest of a subsidiary	940	1,443
Interest on loan from a non-controlling interest of a subsidiary	237	249
Interest on loan from a related party	949	884
Interest on loan from a director	261	236
	<b>3,812</b>	<b>3,908</b>

## 6. INCOME TAX

	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	724	21
PRC Enterprise Income Tax	44,337	46,074
PRC withholding tax	29,370	128
	<b>74,431</b>	<b>46,223</b>
(Overprovision) underprovision in prior years:		
PRC Enterprise Income Tax	(283)	–
Hong Kong Profits Tax	473	–
	<b>74,621</b>	<b>46,223</b>
Deferred taxation	(26,179)	10,870
	<b>48,442</b>	<b>57,093</b>

## **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%. Subject to certain preferential tax treatment, the applicable tax rate of the PRC subsidiaries is ranging from 15% to 25% for both periods. 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 2017 was 15%.

Federal and State tax rate in the USA are calculated at 21% and ranging from 0% to 12% (six months ended 31 December 2017: 35% and ranging from 0% to 12%). The U.S. Tax Cuts and Jobs Act (the "Act") was enacted into law on 22 December 2017. The Act includes significant changes to the U.S. corporate income tax system that effective on 1 January 2018, including a reduction of the U.S. corporate income tax rate from 35% to 21%. 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 19.

## 7. PROFIT FOR THE PERIOD

	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Staff costs (including Directors' remuneration)	<b>223,168</b>	228,451
Retirement benefits scheme contributions (including Directors' remuneration)	<b>29,771</b>	27,375
Total staff costs	<b>252,939</b>	255,826
Depreciation of property, plant and equipment	<b>34,999</b>	40,831
Allowance for obsolete inventories recognised as cost of sales	<b>26</b>	3,393
Concessionaire fee ( <i>Note</i> )	<b>219,466</b>	246,422

*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</b>	
	<b>31 December</b>	
	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Dividends recognised as distribution during the period:		
2018 Final – HK3.75 cents per share	<b>77,998</b>	–
2017 Final – HK3 cents per share	–	62,398
	<b>77,998</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</b>	
	<b>31 December</b>	
	<b>2018</b>	2017
	<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>120,427</b>	146,169
	<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
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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 2018, the Group purchased property, plant and equipment of approximately HK\$62,032,000 (six months ended 31 December 2017: approximately HK\$44,234,000) and wrote off property, plant and equipment of approximately HK\$4,975,000 (six months ended 31 December 2017: approximately HK\$5,608,000).

## 11. INVESTMENT PROPERTY

	<i>HK\$'000</i>
<b>Fair value</b>	
At 1 July 2017	104,946
Increase in fair value recognised in profit or loss	<u>6,054</u>
At 30 June 2018 and 31 December 2018	<u>111,000</u>

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purpose are measured using the fair value model and are classified and accounted for as investment property.

As at 30 June 2018, the fair value of the Group's investment property located in Hong Kong has been arrived at on the basis of a valuation carried out by LCH (Asia-Pacific) Surveyors Limited, independent qualified professional valuers not connected to the Group.

In the opinion of directors, there is no significant change of fair value of the investment property between 31 December 2018 and 30 June 2018.

## 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<b>As at 31 December 2018 HK\$'000 (Unaudited)</b>	As at 30 June 2018 HK\$'000 (Audited)
Certificates of deposit (a)	<b>281,000</b>	–
Property right trust (b)	<b>89,920</b>	–
Bank structured deposits (c)	<b>500,180</b>	337,725
	<b>871,100</b>	337,725
Analysed for reporting purposes as:		
Non-current assets	<b>370,920</b>	–
Current assets	<b>500,180</b>	337,725
	<b>871,100</b>	337,725

- (a) As at 31 December 2018, financial assets at FVTPL included certificates of deposit issued by a bank in the PRC with interest payable monthly at a fixed rate of 4.18% per annum. These certificates are transferrable subject to market conditions. The maturity date of the certificates is in December 2021 and early redemption is not acceptable. The fair value is quoted by the bank and expected to be at par value.
- (b) As at 31 December 2018, financial assets at FVTPL included a trust beneficiary rights whereby a bank in the PRC acting as the entrusted party to entrust the appurtenant rights including the creditors' right and security right in regards to repayment of debt to a PRC trust company for establishing special purpose property trust. The bank is entitled to the right of trust proceeds under the trust as the sole beneficial owner. The right of trust proceeds is registered for transfer through public tender to transfer to eligible investors.

The investment in trust has an estimated return rate not higher than 6.5% per annum with income payable monthly. The trust is transferrable and redeemable subject to certain conditions and restrictions. The bid prices of the trust are quoted by a financial institution in the PRC and the expected maturity date of the trust is not later than 15 July 2020.

## 12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (cont'd)

- (c) The structured deposits are interest rate-linked principal protected deposits entered into with banks in the PRC which will mature within one year. The counterparty bank guaranteed 100% of the invested capital and the returns of which were determined by reference to the fluctuation of London Interbank Offered Rate of United States dollars' bank deposits and the exchange rate of Hong Kong dollar against US dollar.

The management of the Group considers that the carrying amounts of financial assets recorded at amortised cost in the condensed consolidated statement of financial position approximate their fair values.

## 13. AVAILABLE-FOR-SALE INVESTMENTS

	<b>As at 31 December 2018 HK\$'000 (Unaudited)</b>	<b>As at 30 June 2018 HK\$'000 (Audited)</b>
Listed debt securities	—	48,782
Analysed for reporting purposes as:		
Non-current assets	—	19,165
Current assets	—	29,617
	—	48,782

## 14. INVENTORIES

	<b>As at</b> <b>31 December</b> <b>2018</b> <b>HK\$'000</b> <b>(Unaudited)</b>	As at 30 June 2018 HK\$'000 (Audited)
Raw materials and consumables	<b>82,146</b>	106,724
Work in progress	<b>7,278</b>	7,122
Finished goods	<b>469,455</b>	469,804
	<b>558,879</b>	583,650

## 15. TRADE RECEIVABLES

	<b>As at</b> <b>31 December</b> <b>2018</b> <b>HK\$'000</b> <b>(Unaudited)</b>	As at 30 June 2018 HK\$'000 (Audited)
Trade receivables from third parties	<b>358,910</b>	434,424
Trade receivables from related companies	<b>1,629</b>	6,416
Less: allowance for doubtful debts	<b>(29,972)</b>	(25,148)
	<b>330,567</b>	415,692

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.

## 15. TRADE RECEIVABLES (cont'd)

The following is an ageing 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 2018 and 30 June 2018:

	<b>As at 31 December 2018 HK\$'000 (Unaudited)</b>	As at 30 June 2018 HK\$'000 (Audited)
0 to 60 days	<b>265,154</b>	337,548
61 to 120 days	<b>41,591</b>	56,101
121 to 180 days	<b>6,653</b>	4,117
Over 180 days	<b>15,540</b>	11,510
	<b>328,938</b>	409,276

The following is an ageing analysis of trade receivables from related companies, including entities owned by non-controlling interests of subsidiaries, presented based on the date of delivery of goods, which approximates to the date of revenue recognition, as at 31 December 2018 and 30 June 2018:

	<b>As at 31 December 2018 HK\$'000 (Unaudited)</b>	As at 30 June 2018 HK\$'000 (Audited)
0 to 60 days	<b>980</b>	3,055
61 to 120 days	<b>649</b>	1,251
121 to 180 days	–	581
Over 180 days	–	1,529
	<b>1,629</b>	6,416

## 16. TRADE PAYABLES AND BILLS PAYABLE

	<b>As at 31 December 2018 HK\$'000 (Unaudited)</b>	As at 30 June 2018 HK\$'000 (Audited)
Trade payables	<b>91,471</b>	71,836
Bills payable	<b>3,046</b>	5,359
Trade payables to related companies	<b>2,817</b>	10,888
	<b>97,334</b>	88,083

The average credit period on purchases of goods is 30 to 60 days. The following is an ageing analysis of trade payables presented based on the invoice date as at 31 December 2018 and 30 June 2018:

	<b>As at 31 December 2018 HK\$'000 (Unaudited)</b>	As at 30 June 2018 HK\$'000 (Audited)
0 to 30 days	<b>59,223</b>	47,965
31 to 60 days	<b>14,642</b>	11,280
61 to 90 days	<b>13,704</b>	4,801
Over 90 days	<b>3,902</b>	7,790
	<b>91,471</b>	71,836

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

The related companies, including companies in which entities owned by non-controlling interests 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 ageing analysis of trade payables to related companies based on the invoice date as at 31 December 2018 and 30 June 2018:

	<b>As at</b> <b>31 December</b> <b>2018</b> <i>HK\$'000</i> <b>(Unaudited)</b>	As at 30 June 2018 <i>HK\$'000</i> (Audited)
0 to 30 days	–	–
31 to 60 days	–	124
61 to 90 days	–	2,060
Over 90 days	<b>2,817</b>	8,704
	<b>2,817</b>	10,888

Bills payable as at 31 December 2018 and 30 June 2018 is aged within 30 days based on goods receipt date.

## 17. BANK BORROWINGS AND OVERDRAFT

	<b>As at 31 December 2018 HK\$'000 (Unaudited)</b>	As at 30 June 2018 HK\$'000 (Audited)
Bank overdraft – secured	<b>7,760</b>	8,061
Bank loans – secured	<b>269,945</b>	–
Bank loan – unsecured	–	2,370
Trust receipts loans – secured	<b>39,039</b>	38,826
Trust receipts loans – unsecured	<b>1,573</b>	18,264
	<b>318,317</b>	67,521

As at 31 December 2018, the Group's secured bank borrowings of approximately HK\$316,744,000 (30 June 2018: approximately HK\$46,887,000) were secured by pledged bank deposits and certificates of deposit of approximately HK\$6,941,000 (30 June 2018: approximately HK\$6,953,000) and approximately HK\$281,000,000 (30 June 2018: Nil) respectively for short-term bank borrowings.

The bank borrowings and overdraft are repayable on demand and within one year.

Bank overdraft, bank loans and trust receipt loans are arranged at floating rates at interest ranging from Hong Kong Prime rate minus 2.25% (30 June 2018: Hong Kong Prime rate minus 2.25%), United States Base rate plus 1.5% (30 June 2018: United States Base rate plus 1.5%), fixed rate at 3.915% per annum and HIBOR plus 1.5% to 1.75% (30 June 2018: HIBOR plus 1.50% to 1.75%), respectively. The weighted average market interest rate of these borrowings is approximately 3.89% per annum as at 31 December 2018 (30 June 2018: approximately 3.77% per annum). Thus the Group exposes to interest rate risk.



## 17. BANK BORROWINGS AND OVERDRAFT (cont'd)

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

	<b>As at 31 December 2018 HK\$'000 (Unaudited)</b>	As at 30 June 2018 HK\$'000 (Audited)
HK\$	<b>7,760</b>	8,061

## 18. SHARE CAPITAL

	<b>Number of shares</b>	<b>Share capital HK\$'000</b>
<i>Ordinary shares of HK\$0.1 each</i>		
<i>Issued and fully paid:</i>		
At 1 July 2017 (audited) and 31 December 2017 (unaudited)	<u>2,079,946,000</u>	<u>207,995</u>
At 1 July 2018 (audited) and 31 December 2018 (unaudited)	<u>2,079,946,000</u>	<u>207,995</u>

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

## 19. DEFERRED TAXATION

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

	Allowance for obsolete inventories <i>HK\$'000</i>	Allowance for bad debt expenses <i>HK\$'000</i>	Unrealised profit <i>HK\$'000</i>	Accelerated tax depreciation <i>HK\$'000</i>	Withholding tax arising from PRC subsidiaries <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2018 (audited)	(27,363)	(7,214)	(16,639)	2,593	78,910	30,287
(Credit) charge to profit or loss	(399)	35	-	-	(25,815)	(26,179)
At 31 December 2018 (unaudited)	(27,762)	(7,179)	(16,639)	2,593	53,095	4,108

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

	<b>As at 31 December 2018 HK\$'000 (Unaudited)</b>	As at 30 June 2018 HK\$'000 (Audited)
Deferred tax assets	<b>51,580</b>	51,216
Deferred tax liabilities	<b>55,688</b>	81,503

The Group had unused tax losses of approximately HK\$566,595,000 and approximately HK\$539,851,000 as at 31 December 2018 and 30 June 2018 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.

## 20. COMMITMENTS

### a. Operating lease commitments

#### *The Group as lessee*

At 31 December 2018 and 30 June 2018, the Group had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>As at 31 December 2018 HK\$'000 (Unaudited)</b>	As at 30 June 2018 HK\$'000 (Audited)
Within one year	<b>33,944</b>	30,498
In the second to fifth year inclusive	<b>25,761</b>	30,309
	<b>59,705</b>	60,807

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 1 to 5 years.

## 20. COMMITMENTS (cont'd)

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

#### *The Group as lessor*

At 31 December 2018 and 30 June 2018, the Group had contracted with tenants for the following future minimum lease payments:

	<b>As at 31 December 2018 HK\$'000 (Unaudited)</b>	As at 30 June 2018 HK\$'000 (Audited)
Within one year	<b>10,693</b>	10,661
In the second to fifth year inclusive	<b>4,309</b>	9,670
	<b>15,002</b>	20,331

### 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.

## 21. 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>2018</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2017 <i>HK\$'000</i> <i>(Unaudited)</i>
Sales to related companies ( <i>Note c</i> )	<b>384</b>	–
Sales to entities related to a non-controlling interest of subsidiaries ( <i>Note b</i> )	<b>4,685</b>	4,809
Sales commission paid/payable to entities related to a non-controlling interest of subsidiaries ( <i>Note b</i> )	<b>70</b>	613
Purchase from entities related to a non-controlling interest of subsidiaries ( <i>Note b</i> )	–	5,815
Rental expenses paid/payable to related companies ( <i>Notes a &amp; b</i> )	<b>2,475</b>	2,410
Refund of service fee received/receivable from a non-controlling interest of a subsidiary	<b>347</b>	351
Service fee received/receivable from entities related to a non-controlling interest of subsidiaries ( <i>Note b</i> )	–	23
Service fee paid/payable to entities related to a non-controlling interest of a subsidiary ( <i>Note b</i> )	<b>882</b>	2,811
Dividend paid/payable to a non-controlling interest of a subsidiary	<b>2,753</b>	–
Interest expense paid/payable to a related party ( <i>Note c</i> )	<b>949</b>	884
Imputed interest expense paid/payable to a non-controlling interest of a subsidiary	<b>940</b>	1,443
Interest expense paid/payable to a non-controlling interest of a subsidiary	<b>237</b>	249
Interest expense paid/payable to a director	<b>261</b>	236
Purchase from an entity owned by a related party ( <i>Notes b &amp; c</i> )	<b>8,523</b>	16,315

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

Notes:

- (a) The related company is wholly owned and controlled by Mr. Tung Koon Ming, an executive Director.
- (b) The related party transactions are also defined as continuing connected transactions under the Listing Rules.
- (c) The related party is a director of a non-wholly owned subsidiary of the Group.

### 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>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Short-term benefits	<b>8,900</b>	7,505
Post-employment benefits	<b>71</b>	81
	<b>8,971</b>	7,586

## **22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS**

Fair value of the Group's financial assets that are measured at fair value on a recurring basis.

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities 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 measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 22. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (cont'd)

	Fair value as at		Fair value hierarchy	Valuation techniques and key input(s)
	31 December 2018 <i>HK\$'000</i> (unaudited)	30 June 2018 <i>HK\$'000</i> (audited)		
Financial assets:				
Available-for-sale investments				
Debt securities				
– Corporate bonds traded in inter-bank market	–	48,782	Level 2	Quoted bid prices from a bank
Debt instrument at fair value through other comprehensive income				
– Corporate bond traded in inter-bank market	<b>19,218</b>	–	Level 2	Quoted bid prices from a bank
Financial assets at fair value through profit or loss				
– Bank structured deposits	<b>500,180</b>	337,725	Level 2	Quoted value from banks
– Property right trust	<b>89,920</b>	–	Level 2	Quoted bid prices from a financial institution in PRC
– Certificates of deposit	<b>281,000</b>	–	Level 2	Quoted value from a bank in PRC

There were no transfer between Level 1 and 2 in the period.

Fair value of the Group's financial assets that are not measured at fair value on a recurring basis.

The management of the Group considers that the carrying amounts of financial assets recorded at amortised cost in the condensed consolidated statement of financial position approximate their fair values.



## **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 1HFY2019.

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

During 1HFY2019, the Group did not have material acquisition or disposal of subsidiaries or associated companies.

### **Corporate Governance Practices**

The Company has adopted the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Listing Rules as its code of corporate governance practices. Save as disclosed below, during 1HFY2019, 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 1HFY2019.

## **Audit Committee**

The audit committee of the Company has reviewed the unaudited condensed consolidated financial statements of the Company for 1HFY2019 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 2017: HK2 cents per share), amounting to approximately HK\$41.6 million for the six months ended 31 December 2018 (six months ended 31 December 2017: approximately HK\$41.6 million) to the shareholders of the Company. The interim dividend will be paid to shareholder whose name appears on the register of members of the Company at the close of business on 26 March 2019. It is expected that the interim dividend will be paid on or about 4 April 2019.

## Closure of Register of Members

The register of members of the Company will be closed on 26 March 2019 and no transfer of shares will be effective from that date. In order to be qualified 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 4:30p.m. on 25 March 2019.

## 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 2018, 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 corporation controlled <i>(Note 2)</i>	1,456,277,000 Shares (L)	70.02%
		Beneficial owner	5,918,000 Shares (L)	0.28%

*Notes:*

- The letter "L" denotes a long position in the shares of the Company or the relevant associated corporation.
- 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 2018, 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 2018, 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	1,456,277,000 Shares (L)	70.02%
Ms. Tam Fun Hung ("Ms. Tam")	Interest of spouse (Note 2)	1,462,195,000 Shares (L)	70.30%
Areo Holdings Limited	Interest of a controlled corporation (Note 3)	193,930,000 Shares (L)	9.32%
Lam Lai Ming	Interest of a controlled corporation (Note 3)	193,930,000 Shares (L)	9.32%
Li Gabriel	Interest in a controlled corporation (Note 3)	193,930,000 Shares (L)	9.32%

<b>Name of shareholders</b>	<b>Capacity/nature of interest</b>	<b>Number and class of securities</b> <i>(Note 1)</i>	<b>Approximate percentage of shareholding</b>
Orchid Asia V, L.P.	Beneficial owner <i>(Note 3)</i>	188,298,000 Shares (L)	9.05%
OAV Holdings, L.P.	Interest of a controlled corporation <i>(Note 3)</i>	188,298,000 Shares (L)	9.05%
Orchid Asia V GP, Limited	Interest of a controlled corporation <i>(Note 3)</i>	188,298,000 Shares (L)	9.05%
Orchid Asia V Group Management, Limited	Interest of a controlled corporation <i>(Note 3)</i>	188,298,000 Shares (L)	9.05%
Orchid Asia V Group, Limited	Interest of a controlled corporation <i>(Note 3)</i>	188,298,000 Shares (L)	9.05%

1. The letter "L" denotes a person's long position in the Shares or underlying Shares of the Company.
2. Ms. Tam is 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 section 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 188,298,000 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 2018, 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**

### **BOARD OF DIRECTORS**

#### **Executive Directors**

Mr. Tung Koon Ming (*Chairman and chief executive officer*)

Mr. Tung Wai Kit

Mr. Deng Guanglei

#### **Independent non-executive Directors**

Mr. Ma Ching Nam

Mr. Wong Wing Keung Meyrick

Mr. Choi Ho Yan

### **AUDIT COMMITTEE**

Mr. Choi Ho Yan (*Chairman*)

Mr. Ma Ching Nam

Mr. Wong Wing Keung Meyrick

### **NOMINATION COMMITTEE**

Mr. Tung Koon Ming (*Chairman*)

Mr. Ma Ching Nam

Mr. Wong Wing Keung Meyrick

### **REMUNERATION COMMITTEE**

Mr. Wong Wing Keung Meyrick (*Chairman*)

Mr. Choi Ho Yan

Mr. Ma Ching Nam

### **CORPORATE GOVERNANCE COMMITTEE**

Mr. Ma Ching Nam (*Chairman*)

Mr. Choi Ho Yan

Mr. Wong Wing Keung Meyrick



## **COMPANY SECRETARY**

Ms. Hui Wai Man, Shirley

## **AUDITOR**

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

## **LEGAL ADVISERS**

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

## **CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR**

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

## **HONG KONG BRANCH SHARE REGISTRAR**

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

## **REGISTERED OFFICE**

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

## **HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG**

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

## **STOCK CODE ON THE HONG KONG STOCK EXCHANGE**

2033

## **INVESTOR INFORMATION**

For more information about the Group,  
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## **WEBSITE**

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