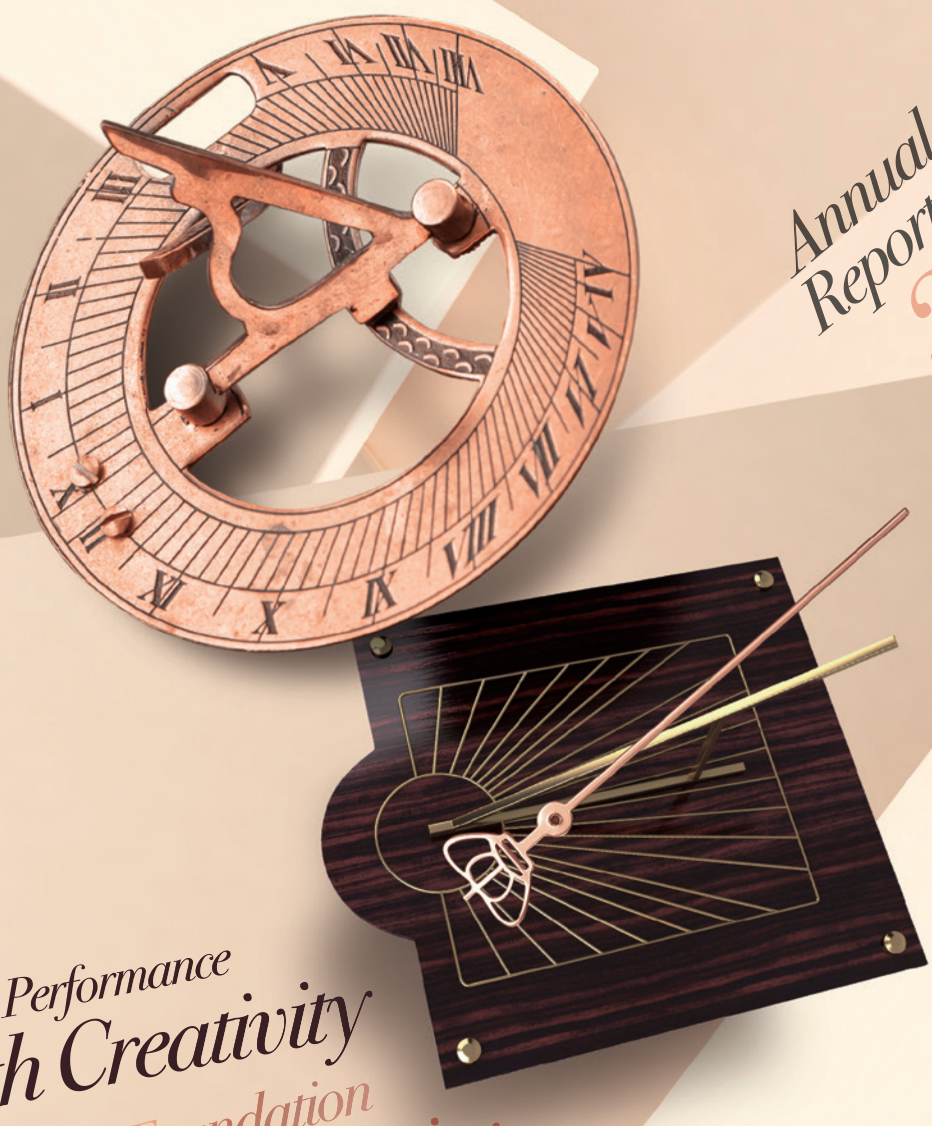
TWI GROUP

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

(Incorporated in the Cayman Islands with limited liability)

Stock code: 2033

Annual Report 2019



*Driving Performance with Creativity*

*Reinforcing Foundation with Ingenuity*

## OUR BUSINESSES

- **Tian Wang Watch Business**
  - Retail sales
  - Online sales
  - Wholesales to corporate customers
- **Balco Watch Business**
  - Retail sales
  - Sales to watch distributors
  - Online sales
- **Other Brands (PRC) Business**
  - Retail sales
- **Other Brands (Global) Business**
  - Global Distribution
- **Watch Movements Trading Business**

# *CORPORATE PROFILE*

Time Watch Investments Limited (the "Company" or "Time Watch") and its subsidiaries (collectively, the "Group") are the leading manufacturer, brand-owner and retailer of watches in the People's Republic of China ("PRC") national brand watch market. Established in 1988, the Group's core proprietary brand, Tian Wang (天王), has been developed into a well-known brand in the PRC. Another proprietary brand of the Group, Balco, which was initially registered in Switzerland in 1986 by an independent third party and acquired by the Group in 2002, offers Swiss-made watches targeting younger mid-income consumers in the PRC.

## 2019 RESULTS AT A GLANCE

Profit attributable to Owners of the Company:

***HK$305.4 million***

**(2018: HK$291.4m)**
**+4.8%**

Earnings per share – basic:

***HK14.7 cents***

**(2018: HK14.0 cents)**
**+5.0%**

Equity attributable to owners of the Company:

***HK$2,223.5 million***

**(2018: HK$2,100.7m)**
**+5.8%**

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# *FINANCIAL HIGHLIGHTS*


***Time management is life management.***

## FINANCIAL HIGHLIGHTS

# FINANCIAL HIGHLIGHTS

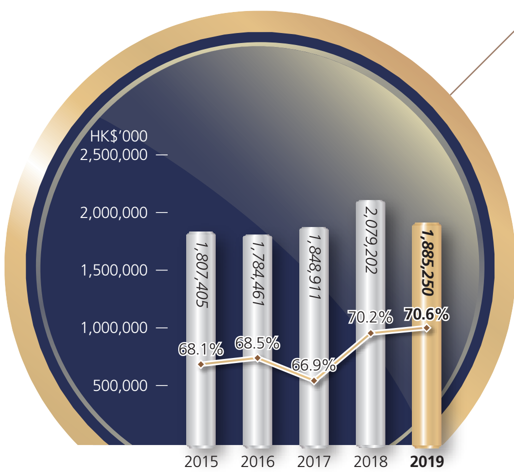
## FINANCIAL SUMMARY

The following is a summary of the published results of the Group for the last five financial years. The financial information for the years ended 30 June 2015, 2016, 2017, 2018 and 2019 is extracted from the consolidated financial statements in the annual reports for the years ended 30 June 2015, 2016, 2017, 2018 and this annual report.

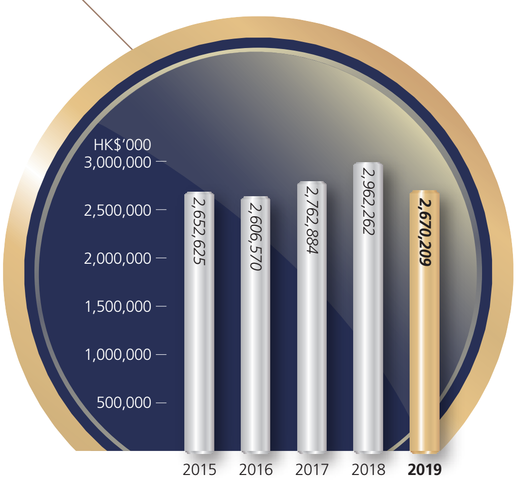
| For the year ended 30 June | 2015<br>*HK$'000* | 2016<br>*HK$'000* | 2017<br>*HK$'000* | 2018<br>*HK$'000* | **2019**<br>***HK$'000*** |
|---|---|---|---|---|---|
| Revenue | 2,652,625 | 2,606,570 | 2,762,884 | 2,962,262 | **2,670,209** |
| Gross profit | 1,807,405 | 1,784,461 | 1,848,911 | 2,079,202 | **1,885,250** |
| Gross margin | 68.1% | 68.5% | 66.9% | 70.2% | **70.6%** |
| Profit attributable to owners of the Company | 336,755 | 296,341 | 235,744 | 291,447 | **305,360** |

| As at 30 June | 2015<br>*HK$'000* | 2016<br>*HK$'000* | 2017<br>*HK$'000* | 2018<br>*HK$'000* | **2019**<br>***HK$'000*** |
|---|---|---|---|---|---|
| Total assets | 2,055,747 | 2,210,167 | 2,396,771 | 2,669,756 | **2,713,859** |
| Total liabilities | 359,896 | 438,406 | 548,669 | 616,662 | **554,828** |
| Equity attributable to owners of the Company | 1,630,147 | 1,752,053 | 1,878,025 | 2,100,695 | **2,223,548** |
| Average inventory turnover days (days) | 253 | 281 | 238 | 234 | **247** |
| Average trade receivables turnover days (days) | 55 | 58 | 55 | 52 | **54** |
| Average trade payables turnover days (days) | 51 | 51 | 48 | 44 | **39** |

**Gross profit and gross margin**

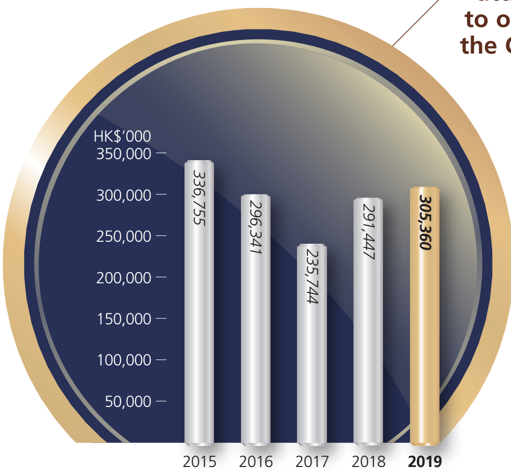



**Revenue**

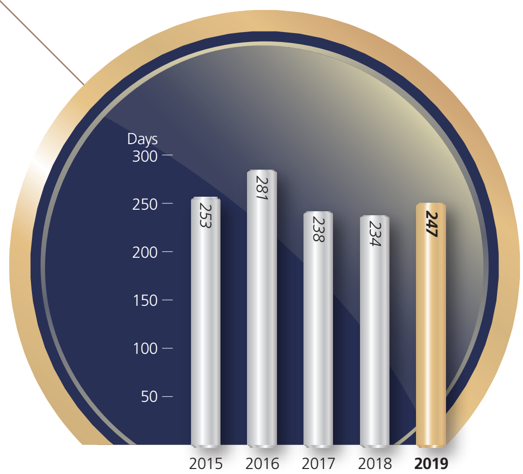


# *FINANCIAL HIGHLIGHTS*

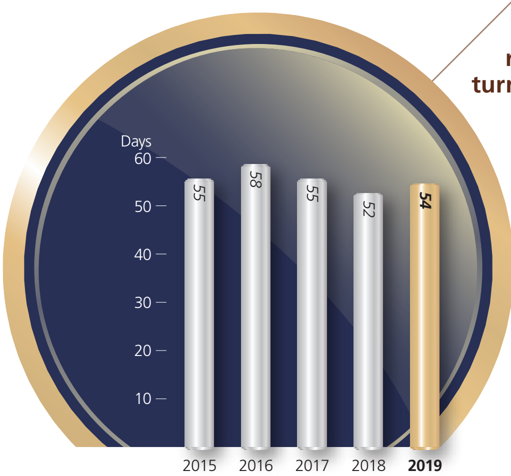
**Profit attributable to owners of the Company**

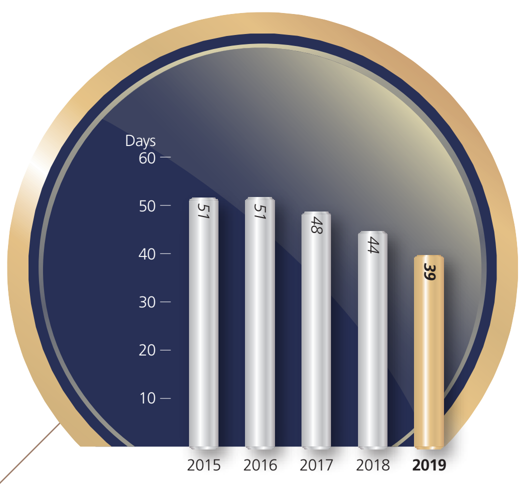



**Average inventory turnover days**

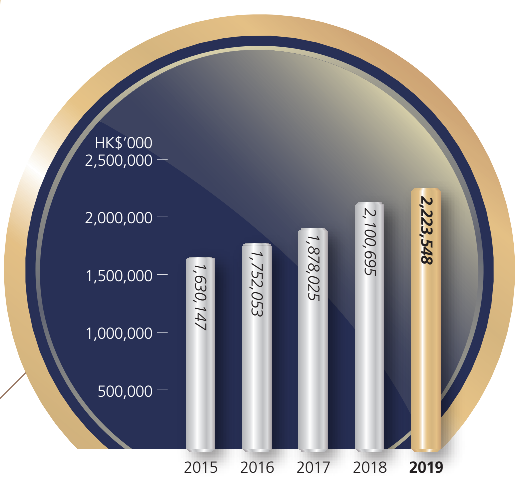



**Average trade receivables turnover days**




**Average trade payables turnover days**




**Equity attributable to owners of the Company**

# CHAIRMAN'S STATEMENT


*Unique Style • Unique Soul*

*T-WING Series*

Dear Shareholders,

On behalf of Time Watch Investments Limited (the "**Company**", together with its subsidiaries, the "**Group**"), I am pleased to present the Group's annual results for the financial year ended 30 June 2019 ("**FY2019**").

## PERFORMANCE REVIEW

Amid the challenging and macro uncertain business environment caused by Sino-US trade war and Brexit, consumers' sentiment was adversely affected. The Group recorded revenue of approximately HK$2,670.2 million for FY2019, which represented a decrease of approximately 9.9%. Despite that, the Group still achieved approximately 6.2% increase in profit for the year to approximately HK$293.1 million for FY2019 while comparing with profit for the financial year ended 30 June 2018 ("**FY2018**") of approximately HK$276.0 million. Profit attributable to owners of the Company increased to approximately HK$305.4 million with increment of approximately HK$13.9 million and 4.8%. The earnings per share was HK14.7 cents for the FY2019, with increment of approximately 5.0% while comparing with earnings per share of HK14.0 cents for FY2018.

# CHAIRMAN'S STATEMENT

The increment of profit for the year for FY2019 was fruitful results of reorganising and optimising point of sales ("**POS**") distribution network, effective control of costs and expenses, strengthening control in inventories and trade receivables, as well as strategy for deploying surplus working capital in financial assets such as structured deposits, trust and bonds.

Final dividend of HK4.3 cents per share (2018: HK3.75 cents) was recommended by the board (the "**Board**") of directors (the "**Directors**"). The aggregate amount of interim and final dividend represents a payout of approximately 42.9% (2018: approximately 41.0%) of the profit attributable to owners of the Company. The Company is expected to maintain a balanced and consistent dividend policy for return to shareholders as well as retain profits for development of Group.

## OUTLOOK

For FY2019, Tian Wang Watch Business contributed approximately 73.5% of the total revenue of the Group, which was approximately HK$1,963.1 million. During FY2019, the Group is also engaged in the manufacturing and retail sales of another proprietary brand Balco（拜戈）watches. Balco watches contributed approximately HK$77.4 million and 2.9% of the total revenue. The remaining three major segments of the Group, namely, Watch Movements Trading Business, Other Brands (PRC) Business and Other Brands (Global) Business contributed approximately 4.8%, 7.8% and 11.0% of the total revenue of the Group for FY2019 respectively. With over 30 years of relentless effort and well-established reputation in market, the Group maintained its leading position in the PRC watch market and the Group will keep focusing and deepening the development in its existing business.

Since establishment of the e-commence business in 2013, there has been a steady growth in revenue from online sales and the Group has achieved remarkable results over the years. The Group continued to be top of the Tmall's domestic watch sales chart for six consecutive years. It was the strategy of the Group to diversify the model of watches to be launched on online platform and attract consumers through different channels.

As of 30 June 2019, the Group has 2,955 POS in the PRC. Through the Group's directly managed POS, the Group would be able to obtain direct and first hand market information from customers/potential customers. In order to optimise POS distribution network, the Group will closely monitor and assess the performance of each POS, and make relevant adjustments when required. In coming years, the Group plans to set up more trendy POS at shopping malls to replace underperforming POS at department stores.

The economy in the PRC has maintained steady growth in the past years. Despite the fact that dynamic and challenging environment is expected in coming years, the Group would seek for more opportunities for development and continue to put efforts to optimise the quality and develop more variety of trendy and stylish products. With over 30 years foundation and experience, the Group will continue its pragmatic approach in business.

I would like to express my sincere gratitude to our shareholders, Board, staff members, customers, business partners and those who have been supportive throughout the years from the bottom of my heart. We strive to develop more stylish and high-quality watches for customers, to enhance business growth and return of the Group.

**Mr. Tung Koon Ming**
*Chairman*

Hong Kong, 25 September 2019

# MANAGEMENT DISCUSSION AND ANALYSIS

TIAN WANG WATCH BUSINESS
**2,532**

OTHER BRANDS (PRC) BUSINESS
**70**

BALCO WATCH BUSINESS
**353**

NUMBER OF POS OF THE GROUP AS AT 30 JUNE 2019

TOTAL **2,955**

# MANAGEMENT DISCUSSION AND ANALYSIS

## MANAGEMENT DISCUSSION AND ANALYSIS


*Brilliant and Brave,*
*Straight Forward*

***Conqueror Series***

## FINANCIAL REVIEW

**Revenue**

Revenue of the Group decreased by approximately HK$292.1 million or approximately 9.9% from approximately HK$2,962.3 million for FY2018 to approximately HK$2,670.2 million for FY2019.

***Tian Wang Watch Business***

Revenue of Tian Wang Watch Business continued to be the Group's main source of revenue which accounted for approximately 73.5% of the total revenue of the Group for FY2019 (FY2018: approximately 73.4%). Revenue of Tian Wang Watch Business decreased by approximately HK$209.8 million or approximately 9.7% from approximately HK$2,172.9 million for FY2018 to approximately HK$1,963.1 million for FY2019. The retail sales network shrank from 2,585 POS as at 30 June 2018 to 2,532 POS as at 30 June 2019, with a net decrease of 53 POS.

***Balco Watch Business***

Revenue of Balco Watch Business decreased by approximately HK$38.7 million or approximately 33.4% from approximately HK$116.1 million for FY2018 to approximately HK$77.4 million for FY2019. The decline was mainly due to the decrease in sales of the Balco watches in the PRC market.

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

Retail sales of other well-known brand watches other than Tian Wang Watch and Balco Watch decreased by approximately HK$20.2 million or approximately 8.8% from approximately HK$229.5 million for FY2018 to approximately HK$209.2 million for FY2019, which accounted for approximately 7.8% of the total revenue of the Group for FY2019 (FY2018: approximately 7.7%). The decrease in revenue of Other Brands (PRC) Business was caused by the closure of POS in the PRC as these other brand watches were mainly sold through POS in the PRC.

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

Global distribution of licensed international brands of watches recorded a decrease in revenue of approximately HK$6.9 million or approximately 2.3% from approximately HK$299.2 million for FY2018 to approximately HK$292.3 million for FY2019. The decrease was attributable to the non-renewal of license agreement with several international brands of watches.

***Watch Movements Trading Business***

Revenue of Watch Movements Trading Business accounted for approximately 4.8% of the Group's total revenue for FY2019 (FY2018: approximately 4.9%). For FY2019, revenue from trading of watch movements was approximately HK$128.2 million, representing a decrease of approximately HK$16.3 million or approximately 11.3% from approximately HK$144.5 million for FY2018. The decrease was primarily due to the slowdown of watch movements trading business in Hong Kong and the PRC during FY2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Gross Profit

The Group's gross profit decreased by approximately HK$194.0 million or approximately 9.3% from approximately HK$2,079.2 million for FY2018 to approximately HK$1,885.3 million for FY2019. The decrease was mainly due to decrease in Tian Wang Watch Business as in line with the decrease in revenue. The Group's gross profit margin slightly increased by 0.4 percentage points from approximately 70.2% for FY2018 to approximately 70.6% for FY2019.

### Other Income, Gains and Losses

The Group's other income, gains and losses increased by approximately HK$29.3 million or approximately 67.8% from approximately HK$43.2 million for FY2018 to approximately HK$72.6 million for FY2019. The increase was owing to a combined effect of increase in interest income on financial assets measured at FVTPL of approximately HK$15.0 million, increase in interest income on debt instruments at FVTOCI of approximately HK$6.1 million, increase in government subsidies of approximately HK$7.8 million, gain from changes in fair value of financial assets measured at FVTPL of approximately HK$8.0 million, decrease in loss on disposal and write-off of property, plant and equipment of approximately HK$7.2 million and increase in net exchange loss of approximately HK$12.6 million.

### Selling and Distribution Costs

The Group's selling and distribution costs decreased by approximately HK$114.3 million or approximately 7.7% from approximately HK$1,494.3 million for FY2018 to approximately HK$1,380.0 million for FY2019. The decrease was mainly due to decrease in concessionaire fee and staff cost incurred with the decrease in number of POS.

### Administrative Expenses

The Group's administrative expenses decreased by approximately HK$9.6 million or approximately 4.8% from approximately HK$199.3 million for FY2018 to approximately HK$189.8 million for FY2019. The decrease was mainly owing to decrease in staff cost, decrease in legal and professional fee and decrease in operating expenses of Other Brands (Global) Business due to continuous cost control by the management.

### Finance Costs and Income Tax

The Group's finance costs decreased by approximately HK$0.7 million or approximately 7.4% from approximately HK$9.0 million for FY2018 to approximately HK$8.3 million for FY2019 as a result of the decrease in borrowings for the Watch Movements Trading Business.

The Group's income tax decreased by approximately HK$40.4 million or approximately 35.1% from approximately HK$115.0 million for FY2018 to approximately HK$74.6 million for FY2019. The decrease was primarily due to one-off tax credit in FY2019 as a result of preferential tax treatment granted to the relevant PRC subsidiaries for the calendar year ended 31 December 2018. The Group's effective tax rate decreased from approximately 29.4% for FY2018 to approximately 20.3% for FY2019.

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

As a combined result of the factors presented above, the profit attributable to the owners of the Company for FY2019 increased by approximately HK$13.9 million or approximately 4.8% from approximately HK$291.4 million for FY2018 to approximately HK$305.4 million for FY2019.

## BUSINESS REVIEW

**Overview**

During FY2019, the Group continued to run its principal business of manufacturing, wholesale, retail sales and e-commerce business of its two proprietary brands of watches (namely, Tian Wang and Balco Watch). It is also engaged in retail sales of other brands of watches in the PRC, global distribution of other brands of watches and its ancillary business of trading in watch movements.

In FY2019, the retail markets for watches in the PRC and Hong Kong remained challenging as consumer confidence was affected by a trade dispute between China and the United States. As a result, the Group experienced slower-growth in sales and downward pressure on profitability. Nevertheless, the Group continued to maintain its leading position in the PRC's national watch market with competitive advantages developed over years and the sustainable growth in sales at its e-commerce business.

The Group's core brand business of Tian Wang Watch accounted for approximately 73.5% of its total revenue in FY2019. As a heritage brand with a history of over-30-years, Tian Wang Watch has established a reputation for making high-quality, accurate and stylish watches. This is the key to the continued success and widespread brand recognition of Tian Wang Watch. Based on the information gathered from customers through the Group's nation wide network of point of sale ("POS"), the Group is able to satisfy the increasing demand for high-quality and trendy watches from customers of different age groups.

**Retail Network**

The Group's retail network principally comprises its directly managed and controlled sales counters located in department stores and shopping malls. Over 69% of the sales of the Group's Tian Wang and Balco watches were conducted at the Group's directly managed POS. Since the Group sells most of its watches directly to customers, the Group has been able to obtain first-hand market information and feedback from customers directly through its frontline sales staff. The Group considers this as its advantage over its competitors, who generally do not have fully and directly managed sales network and can only sell most of their products through distributors.

As at 30 June 2019, the number of the Group's POS for the business of Tian Wang Watch was 2,532, representing a net decrease of 53 POS compared to that as at 30 June 2018. As at 30 June 2019, the number of the Group's POS for the business of Balco Watch was 353, representing a net decrease of 40 POS compared to that as at 30 June 2018. As at 30 June 2019, the number of the Group's POS for Other Brands (PRC) Business was 70, representing a net decrease of 8 POS compared to that as at 30 June 2018.

## *MANAGEMENT DISCUSSION AND ANALYSIS*

### Proprietary Watches of the Group

#### *Tian Wang Watch*

The business of Tian Wang Watch remained the Group's main source of revenue, contributing to approximately 73.5% of the Group's total revenue for FY2019 (FY2018: approximately 73.4%). During FY2019, the Group has launched not less than 60 new models of Tian Wang watches with prices ranging from approximately RMB200 to RMB18,800 per watch for direct retail sales, e-commerce channels and corporate sales. This wide range of unit prices of Tian Wang watches allowed the Group to cater for different needs and increased demand of customers of different income levels and age groups.

#### *Balco Watch*

Balco watches are assembled in and imported from Switzerland. The business of Balco Watch accounted for approximately 2.9% of the Group's total revenue for FY2019 (FY2018: approximately 3.9%). Revenue from the business of Balco Watch decreased by approximately HK$38.7 million or approximately 33.4% to approximately HK$77.4 million for FY2019 from the approximately HK$116.1 million for FY2018. The decrease was mainly due to a drop in sales in the PRC market. The Group continued with its strategies for improving the performance of the Balco Watch business. Such strategies include optimising the sales and distribution channels within and outside PRC and launching new stylish models of Balco watches on the market.

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

As the living standard of ordinary people in China has improved in the past few decades, consumers are looking for more choices of quality and stylish watches of both domestic brands and international brands. The Group's Other Brands (PRC) Business, continued to provide a wide range of domestic and international products in order to satisfy the demand of customers of different income levels and age groups. At the same time, the Group closed under-performing POS and opened new POS in strategic locations so as to optimise its sales network.

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

Although the revenue from this business segment edged down by approximately 2.3% from HK$299.2 million for FY2018 to HK$292.3 million for FY2019, the loss recorded by the business has been substantially narrowed by more than 41.7% because of stringent control of expenses. The global watch industry becomes more difficult due to the competition from wearable devices and trade war between China and the United States.

#### *Watch Movements Trading Business*

The Directors consider that the Group's in-house watch movements procurement and trading arm forms an integral part of its overall business operation because it not only ensures a reliable and stable supply of watch movements to its business of Tian Wang Watch but also generates revenue by supplying watch movements to other watch manufacturers and distributors. For FY2019, the Watch Movements Trading Business accounted for approximately 4.8% of the Group's total revenue (FY2018: approximately 4.9%). Revenue from this line of business decreased by approximately HK$16.3 million or approximately 11.3% to approximately HK$128.2 million for FY2019 from approximately HK$144.5 million for FY2018.

### E-commerce Business

Since 2013, the Group has been engaging in an e-commerce business and selling its products on several major online sales platforms such as those of Tmall and JD.com. In order to tap the growing consumption power of a younger generation, the Group launched some models of Tian Wang and Balco watches which are more affordable and feature fast fashion style through the online sales channel exclusively. The Directors also believe that a wide variety of watches enables the Group to reach out to more diverse customers, including those of different age groups. For FY2019, the e-commerce business continued to be one of the major contributors to the Group's revenue. Watch sales at the business edged down by approximately HK$8.6 million or approximately 1.5% to approximately HK$566.4 million for FY2019 from approximately HK$575.0 million for FY2018 due to keen competition. However, the Group's watch sales at Tmall on Alibaba's "Single's Day" (November 11th) remained steady for FY2019 compared with those for FY2018. The Group continued to top Tmall's domestic watch sales chart for six consecutive years.

## INVENTORY CONTROL

The Group's inventory balance was approximately HK$480.7 million as at 30 June 2019, representing a decrease of approximately HK$103.0 million or approximately 17.6% as compared with approximately HK$583.7 million as at 30 June 2018. The Group's inventory turnover days increased to approximately 247 days for FY2019, as compared with 234 days for FY2018. The decrease in inventory balance was primarily attributable to the improved internal management on inventory control during FY2019. The Group will continue to monitor and control its inventory level vigilantly while expanding the sales network so 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$147.6 million and approximately HK$154.1 million as at 30 June 2019 and 30 June 2018 respectively, with corresponding provision for these inventory balances of approximately HK$92.7 million and approximately HK$98.3 million respectively. The management of the Group assesses and reviews the inventory ageing analysis at the end of each reporting period and identifies the slow-moving items that are no longer suitable for use in production or sales. At the end of each reporting period, our management will provide necessary provision if the net realisable value of the inventory is estimated to be below the cost.

### Financial assets at fair value through profit or loss

As at 30 June 2019, financial assets at fair value through profit or loss represented unlisted financial products purchased from commercial banks, trust company or insurance company. The table below sets out a summary of the financial assets at fair value through profit or loss of the Group as at 30 June 2019:

| Issuer | Product type | Principal business | Investment cost /Nominal value ('000) | Fair value as at 30/6/2019 ('000) | Interest/ Dividend received ('000) | Size relative to the Company's total assets as at 30/6/2019 |
|---|---|---|---|---|---|---|
| China Merchant Bank | Certificates of deposit （大額存款證） | Banking services | RMB250,000 | HKD288,597 | HKD6,107 | 10.6% |
| 華能貴誠信託有限公司 | Trust | Financial services | RMB80,000 | HKD92,861 | HKD2,367 | 3.4% |
| China Guangfa Bank | Structured deposit | Banking services | RMB150,000 | HKD171,667 | – | 6.3% |
| China Minsheng Bank | Structured deposit | Banking services | RMB90,000 | HKD102,989 | – | 3.8% |
| FWD Life Insurance Company (Bermuda) Limited | Life insurance | Insurance | HKD2,000 | HKD2,460 | – | 0.1% |

### Debt instruments at fair value through other comprehensive income

As at 30 June 2019, debt instruments at fair value through other comprehensive income represented corporate bonds issued by Hong Kong listed companies. The table below sets out a summary of the debt instruments at fair value through other comprehensive income of the Group as at 30 June 2019:

| Issuer | Product type | Principal business of the issuer/group | Nominal value ('000) | Fair value as at 30/6/2019 ('000) | Interest/ Dividend received ('000) | Size relative to the Company's total assets as at 30/6/2019 |
|---|---|---|---|---|---|---|
| New Rose Investments Limited | Corporate bond | Property development | USD2,500 | HKD19,441 | HKD882 | 0.7% |
| HSBC Holdings Plc | Corporate bond | Banking services | USD10,000 | HKD80,490 | HKD2,451 | 3.0% |
| Bank of China (Hong Kong) Limited | Corporate bond | Banking services | USD10,000 | HKD83,310 | HKD2,313 | 3.1% |
| CALC Bond 2 Limited | Corporate bond | Aircraft leasing | USD4,900 | HKD36,498 | – | 1.3% |

The Group adopts a conservative way in deploying surplus fund in the purchase of liquid assets or investments. In FY2019, the Group purchased mostly principal protected products from commercial banks and high credit rating debts issued by listed companies such as certificates of deposit, structured deposit and corporate bonds. The Group will continue to follow this investment strategy in order to gain a better return from its surplus fund.

## 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 the 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$397.9 million and approximately HK$754.1 million as at 30 June 2019 and 30 June 2018 respectively.

The Group's net cash generated from operating activities for FY2019 was approximately HK$435.3 million, representing an increase of approximately HK$6.0 million from approximately HK$429.3 million for FY2018. The amount was primarily attributable to profit before taxation of approximately HK$367.7 million from the Group's operations adjusted for non-cash items of approximately HK$54.6 million, increase of working capital balances of approximately HK$80.5 million, income taxes paid of approximately HK$104.5 million and interest received of approximately HK$36.9 million.

The Group's net cash used in investing activities for FY2019 was approximately HK$646.2 million, which was mainly attributable to purchase of property, plant and equipment of approximately HK$138.6 million, purchase of financial assets at fair value through profit or loss of approximately HK$2,923.2 million, purchase of debt instruments at fair value through other comprehensive income of approximately HK$195.3 million which was partially offset by redemption of financial assets at fair value through profit or loss of approximately HK$2,591.8 million.

The Group's net cash used in financing activities for FY2019 was approximately HK$126.0 million, which was mainly attributable to dividends payment of approximately HK$119.6 million and repayment of bank borrowings of approximately HK$478.0 million, which was partially offset by borrowings raised of approximately HK$473.3 million. The Group's bank borrowings and overdraft were approximately HK$62.5 million and approximately HK$67.5 million as at 30 June 2019 and 30 June 2018 respectively.

The Group was in net cash position as at 30 June 2019 and 30 June 2018. As at 30 June 2019, the Group's total equity was approximately HK$2,159.0 million, representing an increase of approximately HK$105.9 million from approximately HK$2,053.1 million as at 30 June 2018. The Group's working capital was approximately HK$1,202.2 million as at 30 June 2019, representing a decrease of approximately HK$529.4 million as compared with approximately HK$1,731.6 million as at 30 June 2018.

As at 30 June 2019, the Group's bank balances and cash were mainly denominated in Renminbi, United States dollar and Hong Kong dollar. As at 30 June 2019, all the Group's bank borrowings were short term bank borrowings subject to variable interest rates and principally denominated in Hong Kong dollar and United States dollar.

The gearing ratio being calculated as total debt over total equity remained relatively stable at approximately 9.5% and approximately 9.9% as at 30 June 2019 and 30 June 2018, respectively.

## CHARGE ON GROUP ASSETS

There was no material charge on the Group's assets as at 30 June 2019 and 2018.

## CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 June 2019 and 2018.

## CAPITAL COMMITMENTS

Set out below is the breakdown of capital commitment of the Group as at 30 June 2019 and 2018:

| | **2019**<br>***HK$'000*** | 2018<br>*HK$'000* |
|---|---|---|
| Capital commitments in respect of life insurance contract | **8,000** | – |
| Capital commitments in respect of property, plant and equipment | **49,277** | 85,549 |
| | **57,277** | 85,549 |

## FOREIGN CURRENCY EXPOSURE

The Group has foreign currency sales, which expose itself to foreign currency risk. In addition, available-for-sale investments, debt instruments at fair value through other comprehensive income, certain trade and other receivables, pledged bank deposits, bank balances, other payables and accrued charges, bank borrowings and overdraft and other loan as well as some 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, the 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 30 June 2019, the Group employed a total of approximately 5,200 full time employees in the PRC and Hong Kong (30 June 2018: approximately 5,300). The staff costs incurred during FY2019 was approximately HK$485.5 million (FY2018: approximately HK$532.3 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 individual performance assessment. The emolument payable to the Directors is determined by the Board based on the recommendations made by the remuneration committee of the Company.

## SOCIAL RESPONSIBILITY

The Group's charitable and other donations for FY2019 amounted to approximately HK$3.7 million (FY2018: approximately HK$2.7 million). No donations were made to political parties.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the initial public offering ("**IPO**") of the Company in February 2013 amounted to approximately HK$742.0 million, of which approximately HK$702.0 million had been utilised from the year ended 30 June 2013 to the year ended 30 June 2018. For FY2019, the Company had not further utilised the net proceeds in the manner set out in the following table.

| | Amount of net proceeds allocated and unutilised as at 1 July 2018 *(HK$'m)* | Amount of net proceeds utilised for FY2019 *(HK$'m)* | Balance as at 30 June 2019 *(HK$'m)* | Actual business progress up to 30 June 2019 |
|---|---|---|---|---|
| Opening of POS in the coming years | – | – | – | |
| Establishing joint ventures worldwide with experienced operators of watch sales network and acquiring their inventories | – | – | – | |
| Engaging an active and well-known Chinese television and movie actor celebrity as the new spokesperson for Tian Wang watches and for producing television commercials focusing on the spokesperson | 40.0 | – | 40.0 | The Group is still looking for suitable candidate whose image is in line with the brand image and recognition of Tian Wang brand and the proposed large-scale nationwide marketing campaign for Tian Wang brand. |
| | 40.0 | – | 40.0 | |

The Group will keep monitoring the use of the net proceeds from the IPO.

# PROSPECT AND STRATEGIES

## PROSPECT AND STRATEGIES

Global economy is expected to still be plagued by issues such as the escalating trade dispute between China and the United States, the intensifying tension in both global trade and geopolitical situation, and the Brexit in the second half of 2019 and the year 2020.

Nevertheless, despite the above mentioned uncertainties, the Chinese economy continued to grow steadily, recording year-on-year growth of 6.3% in GDP in the first half of 2019, which was in line with market expectations. In particular, consumption's contribution to the country economic growth is predicted to rise to nearly 80% in 2019. Meanwhile, China's retail industry has entered a period of rapid transition, innovation and widerspread application of technologies. Retailers have to thoroughly understand customers' lifestyle habits and consumption patterns, make more use of the Internet and big data, form closer links with diverse businesses, and conduct both ambient marketing and smart retail in order to accelerate the upgrading of traditional retail businesses and respond promptly to market needs.

For its offline retail business, the Group will continue to roll out and execute its prudent POS expansion plan by opening new POS for Tian Wang. At the same time, the Group will also closely monitor and assess the performance of all its existing POS on a regular basis and implement its business strategy the POS of its distribution network in order to improve its market coverage and increase the revenue stream. Looking ahead, the Group will open more new POS in shopping malls to replace the underperforming POS in department stores. Moreover, the Group will continuously widen the variety of product lines, especially those for the younger generation as the target customers.

The e-commerce business continues to be another key contributor of the Group's revenue and is targeted at customers from the younger generation. The watches put up for online sales are exclusively available at the online sales platform and are different from those being sold at the POS of Tian Wang brand. The competition between both the retail business and e-commerce business of Tian Wang is thus minimised. The Group will continue to allocate more resources and put more efforts to the e-commerce business in order to sustain growth in sales and maintain profitability.

The Group's other business segments, including the business of Balco Watch, Other Brands (PRC) Business and Other Brands (Global) Business, are still experiencing difficulties and affected by market conditions in FY2019. However, the Other Brands (Global) Business has improved its performance substantially through stringent control of expenses. It has also thus improved the segment result. The Group will press ahead with its plans for improving business performance so as to enhance its overall profitability.

The Directors still expect the watch market to be challenging but full of ample opportunities in the coming years. The Group is well-positioned to capture such opportunities as it had laid a solid foundation in recent years for its development. The Group will continue capitalise on the era of "New Retail in China" adopt a prudent approach to business and adhere to its clear positioning. All this will, consolidate its position in the China's watch market.


A faddish women's collection. The dial features feminine elements such as bows, windmill jasmine and modern rings, which, decorated with a mother-of-pearl dial and two types of toned zircon, presents an elegant, sophisticated and luxurious style.

Themed in the Slogan of "Miss one, all is you", Miss one Series adheres to its core concept of shaping beauty and conveying beauty, aiming at showing the exquisite beauty of women.

## *Miss One Series*

# *X-man Series*

X-MAN Series is a trendy men's watch series breaking with traditions. The hit product models feature two pointers fixed on a three-layer dial of assembly craft to create a unique time reading style. Combined with trendy and stylish colors and appearances, the distinctive personality of X-MAN Series reveals.

The general design of X-MAN Series breaks with traditions, showing an uninhibited attitude towards life and a refusal to mediocrity, and conveying the individualized concept of an "emerging trend, defined by nothing".

# CORPORATE EVENTS


The Group believes in sustainable development, it continuously makes contributions to the society while operating its business diligently. To fulfil its social responsibility, it devotes itself to various charitable causes, especially those focused on helping the underprivileged segment of society.

In 2018, the Group participated in the event lead by the Youth Outreach - charitable campaign "YO! Let's Walk the Road". Youth Outreach aims to help young people who are at risk, helping them discover themselves and rebuild self-respect and self-confidence by creating development platforms for them to grow.

Over the years, the Group continued to provide donations to people in need especially in education projects, the Group aims to enable young people to have a chance of obtaining quality education. Donations are also made to environmental protection initiatives to contribute towards a sustainable development in the society.

*CORPORATE EVENTS*


# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Mr. Tung Koon Ming**（董觀明）, aged 68, is the founder of the Group, Chairman, executive Director and chief executive officer of the Company. Mr. Tung is the father of Mr. Tung Wai Kit, an executive Director, and the brother of Mr. Tung Koon Kwok Dennis, an executive Director. He was appointed as an executive Director on 21 September 2011. He is responsible for the overall direction, management and daily operation of the Group. He is also a director of certain subsidiaries of the Group.

Mr. Tung has over 30 years of experience in the manufacturing and trading of watches business. Mr. Tung is the founder and chairman of Winning Metal Products Manufacturing Company Limited ("Winning Metal") since its incorporation in 1980. He has been the chairman, chief executive officer and director of Time Watch Investments Private Limited ("Time Watch Singapore"), a company which was listed on the Singapore Stock Exchange ("SGX") until it was privatised in June 2011, since 8 November 2005 after the completion of a reverse take-over of Winning Metal group by Time Watch Singapore. Through Winning Metal and Time Watch Singapore, Mr. Tung established the Group's watch movements trading business; developed two brands of watches (namely, Tian Wang and Balco) and sales network of the Group in the PRC. Mr. Tung was awarded the Top Ten Persons of the Year（十大風雲人物獎）by the China Watch and Clock Top Forum in 2005 and the outstanding entrepreneurship award by Enterprise Asia in September 2013. He was also a member of the 8th, 9th and 10th Hunan Province People's Political Consultative Committee since 1998. Apart from his interest in the Group, Mr. Tung is also one of the indirect owners of Winning Metal and its subsidiaries and the owner of Red Rewarding Limited. Mr. Tung is currently a director of Red Glory Investments Limited, being the controlling shareholder (within the meaning of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) of the Company. Mr. Tung and Red Glory Investments Limited's interest in the shares of the Company is disclosed under the paragraphs headed "Directors' report– Directors' and the chief executive's interest and short positions in shares, underlying shares and debentures of the Company and its associated corporations" and "Directors' report – Substantial shareholders' interest and short positions in shares and underlying shares of the Company", respectively, in this annual report.

**Mr. Tung Koon Kwok Dennis**（董觀國）, aged 61. He was appointed as an executive Director on 1 March 2019. Mr. Tung Koon Kwok Dennis is the brother of Mr. Tung Koon Ming, the Chairman, executive Director and chief executive officer of the Company and the uncle of Mr. Tung Wai Kit, an executive Director of the Company. Mr. Tung Koon Kwok Dennis has over 30 years of experience in sales and marketing in the watch industry. He was a sales manager of Winning Metal Products Manufacturing Company Limited, a controlling shareholder of the Company from 1980 to 2012. He has been the sales manager of Win Source Trading Limited, a wholly owned subsidiary of the Company since 2012. The main business of both Winning Metal Products Manufacturing Company Limited and Win Source Trading Limited is trading of watch movements. Mr. Tung Koon Kwok Dennis was a director of the Federation of Hong Kong Watch Trades & Industries Limited from 1991 to 1999. Mr. Tung Koon Kwok Dennis is currently the honorary director of the Federation of Hong Kong Watch Trades & Industries Limited. Mr. Tung Koon Kwok Dennis is currently a director of various subsidiaries of the Company.

**Mr. Tung Wai Kit**（董偉傑）, aged 45, was appointed as an executive Director on 21 September 2011. Mr. Tung Wai Kit is the son of Mr. Tung Koon Ming, the Chairman, executive Director and chief executive officer of Company and the nephew of Mr. Tung Koon Kwok Dennis, an executive Director. Mr. Tung Wai Kit is the Group's marketing and administrative controller and is responsible for the marketing, production and administration of the Group's brand of Balco. Mr. Tung Wai Kit has over 19 years of experience in sales and marketing. He is currently a director of certain subsidiaries of the Group. Mr. Tung Wai Kit was a director of Time Watch Singapore, an associate of the controlling shareholders (within the meaning of Listing Rules) of the Company, whose shares were listed on the SGX until its delisting in June 2011.

**Mr. Deng Guanglei**（鄧光磊）, aged 49, was appointed as an executive Director on 15 October 2014. Mr. Deng graduated in 安徽財貿學院 (Anhui Finance and Trade College) (for identification purpose only) in June 1994. He has over 20 years of experience in sales and marketing. He joined 天王電子有限公司 (Tian Wang Electronics Co., Ltd.) ("Tian Wang Electronics") in 1996 as a regional manager of its sales department in which he was responsible for the sales and marketing of Tian Wang brand of watches and left in 1998. By the end of 1998, when he rejoined Tian Wang Electronics after a temporary departure, he was promoted to be the sales manager of its marketing department. Starting from 2004, he started to be assistant general manager and the person-in-charge of the sales and marketing department of 天王電子（深圳）有限公司 (Tian Wang Electronics (Shenzhen) Co., Ltd.) ("Tian Wang Shenzhen"), a wholly-owned subsidiary of the Company. He has been the general manager of the sales and marketing department of Tian Wang Shenzhen since September 2007 and has also served as the general manager of Shenzhen Time Watch Management Consulting Limited since 2012. He was the deputy general manager of Tian Wang Shenzhen in 2016. He is the general manager of Tian Wang Shenzhen since January 2019.

# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Ma Ching Nam, J.P.**（馬清楠）, aged 66, was appointed as an independent non-executive Director on 10 January 2013.

Mr. Ma obtained a degree of Bachelor of Science in Economics with honours from The University of Hull in July 1977. Mr. Ma has been practising law for more than 33 years. He is currently a partner of Hastings & Co, Solicitors & Notaries and also a Notary Public, China Appointed Attesting Officer and Civil Celebrant.

Mr. Ma is currently a director of Tai Sang Bank Limited, Heptacontinental group of companies, Ma Kam Ming Company Limited, Ma's Enterprises Company Limited and Ma Kam Ming Charitable Foundation. Mr. Ma was appointed as an Independent non-Executive Director of Union Medical Healthcare Limited (stock code: 2138) on 19 February 2016. Mr. Ma was the president of the Hong Kong Society of Notaries from 2007 to 2013. He has also been a director of Po Leung Kuk from 2009 to 2014, Vice Chairman of Po Leung Kuk from 2014 to 2019 and Chairman of Po Leung Kuk from 2019 to 2020. He has been appointed a member of Political and Consultative Conference in Hunan Province, the PRC (2003-2017). He is currently a visiting professor of the China Agricultural University.

**Mr. Wong Wing Keung Meyrick**（王泳強）, aged 61, was appointed as an independent non-executive Director on 10 January 2013.

In August 1987, Mr. Wong obtained his Bachelor of Laws from The University of London as an external student. He was called to the degree of utter barrister of the Honourable Society of Gray's Inn in April 1989. In 1990, he started his practice as a barrister-at-law in Hong Kong. Mr. Wong also obtained Master of Laws in international economic law from The Chinese University of Hong Kong in December 2009 and Postgraduate Diploma in Corporate Governance and Directorship jointly issued by the School of Business, Hong Kong Baptist University and The Hong Kong Institute of Directors in June 2011. He obtained a degree in Master of Science in Corporate Governance and Directorship (Distinction) issued by the School of Business, Hong Kong Baptist University in 2011. He is also a Chartered Engineer, a member of the Institute of Energy, the Institution of Mechanical Engineers and the Institution of Engineering and Technology.

From November 2005 to June 2011, he served as an independent non-executive director of the Time Watch Singapore, an associate of the controlling shareholders (within the meaning of Listing Rules) of the Company, whose shares were listed on the SGX until its delisting in June 2011. He has been appointed as an independent non-executive director of Dominate Group Holdings Company Limited on 26 September 2018, a company whose shares are listed on the GEM of The Stock Exchange (stock code: 8537).

**Mr. Choi Ho Yan**（蔡浩仁）, aged 43, was appointed as an independent non-executive Director on 10 May 2013. Mr. Choi obtained a degree of Bachelor of Arts in Accounting from the University of Hertfordshire in July 1998. He has over 21 years of experience in auditing, accounting, corporate finance, advisory and restructuring and investors relations. Mr. Choi worked in Ernst and Young as an accountant, and subsequently a senior accountant, from September 1998 to August 2004. Mr. Choi was an executive director of Gold Tat Group International Limited (currently known as Zhuoxin International Holdings Limited), a company whose shares are listed on the GEM of the Stock Exchange (stock code: 8266), until his resignation as director on 1 September 2015.

## SENIOR MANAGEMENT

**Mr. Li Yu Zhong** (李育忠), aged 53, is the factory general manager of Tian Wang Shenzhen and the head of the manufacturing and assembly department of the Group. He is responsible for the manufacturing and assembly department of the Group. Mr. Li has more than 23 years of experience in the watch manufacturing business. In 2007, he obtained the qualification of watch repair examiner issued by Shenzhen Occupational Skill Testing Authority. He graduated from Guangdong Boluo Province Botong Agricultural Vocational School in 1984. Starting from 2008, he becomes a committee member of Materials and External Watch Parts Subcommittee on National Technical Committee on Watches of Standardisation Administration of China.

**Mr. Mak King Pui Ricky** (麥景培), aged 49, is the Chief Financial Officer (the "CFO") of the Group. He is responsible for the overall financial management, tax, treasury and corporate finance matters of the Group. He joined the Group in May 2018 and was appointed as the CFO in August 2018. He has over 25 years of experience in auditing, accounting, corporate finance, fund raising and company secretarial duties. Prior to joining the Group, he worked as CFO for several listed companies in Hong Kong and auditor in an international accounting firm. He is a Fellow Member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

**Ms. Wong Siu Yu Rachel** (黃少如), aged 49, is the financial controller of the Group. She is responsible for overseeing the Group's financial matters and the accounts of the PRC subsidiaries and the joint venture companies of the Group. She is also a director of certain subsidiaries of the Group. She has over 26 years of experience in accounting and finance. She obtained Bachelor of Business (major in accounting and manufacturing management) from the Swinburne University of Technology in 1999.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board and the Company are always committed to maintaining high standards of corporate governance. Apart from adopting the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "CG Code") as the Company's corporate governance code, the Company has also established a corporate governance committee (the "CG Committee") with corporate governance functions set out in code provision D.3 of the CG Code. The Company and the CG Committee periodically review the Company's corporate governance practice to ensure its continuous compliance with the CG Code. During FY2019 and up to the date of this annual report, save as disclosed below, the Company has complied with the code provisions set out in the CG Code.

## CODE PROVISION A.2.1

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. Under the current corporate structure of the Group, Mr. Tung Koon Ming performs both the roles of the Chairman and the Chief Executive Officer of the Company. Although the responsibilities of the Chairman and the Chief Executive Officer are vested in one person, all major decisions are made in consultation with the Board members and the senior management of the Company. As there are three independent non-executive Directors in the Board, the Board considers that there is sufficient balance of power in the Board. Also, taking into account of Mr. Tung'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 enables more effective and efficient overall business planning, decision making and implementation thereof by the Group.

In order to maintain good corporate governance and to ensure Company's compliance 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 that the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. 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 FY2019 and up to the date of this annual report.

## BOARD OF DIRECTORS

The Board has a balance of skills and experience and a balanced composition of executive and independent non-executive Directors. As at 30 June 2019, the Board comprised seven Directors, four of whom are executive Directors and three of whom are independent non-executive Directors as set out below:

**Executive Directors**

Mr. Tung Koon Ming *(Chairman and chief executive officer)*
Mr. Tung Koon Kwok Dennis
Mr. Tung Wai Kit
Mr. Deng Guanglei

**Independent non-executive Directors**

Mr. Ma Ching Nam
Mr. Wong Wing Keung Meyrick
Mr. Choi Ho Yan

The Board is responsible for overseeing management of the Group's business and affairs. The Board has delegated the day-to-day responsibility to the executive Directors and senior management of the Company who are closely supervised by the Board to ensure compliance with the Company's policy and strategy.

Save for the relationship as set out in the "Profile of Directors and Senior Management" section of this annual report, there is no relationship including financial, business, family or other material or relevant relationships, between board members and the senior management.

The Company maintains appropriate liability insurance to indemnify its Directors for their liabilities arising out of corporate activities.

## DIRECTORS' ATTENDANCE AT BOARD MEETINGS AND GENERAL MEETINGS

During FY2019, the Company had held five board meetings and one general meeting which was the annual general meeting for FY2018. The attendance of each of the Directors at these board meetings and general meeting, by name, is set out below:

| Directors | Attendance/ Number of board meetings held | Attendance/ Number of general meeting held |
|---|---|---|
| **Executive Directors** | | |
| Mr. Tung Koon Ming *(Chairman)* | 5/5 | 1/1 |
| Mr. Hou Qinghai *(retired with effect from 22 November 2018)* | 1/1 | 1/1 |
| Mr. Tung Koon Kwok Dennis *(appointed with effect from 1 March 2019)* | Nil | Nil |
| Mr. Tung Wai Kit | 5/5 | 1/1 |
| Mr. Deng Guanglei | 2/5 | 1/1 |
| **Independent Non-Executive Directors** | | |
| Mr. Ma Ching Nam | 5/5 | 1/1 |
| Mr. Wong Wing Keung Meyrick | 5/5 | 1/1 |
| Mr. Choi Ho Yan | 5/5 | 1/1 |

For the individual attendance record of the Directors at the meetings of the remuneration committee, the audit committee, the nomination committee and the CG Committee of the Board, please refer to the paragraphs headed "Remuneration Committee", "Audit Committee", "Nomination Committee" and "Corporate Governance Committee" respectively of this corporate governance report.

Minutes of meetings of the Board and committees are recorded in appropriate detail and are kept by the Company Secretary of the Company. The minutes are circulated to the Directors for review within reasonable time after each meeting.

The Directors are able, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide independent professional advice to assist the relevant Directors to discharge their duties.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Based on these confirmations, the Company considers that each of the independent non-executive Directors to be independent.

## TERMS OF APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Each of the independent non-executive Directors was appointed for an initial term of two years which shall be renewable automatically for a successive term of one year each commencing from the next day after the expiry of the then current term of his appointment, unless terminated by either party by giving not less than three month's written notice expiring at the end of the initial term or any time thereafter. The appointment of the independent non-executive Directors is subject to the provisions of the articles of association of the Company with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

## DIRECTORS' CONTINUOUS TRAINING AND DEVELOPMENT

Pursuant to Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. For FY2019, each of the Directors have been given relevant guideline materials to ensure that they are apprised of the latest changes in the commercial, legal and regulatory requirements in relation to the Company's businesses, and to refresh their knowledge and skills on the roles, functions and duties of a listed company director.

New Directors, on appointment, will be given an induction package containing all key legal and Listing Rules' requirements as well as guidelines on the responsibilities and obligations to be observed by a director. The package will also include the latest published financial reports of the Company and the documentation for the corporate governance practices adopted by the Board.

The Company also continuously provide updates to Directors on the latest developments regarding Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices. Circulars or guidance notes are also issued to Directors where appropriate to ensure their awareness of best corporate governance practices.

## REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") of the Board pursuant to a resolution of the Directors passed on 11 January 2013 with written terms of reference in compliance with Rule 3.25 of the Listing Rules. The primary functions of the Remuneration Committee are to make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review performance-based remuneration and ensure none of the Directors determine their own remuneration. During FY2019, the Remuneration Committee has reviewed and approved the remuneration policy and packages of the Directors and the senior management and made recommendation to the Board for consideration and approval.

The Remuneration Committee currently comprises three independent non-executive Directors. Two Remuneration Committee meetings were held during FY2019. Members of the Remuneration Committee and the attendance record of each member are set out below:

| **Members** | **Attendance/ Number of meetings held** |
|---|---|
| **Independent Non-Executive Directors** | |
| Mr. Wong Wing Keung Meyrick *(Chairman)* | 2/2 |
| Mr. Ma Ching Nam | 2/2 |
| Mr. Choi Ho Yan | 2/2 |

## AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") of the Board pursuant to a resolution of the Directors passed on 11 January 2013 with written terms of reference in compliance with Rule 3.21 of the Listing Rules and as amended and re-adopted by the Board with effect from 1 January 2019. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of the external auditor, review the financial statements and material advice in respect of financial reporting and oversee the risk management and internal control systems of the Company. During FY2019, the Audit Committee has reviewed with the management of the Company, the accounting principles and practices adopted by the Group and discussed the audit, risk management and internal control systems and financial reporting matters in relation to the annual report of the Group for the year ended 30 June 2019. The Company has an internal audit function. The risk management and internal control systems of the Group are reviewed by the Audit Committee annually. Based on the review conducted by the Audit Committee during FY2019, the Company considers that the risk management and internal control systems of the Group are effective and adequate.

The Audit Committee currently comprises three independent non-executive Directors. Two Audit Committee meetings were held during FY2019. Members of the Audit Committee and the attendance record of each member are set out below:

| **Members** | **Attendance/ Number of meetings held** |
|---|---|
| **Independent Non-Executive Directors** | |
| Mr. Choi Ho Yan *(Chairman)* | 2/2 |
| Mr. Wong Wing Keung Meyrick | 2/2 |
| Mr. Ma Ching Nam | 2/2 |

## NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") of the Board pursuant to a resolution of Directors passed on 11 January 2013 with written terms of reference in compliance with code provision A.5.1 of the CG Code and as amended and re-adopted by the Board with effect from 1 January 2019. The primary function of the Nomination Committee is to review the structure, size and composition of the Board and to make recommendations to the Board regarding candidates to fill vacancies on the Board.

## NOMINATION POLICY

In appointing a new Director, the Nomination Committee and/or the Board will first call a meeting of the Nomination Committee and invite nominations of candidates from Board members for its consideration prior to the meeting. The Nomination Committee may also put forward candidates who are not nominated by the Board. The Nomination Committee shall then make recommendations for the Board's consideration and approval. The information, including biography, independence (for nomination of non-executive or independent non-executive directors only), proposed remuneration and other information as required under the applicable laws and regulations will be included in the circular to shareholders. A shareholder may also serve to the principal place of business of the Company in Hong Kong a notice in writing for its intention to propose a resolution to elect a certain candidate as Director and a notice by the nominated person of his/her willingness to be elected according to the Articles of Association, without the Board's recommendation or nomination of the Nomination Committee other than those candidates as set out in the circular. The Board shall then consider and have the final decision on all matters relating to whether to have the recommended candidates to stand for election at a general meeting. The Nomination Committee shall ensure the transparency and fairness of the selection procedure.

When making recommendations regarding the appointment of any proposed candidate to the Board or re-appointment of any existing member(s) of the Board, the Nomination Committee shall consider a variety of factors including without limitation the following in assessing the suitability of the proposed candidate:

a. Reputation for integrity.

b. Qualifications including professional qualifications, skills, knowledge and experience that are relevant to the Company's business and corporate strategy.

c. Willingness to devote adequate time to discharge duties as a Board member and other directorships and significant commitments.

d. Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

e. Such other perspectives appropriate to the Company's business.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee may consider other factors so to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

## BOARD DIVERSITY POLICY

Recognising the benefits of having a diversified Board, the Company adopts a board diversity policy and aims to achieve diversity in the Board in order to achieve a sustainable and balanced development for the businesses of the Group. Selection of candidates for the members of the Board are made through the consideration of a different aspects including age, gender, cultural and education background, ethnicity, professional qualification, skills, knowledge and length of services. Besides the above aspects, the Nomination Committee will consider whether the Board composition, as a whole, has sufficient diverse expertise particularly in corporate management, financial control, business development and human resources management. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The following measurable objectives have been set for implementing the board diversity policy:

(a) at least 50% of the members of the Board shall have attained education from university;

(b) at least 40% of the members of the Board shall have obtained accounting or other professional qualifications;

(c) at least 20% of the members of the Board shall have China-related work experience; and

(d) at least 40% of the members of the Board shall be independent non-executive directors.

The Nomination Committee shall review and had reviewed the policy and the measurable objectives annually to ensure its effectiveness to achieve diversity on the Board.

The Nomination Committee currently comprises one executive Director and two independent non-executive Directors. Two Nomination Committee meetings were held during FY2019 to review the structure, size, diversity and composition of the Board, assess the independence of independent non-executive Directors and make recommendation to the Board on re-election of retiring directors. Members of the Nomination Committee and attendance record of the members are set out below:

| **Members** | **Attendance/ Number of meetings held** |
|---|---|
| **Executive Director** | |
| Mr. Tung Koon Ming *(Chairman)* | 2/2 |
| **Independent Non-Executive Directors** | |
| Mr. Ma Ching Nam | 2/2 |
| Mr. Wong Wing Keung Meyrick | 2/2 |

## CORPORATE GOVERNANCE COMMITTEE

The Company has established the CG Committee pursuant to a resolution of the Directors passed on 11 January 2013 with written terms of reference in compliance with paragraph D.3.1 of the CG Code. The primary functions of the CG Committee are to keep the effectiveness of the corporate governance and system of internal non-financial controls of the Group.

The CG Committee currently comprises three independent non-executive Directors. One CG Committee meeting was held during FY2019 to review the policies and practices on corporate governance of the Group. Members of the CG Committee and the attendance record of each member are set out below:

| **Members** | **Attendance/ Number of meetings held** |
|---|---|
| **Independent Non-Executive Directors** | |
| Mr. Ma Ching Nam *(Chairman)* | 1/1 |
| Mr. Choi Ho Yan | 1/1 |
| Mr. Wong Wing Keung Meyrick | 1/1 |

## AUDITOR'S REMUNERATION

The fees in relation to the audit service provided by Deloitte Touche Tohmatsu, the external auditors of the Company, for FY2019 amounted to approximately HK$2,850,000 (2018: approximately HK$2,615,000). No non-audit services were provided by Deloitte Touche Tohmatsu during FY2019.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the financial statements of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the financial statements for FY2019, suitable accounting policies have been adopted and applied consistently. The financial statements for the reporting year have been prepared on a going concern basis.

A statement by the auditors of the Company about their reporting responsibilities is set out in the "Independent Auditor's Report" on pages 55 to 60 of this annual report.

## INTERNAL CONTROLS

The Board has overall responsibility for the effectiveness of the internal control system and monitors the internal control systems through the Group's external professional firms. They review the internal controls of the Group on a continuous basis and aim to cover all major operations of the Group on a cyclical basis. Overall, internal audits are designed to provide the Board with reasonable assurance that the internal control systems of the Group are sound and effective. The Board also reviews regularly the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget. No material irregularities were found in the internal control system of the Group during FY2019.

## COMPLIANCE AND ENFORCEMENT OF THE NON-COMPETE UNDERTAKING FROM CONTROLLING SHAREHOLDERS

As disclosed in the prospectus of the Company dated 24 January 2013 (the "Prospectus"), Mr. Tung Koon Ming, Red Rewarding Limited, Time Watch Investments Private Limited, Winning Metal Products Manufacturing Company Limited and Red Glory Investments Limited, being the then controlling shareholders of the Company (the "Controlling Shareholders"), through various companies controlled by them or any of them, are interested in some other different businesses, including but not limited to the (1) retail sales of multi- brand watches outside the PRC; (2) minority investments in various companies that distribute multi-brand watches; (3) minority investments in various companies that manufacture and supply third-party brands of watches and accessories on OEM basis and manufacture and supply of packaging materials for third-party brands of watches; and (4) property investment in the PRC and Hong Kong ("Excluded Business").

To protect the Group from any potential competition, the Controlling Shareholders have given an irrevocable non-compete undertaking (the "Non-compete Undertaking") in favour of the Company on 11 January 2013 pursuant to which each of the Controlling Shareholders has, among other matters, undertaken with the Company that each of the Controlling Shareholders and their respective associates (other than the Group) shall not, save as to the extent permitted pursuant to the Non-compete Undertaking, engaged in any business which will or may compete with the business currently and from time to time engaged by the Group. Details of the Non-compete Undertaking have been set out in paragraph headed "Relationship with our controlling shareholders – Non-compete undertaking" of the Prospectus.

In order to properly manage any potential or actual conflict of interests between the Group and the Controlling Shareholders in relation to the compliance and enforcement of the Non-compete Undertaking, the Group has adopted the following corporate governance measures:

(i) the independent non-executive Directors shall review, at least on an annual basis, the compliance with and enforcement of the terms of the Non-compete Undertaking by the Controlling Shareholders;

(ii) any decisions on matters reviewed by the independent non-executive Directors relating to compliance and enforcement of the Non-compete Undertaking shall be disclosed either through the Company's annual report or by way of announcement;

(iii) how the terms of the Non-compete Undertaking have been complied with and enforced shall be disclosed in the corporate governance report of the Company's annual report;

(iv) in the event that any of the Directors and/or their respective associates has material interest in any matter to be deliberated by the Board in relation to the compliance and enforcement of the Non-compete Undertaking, he/she may not vote on the resolutions of the Board approving the matter and shall not be counted towards the quorum for the voting pursuant to the applicable provisions in the articles of association of the Company; and

(v) the Group is committed that the Board should include a balanced composition of executives and non–executive Directors (including independent non-executive Directors).

The Directors consider that the above corporate governance measures are sufficient to manage any potential conflict of interests between the Controlling Shareholders and their respective associates and the Group and to protect the interests of the shareholders, in particular, the minority shareholders of the Company.

The Company has received the annual declaration from each of the Controlling Shareholders in respect of their respective compliance with the terms of the Non-compete Undertaking during FY2019. The independent non-executive Directors, having reviewed the annual declarations and made reasonable enquiry, are satisfied that the Controlling Shareholders have complied with the terms of the Non-compete Undertaking during FY2019.

## COMPANY SECRETARY

Ms. Hui Wai Man, Shirley ("Ms. Hui") has been appointed as the Company Secretary of the Company with effect from 2 January 2015. Ms. Hui is a practising accountant in Hong Kong and is currently a director of a CPA firm and a securities firm. She is a fellow of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants, the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Chartered Secretaries. During FY2019, Ms. Hui has attended the relevant professional training in accordance with Rule 3.29 of the Listing Rules. The chief financial officer of the Group, is the primary point of contact at the Company with the Company Secretary.

## SHAREHOLDERS' RIGHTS

### 1. Procedures for shareholders to convene an extraordinary general meeting

1.1 The following procedures for shareholders (the "Shareholders", each a "Shareholder") of the Company to convene an extraordinary general meeting ("EGM") of the Company are prepared in accordance with Article 64 of the articles of association of the Company:

(1) One or more Shareholders (the "Requisitionist(s)") holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice (the "Requisition"), to require an EGM to be called by the Directors for the transaction of any business specified therein.

(2) Such Requisition shall be made in writing to the Board or the Company Secretary of the Company at 27th Floor, CEO Tower, 77 Wing Hong Street, Kowloon, Hong Kong or via email at timewatch@iprogilvy.com.

(3) The EGM shall be held within two months after the deposit of such Requisition.

(4) If the Directors fail to proceed to convene such meeting within twenty-one (21) days of the deposit of such Requisition, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the Requisitionist(s) by the Company.

2. **Procedures for raising enquiries**

2.1 Shareholders should direct their questions about their shareholdings, share transfer, registration and payment of dividend to the Company's branch share registrar in Hong Kong, details of which are as follows:

**Tricor Investor Services Limited**

Address: Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong

Email: is-enquiries@hk.tricorglobal.com

Tel: (852) 2980 1333

Fax: (852) 2861 1465

2.2 Shareholders may raise enquiries in respect of the Company at the following designated contacts, correspondence addresses, email addresses and enquiry hotlines of the Company:

Email: timewatch@iprogilvy.com

Tel: (852) 2136 6185

Fax: (852) 3170 6606

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

Attention: Company Secretary/Board of Directors

2.3 Shareholders are reminded to lodge their questions together with their detailed contact information for the prompt response from the Company if it deems appropriate.

**3. Procedures and contact details for putting forward proposals at shareholders' meetings**

3.1 To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of his/her/its proposal (the "Proposal") with his/her/its detailed contact information at the Company's principal place of business at 27th Floor, CEO Tower, 77 Wing Hong Street, Kowloon, Hong Kong.

3.2 The request will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the request is proper and in order and made by a Shareholder, the Board of Directors will be asked to include the Proposal in the agenda for the general meeting.

3.3 The notice period to be given to all the Shareholders for consideration of the Proposal raised by the Shareholder concerned at the general meeting varies according to the nature of the Proposal as follows:

(a) Notice of not less than 21 clear days and not less than 20 clear business days in writing if the Proposal requires an ordinary resolution or a special resolution of the Company in an annual general meeting of the Company;

(b) Notice of not less than 21 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of a special resolution of the Company in an extraordinary general meeting of the Company; and

(c) Notice of not less than 14 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of an ordinary resolution of the Company in an extraordinary general meeting of the Company.

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's principal place of business in Hong Kong at 27th Floor, CEO Tower, 77 Wing Hong Street, Kowloon, Hong Kong.

## COMMUNICATION WITH SHAREHOLDERS

The management of the Group endeavours to maintain effective communications with the shareholders and potential investor. The Company meets the shareholders at the annual general meeting, publish interim and annual reports on the Company's website (www.timewatch.com.hk) and the Stock Exchange, and release press releases on the Company's website to keep the shareholders and potential investors abreast of the Group's business and development.

## CONSTITUTIONAL DOCUMENTS

During FY2019 and up to the date of this report, there is no change in the Company's constitutional documents.

## DIVIDEND POLICY

The Company seeks to maintain a balance between meeting Shareholders' expectations and prudent capital management with a sustainable, stable and continuing dividend policy. The Company's dividend policy aims strike a balance between allowing Shareholders to participate in the Company's profit and allowing the Company to retain adequate reserves for business operations and future development. In proposing any dividend payout, the Company would consider in accordance with the Articles of Association of the Company and applicable laws and regulations, various factors including (i) the earnings per share of the Company; (ii) the reasonable return in investment of investors and Shareholders in order to provide incentive to them to continue to support the Company in its long-term development; (iii) the financial conditions and business plan of the Company; and (iv) the market sentiment and circumstances. Compliant with the conditions under the dividend policy, the Board may propose final dividends, interim dividends or special dividends distribution as the Board considers appropriate based on the profitability and capital requirements of the Company. The Company shall review and reassess the dividend policy and its effectiveness on a regular basis or when necessary.

## UPDATES ON COMPLIANCE AND REGULATORY MATTERS AS DISCLOSED IN THE PROSPECTUS

### Failure to contribute to social insurance and housing provident fund

As disclosed in the annual report of the Company for FY2018, Tian Wang Shenzhen failed to make full contributions into the social insurance and housing provident fund before the listing date. The Group has made up contributions for all entitled employees of Tian Wang Shenzhen in accordance with the PRC national laws and regulations since July 2012 and has incorporated an enforceable written policy for social insurance and housing provident fund contribution into its human resources management policy as stated in the Prospectus. As there is no established mechanism for enterprises to make up historical deficient contributions, particularly for those contributions which have been outstanding for a certain period of time, the Group has made provision, which cover for both of the employer's and the employee's portions of the unpaid social insurance and housing provident fund contributions, in the consolidated financial statements. As at the date of this report, the Group has not received any notification or orders from the relevant authorities in relation to the previously unpaid social insurance and housing provident fund.

### Defects in relation to lease agreements of the Group

As disclosed in the annual report of the Company for FY2018, the Group strives to rectify the non-compliances or defects in lease agreements (please refer to the section headed "Our business – Litigation and compliance" of the Prospectus for details of such non-compliance). As at the date of this report, save for the lease agreements for four POS of the Group which remain unregistered, the Group has rectified the non–compliances and the defective lease agreements in the manner as disclosed in the Prospectus. As disclosed in the Prospectus, the maximum fine which the Group may be subject to for each unregistered lease agreement is RMB10,000. In respect of the four unregistered lease agreements, the Group has requested the relevant local authorities to implement the registration of the agreements. But the registration procedure for the four lease agreements have not been completed up to the date of this annual report because the local authorities have not provided clear registration procedures to the Group.

# DIRECTORS' REPORT

The Board of Directors of the Company is pleased to present this annual report together with the audited financial statements of the Company and its subsidiaries (collectively, the "**Group**") for FY2019.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its major subsidiaries are set out in note 36 to the consolidated financial statements.

## BUSINESS REVIEW

A business review of the Group for the FY2019 is set out in the section headed "Management Discussion and Analysis" of this annual report on page 13.

Details of the Group's environmental policies and performance are published in the separate Environmental, Social and Governance Report which will be available at the Group's website and the website of the Stock Exchange not later than 3 months after the publication of this annual report.

The Group recognises the importance of compliance with rules and regulations and the impact of non–compliance with such rules and regulations on the business. The Group has been allocating staff resources to ensure ongoing compliance with rules and regulations and to maintain cordial working relationships with regulators through effective communications. Except as disclosed in the section headed "Updates on compliance and regulatory matters as disclosed in the prospectus" on page 21 in this annual report, during FY2019, the Group has complied, to the best of our knowledge, with all relevant rules and regulations that have a significant impact on the business operation of the Group.

The Group recognises the value and importance of its employees and develops its staff by providing trainings and career development opportunities. The Group ensures that all employees are reasonably remunerated and also continues to improve, regularly review and update its policies on remuneration and benefits, training, occupational health and safety. The Group strives to achieve corporate sustainability through providing quality services to its customers and collaborating with its suppliers. To enhance customer satisfaction and promote a customer oriented culture within the Company, the Group takes 'Customer First' as one of its core values. The Group values the feedback from customers and has also established a mechanism to handle customer service, support and complaints. The Group also proactively collaborates with its suppliers and contractors to deliver quality products and services. The Group has developed and included certain requirements in its standard tender documents. These requirements include regulatory compliance, labour practices, anti-corruption and other business ethics.

The applicable discussion and analysis as cross-referenced above shall form an integral part of this Directors' Report.

## MAJOR CUSTOMERS AND SUPPLIERS

During FY2019, sales to the Group's five largest customers accounted for approximately 4.3% of the Group's total revenue of the year and purchase from the Group's five largest suppliers accounted for approximately 27.4% of the Group's total purchase of the year. Purchase from the largest supplier of the Group accounted for approximately 8.4% of the total purchase of the year.

None of the Directors nor any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued shares) of the Company had any interest in the Group's five largest customers or suppliers.

## RESULTS AND DIVIDENDS

The results of the Group for FY2019 are set out in the consolidated statement of profit or loss and other comprehensive income on page 61 of this annual report and the state of affairs of the Group as at 30 June 2019 are set out in the consolidated statement of financial position on page 62 to 63 of this annual report.

The Directors have recommended the payment of a final dividend of HK4.3 cents per Share for FY2019 amounting to approximately HK$89.4 million, which is subject to shareholders' approval at the forth coming annual general meeting of the Company to be held on 21 November 2019 (the "**Annual General Meeting**"). For FY2018, the Company has paid a final dividend of HK3.75 cents per Share. Subject to the approval of the shareholders at the Annual General Meeting, the proposed final dividend will be paid to Shareholders whose name appears on the register of members of the Company at the close of business on 28 November 2019. It is expected that the proposed final dividend will be paid on or about 9 December 2019.

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining members who are qualified for attending the Annual General Meeting, the register of members of the Company will be closed from 18 November 2019 to 21 November 2019 (both days inclusive), during which period no transfer of share of the Company will be effected. In order to qualify for attending the Annual General Meeting, all transfers of shares of the Company accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on 15 November 2019.

For the purpose of determining members who are qualified for the proposed final dividend for FY2019 which is subject to approval by the shareholders at the Annual General Meeting, the register of members of the Company will be closed on 28 November 2019, on which no transfer of share of the Company will be effected. In order to qualify for the entitlement to the proposed final dividend, all transfers of shares of the Company accompanied by the relevant share certificates and properly completed transfer forms must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited at the above address for registration no later than 4:30 p.m. on 27 November 2019.

## RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

The Directors considered that the Company's reserves available for distribution to shareholders comprise the share premium and the accumulated earnings which amounted to approximately HK$1,318.4 million for FY2019 (FY2018: approximately HK$895.1 million). Under the Companies Law (Revised) Chapter 22 of the Cayman Islands (the jurisdiction where the Company was incorporated), the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum or articles of association and provided that immediately following the distribution of dividend the Company is able to pay its debts as they fall due in the ordinary course of business.

## RETIREMENT BENEFIT SCHEMES

Details of retirement benefit schemes of the Group are set out in note 30 to the consolidated financial statements in this annual report.

## PROPERTY, PLANT AND EQUIPMENT

During FY2019, the Group paid for leasehold improvements at a cost of approximately HK$1.5 million, acquired furniture and fixtures at a cost of approximately HK$0.9 million, computer equipment at a cost of approximately HK$2.4 million, tools, machinery, factory equipment and fittings at a cost of approximately HK$82.4 million, motor vehicles and yacht at a cost of approximately HK$1.2 million and construction in progress of approximately HK$52.1 million.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements in this annual report.

## SHARE CAPITAL

Details of the issued share capital of the Company during FY2019 are set out in note 26 to the consolidated financial statements in this annual report.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company during FY2019 and up to the date of this report were:

**Executive Directors**

Mr. Tung Koon Ming *(Chairman)*
Mr. Hou Qinghai *(retired with effect from 22 November 2018)*
Mr. Tung Koon Kwok Dennis *(appointed with effect from 1 March 2019)*
Mr. Tung Wai Kit
Mr. Deng Guanglei

**Independent Non-Executive Directors**

Mr. Ma Ching Nam
Mr. Wong Wing Keung Meyrick
Mr. Choi Ho Yan

In accordance with Article 109 of the Company's articles of association, Mr. Tung Koon Kwok Dennis will retire at the Annual General Meeting. In accordance with article 105(A) of the Company's articles of association, Mr. Wong Wing Keung Meyrick and Mr. Choi Ho Yan (collectively, the "**Retiring Directors**") will retire at the Annual General Meeting. The Retiring Directors, being eligible, will offer themselves for re-election.

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. Based on these confirmations, the Company considers that each of the independent non-executive Directors to be independent.

Each of Mr. Tung Koon Ming, Mr. Tung Wai Kit and Mr. Deng Guanglei, all being executive Directors, has entered into a service contract with the Company for an initial term of two years with effect from 11 January 2013, Mr. Tung Koon Kwok Dennis, being an executive Director, has entered into a service contract with the Company for an initial term of two years with effect from 1 March 2019, and renewable automatically until terminated by either party by giving not less than three months' written notice. Each of their appointment is subject to the provisions of the articles of association of the Company with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

Each of the independent non-executive Directors is appointed for an initial term of two years which shall be renewable automatically for a successive term of one year each commencing from the next day after the expiry of the then current term of his appointment, unless terminated by either party by giving not less than three month's written notice expiring at the end of the initial term or any time thereafter. The appointment of the independent non-executive Directors is subject to the provisions of the articles of association of the Company with regard to vacation of office of Directors, removal and retirement by rotation of Directors.

No Directors proposed for re-election at the Annual General Meeting of the Company has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors' fees are subject to Shareholders' approval at general meeting of the Company. Other emoluments are determined by the Board of Directors with reference to Directors' duties, responsibilities and performance and the results of the Group.

The remuneration of the senior management by band for FY2019 is set out below:

| Remuneration bands | Number of employees |
|---|---|
| HK$1,000,001 to HK$1,500,000 | 2 |
| HK$1,500,001 to HK$2,000,000 | 2 |

Further details of the Directors' remuneration and the five highest paid employees are set out in notes 6 and 7 to the consolidated financial statements in this annual report respectively.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2019, the interests and short positions of the Directors and the 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 for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules were as follows:

| Name of Director | Name of Group member/associated corporation | Capacity/nature of interest | Number and class of securities *(note 1)* | Approximate percentage of shareholding |
|---|---|---|---|---|
| Mr. Tung Koon Ming ("**Mr. Tung**") | Company | Interest of controlled corporation *(Note 2)* | 1,456,277,000 (L) | 70.02% |
| | | Beneficial owner | 9,092,000 | 0.44% |
| Mr. Tung Koon Kwok Dennis | Company | Beneficial owner | 16,778,000 | 0.81% |

*Notes:*

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

2. These Company's Shares 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 30 June 2019, none of the Directors or the 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

So far as the Directors are aware of, as at 30 June 2019, 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 SFO and based on the information available 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)* | 1,465,369,000 Shares (L) | 70.45% |
| Areo Holdings Limited | Interest of a controlled corporation *(note 3)* | 186,292,000 Shares (L) | 8.96% |
| Lam Lai Ming | Interest of a controlled corporation *(note 3)* | 186,292,000 Shares (L) | 8.96% |
| Li Gabriel | Interest of a controlled corporation *(note 3)* | 186,292,000 Shares (L) | 8.96% |
| Orchid Asia V, L.P. | Beneficial owner *(note 3)* | 180,946,000 Shares (L) | 8.70% |
| OAV Holdings, L.P. | Interest of a controlled corporation *(note 3)* | 180,946,000 Shares (L) | 8.70% |
| Orchid Asia V GP, Limited | Interest of a controlled corporation *(note 3)* | 180,946,000 Shares (L) | 8.70% |
| Orchid Asia V Group Management, Limited | Interest of a controlled corporation *(note 3)* | 180,946,000 Shares (L) | 8.70% |
| Orchid Asia V Group, Limited | Interest of a controlled corporation *(note 3)* | 180,946,000 Shares (L) | 8.70% |

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 note 2 to the paragraph headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company and its Associated Corporations" in this annual report.

3. So far as the Directors are aware of, these Shares were beneficial owned as to 180,946,000 Shares by Orchid Asia V, L.P. and 5,346,000 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 30 June 2019, 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.

## SIGNIFICANT INVESTMENT HELD, MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

Save as disclosed in the paragraph headed "Financial assets at fair value through profit or loss" and "Debt instruments at fair value through other comprehensive income" in the section headed "Management Discussion and Analysis", there was no material acquisition or disposal of subsidiaries or associated companies or significant investment held by the Company during FY2019.

## SHARE OPTION SCHEME

A share option scheme (the "**Scheme**") was conditionally approved by the then sole shareholder of the Company on 11 January 2013 for the purpose of providing incentives or rewards to eligible participants for their contribution to the Group.

Eligible participants of the Scheme include, (i) any employee (whether full time or part time, including any executive director) of the Company, its subsidiaries or invested entity; (ii) any non-executive directors (including independent non-executive directors) of the Company, its subsidiaries or invested entity; (iii) any supplier or customer of the Group or any invested entity; (iv) any person or entity that provides research, development or other technological support to the Group or any invested entity; (v) any shareholder of any member of the Group or any invested entity or any holder of any securities issued by any member of the Group or any invested entity; (vi) any advisor (professional or otherwise) or consultant to any area of business or business development of the Group or any invested entity; (vii) any other group or classes of participants who have contributed or may contribute by way of joint venture, business alliance or other business arrangement to the development and growth of the Group; and (viii) any company wholly owned by one or more eligible participants as referred to in (i) to (vii) above.

The maximum number of Shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option scheme adopted by the Group must not in aggregate exceed 30% of the share capital of the Company in issue from time to time. The maximum number of Shares issuable upon the exercise of options granted under the Scheme and any other share option scheme adopted by the Group (including both exercised or outstanding options) to each grantee within any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. Share options granted to a Director, chief executive or substantial shareholder of the Company, or any of their associates must be approved by the independent non-executive Directors (excluding independent non-executive Director who or whose associates is the proposed grantee of the options).

In addition, any share options granted to a substantial shareholder or an independent non-executive Director of the Company or to any of their associates, in excess of 0.1% of the Shares in issue at any time and with an aggregate value (based on the closing price of the Shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The total number of shares which may be issued upon exercise of all options (excluding for this purpose options which have lapsed) to be granted under the Scheme and any other share option schemes must not in aggregate exceed 200,000,000 shares, representing approximately 10% and 9.62% of shares in issue as at 5 February 2013 (the date of which the shares of the Company were listed on the Stock Exchange) and as at the date of this annual report, respectively.

The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Directors, which period may commence from the date of the offer of the share options, and shall end on a date which is not later than 10 years from the date of grant of the share options subject to the provisions for early termination thereof.

The subscription price for the shares under the Scheme shall be determined by the Directors, but shall not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for trade in one or more board lots of the Shares on the date of the offer for the grant, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of the offer for the grant; and (iii) the nominal value of a Share.

Subject to the earlier termination of the Scheme in accordance with the rules thereof, the Scheme will remain in force for a period of 10 years commencing on 11 January 2013, which was the date of adoption of the Scheme and will expire on 10 January 2023.

During FY2019, no share option was granted, exercised, cancelled or lapsed under the Scheme.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the related party transactions as set out in note 35 to the consolidated financial statements and in the section headed "Connected transactions" in this annual report, no Director nor an entity connected with such director had a material interest, whether directly or indirectly, in any transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party, subsisting during or at the end of the year.

Save as disclosed in the related party transactions as set out in note 35 to the consolidated financial statements and in the section headed "Connected transactions" in this annual report, no contract of significance (whether it is for provision of services to the Group or not) had been entered into between the Company or any of its subsidiaries, and any controlling shareholder (as defined in the Listing Rules) of the Company or any of its subsidiaries.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

During FY2019 and up to the date of this report, except for Mr. Tung Koon Ming who is one of the Controlling Shareholders currently interested or engaged in the Excluded Business, none of the Directors are considered to have any direct or indirect interests in businesses which compete or are likely to compete with businesses of the Group pursuant to Rule 8.10 of the Listing Rules.

## CONNECTED TRANSACTIONS

### Continuing Connected Transactions

During FY2019, the Group has conducted the following continuing connected transactions which were required to be disclosed pursuant to Rule 14A.71 of the Listing Rules:

(a) Pursuant to a distribution agreement ("**US Distribution Agreement**") entered into between the Group and PT Far East Limited ("**PTFE**") dated 3 July 2018, PTFE has agreed to (i) grant to the Group a non-exclusive right to market, sell and distribute the watch(es) which carry(ies) the trademark of "Timberland" ("**Timberland Watches**") on retail basis in the United States; and (ii) sell the Timberland Watches to the Group on wholesale basis for a term commencing from 1 July 2018 to 30 June 2021 (both dates inclusive). The purchase price per unit of Timberland Watches to be supplied by PTFE to the Group shall be an agreed percentage of discount ("**Discount Percentage**") to the recommended retail price of each of the Timberland Watches in the United States from time to time informed by PTFE to the Group. The Discount Percentage has already been fixed and agreed by the parties, and has been stipulated in the US Distribution Agreement. PTFE shall supply to the Group up-to-date copies of the recommended retail price of the Timberland Watches from time to time by giving not less than one month's notice in writing of any alteration in such recommended retail price. During FY2019, the aggregate monetary amount of purchase of the Timberland Watches from PTFE under the US Distribution Agreement was nil (FY2018: HK$2.8 million). Further details about the connection between PTFE and the Company are set out under sub-paragraph (g) below.

(b) Pursuant to an agency agreement ("**Sales Agency Agreement**") entered into between the Group and Fortune Concept Limited ("**Fortune Concept**") dated 3 July 2018 in relation to the appointment of Fortune Concept as agent for the sale of watch(es) which carry(ies) the trademarks of "Kenneth Cole" or (as the case may be) "Ted Baker" ("**KC/TB Watches**") to airlines for a term commencing from 1 July 2018 to 28 February 2019 (both dates inclusive). In consideration of the agency services provided by Fortune Concept, the Group shall pay Fortune Concept a sales commission amounting to 15% of the aggregate sales price of the KC/TB Watches delivered to Fortune Concept for the sale of such KC/TB Watches to the relevant airlines each month. During FY2019, the aggregate transaction amount for obtaining agency services from Fortune Concept under the Sales Agency Agreement was approximately HK$70,000 (FY2018: HK$0.9 million). Further details about the connection between Fortune Concept and the Company are set out under sub-paragraph (g) below.

(c) Pursuant to an agreement entered into between ILG of Switzerland Ltd ("**ILG**") and the Group dated 3 July 2018 (the "**E&I Agreement**"), the Group agreed to provide the export and import services of multi-brand watches and accessories between Hong Kong and the PRC to ILG and its subsidiaries ("**ILG Group**") for a term of three years commencing from 1 July 2018 to 30 June 2021 (both dates inclusive) unless terminated earlier by a party serving three months notice in writing on the other party. Any member of the ILG Group may from time to time deliver services notice ("**E&I Services Notice**") in writing to the Group which shall specify, among other matters, (i) such multi-brand watches and/or accessories to be purchased and taken delivery by a member of the Group in the PRC or Hong Kong (the "**Import Agent**") from the ILG Group, which would in turn be sold by the Group to another member of the ILG Group in the PRC or Hong Kong; and (ii) the aggregate purchase price of the watches and/or accessories ordered and purchased. The Group shall provide the export and import services to the ILG Group by the Import Agent entering into the contracts with the relevant member of the ILG Group for the purchase of such watches and/or accessories at such purchase price as specified in the E&I Services Notice. In consideration of the export and import services performed by the Group in respect of each sale and purchase contract, ILG shall pay the Group a service fee amounting to the higher of (i) 2.5% of the selling price which is equal to the aggregate of (i) the purchase price paid by the Group for such watches and/or accessories; (ii) custom duty; (iii) value-added tax; and (iv) other taxation and levy payable or paid by the Group for the purpose of the export and import of such watches and/or accessories from Hong Kong into the PRC or (as the case may be) from the PRC into Hong Kong, and (ii) HK$16,000. The service fee has been determined among the parties after arm's length negotiation, taking into account the expected costs and expenses to be incurred by the Group, such as transportation and insurance costs in providing such export and import exercises. During FY2019, the aggregate service fees derived from provision of export and import services of watches and accessories by the Group pursuant to the E&I Agreement was approximately HK$69,000 (FY2018: HK$40,000). Further details about the connection between ILG and the Company are set out under sub-paragraph (g) below.

(d) Pursuant to a watch movement supply agreement entered into between the Group and ILG dated 3 July 2018 (the "**Watch Movement Supply Agreement**") for a term of three years commencing from 1 July 2018 to 30 June 2021 (both dates inclusive), the Group agreed to supply watch movements to the ILG Group. During the term of the Watch Movement Supply Agreement, any member of the ILG Group may from time to time seek the latest quotation from the Group for the purchase of watch movements and place orders with the Group for the purchase of watch movements for delivery to the ILG Group's designated location by way of purchase orders, the purchase price per unit of watch movements so purchased by ILG Group shall be such unit price quoted by the Group within three days before the date on which the purchase order of watch movements is placed by ILG Group. During FY2019, the aggregate revenue from sale of watch movements by the Group to the ILG Group was approximately HK$9.8 million (FY2018: HK$9.2 million). Further details about the connection between ILG and the Company are set out under sub-paragraph (g) below.

(e) Pursuant to a master production agreement ("**Master Production Agreement**") entered into between the Group and FM Swiss Logistic SA ("**FM Swiss**") dated 22 November 2016, the Group outsourced and licensed the rights of production of watches (including but not limited to their parts and accessories) bearing the mark "Balco" or "拜戈", which has been registered by Balco Switzerland ("**Balco Watches**") to FM Swiss for a term of three years commencing from 22 November 2016 and it shall be automatically renewed for another term of three years upon expiry of the initial term unless terminated by either party by giving notice in writing to the other party at least six months prior to the expiry of the then term. In consideration of Balco Watches to be supplied by FM Swiss, the Group shall pay to FM Swiss the purchase price per unit of the Balco Watches to be supplied by FM Swiss which shall be on a cost plus basis and shall be, depending on the complexity of the design, components, materials used and other requirements of production, at the range of 5% to 20% of the cost of materials and components as quoted to the Group in respect of the production of such Balco Watches. For FY2019, the aggregate purchase amount of Balco Watches under the Master Production Agreement was approximately HK$17.0 million (FY2018: HK$18.0 million).

As (i) Christian Marcal Frommherz ("**Mr. Frommherz**") is a director of FM Swiss; and (ii) Mr. Frommherz is a director of Geneve Watch Group, Inc, an indirect non-wholly owned subsidiary of the Company. As such, FM Swiss is a connected person of the Company at the subsidiary level.

(f) Pursuant to a services agreement entered into between the Group and Fortune Concept dated 4 July 2017 (as amended by a supplemental agreement ("**Supplemental Administrative Agreement**") dated 7 February 2018 and 31 December 2018) entered into by Fortune Concept and the Group ("**Administrative Services Agreement**"), the Group has engaged Fortune Concept to provide administrative services in relation to Group's sales of multi-brand watches and accessories or those of which the Group is licensed to distribute in any place of the world (other than the United States) ("**Administrative Services**") for a term commencing from 30 June 2018 and ended on 31 December 2018 (both dates inclusive) unless terminated earlier by a party serving three months notice in writing on the other party. In consideration of the Administrative Services provided by Fortune Concept, the Group shall pay Fortune Concept a services fee of HK$147,000 per month. During FY2019, the aggregate services fee paid by the Group under the Administrative Services Agreement was approximately HK$882,000 (FY2018: HK$2,121,000). Further details about the connection between Fortune Concept and the Company are set out under sub-paragraph (g) below.

Pursuant to the Supplemental Administrative Agreement, the parties have agreed to revise the services fee of the Administrative Services under the Administrative Services Agreement from HK$147,000 per month to HK$158,000 per month and the extension of the Administrative Services Agreement from 31 December 2018 to 31 August 2019 with effect from 1 January 2019. During FY2019, the aggregate services fee paid by the Group under the Administrative Services Agreement was approximately HK$948,000. As all the applicable percentage ratios are less than 0.1%, the transaction contemplated under the Supplemental Administrative Agreement is exempted from reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 31 December 2018 for further details of the Supplemental Administrative Agreement.

(g) In relation to each of the US Distribution Agreement, the Sales Agency Agreement, the E&I Agreement, Watch Movement Supply Agreement and the Administrative Services Agreement as at the latest practicable date prior to the issue of this annual report, as (i) ILG is owned as to approximately 60.34% by Mr. Pishu Vashdev Chainani ("**Mr. Chainani**") and his brother; (ii) Mr. Chainani is the sole shareholder of International Watch Group Limited ("**IWG**") which in turn holds 49% of issued share capital of TWB Investments Limited (an indirect non-wholly owned subsidiary of the Company); and (iii) each of Fortune Concept and PTFE is wholly owned by ILG, each of ILG and other members of the ILG Group (including Fortune Concept and PTFE) is a connected person of the Company at the subsidiary level.

(h) Pursuant to a tenancy agreement entered into between Winning Asia Holdings Group Limited ("**Winning Asia**") and the Group dated 29 June 2018, the Group agreed to lease from Winning Asia a premises located at Hong Kong as the Group's head office for a term of one year commencing from 1 July 2018 and ended on 30 June 2019 (both dates inclusive) (subject to the right for the Group to terminate the agreement by serving not less than one month prior written notice) at a monthly rent of HK$375,000, inclusive of repairing and maintenance fee, government rent and rates, management fees, electricity and water bills and other fees in relation to the use of the premises but exclusive of other utility charges. During FY2019, the aggregate rent paid by the Group to Winning Asia for rental of the said premises was HK$4,500,000 (FY2018: HK$4,500,000).

As Winning Asia is wholly-owned by Red Frame which, in turn, is wholly owned by Mr. Tung Koon Ming ("**Mr. Tung**"), an executive Director and substantial shareholder of the Company, Winning Asia is a connected person of the Company.

(i) Pursuant to a tenancy agreement entered into between Zhengzhou Hengdi Investment Company Limited (currently known as "Zhengzhou Weiji Real Estate Sales & Marketing Company Limited) ("**Zhengzhou Hengdi**") and the Group dated 29 June 2018, Zhengzhou Hengdi agreed to lease to the Group a premise located in Zhengzhou, the PRC as the Group's representative office for a term of one year commencing from 1 July 2018 and ended on 30 June 2019 (both dates inclusive) at a monthly rent of RMB32,467 inclusive of water, electricity, management fee and other utility charges, rates, management fees and other fees in relation to the use of the premises. The Group has an option to renew the tenancy agreement for a successive term of one year upon expiry of the original term. During FY2019, the aggregate rent paid by the Group to Zhengzhou Hengdi for rental of the said premises was RMB389,600 (FY2018: RMB389,600).

As Zhengzhou Hengdi is wholly and beneficially owned by Mr. Tung, Zhengzhou Hengdi is a connected person of the Company.

The independent non-executive Directors have, for the purpose of Rule 14A.55 of the Listing Rules, reviewed and confirmed that the aforementioned continuing connected transactions undertaken by the Group were entered into (i) in the ordinary and usual course of business of the Group; (ii) either on normal commercial terms or better; and (iii) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. Deloitte Touche Tohmatsu, auditors of the Company, has issued a letter to the Company to confirm the matters stated in Rule 14A.56 of the Listing Rules.

## USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the IPO of the Company in February 2013, after the deduction of expenses, amounted to approximately HK$742.0 million which comprise approximately HK$640.0 million from the global offering and approximately HK$102.0 million from the partial exercise of over-allotment option, of which approximately HK$702.0 million had been utilised from the year ended 30 June 2013 to the year ended 30 June 2018. For FY2019, the Company had not further utilised the net proceeds.

## SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained a sufficient public float as required under the Listing Rules as at the latest practicable date prior to the issue of this annual report.

## DONATIONS

The Group's charitable and other donations for FY2019 amounted to approximately HK$3.7 million (FY2018: HK$2.7 million). No donations were made to political parties.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years is set out on page 161 of this annual report.

## EVENTS AFTER THE REPORTING PERIOD

There is no material subsequent event undertaken by the Company or by the Group after 30 June 2019 and up to the date of this annual report.

## CORPORATE GOVERNANCE

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 30 to page 41 of this annual report.

## AUDIT COMMITTEE

The Audit Committee of the Board has reviewed the management and the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including review of the audited financial statements for FY2019.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws in the Cayman Islands, the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders of the Company.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During FY2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

# *DIRECTORS' REPORT*

## PERMITTED INDEMNITY PROVISIONS

During FY2019 and up to the date of this report, permitted indemnity provisions (within the meaning in section 469 of the Companies Ordinance) (Chapter 622 of the Laws of Hong Kong) were in force for the benefit of the Directors of the Company and its subsidiaries. The permitted indemnity provisions are provided for in the Company's articles of association and in the Directors liability insurance maintained for the Group in respect of potential liability and costs associated with legal proceedings that may be brought against such Directors.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company, which were not contract of service with any Director or any person engaged in full time employment of the Company, were entered into or existed during FY2019.

## AUDITORS

The Company has appointed Deloitte Touche Tohmatsu as auditors of the Company for FY2019 which will retire as the Company's auditors at the end of the Annual General Meeting, and being eligible, will offer themselves for re-appointment. A resolution to re-appoint Deloitte Touche Tohmatsu as auditors of the Company for the year ending 30 June 2020 will be proposed at the Annual General Meeting.

On behalf of the Board

**Mr. Tung Koon Ming**
*Chairman*
Hong Kong, 25 September 2019

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

**TO THE MEMBERS OF TIME WATCH INVESTMENTS LIMITED**
(incorporated in the Cayman Islands with limited liability)

## OPINION

We have audited the consolidated financial statements of Time Watch Investments Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 61 to 160, which comprise the consolidated statement of financial position as at 30 June 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 30 June 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| ***Valuation of inventories*** | |
| We identified the valuation of inventories as a key audit matter because of its significance to the consolidated financial statements, and the significant judgement exercised by management in identifying slow-moving inventory items that are no longer suitable for use in production or for sale and determining the appropriate levels of write down of inventories.<br><br>As set out in note 4 to the consolidated financial statements, in determining the write down of obsolete and slow-moving inventory items, the management reviews the ageing of inventories and carries out an inventory review on a product-by-product basis with reference to subsequent sales and usage of inventories, latest selling prices and current market condition.<br><br>As at 30 June 2019, the carrying amount of inventories is approximately HK$480,665,000 and write down of inventories of approximately HK$3,363,000 was charged to profit or loss for the year then ended. | Our procedures in relation to evaluating the reasonableness of the valuation of inventories included:<br><br>• Understanding the inventory allowance policy of the Group in the identification of slow-moving inventories and measurement of the write down of inventories;<br><br>• Assessing whether the inventory allowance at the end of the reporting period was calculated in a manner consistent with the Group's inventory write down policy;<br><br>• Testing the accuracy of the Group's inventory ageing analysis, on a sample basis, to purchase invoices or production notes and assessing whether the write down of inventories is reasonable based on the factors considered by the management;<br><br>• Enquiring the management and the sales team about any expected changes in plans for the markdown of selling price of slow-moving inventories; and<br><br>• Assessing the reasonableness of the estimation of the net realisable value of inventories with reference to usage and sales of inventories subsequent to the end of the reporting period and latest selling prices, on a sample basis. |

| Key Audit Matter | How our audit addressed the key audit matter |
|---|---|
| ***Estimated provision of expected credit losses ("ECL") of trade receivables*** | |
| We identified the estimated provision of ECL for trade receivables as a key audit matter due to its significance to the consolidated financial statements, and the use of judgement and estimates by the management involved in determining the allowance for credit losses.<br><br>As disclosed in note 4 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of not credit-impaired trade receivables collectively based on provision matrix through grouping of various debtors that have similar loss patterns and credit-impaired trade receivables individually, after considering internal credit ratings of trade debtors, ageing, repayment history and/or past due status of respective trade receivables. Estimated loss rates are based on historical observed default rates over the expected life of the debtors and are adjusted for forward looking information that is reasonable and supportable available without undue costs or effort.<br><br>As at 30 June 2019, the carrying amount of trade receivables is approximately HK$370,046,000 (net with HK$42,489,000 loss allowance recognised). | Our procedures in relation to the ECL of trade receivables included:<br><br>• Understanding key controls on how the management estimates the loss allowance for trade receivables;<br><br>• Testing the integrity of information used by management to develop the provision matrix, including trade receivables ageing analysis as at 1 July 2018 and 30 June 2019, on a sample basis, by comparing individual items in the analysis with the relevant sales agreements, sales invoices and other supporting documents;<br><br>• Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 1 July 2018 and 30 June 2019, including their identification of credit impaired trade receivables, the reasonableness of management's grouping of the remaining trade debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to historical default rates and forward-looking information); and<br><br>• Evaluating the disclosures regarding the impairment assessment of trade receivables in note 33 to the consolidated financial statements. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## INDEPENDENT AUDITOR'S REPORT

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Wan Chi Lap.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
25 September 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2019

| | NOTES | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **2,670,209** | 2,962,262 |
| Cost of sales | | **(784,959)** | (883,060) |
| Gross profit | | **1,885,250** | 2,079,202 |
| Other income, gains and losses | 8 | **72,565** | 43,247 |
| Net impairment losses on trade receivables | | **(12,693)** | (28,857) |
| Selling and distribution costs | | **(1,379,996)** | (1,494,333) |
| Administrative expenses | | **(189,776)** | (199,334) |
| Finance costs | 9 | **(8,307)** | (8,970) |
| Share of results of a joint venture | | **648** | – |
| **Profit before taxation** | | **367,691** | 390,955 |
| Income tax | 10 | **(74,624)** | (114,992) |
| **Profit for the year** | 11 | **293,067** | 275,963 |
| Other comprehensive income (expense) | | | |
| Items that will not be reclassified to profit or loss: | | | |
| Gain on revaluation of leasehold land and buildings | | **491** | 475 |
| Exchange differences arising on translation | | **(66,972)** | 35,345 |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Fair value change of available-for-sale investments | | **–** | (1,435) |
| Fair value change of debt instruments at fair value through other comprehensive income | | **5,294** | – |
| Reclassification adjustment relating to available-for-sale investment disposed of during the year | | **–** | 1,498 |
| Reclassification adjustment relating to debt instruments at fair value through other comprehensive income disposed of during the year | | **1,392** | – |
| | | **(59,795)** | 35,883 |
| **Total comprehensive income for the year** | | **233,272** | 311,846 |
| **Profit (loss) for the year attributable to:** | | | |
| Owners of the Company | | **305,360** | 291,447 |
| Non-controlling interests | | **(12,293)** | (15,484) |
| | | **293,067** | 275,963 |
| **Total comprehensive income (expense) attributable to:** | | | |
| Owners of the Company | | **247,138** | 326,469 |
| Non-controlling interests | | **(13,866)** | (14,623) |
| | | **233,272** | 311,846 |
| **Earnings per share** | 13 | | |
| – Basic (HK cents) | | **14.7** | 14.0 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

| | NOTES | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **231,713** | 180,143 |
| Prepaid lease payments | 15 | **34,708** | 37,501 |
| Investment property | 16 | **113,900** | 111,000 |
| Deposits paid for acquisition of property, plant and equipment | | **1,919** | 3,958 |
| Interest in a joint venture | 17 | **9,481** | – |
| Financial assets at fair value through profit or loss | 18 | **383,918** | – |
| Debt instruments at fair value through other comprehensive income | 19 | **200,298** | – |
| Available-for-sale investments | 20 | **–** | 19,165 |
| Deferred tax assets | 27 | **48,863** | 51,216 |
| | | **1,024,800** | 402,983 |
| **Current assets** | | | |
| Inventories | 21 | **480,665** | 583,650 |
| Prepaid lease payments | 15 | **1,306** | 1,359 |
| Trade receivables | 22 | **370,046** | 415,692 |
| Other receivables, deposits and prepayments | 22 | **113,384** | 129,608 |
| Tax recoverable | | **20** | 7 |
| Financial assets at fair value through profit or loss | 18 | **274,656** | 337,725 |
| Debt instruments at fair value through other comprehensive income | 19 | **19,441** | – |
| Available-for-sale investments | 20 | **–** | 29,617 |
| Pledged bank deposits | 23 | **7,793** | 6,953 |
| Bank balances and cash | 23 | **421,748** | 762,162 |
| | | **1,689,059** | 2,266,773 |
| **Current liabilities** | | | |
| Trade payables and bills payable | 24 | **79,228** | 88,083 |
| Other payables and accrued charges | 24 | **163,831** | 185,004 |
| Contract liabilities | 24 | **182** | – |
| Tax liabilities | | **37,754** | 59,433 |
| Bank borrowings and overdraft | 25 | **62,542** | 67,521 |
| Other loans | 28 | **143,333** | 135,118 |
| | | **486,870** | 535,159 |
| **Net current assets** | | **1,202,189** | 1,731,614 |
| **Total assets less current liabilities** | | **2,226,989** | 2,134,597 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

| | NOTES | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | 26 | **207,995** | 207,995 |
| Reserves | | **2,015,553** | 1,892,700 |
| Equity attributable to owners of the Company | | **2,223,548** | 2,100,695 |
| Non-controlling interests | | **(64,517)** | (47,601) |
| **Total equity** | | **2,159,031** | 2,053,094 |
| **Non-current liabilities** | | | |
| Deferred tax liabilities | 27 | **67,958** | 81,503 |
| | | **67,958** | 81,503 |
| | | **2,226,989** | 2,134,597 |

The consolidated financial statements on pages 61 to 160 were approved and authorised for issue by the Board of Directors on 25 September 2019 and are signed on its behalf by:

| | |
|---|---|
| **Mr. Tung Koon Ming** | **Mr. Tung Wai Kit** |
| *DIRECTOR* | *DIRECTOR* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2019

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Special reserve HK$'000 (note a) | Translation reserve HK$'000 | Investment revaluation reserve HK$'000 | Properties revaluation reserve HK$'000 | Statutory surplus reserve HK$'000 (note b) | Accumulated profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 30 June 2017 | 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 year | – | – | – | – | – | – | – | 291,447 | 291,447 | (15,484) | 275,963 |
| Exchange differences arising on translation | – | – | – | 34,484 | – | – | – | – | 34,484 | 861 | 35,345 |
| Gain on revaluation of leasehold land and buildings | – | – | – | – | – | 475 | – | – | 475 | – | 475 |
| Fair value change of available-for-sale investments | – | – | – | – | (1,435) | – | – | – | (1,435) | – | (1,435) |
| Reclassification adjustment relating to available-for-sale investment disposed of during the year | – | – | – | – | 1,498 | – | – | – | 1,498 | – | 1,498 |
| Total comprehensive income (expense) for the year | – | – | – | 34,484 | 63 | 475 | – | 291,447 | 326,469 | (14,623) | 311,846 |
| Appropriation to reserve | – | – | – | – | – | – | 2,093 | (2,093) | – | – | – |
| Dividends recognised as distribution during the year (note 12) | – | – | – | – | – | – | – | (103,997) | (103,997) | – | (103,997) |
| Dividends declared by subsidiaries to non-controlling interests | – | – | – | – | – | – | – | – | – | (3,246) | (3,246) |
| Deemed contribution from a non-controlling shareholder arising from loan from a non-controlling shareholder of a subsidiary | – | – | 198 | – | – | – | – | – | 198 | 191 | 389 |
| At 30 June 2018 | 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) | – | – | – | – | – | – | – | (4,688) | (4,688) | (972) | (5,660) |
| **At 1 July 2018 (restated)** | **207,995** | **511,101** | **(230,147)** | **(1,858)** | **(2,326)** | **4,389** | **71,687** | **1,535,166** | **2,096,007** | **(48,573)** | **2,047,434** |
| Profit (loss) for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **305,360** | **305,360** | **(12,293)** | **293,067** |
| Exchange differences arising on translation | **–** | **–** | **–** | **(65,399)** | **–** | **–** | **–** | **–** | **(65,399)** | **(1,573)** | **(66,972)** |
| Gain on revaluation of leasehold land and buildings | **–** | **–** | **–** | **–** | **–** | **491** | **–** | **–** | **491** | **–** | **491** |
| Fair value change of debt instruments at fair value through other comprehensive income | **–** | **–** | **–** | **–** | **5,294** | **–** | **–** | **–** | **5,294** | **–** | **5,294** |
| Reclassification adjustment relating to a debt instrument at fair value through other comprehensive income disposed of during the year | **–** | **–** | **–** | **–** | **1,392** | **–** | **–** | **–** | **1,392** | **–** | **1,392** |
| Total comprehensive (expense) income for the year | **–** | **–** | **–** | **(65,399)** | **6,686** | **491** | **–** | **305,360** | **247,138** | **(13,866)** | **233,272** |
| Appropriation to reserve | **–** | **–** | **–** | **–** | **–** | **–** | **870** | **(870)** | **–** | **–** | **–** |
| Dividends recognised as distribution during the year (note 12) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(119,597)** | **(119,597)** | **–** | **(119,597)** |
| Dividends declared by subsidiaries to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(4,256)** | **(4,256)** |
| Capital contribution from a non-controlling shareholder of a subsidiary | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **2,178** | **2,178** |
| At 30 June 2019 | **207,995** | **511,101** | **(230,147)** | **(67,257)** | **4,360** | **4,880** | **72,557** | **1,720,059** | **2,223,548** | **(64,517)** | **2,159,031** |

*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 shareholder 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").

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before taxation | **367,691** | 390,955 |
| Adjustments for: | | |
| Allowance for obsolete inventories | **3,363** | 18,009 |
| Net impairment losses on trade receivables | **12,693** | 28,857 |
| Depreciation of property, plant and equipment | **70,382** | 82,759 |
| Loss on disposal and written-off of property, plant and equipment | **11,935** | 19,095 |
| Amortisation of prepaid lease payments | **1,326** | 1,374 |
| Gain on fair value change of investment property | **(2,900)** | (6,054) |
| Gain from change in fair value of financial assets measured at fair value through profit or loss | **(8,032)** | – |
| Loss on disposal of available-for-sale investments | **–** | 1,680 |
| Share of result of a joint venture | **(648)** | – |
| Loss on disposal of debt instruments at fair value through other comprehensive income | **1,203** | – |
| Finance costs | **8,307** | 8,970 |
| Interest income | **(42,982)** | (23,009) |
| Operating cash flows before movements in working capital | **422,338** | 522,636 |
| Decrease (increase) in inventories | **71,312** | (39,757) |
| Decrease (increase) in trade receivables | **13,809** | (15,712) |
| Decrease in other receivables, deposits and prepayments | **19,501** | 38,222 |
| Decrease in trade payables and bills payable | **(7,219)** | (35,665) |
| (Decrease) increase in other payables and accrued charges | **(16,723)** | 34,749 |
| Decrease in contract liabilities | **(151)** | – |
| Cash generated from operations | **502,867** | 504,473 |
| Interest received | **36,912** | 23,009 |
| Income tax paid | **(104,460)** | (98,208) |
| **NET CASH FROM OPERATING ACTIVITIES** | **435,319** | 429,274 |
| **INVESTING ACTIVITIES** | | |
| New pledged bank deposits placed | **(867)** | (761) |
| Purchase of property, plant and equipment | **(138,634)** | (111,360) |
| Deposits paid for acquisition of property, plant and equipment | **–** | (4,001) |
| Proceeds from disposal of property, plant and equipment | **240** | 457 |
| Proceeds from disposal of available-for-sale investments | **–** | 34,912 |
| Purchase of debt instruments at fair value through other comprehensive income | **(195,266)** | – |
| Proceeds from disposal of debt instruments at fair value through other comprehensive income | **29,807** | – |
| Purchase of financial assets at fair value through profit or loss | **(2,923,212)** | (2,225,884) |
| Redemption of financial assets at fair value through profit or loss | **2,591,752** | 2,064,154 |
| Advance to a joint venture | **(7,226)** | – |
| Interest received from debt instruments at fair value through other comprehensive income | **6,070** | – |
| Capital contribution to a joint venture | **(8,843)** | – |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(646,179)** | (242,483) |

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2019

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **FINANCING ACTIVITIES** | | |
| Dividends paid | **(119,597)** | (103,997) |
| Dividends paid to non-controlling interests of subsidiaries | **(4,256)** | (3,246) |
| Interest paid | **(7,367)** | (3,201) |
| Borrowings raised | **473,280** | 258,697 |
| Other loans raised | **7,813** | 15,688 |
| Repayment of borrowings | **(478,012)** | (256,573) |
| Capital contribution from a non-controlling shareholder of a subsidiary | **2,178** | – |
| **NET CASH USED IN FINANCING ACTIVITIES** | **(125,961)** | (92,632) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | **(336,821)** | 94,159 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | **754,101** | 651,008 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | **(19,347)** | 8,934 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | **397,933** | 754,101 |
| **ANALYSIS OF CASH AND CASH EQUIVALENTS** | | |
| Bank balances and cash | **421,748** | 762,162 |
| Bank overdraft | **(23,815)** | (8,061) |
| | **397,933** | 754,101 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

## 1. GENERAL

Time Watch Investments Limited (the "Company") was incorporated as an exempted company in the Cayman Islands with limited liability under the Companies Law (2007 Revision) Chapter 22 of the Cayman Islands. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its immediate and ultimate holding company is Red Glory Investments Limited, a company incorporated in the British Virgin Islands ("BVI"). The addresses of the registered office and principal place of business of the Company are disclosed in the section headed "Corporate Information" in this annual report.

The Company is an investment holding company. Details of the principal activities of its subsidiaries are set out in note 36.

The functional currency of the Company is Renminbi ("RMB"), while the consolidated financial statements is presented in Hong Kong dollar ("HK$"), which the management of the Group considered that it is more beneficial for the users of the consolidated financial statements, as the Company's shares are listed on the Stock Exchange.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014-2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

Except as described below, the application of the new and amendments to HKFRSs and an interpretation in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (cont'd)

**New and Amendments to HKFRSs that are mandatorily effective for the current year (cont'd)**

### 2.1 HKFRS 15 "Revenue from Contracts with Customers"

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

The Group has applied HKFRS 15 retrospectively with the cumulative 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 accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 July 2018. 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.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Sales of watches – retail business;
- Sales of watches – e-commerce business;
- Wholesale of watches; and
- Sales of watch movements.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 5 and 3 respectively.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (cont'd)

**New and Amendments to HKFRSs that are mandatorily effective for the current year (cont'd)**

**2.1 HKFRS 15 "Revenue from Contracts with Customers" (cont'd)**

***Summary of effects arising from initial application of HKFRS 15***

The following adjustment was made to the amounts recognised in the consolidated statement of financial position at 1 July 2018. Line items that were not affected by the changes have not been included.

| | Note | Carrying amounts previously reported at 30 June 2018 | Reclassification | Carrying amounts under HKFRS 15 at 1 July 2018 |
|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* |
| **Current liabilities** | | | | |
| Other payables and accrued charges | *(a)* | (16,723) | (151) | (16,874) |
| Contract liabilities | *(a)* | (151) | 151 | – |

*Note:*

(a) As at 1 July 2018, advances from customers of approximately HK$333,000 in respect of sales of watches previously included in other payables and accrued charges were reclassified to contract liabilities.

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 30 June 2019 and its consolidated statement of cash flow for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

***Impact on the consolidated statement of financial position***

| | Note | As reported | Adjustment | Amounts without application of HKFRS 15 |
|---|---|---|---|---|
| | | *HK$'000* | *HK$'000* | *HK$'000* |
| **Current liabilities** | | | | |
| Other payables and accrued charges | *(a)* | 163,831 | 182 | 164,013 |
| Contract liabilities | *(a)* | 182 | (182) | – |

*Note:*

(a) As at 30 June 2019, advances from customers of approximately HK$182,000 recorded as contract liabilities under HKFRS 15 would have been classified as other payables and accrued charges without application of HKFRS 15.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (cont'd)

**New and Amendments to HKFRSs that are mandatorily effective for the current year (cont'd)**

### 2.1 HKFRS 15 "Revenue from Contracts with Customers" (cont'd)

*Impact on the consolidated statement of cash flows*

| | Note | As reported HK$'000 | Adjustment HK$'000 | Amounts without application of HKFRS 15 HK$'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Decrease in other payables and accrued charges | *(a)* | (16,723) | (151) | (16,874) |
| Decrease in contract liabilities | *(a)* | (151) | 151 | – |

*Note:*

(a) Without application of HKFRS 15, decrease in contract liabilities of approximately HK$151,000 which represents the decrease in advances from customers of approximately HK$151,000 would be presented as decrease in other payables and accrued charges.

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these consolidated financial statements.

### 2.2 HKFRS 9 "Financial Instruments" and the related amendments

In the current year, 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 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 under ECL model) 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 accumulated 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".

Accounting policies resulting from application of HKFRS 9 are disclosed in note 3.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (cont'd)

**New and Amendments to HKFRSs that are mandatorily effective for the current year (cont'd)**

### 2.2 HKFRS 9 "Financial Instruments" and the related amendments (cont'd)

*Summary of effects arising from initial application of HKFRS 9*

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

| | Notes | Amortised cost (previously classified as loans and receivables) HK$'000 | Available-for-sale investments HK$'000 | Debt instruments at fair value through other comprehensive income HK$'000 | Accumulated profits HK$'000 | Non-controlling interest HK$'000 |
|---|---|---|---|---|---|---|
| **Closing balance at 30 June 2018 – HKAS 39** | | 1,275,809 | 48,782 | – | (1,539,854) | 47,601 |
| **Reclassification** | | | | | | |
| From available-for-sale investments | *(a)* | – | (48,782) | 48,782 | – | – |
| **Remeasurement** | | | | | | |
| Impairment under ECL model | *(b)* | (5,660) | – | – | 4,688 | 972 |
| **Opening balance at 1 July 2018** | | 1,270,149 | – | 48,782 | (1,535,166) | 48,573 |

*Notes:*

(a) From available-for-sale investments to debt investments at fair value through other comprehensive income ("FVTOCI")

Listed bonds with a fair value of approximately HK$48,782,000 were reclassified from available-for-sale investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value change continued to accumulate in the investment revaluation reserve as at 1 July 2018.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. Except for those which had been determined as credit impaired under HKAS 39, trade receivables have been assessed on group basis on past due analysis. The ECL of credit impaired trade receivables have been assessed individually.

Except for those which had been determined as credit impaired under HKAS 39, ECL for other financial assets at amortised cost, including other receivables and deposits, pledged bank deposits and bank balances, are assessed on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (cont'd)

**New and Amendments to HKFRSs that are mandatorily effective for the current year (cont'd)**

### 2.2 HKFRS 9 "Financial Instruments" and the related amendments (cont'd)

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

*Notes:* (cont'd)

(b) Impairment under ECL model (cont'd)

All of the Group's debt instruments at FVTOCI are listed bonds that are graded in the top credit rating among rating agencies. Therefore, these investments are considered to be low credit risk investments and the loss allowance is assessed on 12m ECL basis.

As at 1 July 2018, additional credit loss allowance of approximately HK$4,688,000 and approximately HK$972,000 have been recognised against accumulated profits and non-controlling interests respectively. The additional loss allowance is charged against trade receivables.

Allowance for credit loss on trade receivables as at 30 June 2018 reconciled to the opening loss allowance as at 1 July 2018 is as follows:

| | 2018 *HK$'000* |
|---|---|
| At 30 June 2018 – HKAS 39 | 25,148 |
| Amounts remeasured through opening accumulated profits and non-controlling interests | 5,660 |
| At 1 July 2018 | 30,808 |

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (cont'd)

**New and Amendments to HKFRSs that are mandatorily effective for the current year (cont'd)**

### 2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards, amendments and interpretation

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

| | 30 June 2018 (Audited) *HK$'000* | HKFRS 15 *HK$'000* | HKFRS 9 *HK$'000* | 1 July 2018 (Restated) *HK$'000* |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Available-for-sale investments | 19,165 | – | (19,165) | – |
| Debt instruments at fair value through other comprehensive income | – | – | 19,165 | 19,165 |
| **Current assets** | | | | |
| Trade receivables | 415,692 | – | (5,660) | 410,032 |
| Available-for-sale investments | 29,617 | – | (29,617) | – |
| Debt instruments at fair value through other comprehensive income | – | – | 29,617 | 29,617 |
| **Current liabilities** | | | | |
| Other payables and accrued charges | 185,004 | (333) | – | 184,671 |
| Contract liabilities | – | 333 | – | 333 |
| **Capital and reserves** | | | | |
| Accumulated profits | 1,539,854 | – | (4,688) | 1,535,166 |
| Non-controlling interests | (47,601) | – | (972) | (48,573) |

*Note:* For the purposes of reporting cash flows from operating activities under indirect method for the year ended 30 June 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 July 2018 as disclosed above.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (cont'd)

**New and amendments to HKFRSs in issue but not yet effective**

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

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance Contracts[2] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[1] |
| Amendments to HKFRS 3 | Definition of a Business[4] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 and HKAS 8 | Definition of Material[5] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to HKAS 28 | Long-term Interests in Associates and Joint Ventures[1] |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2015-2017 Cycle[1] |

[1] *Effective for annual periods beginning on or after 1 January 2019.*

[2] *Effective for annual periods beginning on or after 1 January 2021.*

[3] *Effective for annual periods beginning on or after a date to be determined.*

[4] *Effective for business combinations and assets acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.*

[5] *Effective for annual periods beginning on or after 1 January 2020.*

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (cont'd)

**New and amendments to HKFRSs in issue but not yet effective (cont'd)**

Except for the new and amendments to HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

*HKFRS 16 "Leases"*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment property while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group and upfront prepaid lease payments will be presented as investing or operating cash flows in accordance with the nature, as appropriate.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (cont'd)

**New and amendments to HKFRSs in issue but not yet effective (cont'd)**

***HKFRS 16 "Leases" (cont'd)***

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 30 June 2019, the Group has non-cancellable operating lease commitments of approximately HK$49,444,000 as disclosed in note 29. A preliminary assessment indicates that these arrangements meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of approximately HK$10,826,000 and refundable rental deposits received of approximately HK$1,020,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group elects the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group does not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group elects the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated profits without restating comparative information.

***Amendments to HKAS 1 and HKAS 8 "Definition of Material"***

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgements. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 July 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") and by the disclosure requirements of the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain leasehold land and buildings, investment property and certain financial instruments, which are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value for the purposes of measuring inventories in HKAS 2 "Inventories" or value in use for the purposes of impairment assessment in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Investment in a joint venture**

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of a joint ventures is incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of the joint venture used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Appropriate adjustments have been made to conform the joint venture's accounting policies to those of the Group. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of the joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2)**

Under HKFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

The Group sells goods to customer. Revenue from sales of goods to customers is recognised when control of the products has transferred, being when the products are delivered to the customers and there is no unfulfilled obligation that could affect the customer's acceptance of the products. It is the Group's policy to sell its products to the customers with a right to exchange or return faulty products to another product within reasonable period after delivery. These rights of exchange or return do not allow the returned goods to be refunded in cash. No contract liability and right to the returned goods are recognised as insignificant amount of returns are expected based on accumulated experience.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Revenue recognition (prior to 1 July 2018)**

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Service income is recognised when services are provided.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

***The Group as lessor***

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

***The Group as lessee***

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Leasehold land and buildings

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

### Borrowing costs

Borrowing costs which are not eligible for capitalisation to qualifying assets are recognised in profit or loss in the period in which they are incurred.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

**Retirement benefits costs**

Payments to state-managed retirement benefits schemes for staff in the PRC, excluding Hong Kong, and the Mandatory Provident Fund Scheme for staff in Hong Kong are recognised as expenses when employees have rendered services entitling them to the contributions.

**Short-term employee benefits**

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

**Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Taxation (cont'd)**

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realised or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

### Property, plant and equipment

Property, plant and equipment other than properties under construction and leasehold land and buildings located in Hong Kong are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Leasehold land and buildings in Hong Kong held for use for administrative purposes, are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on revaluation of leasehold land and buildings in Hong Kong is recognised in other comprehensive income and accumulated in properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of such leasehold land and buildings is recognised in profit or loss to the extent that it exceeds the balance, if any, on the properties revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus remaining in the property revaluation reserve is transferred to accumulated profits.

Depreciation is recognised so as to write off the cost or valuation of assets other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Buildings under development for future owner-occupied purpose

When buildings are in the course of development for production or for administrative purposes, the amortisation of prepaid lease payments provided during the construction period is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Investment properties**

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

**Impairment on tangible assets**

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount of tangible assets are estimated individually, when it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions for the expected cost of warranty obligations under the relevant sale of goods legislation are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

**Financial instruments**

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 July 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial assets**

***Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2)***

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial assets (cont'd)**

***Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2) (cont'd)***

*(i) Amortised cost and interest income*

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

*(ii) Debt instruments classified as at FVTOCI*

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

*(iii) Financial assets at 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 excludes 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 (upon application of HKFRS 9 with transitions in accordance with note 2)***

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

*NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*
For the year ended 30 June 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial assets (cont'd)**

***Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (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, 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 for other not credit-impaired debtors with credit impaired balances are assessed individually and/or collectively using a provision matrix with appropriate groupings (i.e. analysis of trade-related receivables by past due ageing analysis and apply a probability-weighted estimate of the credit loss within the relevant time band.) The probability weighted estimate of the credit loss is determined based on the Group's historical credit loss experience, adjusted for factors that are specific to the industry, general economic conditions and an assessment of both the current as well as forecast direction of conditions at the end of the reporting period, including time value of money where appropriate.

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.

*(i)* *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.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial assets (cont'd)**

***Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (cont'd)***

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

*(ii) Definition of default*

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*(iii) Credit-impaired financial assets*

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial assets (cont'd)**

***Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (cont'd)***

*(iv) Write-off policy*

The Group considers writing-off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any recoveries made are recognised in profit or loss.

*(v) 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. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial assets (cont'd)**

***Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with note 2) (cont'd)***

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade receivables, other receivables and deposits and debt instruments at FVTOCI are each assessed as a separate group, pledged bank deposits and bank balances are assessed for expected credit loss on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Except for investments in debt instruments that are measured at FVTOCI, 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. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amount of these debt instruments.

***Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 July 2018)***

Financial assets are classified into available-for-sale investments, loans and receivables and financial assets at FVTPL. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial assets (cont'd)**

***Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 July 2018) (cont'd)***

*Financial assets at FVTPL (cont'd)*

A financial asset other than a financial asset held for trading (or contingent consideration that may be received by an acquirer as part of a business combination) may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any interest earned on the financial assets and is included in the "Other income, gains and losses" line item. Fair value is determined in the manner described in note 33.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Debt securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of available-for-sale financial assets relating to interest income calculated using the effective interest method are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial assets (cont'd)**

***Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 July 2018) (cont'd)***

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and deposits, pledged bank deposits, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

***Impairment of loans and receivables (before application of HKFRS 9 on 1 July 2018)***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial assets' original effective interest rate.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial assets (cont'd)**

***Impairment of loans and receivables (before application of HKFRS 9 on 1 July 2018) (cont'd)***

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are recognised to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

***Derecognition of financial assets***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the assets expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the assets to another entity.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an available-for-sale financial asset, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

**Financial liabilities and equity**

***Classification as debt or equity***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

***Financial liabilities***

All financial liabilities including trade payables, bills payable, other payables, accrued charges, bank borrowings and overdraft, and other loans are subsequently measured at amortised cost using the effective interest method.

***Derecognition of financial liabilities***

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the management of the Group are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements involving estimations, the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

## 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (cont'd)

### Valuation of inventories

The management of the Group reviews ageing analysis and also carries out inventory review on a product-by-product basis with reference to its plans of markdown or disposal at the end of each reporting period and writes down slow-moving inventory items identified that are no longer suitable for use in production or for sale. Where the actual net realisable values of the inventories are less than expected, further write down of inventories may arise.

During the year ended 30 June 2019, write down of inventories of approximately HK$3,363,000 (2018: HK$18,009,000) was charged to profit or loss. As at 30 June 2019, the carrying amount of the Group's inventories is approximately HK$480,665,000 (2018: HK$583,650,000).

### Provision of ECL for trade receivables

The Group uses provision matrix to calculate ECL for not credit-impaired trade receivables and individually assess ECL for credit-impaired trade receivables. The provision rates are based on past due aging as groupings of various debtors that have similar loss patterns and internal credit ratings of individual debtors with credit impaired balances. The provision matrix and individual assessment are based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's trade receivables are disclosed in notes 33 and 22 respectively.

### Estimate fair value of investment property

Investment property was revalued at the end of the reporting period using income approach by independent qualified professional valuer. Such valuation was based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the valuation, management of the Group has made judgement in identifying relevant properties for comparison. The assumptions used are intended to reflect conditions existing at the end of the reporting period. Where there are any changes in the assumptions due to the market conditions in Hong Kong, the estimate of fair value of investment property may be significantly affected. As at 30 June 2019, investment property of approximately HK$113,900,000 (2018: HK$111,000,000) was revalued.

## 5. REVENUE AND SEGMENT INFORMATION

**Revenue**

*For the year ended 30 June 2019*

(i) *Disaggregation of revenue from contracts with customers*

| | For the year ended 30 June 2019 | |
|---|---|---|
| **Type of goods** | **Watches** *HK$'000* | **Watch movements** *HK$'000* |
| Sales of watches | | |
| – Tian Wang Watch | 1,963,106 | – |
| – Balco Watch | 77,405 | – |
| – Other brands | 501,516 | – |
| | 2,542,027 | – |
| Trading of watch movements | – | 128,182 |
| Total | 2,542,027 | 128,182 |

| **Sales channel** | ***HK$'000*** |
|---|---|
| Retail | 1,683,372 |
| E-commerce platforms | 566,360 |
| Wholesale | 420,477 |
| Total | 2,670,209 |
| Timing of revenue recognition | |
| A point in time | 2,670,209 |

## *NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*

For the year ended 30 June 2019

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

**Revenue (cont'd)**

***For the year ended 30 June 2019 (cont'd)***

*(ii)* *Performance obligations for contracts with customers*

Sales of watches

(a) Retail store customers:

The Group sells watches through chain of standalone retail stores and concessionaire counters located inside department stores. Revenue is recognised when control of the products has been transferred to the customers, being at the point the customers purchased and took the goods at the retail stores directly. The customers are required to pay the transaction price at the retail stores or the department stores immediately at the point the customers purchase the goods.

The Group usually grants 30 to 60-day credit period to these department stores which receive sales proceeds from the customers on behalf of us.

(b) Internet platforms customers (both wholesale and retail):

Retail:

The Group sells watches to retail customers through e-commerce platforms. Revenue from online sales is recognised when the product is delivered to customer. Revenue is recognised at an expected value of the transaction price adjusted for estimated returns based on historical trends. The Group estimates the sales return provision based on accumulated experience and considered that no provision is recognised as the amount of returns are immaterial. The customers are required to pay the transaction price at the e-commerce platform immediately at the point the customers purchase the goods.

The Group usually grants 30-day credit period to these e-commerce platforms.

Wholesale:

The Group sells watches to wholesaler through e-commerce platforms. Revenue is recognised when control of the products has been transferred to the customer, being at the point the Group delivered the watches. Following the delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The customers are required to pay the transaction price at the e-commerce platform immediately at the point the customers purchase the goods.

The Group usually grants 30-day credit period to these e-commerce platforms.

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

**Revenue (cont'd)**

***For the year ended 30 June 2019 (cont'd)***

*(ii) Performance obligations for contracts with customers (cont'd)*

Sales of watches (cont'd)

(c) Wholesale customers:

The Group wholesale of watches to corporates customers. Revenue is recognised when control of the products has been transferred to the customer at the point the Group delivered the watches. Following the delivery, the wholesaler has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods.

For the wholesale corporate customers, the normal credit term is 30-day upon delivery.

Sales of watch movements

The Group wholesale watch movements to corporate customers. Revenue of sales of watch movements is recognised when the products are delivered to the customer. The Group provides lifetime warranty to the watch movements. The Group estimates the sales return provision based on accumulated experience and considered that no provision is recognised as the amount of replacement are immaterial. Credit period of 30 to 60 days are usually granted to corporate customers.

End customers are usually granted a warranty of 2 years and the Group estimates the warranty provision based on accumulated experience and considered that no provision is recognised as the amount of the costs to be incurred during the warranty period is immaterial.

All sales contracts are for the periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not disclosed.

## *NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*

For the year ended 30 June 2019

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

**Revenue (cont'd)**

***For the year ended 30 June 2018***

An analysis of the Group's revenue for the year is as follows:

| | Year ended 30 June 2018 *HK$'000* |
|---|---|
| Tian Wang Watch | 2,172,949 |
| Balco Watch | 116,137 |
| Watch movements | 144,482 |
| Other brands (PRC) watch | 229,454 |
| Other brands (Global) watch | 299,240 |
| | 2,962,262 |

**Segment information**

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

a. Tian Wang Watch Business – Manufacturing, wholesale and retail business of owned brand watches – Tian Wang Watch;

b. Balco Watch Business – Wholesale and retail business of owned brand watches – Balco Watch;

c. Watch Movements Trading Business – Wholesale of watch movements;

d. Other Brands (PRC) Business – Retail 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 and reporting segment. No operating segments have been aggregated in arising at the reportable segments of the Group.

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

### Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

**Year ended 30 June 2019**

| | 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* |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External sales | 1,963,106 | 77,405 | 128,182 | 209,221 | 292,295 | 2,670,209 |
| Inter-segment sales | – | – | 36,969 | – | – | 36,969 |
| Segment revenue | 1,963,106 | 77,405 | 165,151 | 209,221 | 292,295 | 2,707,178 |
| Elimination | | | | | | (36,969) |
| Group revenue | | | | | | 2,670,209 |
| **Results** | | | | | | |
| Segment results | 439,110 | (36,908) | (6,560) | 5,523 | (19,343) | 381,822 |
| Interest income | | | | | | 42,982 |
| Unallocated other income, gains and losses | | | | | | 3,051 |
| Central administration costs | | | | | | (51,857) |
| Finance costs | | | | | | (8,307) |
| Profit before taxation | | | | | | 367,691 |

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

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

Year ended 30 June 2018

| | 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 |
|---|---|---|---|---|---|---|
| **Revenue** | | | | | | |
| External sales | 2,172,949 | 116,137 | 144,482 | 229,454 | 299,240 | 2,962,262 |
| Inter-segment sales | – | – | 68,374 | – | – | 68,374 |
| Segment revenue | 2,172,949 | 116,137 | 212,856 | 229,454 | 299,240 | 3,030,636 |
| Elimination | | | | | | (68,374) |
| Group revenue | | | | | | 2,962,262 |
| **Results** | | | | | | |
| Segment results | 483,716 | (35,007) | 564 | 3,835 | (33,207) | 419,901 |
| Interest income | | | | | | 23,009 |
| Unallocated other income, gains and losses | | | | | | 9,650 |
| Central administration costs | | | | | | (52,635) |
| Finance costs | | | | | | (8,970) |
| Profit before taxation | | | | | | 390,955 |

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. 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 resources allocation and performance assessment.

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

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

**As at 30 June 2019**

| | 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 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Segment assets | 804,436 | 149,524 | 34,780 | 144,958 | 105,003 | 1,238,701 |
| Tax recoverable | | | | | | 20 |
| Pledged bank deposits | | | | | | 7,793 |
| Bank balances and cash | | | | | | 421,748 |
| Investment property | | | | | | 113,900 |
| Financial assets at fair value through profit or loss | | | | | | 658,574 |
| Debt instruments at fair value through other comprehensive income | | | | | | 219,739 |
| Deferred tax assets | | | | | | 48,863 |
| Other assets | | | | | | 4,521 |
| Consolidated total assets | | | | | | 2,713,859 |
| **LIABILITIES** | | | | | | |
| Segment liabilities | 121,736 | 10,272 | 20,271 | 19,868 | 46,659 | 218,806 |
| Tax liabilities | | | | | | 37,754 |
| Bank borrowings and overdraft | | | | | | 62,542 |
| Other loans | | | | | | 143,333 |
| Deferred tax liabilities | | | | | | 67,958 |
| Other liabilities | | | | | | 24,435 |
| Consolidated total liabilities | | | | | | 554,828 |

## *NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*

For the year ended 30 June 2019

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

**Segment assets and liabilities (cont'd)**

As at 30 June 2018

| | Tian Wang Watch Business | Balco Watch Business | Watch Movements Trading Business | Other Brands (PRC) Business | Other Brands (Global) Business | Consolidated |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **ASSETS** | | | | | | |
| Segment assets | 896,552 | 149,970 | 43,893 | 147,170 | 100,536 | 1,338,121 |
| Tax recoverable | | | | | | 7 |
| Pledged bank deposits | | | | | | 6,953 |
| Financial assets at fair value through profit or loss | | | | | | 337,725 |
| Bank balances and cash | | | | | | 762,162 |
| Investment property | | | | | | 111,000 |
| Available-for-sale investments | | | | | | 48,782 |
| Deferred tax assets | | | | | | 51,216 |
| Other assets | | | | | | 13,790 |
| Consolidated total assets | | | | | | 2,669,756 |
| **LIABILITIES** | | | | | | |
| Segment liabilities | 159,236 | 9,250 | 9,944 | 20,224 | 48,515 | 247,169 |
| Tax liabilities | | | | | | 59,433 |
| Bank borrowings and overdraft | | | | | | 67,521 |
| Other loans | | | | | | 135,118 |
| Deferred tax liabilities | | | | | | 81,503 |
| Other liabilities | | | | | | 25,918 |
| Consolidated total liabilities | | | | | | 616,662 |

For the purposes of monitoring segment performances and allocating resources between segments:

- all assets are allocated to operating segments, other than investment property, debt instruments at FVTOCI, available-for-sale investments, financial assets at FVTPL, pledged bank deposits, bank balances and cash, tax recoverable, deferred tax assets and certain corporate assets.

- all liabilities are allocated to operating segments, other than tax liabilities, bank borrowings and overdraft, other loans, deferred tax liabilities and certain corporate liabilities.

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

### Other segment information

**Year ended 30 June 2019**

| | 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$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or segment assets: | | | | | | | |
| Additions of property, plant and equipment | 116,623 | 19,398 | 9 | 4,246 | 187 | 83 | 140,546 |
| Depreciation of property, plant and equipment | 61,394 | 3,066 | 2 | 3,262 | 429 | 2,229 | 70,382 |
| Loss on disposal and written-off of property, plant and equipment | 8,914 | 2,962 | 1 | 51 | – | 7 | 11,935 |
| Amortisation of prepaid lease payments | 1,222 | 104 | – | – | – | – | 1,326 |
| Deposits paid for acquisition of property, plant and equipment | 1,846 | 73 | – | – | – | – | 1,919 |
| Allowance (reversal of allowance) for inventories | 4,449 | 9,601 | (713) | (8,241) | (1,733) | – | 3,363 |
| Net impairment losses on trade receivables | 3,472 | 84 | 4,035 | (192) | 5,294 | – | 12,693 |
| Share of result of a joint venture | – | – | – | 648 | – | – | 648 |

Year ended 30 June 2018

| | 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$'000 | Unallocated HK$'000 | Consolidated HK$'000 |
|---|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or segment assets: | | | | | | | |
| Additions of property, plant and equipment | 94,188 | 17,073 | – | 3,292 | 314 | 969 | 115,836 |
| Depreciation of property, plant and equipment | 68,921 | 8,713 | 19 | 2,134 | 670 | 2,302 | 82,759 |
| Loss (gain) on disposal and written-off of property, plant and equipment | 9,788 | 8,996 | – | 303 | (45) | 53 | 19,095 |
| Amortisation of prepaid lease payments | 1,267 | 107 | – | – | – | – | 1,374 |
| Deposits paid for acquisition of property, plant and equipment | 3,958 | – | – | – | – | – | 3,958 |
| Allowance for inventories | 5,274 | 10,196 | – | 696 | 1,843 | – | 18,009 |
| Allowance for doubtful debts | 20,311 | 358 | – | 3,900 | 4,288 | – | 28,857 |

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

**Information about major customers**

There is no single customer contributing over 10% of total revenue of the Group for the years ended 30 June 2019 and 2018.

**Geographical information**

The Group's operations are located in the PRC, Hong Kong and the United States of America (the "USA"). The Group's revenue from external customers based on the location of the customer and information about its non-current assets by geographical location of the assets are detailed below:

***Revenue by geographical location:***

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The PRC | **2,240,836** | 2,495,801 |
| Asia Pacific (besides the PRC) | **171,510** | 210,270 |
| North and South America | **203,734** | 193,352 |
| Europe | **36,402** | 40,112 |
| Middle East | **17,727** | 22,727 |
| | **2,670,209** | 2,962,262 |

***Non-current assets other than deferred tax assets, financial assets at FVTPL, debt instruments at FVTOCI and available-for-sale investments by geographical location:***

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| The PRC | **250,536** | 191,537 |
| Hong Kong | **140,570** | 140,191 |
| The USA | **615** | 874 |
| | **391,721** | 332,602 |

## 6. DIRECTORS' REMUNERATION

Details of the remuneration paid or payable to the Company's directors were as follows:

| | Executive directors | | | | | Independent non-executive directors | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Mr. Tung Koon Ming *HK$'000* *(Note b)* | Mr. Tung Wai Kit *HK$'000* | Mr. Hou Qing Hai *HK$'000* *(Note c)* | Mr. Deng Guang Lei *HK$'000* | Mr. Tung Koon Kwok *HK$'000* *(Note d)* | Mr. Choi Ho Yan *HK$'000* | Mr. Wong Wing Keung Meyrick *HK$'000* | Mr. Ma Ching Nam *HK$'000* | Total *HK$'000* |
| **For the year ended 30 June 2019** | | | | | | | | | |
| Fee | **90** | **90** | **36** | **90** | **30** | **240** | **240** | **240** | **1,056** |
| Salaries and allowances | **7,019** | **836** | **324** | **1,309** | **271** | **–** | **–** | **–** | **9,759** |
| Bonus *(Note a)* | **10,000** | **74** | **–** | **524** | **–** | **–** | **–** | **–** | **10,598** |
| Contributions to retirement benefit scheme | **–** | **18** | **–** | **46** | **6** | **–** | **–** | **–** | **70** |
| Total remuneration | **17,109** | **1,018** | **360** | **1,969** | **307** | **240** | **240** | **240** | **21,483** |

| | Executive directors | | | | Independent non-executive directors | | | |
|---|---|---|---|---|---|---|---|---|
| | Mr. Tung Koon Ming *HK$'000* *(Note b)* | Mr. Tung Wai Kit *HK$'000* | Mr. Hou Qing Hai *HK$'000* *(Note c)* | Mr. Deng Guang Lei *HK$'000* | Mr. Choi Ho Yan *HK$'000* | Mr. Wong Wing Keung Meyrick *HK$'000* | Mr. Ma Ching Nam *HK$'000* | Total *HK$'000* |
| For the year ended 30 June 2018 | | | | | | | | |
| Fee | 90 | 90 | 90 | 90 | 240 | 240 | 240 | 1,080 |
| Salaries and allowances | 7,000 | 841 | 759 | 1,182 | – | – | – | 9,782 |
| Bonus *(Note a)* | 10,000 | 72 | 363 | 379 | – | – | – | 10,814 |
| Contributions to retirement benefit scheme | – | 18 | – | 45 | – | – | – | 63 |
| Total remuneration | 17,090 | 1,021 | 1,212 | 1,696 | 240 | 240 | 240 | 21,739 |

*Notes:*

(a) Incentive performance bonuses were determined by the remuneration committee having regard to the performance of directors and the Group's operating results. For the year ended 30 June 2019, a special performance bonus of HK$10,000,000 (2018: HK$10,000,000) was approved and payable to Mr. Tung Koon Ming ("Mr. Tung").

(b) Mr. Tung is also the chief executive officer of the Group and his emoluments disclosed above included those for services rendered by him as the chief executive officer.

(c) Mr. Hou Qing Hai resigned from executive director of the Group on 22 November 2018 upon retirement.

(d) Mr. Tung Koon Kwok was appointed as an executive director of the Group on 1 March 2019.

The executive directors' emoluments shown above were mainly paid or payable for their services in connection with the management of the affairs of the Company and the Group. The independent non-executive directors' emoluments shown above were mainly paid or payable for their services as directors of the Company.

During the years ended 30 June 2019 and 2018, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration in both years.

## 7. EMPLOYEES' EMOLUMENTS

The five highest paid individuals include two directors of the Company for the year ended 30 June 2019 (2018: two). The emoluments of the remaining three individuals for the year ended 30 June 2019 (2018: three) are as follows:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **5,754** | 5,119 |
| Bonus *(Note)* | **280** | 35 |
| Contributions to retirement benefit scheme | **77** | 61 |
| | **6,111** | 5,215 |

*Note:* Incentive performance bonuses were determined by the remuneration committee having regard to the performance of the individuals and the Group's operating results.

The emoluments of the individuals, who are not directors of the Company, with the highest emoluments are within the following bands:

| | **2019** | 2018 |
|---|---|---|
| | **Number of individuals** | Number of individuals |
| HK$1,500,001 to HK$2,000,000 | **2** | 3 |
| HK$2,500,001 to HK$3,000,000 | **1** | – |

During the years ended 30 June 2019 and 2018, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

## 8. OTHER INCOME, GAINS AND LOSSES

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Other income:* | | |
| Bank interest income | **4,549** | 2,847 |
| Interest income on financial assets measured at FVTPL | **32,363** | 17,326 |
| Interest income on available-for-sale investments | **–** | 2,836 |
| Interest income on debt instruments at FVTOCI | **6,070** | – |
| Watch repair and maintenance services income | **6,369** | 7,015 |
| Government subsidies *(Note)* | **17,177** | 9,381 |
| Rental income | **11,030** | 8,373 |
| Others | **7,187** | 7,538 |
| | **84,745** | 55,316 |
| *Other gains and losses:* | | |
| Loss on disposal and write-off of property, plant and equipment | **(11,935)** | (19,095) |
| Loss on disposal of a debt instrument at FVTOCI | **(1,203)** | – |
| Loss on disposal of available-for-sale investments | **–** | (1,680) |
| Gain from changes in fair value of financial assets measured at FVTPL | **8,032** | – |
| Gain from change in fair value of an investment property | **2,900** | 6,054 |
| Net exchange (loss) gain | **(9,974)** | 2,652 |
| | **(12,180)** | (12,069) |
| | **72,565** | 43,247 |

*Note:* The amount represents (i) government subsidies from local finance bureau which are calculated by reference to the amount of tax paid 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.

## *NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*

For the year ended 30 June 2019

### 9. FINANCE COSTS

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Interest on bank borrowings | **4,259** | 2,317 |
| Interest on loan from a director | **512** | 469 |
| Interest on loan from a related party | **1,882** | 1,815 |
| Interest on loan from a non-controlling interest of a subsidiary | **471** | 482 |
| Imputed interest on loan from a non-controlling interest of a subsidiary | **940** | 3,887 |
| Interest on loan from a third party | **243** | – |
| | **8,307** | 8,970 |

### 10. INCOME TAX

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Current tax: | | |
| PRC Enterprise Income Tax | **76,466** | 116,304 |
| PRC withholding tax | **29,846** | 1,065 |
| | **106,312** | 117,369 |
| Underprovision (overprovision) in prior years: | | |
| Hong Kong Profits Tax | **472** | 22 |
| PRC Enterprise Income Tax | **(20,968)** | 48 |
| | **(20,496)** | 70 |
| Deferred taxation *(note 27)* | **(11,192)** | (2,447) |
| | **74,624** | 114,992 |

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 years. On 16 October 2018, 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 three calendar years ended 31 December 2020. Hence, Tian Wang Shenzhen is subject to the preferential tax treatment and the applicable tax rate for the calendar year ended 31 December 2018 was 15%.

## 10. INCOME TAX (cont'd)

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

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%. 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 27.

The tax charge for the years can be reconciled to the profit before taxation as follows:

| | **2019**<br>***HK$'000*** | 2018<br>*HK$'000* |
|---|---|---|
| Profit before taxation | **367,691** | 390,955 |
| Tax at the PRC Enterprise Income Tax rate of 25% | **91,923** | 97,739 |
| Tax effect of expenses not deductible for tax purpose | **13,764** | 4,413 |
| Tax effect of income not taxable for tax purpose | **(6,811)** | (3,174) |
| Income tax on concession and preferential tax rates | **(36,024)** | (26,105) |
| Tax effect of tax loss not recognised | **21,783** | 29,410 |
| Utilisation of tax loss previously not recognised | **(449)** | (2,581) |
| (Overprovision) underprovision in prior years | **(20,496)** | 70 |
| Additional tax benefit to the Group *(Note)* | **(5,911)** | (6,378) |
| Withholding tax for distributable earnings of PRC subsidiaries | **16,845** | 21,598 |
| Tax charge for the year | **74,624** | 114,992 |

*Note:* Pursuant to the relevant tax rules and regulation, expenses in research nature are deductible at 150% of the cost incurred. The related tax benefit amounted to approximately HK$5,911,000 for the year ended 30 June 2019 (2018: HK$6,378,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 11. PROFIT FOR THE YEAR

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year has been arrived at after charging: | | |
| Auditor's remuneration | **2,850** | 2,615 |
| Directors' remuneration *(note 6)* | | |
| Fees | **1,056** | 1,080 |
| Other emoluments | **20,357** | 20,596 |
| Retirement benefit scheme contributions | **70** | 63 |
| | **21,483** | 21,739 |
| Other staff costs | **406,887** | 453,897 |
| Retirement benefit scheme contributions | **57,098** | 56,647 |
| Total staff costs | **485,468** | 532,283 |
| Depreciation of property, plant and equipment | **70,382** | 82,759 |
| Amortisation of prepaid lease payments | **1,326** | 1,374 |
| Cost of inventories recognised as cost of sales | **735,619** | 814,026 |
| Research and development costs recognised as cost of sales | **45,977** | 51,025 |
| Allowance for inventories recognised as cost of sales | **3,363** | 18,009 |
| Concessionaire fee *(Note)* | **441,630** | 511,611 |
| Operating lease payment in respect of shop counters and shops | **26,402** | 24,638 |
| Operating lease payment in respect of office premises and factories | **23,674** | 21,638 |

*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.

## 12. DIVIDENDS

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividends recognised as distribution during the year: | | |
| 2019 Interim – HK2 cents (2018 Interim – HK2 cents) per share | **41,599** | 41,599 |
| 2018 Final – HK3.75 cents (2017 Final – HK3 cents) per share | **77,998** | 62,398 |
| | **119,597** | 103,997 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 30 June 2019 of HK4.3 cents per share (2018: HK3.75 cents per share) has been proposed by the directors and is subject to the approval by the shareholders of the Company in the forthcoming annual general meeting of the Company.

## 13. EARNINGS PER SHARE

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Earnings: | | |
| Earnings for the purposes of calculating basic earnings per share – profit for the year attributable to owners of the Company | **305,360** | 291,447 |
| | ***'000*** | *'000* |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purposes of calculating basic earnings per share | **2,079,946** | 2,079,946 |

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings – Hong Kong HK$'000 | Factory – PRC HK$'000 | Leasehold improvements HK$'000 | Machinery HK$'000 | Furniture and fixtures HK$'000 | Computer equipment HK$'000 | Motor vehicles HK$'000 | Light boxes HK$'000 | Yacht HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **COST OR VALUATION** | | | | | | | | | | | |
| At 1 July 2017 | 14,720 | – | 42,514 | 8,787 | 4,614 | 19,868 | 25,050 | 283,437 | 12,250 | 6,484 | 417,724 |
| Exchange adjustments | – | – | 1,179 | 232 | 96 | 506 | 449 | 8,395 | – | (154) | 10,703 |
| Additions | – | – | 3,283 | 1,649 | 1,109 | 2,717 | 1,641 | 73,598 | 34 | 31,805 | 115,836 |
| Disposals and written-off | – | – | (6,887) | (308) | (292) | (352) | (478) | (75,601) | – | – | (83,918) |
| At 30 June 2018 | 14,720 | – | 40,089 | 10,360 | 5,527 | 22,739 | 26,662 | 289,829 | 12,284 | 38,135 | 460,345 |
| Exchange adjustments | – | (436) | (1,329) | (408) | (181) | (847) | (672) | (12,102) | – | (1,888) | (17,863) |
| Additions | – | – | 1,552 | 466 | 891 | 2,432 | 1,158 | 81,912 | – | 52,135 | 140,546 |
| Transfer | – | 28,021 | – | – | – | – | – | – | – | (28,021) | – |
| Disposals and written-off | – | – | (10,462) | (485) | (338) | (579) | (533) | (42,933) | – | – | (55,330) |
| At 30 June 2019 | **14,720** | **27,585** | **29,850** | **9,933** | **5,899** | **23,745** | **26,615** | **316,706** | **12,284** | **60,361** | **527,698** |
| Comprising: | | | | | | | | | | | |
| At cost | – | 27,585 | 29,850 | 9,933 | 5,899 | 23,745 | 26,615 | 316,706 | 12,284 | 60,361 | 512,978 |
| At valuation | 14,720 | – | – | – | – | – | – | – | – | – | 14,720 |
| | 14,720 | 27,585 | 29,850 | 9,933 | 5,899 | 23,745 | 26,615 | 316,706 | 12,284 | 60,361 | 527,698 |
| **DEPRECIATION** | | | | | | | | | | | |
| At 1 July 2017 | – | – | 32,993 | 4,495 | 2,753 | 14,633 | 15,336 | 181,568 | 3,471 | – | 255,249 |
| Exchange adjustments | – | – | 957 | 115 | 66 | 359 | 287 | 5,251 | – | – | 7,035 |
| Provided for the year | 475 | – | 7,123 | 1,500 | 801 | 3,627 | 2,525 | 65,480 | 1,228 | – | 82,759 |
| Eliminated on disposals and written-off | – | – | (6,605) | (103) | (224) | (300) | (418) | (56,716) | – | – | (64,366) |
| Elimination on revaluation | (475) | – | – | – | – | – | – | – | – | – | (475) |
| At 30 June 2018 | – | – | 34,468 | 6,007 | 3,396 | 18,319 | 17,730 | 195,583 | 4,699 | – | 280,202 |
| Exchange adjustments | – | (1) | (1,226) | (254) | (120) | (694) | (500) | (8,158) | – | – | (10,953) |
| Provided for the year | 491 | 70 | 2,535 | 1,367 | 807 | 2,804 | 2,458 | 58,622 | 1,228 | – | 70,382 |
| Eliminated on disposals and written-off | – | – | (10,446) | (274) | (212) | (487) | (415) | (31,321) | – | – | (43,155) |
| Elimination on revaluation | (491) | – | – | – | – | – | – | – | – | – | (491) |
| At 30 June 2019 | **–** | **69** | **25,331** | **6,846** | **3,871** | **19,942** | **19,273** | **214,726** | **5,927** | **–** | **295,985** |
| **CARRYING VALUES** | | | | | | | | | | | |
| At 30 June 2019 | **14,720** | **27,516** | **4,519** | **3,087** | **2,028** | **3,803** | **7,342** | **101,980** | **6,357** | **60,361** | **231,713** |
| At 30 June 2018 | 14,720 | – | 5,621 | 4,353 | 2,131 | 4,420 | 8,932 | 94,246 | 7,585 | 38,135 | 180,143 |

## 14. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Depreciation is charged to write off the cost of property, plant and equipment less residual value, if any, on a straight-line basis, at the following rates per annum:

| | |
|---|---|
| Leasehold land and buildings | Shorter of 3% and over the lease terms |
| Leasehold improvements | Shorter of 10% – 20% and over the lease terms |
| Machinery | 10% – 20% |
| Factory | 3% |
| Furniture and fixtures | 10% – 33% |
| Computer equipment | 33% |
| Motor vehicles | 10% – 33% |
| Light boxes | 33% |
| Yacht | 10% |

The Group's interests in leasehold land and buildings that are situated in Hong Kong. The leasehold interest in land located in Hong Kong cannot be allocated reliably between the land and buildings elements and is accounted for as under finance lease with building elements included in property, plant and equipment.

**Fair value measurement of the Group's land and buildings in Hong Kong**

At 30 June 2019 and 2018, the fair value of the Group's leasehold land and buildings in Hong Kong was valued by the directors using direct comparison method.

In determining the fair value of the relevant properties, the board of directors of the Company has set up a valuation committee, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurements. The Chief Financial Officer reports the findings to the board of directors of the Company at the end of the reporting period to explain the cause of fluctuations in the fair value of the assets.

The fair value of the leasehold land and buildings located in Hong Kong has been determined based on the market comparable approach that reflects recent transaction prices for similar properties, adjusted for differences in the location and conditions of the properties under review. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The Group's land and buildings located in Hong Kong at revalued amounts are categorised into level 3 of the fair value hierarchy.

## 14. PROPERTY, PLANT AND EQUIPMENT (cont'd)

The following table shows the valuation techniques used in the determination of fair values and unobservable inputs used in the valuation models.

| Description | Fair value 2019 HK$'000 | Fair value 2018 HK$'000 | Valuation technique | Significant unobservable input | Significant input | Relationship of inputs to fair value |
|---|---|---|---|---|---|---|
| Land and buildings in Hong Kong | **14,720** | 14,720 | Direct comparison approach | Adjusted price per square feet | Adjusted price of HK$6,000 (2018: HK$6,000) per square feet in average | A significant increase in adjusted price would result in a significant increase in fair value, and vice versa |

Had the leasehold land and buildings at 30 June 2019 been carried at cost less accumulated depreciation and accumulated impairment losses, its carrying value would have been approximately HK$10,086,000 (2018: HK$10,446,000).

There were no transfer into or out of level 3 during both years.

## 15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments comprises leasehold interest in lands in the PRC and released over the term of lease of 30 to 50 years.

The amount is analysed for reporting purpose as:

| | **2019** **HK$'000** | 2018 HK$'000 |
|---|---|---|
| Current asset | **1,306** | 1,359 |
| Non-current asset | **34,708** | 37,501 |
| | **36,014** | 38,860 |

## 16. INVESTMENT PROPERTY

| | HK$'000 |
|---|---|
| **Fair value** | |
| At 1 July 2017 | 104,946 |
| Increase in fair value recognised in profit or loss | 6,054 |
| At 30 June 2018 | 111,000 |
| Increase in fair value recognised in profit or loss | 2,900 |
| At 30 June 2019 | 113,900 |

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.

The fair value of the Group's investment property has been arrived at on the basis of a valuation carried out by Messrs. LCH (Asia-Pacific) Surveyors Limited ("LCH"), an independent qualified professional valuers not connected to the Group.

The Group engages independent qualified professional valuers to perform the valuation. The valuation committee works closely with LCH to establish the appropriate valuation techniques and inputs to the model. The Chief Financial Officer reports the findings to the board of directors of the Company at the end of the reporting period to explain the cause of fluctuations in the fair value of the property.

In estimating the fair value of the property, the highest and best use of the property is their current use.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 16. INVESTMENT PROPERTY (cont'd)

The valuation was arrived at by using investment method of the income approach by taking into account the current rent receivable from existing tenancy agreements and the reversionary potential of property interests. Details of the Group's investment property and information about the fair value hierarchy as at the end of the reporting period are as follows:

| | **Level 3** | **Fair value as at 30 June 2019** |
|---|---|---|
| | ***HK$'000*** | ***HK$'000*** |
| Office unit located in Hong Kong | **113,900** | **113,900** |

| | Level 3 | Fair value as at 30 June 2018 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Office unit located in Hong Kong | 111,000 | 111,000 |

| | **Valuation technique** | **Significant unobservable input(s)** | **Sensitivity** |
|---|---|---|---|
| Office unit located in Hong Kong | Income approach (2018: Income approach) | Based on reversionary price per square foot using market observable comparable prices of similar property ranging from HK$9,500 to HK$15,680 per square foot (2018: price per square foot using market observable comparable prices of similar properties ranging from HK$10,835 to HK$14,053 per square foot), and adjusted taking into account of locations and other individual factors such as office frontage, size, layout and conditions of the properties. | A significant increase in adjusted price would result in a significant increase in fair value, and vice versa |

## 17. INTEREST IN A JOINT VENTURE

| | 2019 HK$'000 |
|---|---|
| Cost of investment in a joint venture | 8,843 |
| Share of post-acquisition profits and other comprehensive income | 648 |
| Exchange adjustments | (10) |
| | 9,481 |

Details of the Group's joint venture at the end of the reporting period are as follow:

| Name of entity | Country of incorporation/ business | Proportion of ownership interest held by the Group 2019 | Principal activity |
|---|---|---|---|
| 上海唯時鐘錶有限公司 ("SH Weishi") | the PRC | 51% | Trading of watches |

During the year ended 30 June 2019, the Group through its non-wholly owned subsidiary, Suzhou Paragon Watch Company Limited ("Suzhou Paragon"), entered into shareholder agreements with an independent third party to incorporate the SH Weishi. Suzhou Paragon has 51% interest in SH Weishi. Pursuant to the agreements, the directors of the Company are of the opinion that the Group has joint control over the relevant activities of SH Weishi as the decisions to be made at shareholders meeting required mutual consent of the Group and the other investor.

Summarised financial information of the joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial information prepared in accordance with HKFRSs.

The joint venture is accounted for using equity method in these consolidated financial statements.

| | 2019 HK$'000 |
|---|---|
| Current assets | 39,300 |
| Non-current assets | 38 |
| Current liabilities | (20,748) |
| The above amounts of assets and liabilities include the following: | |
| Cash and cash equivalents | 13,325 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 17. INTEREST IN A JOINT VENTURE (cont'd)

| | From 3 November 2018 (date of incorporation) to 30 June 2019 *HK$'000* |
|---|---|
| Revenue | **25,767** |
| Profit for the period | **1,271** |
| Total comprehensive income for the period | **1,271** |

Reconciliation of the above summarised financial information to the carrying amount of the interest in SH Weishi recognised in the consolidated financial statements:

| | **2019** *HK$'000* |
|---|---|
| Net assets of SH Weishi | **18,590** |
| Proportion of the Group's ownership interest in SH Weishi | **51%** |
| Carrying amount of the Group's interest in SH Weishi | **9,481** |

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

| | **2019** *HK$'000* | 2018 *HK$'000* |
|---|---|---|
| Financial assets measured at FVTPL: | | |
| Certificate of deposits *(note a)* | **288,597** | – |
| Investment in a trust *(note b)* | **92,861** | – |
| Structured deposits *(note c)* | **274,656** | 337,725 |
| Life insurance *(note d)* | **2,460** | – |
| | **658,574** | 337,725 |
| Analysed for reporting purposes as: | | |
| Non-current assets | **383,918** | – |
| Current assets | **274,656** | 337,725 |
| | **658,574** | 337,725 |

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

*Notes:*

(a) As at 30 June 2019, financial assets at FVTPL included certificate of deposits issued by a bank in the PRC with interest payable monthly at a fixed rate of 4.18% per annum. These certificates are transferrable but not early redeemable. The maturity dates of the certificates are in December 2021.

(b) During the year ended 30 June 2019, the Company acquired certain subordinated units of a trust in PRC. The assets of the trust are loan and interest receivables. The trust is transferrable and redeemable. The maturity date of the trust is 15 July 2020. Based on the terms of the trust, the Company is entitled to receive the principal of its investments after the privileged investor in the same trust received all of their investment principals and returns. The principal of the Group's investments are not guaranteed.

(c) The structured deposits are 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 ("LIBOR") of United States dollars' bank deposits or the exchange rate of Hong Kong dollar against US dollar.

(d) During the year ended 30 June 2019, the Company entered into a life insurance scheme of an executive director of the Company with an insurance company, an independent third party. Pursuant to the scheme, the Company is the holder and the beneficiary of the scheme. The total premium to be paid by the Company is HK$10,000,000, which should be settled by five consecutive annual installments of HK$2,000,000. As at 30 June 2019, the Company paid HK$2,000,000.

The fair value of these investments as at 30 June 2019 are determined by LCH. Details of fair value assessment are set out in note 33.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 19. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | **2019** |
|---|---|
| | ***HK$'000*** |
| Debt instruments | **219,739** |
| Analysed for reporting purposes as: | |
| Non-current assets | **200,298** |
| Current assets | **19,441** |
| | **219,739** |

The debt instruments represent the Group's investments in corporate bonds. These corporate bonds are measured at fair value which are quoted bid prices by a bank. The corporate bonds carry coupon rates ranging from 4.5% to 6.25% (2018: 4.5% to 5.45%) payable semi-annually and will be matured from January 2020 to perpetuity (2018: November 2018 to January 2020).

The amount are denominated in USD which is not the functional currency of the relevant group entity.

Details of impairment assessment are set out in note 33.

### 20. AVAILABLE-FOR-SALE INVESTMENTS

| | 2018 |
|---|---|
| | *HK$'000* |
| Listed debt securities | 48,782 |
| Analysed for reporting purposes as: | |
| Non-current assets | 19,165 |
| Current assets | 29,617 |
| | 48,782 |

The amounts represent the Group's investments in corporate bonds listed in the Stock Exchange of Hong Kong Limited and Singapore Exchange Limited. The corporate bonds are measured at fair values which are quoted bid prices by a bank. As at 30 June 2018, the corporate bonds carry coupon rates ranging from 4.50% to 5.45% payable semi-annually and will be matured from November 2018 to January 2020.

The amounts are denominated in USD which is not the functional currency of the relevant group entity.

Upon the application of HKFRS 9, the investments are reclassified to debt instruments at FVTOCI.

## 21. INVENTORIES

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Raw materials and consumables | **71,887** | 106,724 |
| Work in progress | **5,227** | 7,122 |
| Finished goods | **403,551** | 469,804 |
| | **480,665** | 583,650 |

## 22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| Trade receivables from third parties | **409,691** | 434,424 |
| Trade receivables from related companies | **2,844** | 6,416 |
| Less: allowance for credit losses | **(42,489)** | (25,148) |
| | **370,046** | 415,692 |
| Deposits | **26,582** | 34,606 |
| Prepayments | **19,851** | 29,714 |
| VAT receivables | **9,584** | 8,892 |
| Fund deposits to e-payment platforms | **18,645** | 32,473 |
| Amount due from a joint venture | **7,226** | – |
| Others | **31,496** | 23,923 |
| | **113,384** | 129,608 |
| Total trade and other receivables, deposits and prepayments | **483,430** | 545,300 |

As at 30 June 2019 and 1 July 2018, trade receivables from contracts with customers amounted to HK$370,046,000 and HK$410,032,000 respectively.

Trade receivables from third parties mainly represent receivables from department stores and e-commerce platforms in relation to the collection of sales proceeds from sales of merchandise to customers and other corporate customers and wholesalers for the Group's wholesale business and trading of watch movement business. The average credit period granted to the debt(s) is 30-60 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (cont'd)

The following is an ageing analysis of trade receivables from third parties net of allowance for credit losses, presented based on the date of receipt of goods for retail customers and delivery of goods for wholesale and corporate customers, which approximates to the respective date of revenue recognition, at the end of the reporting period:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 60 days | **310,481** | 337,548 |
| 61 to 120 days | **39,785** | 56,101 |
| 121 to 180 days | **7,872** | 4,117 |
| Over 180 days | **9,064** | 11,510 |
| | **367,202** | 409,276 |

The following is an ageing analysis of trade receivables from related companies, representing entities related to non-controlling interests of subsidiaries, presented based on the date of delivery of goods, which approximates to the respective date of revenue recognition, at the end of the reporting period:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 60 days | **2,844** | 3,055 |
| 61 to 120 days | **–** | 1,251 |
| 121 to 180 days | **–** | 581 |
| Over 180 days | **–** | 1,529 |
| | **2,844** | 6,416 |

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for customer. Credit limits attributable to customers are reviewed regularly. The Group has policy for provision of ECL, which is based on an evaluation of the collectability and age analysis of accounts grouped based on past due characteristics and on management's judgement including creditworthiness, the past collection history and forward-looking information.

As at 30 June 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$56,721,000 which are past due as of the reporting date. Out of the past due balances, HK$35,585,000 has been past due more than 90 days and was not considered as in default. The Group rebutted the presumption of default under expected credit losses model for trade receivables past due over 90 days based on no significant change in credit quality after understood these customers' background as well as the good payment records of and continuous business relationship with those customers and were adjusted for forward-looking information that was available without undue cost or effect. Further, such long outstanding balances were primarily due to overdue payment was a common practice in the Group's industry and prolonged by the internal procedures of the relevant customers. These customers were assessed collectively using a provision matrix with appropriate groupings for the credit risk based on their historical default rate, probability of default and exposure of default and were adjusted for forward-looking information that was available without undue cost or effort. The Group does not hold any collateral over these balances. The average age of these receivables as at 30 June 2019 is 113 days (2018: 104 days).

## 22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (cont'd)

As at 30 June 2018, 72% of trade receivables that are neither past due nor impaired have the best credit scoring attributable under the internal credit scoring system used by the Group as they have no historical rate at default.

**Ageing of trade receivables from third parties past due but not impaired**

| | 2018<br>*HK$'000* |
|---|---|
| 61 to 120 days | 56,101 |
| 121 to 180 days | 4,117 |
| Over 180 days | 11,510 |
| | 71,728 |

As at 30 June 2018, included in the Group's trade receivables were debtors with aggregate carrying amount of approximately HK$71,728,000, which were past due but not provided for impairment loss. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of each reporting period. The trade receivables past due but not provided for as at the end of each reporting period were either subsequently settled or from customers with no history of default. The Group did not hold any collateral over these balances. Approximately HK$28,857,000 impairment loss of trade receivables was recognised during the year ended 30 June 2018.

## 22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (cont'd)

**Movement in the allowance for doubtful debts**

| | 2018<br>*HK$'000* |
|---|---|
| Balance at beginning of the year | 5,352 |
| Exchange adjustments | (132) |
| Allowance for doubtful debts | 28,857 |
| Amounts written off as uncollectible | (8,929) |
| Balance at end of the year | 25,148 |

As at 30 June 2018, included in the allowance for doubtful debts are impaired trade receivables with a balance of approximately HK$8,929,000 which were past due and considered not recoverable.

Details of impairment of trade receivables and other receivables for the year ended 30 June 2019 were set out in note 33.

The trade and other receivables that are denominated in foreign currencies of the relevant group entities are set out below:

| | **2019**<br>***HK$'000*** | 2018<br>*HK$'000* |
|---|---|---|
| HK$ | **4,950** | 1,039 |
| Swiss Franc ("CHF") | **–** | 112 |

## 23. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

Bank balances and cash comprise cash and short-term deposits with original maturity of three months or less and carrying interest at average market rates of 1.44% (2018: 0.37%) per annum.

At 30 June 2019, the bank balances and cash of approximately HK$263,568,000 (2018: HK$607,438,000) are denominated in RMB, which are not freely convertible into other currencies.

Pledged bank deposits carries fixed interest rate at 1.83% (2018: 0.56%) per annum. The deposits are pledged to secure short-term bank borrowings and undrawn facilities, and are therefore classified as current assets.

Pledged bank deposits and bank balances and cash that are denominated in foreign currencies of the relevant group entities are set out below:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| HK$ | **26,301** | 34,713 |
| RMB | **472** | 228 |
| CHF | **233** | 1,574 |
| USD | **94,411** | 86,711 |

## *NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*

For the year ended 30 June 2019

## 24. TRADE PAYABLES, BILLS PAYABLE, OTHER PAYABLES AND ACCRUED CHARGES AND CONTRACT LIABILITIES

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Trade payables and bills payable:* | | |
| Trade payables to third parties | **70,146** | 71,836 |
| Bills payable to third parties | **5,860** | 5,359 |
| Trade payables to related companies | **3,222** | 10,888 |
| | **79,228** | 88,083 |
| *Other payables and accrued charges:* | | |
| Other tax payables | **23,624** | 33,949 |
| Accrued directors' remuneration | **10,300** | 10,360 |
| Accrued advertising expenses | **17,519** | 22,652 |
| Accrued staff related costs | **21,260** | 29,383 |
| Other payables and accrued charges | **80,133** | 78,615 |
| Amounts due to non-controlling interests of subsidiaries | **10,995** | 10,045 |
| | **163,831** | 185,004 |
| | **243,059** | 273,087 |

The average credit period on purchases of goods is 30 to 60 days. The following is an ageing analysis of trade payables to third parties presented based on the invoice date at the end of the reporting period:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 30 days | **43,254** | 47,965 |
| 31 to 60 days | **9,075** | 11,280 |
| 61 to 90 days | **10,933** | 4,801 |
| Over 90 days | **6,884** | 7,790 |
| | **70,146** | 71,836 |

## 24. TRADE PAYABLES, BILLS PAYABLE, OTHER PAYABLES AND ACCRUED CHARGES AND CONTRACT LIABILITIES (cont'd)

The related companies, which are 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 the related companies based on invoice date at the end of the reporting period:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 31 to 60 days | – | 124 |
| 61 to 90 days | – | 2,060 |
| Over 90 days | **3,222** | 8,704 |
| | **3,222** | 10,888 |

Bills payable at the end of the reporting period is aged within 30 days based on issuance date of the bills.

Amounts due to non-controlling interests of subsidiaries are unsecured, interest-free and repayable on demand.

| | **30.6.2019** | 1.7.2018* |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| *Contract liabilities* | | |
| Sales of watches and movements | **182** | 333 |

* The amount in this column is after the adjustments from the application of HKFRS 15.

When the Group receives a deposit before the delivery of goods, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

For the contract liabilities as at 1 July 2018, the entire balances related to sales of watches and movements are recognised as revenue during the year ended 30 June 2019.

For the contract liabilities as at 30 June 2019, the entire balances related to sales of watches and movements will be recognised as revenue within twelve months from 30 June 2019.

## 24. TRADE PAYABLES, BILLS PAYABLE, OTHER PAYABLES AND ACCRUED CHARGES AND CONTRACT LIABILITIES (cont'd)

The trade payables, bills payable, other payables and accrued charges and contract liabilities that are denominated in foreign currency of the relevant group entities are set out below:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| HK$ | **26,849** | 17,641 |
| USD | **28,711** | 351 |

## 25. BANK BORROWINGS AND OVERDRAFT

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank overdraft – secured | **23,815** | 8,061 |
| Bank loan – unsecured | **–** | 2,370 |
| Trust receipts loans – secured | **38,727** | 38,826 |
| Trust receipts loans – unsecured | **–** | 18,264 |
| | **62,542** | 67,521 |

As at 30 June 2019, the Group's secured bank borrowings of approximately HK$62,542,000 (2018: HK$46,887,000) were secured by pledged bank deposits of approximately HK$7,793,000 (2018: HK$6,953,000) for short-term bank borrowings as disclosed in note 23.

The bank borrowings and overdraft are repayable on demand due to the repayment on demand clause and repayable within one year based on scheduled payment dates set out in the loan agreements.

Bank overdraft, bank loans and trust receipt loans are arranged at floating rates at interest ranging from Hong Kong Prime rate minus 2.25% (2018: Hong Kong Prime rate minus 2.25%), United States Base rate minus 1.5% (2018: United States Base rate minus 1.5%) and LIBOR plus 1.75% (2018: LIBOR plus 1.50% to 1.75%) per annum, respectively. The weighted average market interest rate of these borrowings is approximately 3.96% per annum as at 30 June 2019 (2018: 3.77% per annum). Thus the Group exposes to cash flow interest rate risk.

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| HK$ | **23,815** | 8,061 |

## 26. SHARE CAPITAL

| | Number of shares *'000* | Share capital *HK$'000* |
|---|---|---|
| *Ordinary shares of HK$0.1 each* | | |
| *Authorised:* | | |
| At 1 July 2017, 30 June 2018 and 2019 | 100,000,000 | 10,000,000 |
| *Issued:* | | |
| At 1 July 2017, 30 June 2018 and 2019 | 2,079,946 | 207,995 |

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

## 27. DEFERRED TAXATION

The following are the major deferred tax (assets) liabilities recognised and movements during the year:

| | Allowance for obsolete inventories *HK$'000* | Allowance for bad debt/ credit losses *HK$'000* | Unrealised profit *HK$'000* | Accelerated tax depreciation *HK$'000* | Withholding tax arising from PRC subsidiaries *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| At 1 July 2017 | (19,923) | – | (8,315) | 2,593 | 58,379 | 32,734 |
| (Credited) charged to profit or loss | (7,440) | (7,214) | (8,324) | – | 20,531 | (2,447) |
| At 30 June 2018 | (27,363) | (7,214) | (16,639) | 2,593 | 78,910 | 30,287 |
| (Credited) charged to profit or loss | (454) | (309) | 3,116 | (544) | (13,001) | (11,192) |
| At 30 June 2019 | **(27,817)** | **(7,523)** | **(13,523)** | **2,049** | **65,909** | **19,095** |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 27. DEFERRED TAXATION (cont'd)

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Deferred tax assets | **48,863** | 51,216 |
| Deferred tax liabilities | **67,958** | 81,503 |

The Group had unused tax losses of approximately HK$625,187,000 as at 30 June 2019 (2018: HK$539,851,000). No deferred tax assets have been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses for certain subsidiaries operating in the PRC of approximately HK$61,517,000 (2018: HK$49,817,000) that will expire in 2023 (2018: 2022) and tax losses for the subsidiary in the USA of approximately HK$224,681,000 (2018: HK$208,551,000) that will expire in 2039 (2018: 2038). Other tax losses may be carried forward indefinitely.

### 28. OTHER LOANS

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loans from a non-controlling interest of a subsidiary | **76,923** | 76,288 |
| Loan from a director | **11,719** | 11,766 |
| Loans from a related party | **46,878** | 47,064 |
| Loan from a third party | **7,813** | – |
| | **143,333** | 135,118 |
| Amounts due within one year shown under current liabilities | **(143,333)** | (135,118) |

The loans from a non-controlling interest of a subsidiary represented: i) a loan of USD1,500,000 (equivalent to approximately HK$11,720,000) (2018: USD1,500,000, equivalent to approximately HK$11,766,000), which is interest bearing at a fixed rate of 4% per annum, unsecured and repayable on demand; ii) a loan of USD2,450,000 (equivalent to approximately HK$19,142,000) (2018: USD2,450,000, equivalent to approximately HK$19,218,000), which are non-interest bearing, unsecured and originally repayable on demand; iii) a loan of USD4,900,000 (equivalent to approximately HK$38,248,000) (2018: USD4,900,000, equivalent to approximately HK$38,436,000), which is non-interest bearing, unsecured and originally repayable on demand; and iv) a loan of USD1,000,000 (equivalent to approximately HK$7,813,000) (2018: USD1,000,000 (equivalent to approximately HK$7,844,000) which is non-interest bearing, unsecured and repayable on demand.

## 28. OTHER LOANS (cont'd)

The non-interest bearing loans are carried at amortised cost using an effective interest rate of 5% (2018: 5%) per annum. During the year ended 30 June 2019, an imputed interest expense of approximately HK$940,000 (2018: HK$3,887,000) is recognised as finance costs in profit or loss. Subsequent to the reporting period, the non-interest bearing loans from a non-controlling interest of a subsidiary of US$5,900,000 were capitalised as shareholder's contribution to the subsidiary.

The loan from a director represented loans of USD1,500,000 (equivalent to approximately HK$11,719,000) (2018: USD1,500,000, equivalent to approximately HK$11,766,000) from a director of the Company. The loans are interest bearing at fixed interest rates of 4% per annum, unsecured and repayable on demand.

The loans from a related party represented i) a loan of USD5,000,000 (equivalent to approximately HK$39,065,000) (2018: USD5,000,000, equivalent to approximately HK$39,220,000) and ii) a loan of USD1,000,000 (equivalent to approximately HK$7,813,000) (2018: USD1,000,000 (equivalent to approximately HK$7,844,000)) from a director of a subsidiary. The interest bearing at fixed interest rate of 4% per annum, unsecured and repayable on 31 December 2019.

The loan from a third party represented a loan of USD1,000,000 (equivalent to approximately HK$7,813,000 from a third party. The interest bearing at fixed interest rate of 4% per annum, secured and repayable on 31 August 2019.

## 29. COMMITMENTS

### a. Operating lease commitments

*The Group as lessee*

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

| | **2019**<br>***HK$'000*** | 2018<br>*HK$'000* |
|---|---|---|
| Within one year | **39,234** | 30,498 |
| In the second to fifth year inclusive | **19,156** | 30,309 |
| | **58,390** | 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 4 years.

## 29. COMMITMENTS (cont'd)

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

*The Group as lessor*

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **8,511** | 10,661 |
| In the second to fifth year inclusive | **1,137** | 9,670 |
| | **9,648** | 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.

### c. Capital commitments

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Capital commitments in respect of life insurance contract *(note 18)* | **8,000** | – |
| Capital commitments in respect of property, plant and equipment | **49,277** | 85,549 |
| | **57,277** | 85,549 |

## 30. RETIREMENT BENEFIT SCHEMES

The Group operates defined contribution retirement benefits plans for all qualifying employees in Hong Kong. The assets of the plans are held separately from those of the Group in funds under the control of trustees.

The Group's subsidiaries in the PRC, Swiss and the USA are required to make contributions to the state-managed retirement schemes and pension schemes operated by respective local governments and private sectors based on certain percentage of the monthly salaries of their current employees to fund the benefits. The only obligation of these subsidiaries with respect to the retirement benefit schemes is to make the specified contributions.

The total expense recognised in profit or loss of approximately HK$57,168,000 (2018: HK$56,710,000) represents contributions payable to these plans by the Group at rates specified in the rules of the plans. As at 30 June 2019 and 2018, there were no outstanding contributions payable to the schemes.

## 31. SHARE OPTION SCHEME

On 11 January 2013, the Company conditionally adopted a share option scheme pursuant to a resolution passed by its then sole shareholder on 11 January 2013, where eligible employees and directors of the Group, among others, may be granted options entitling them to subscribe for the Company's shares. The adoption of the share option scheme became unconditional upon the listing of the Company on 5 February 2013. No share option has been granted since the adoption of the scheme.

## 32. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes bank borrowings and overdraft, and other loans, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated profits.

Management of the Group reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through issuance of new shares and the raise of bank borrowings or the repayment of the existing bank borrowings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

## 33. FINANCIAL INSTRUMENTS

### Categories of financial instruments

| | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets at fair value through profit or loss | **658,574** | 337,725 |
| Debt instruments at fair value through other comprehensive income | **219,739** | – |
| Financial assets at amortised cost | **883,536** | – |
| Loans and receivables (including cash and cash equivalents) | **–** | 1,275,809 |
| Available-for-sale investments | **–** | 48,782 |
| **Financial liabilities** | | |
| Amortised cost | **393,750** | 402,034 |

### Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL and debt instruments at FVTOCI, trade receivables, other receivables and deposits, pledged bank deposits, bank balances and cash, trade payables and bills payable, other payables and accrued charges, bank borrowings and overdraft and other loans (2018: trade receivables, other receivables and deposits, financial assets at FVTPL, pledged bank deposits, bank balances and cash, trade payables and bills payable, other payables and accrued charges, bank borrowings and overdraft, other loans and available-for-sale investments). Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *Currency risk*

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

The currency risk of the Group is mainly arising from exchange rate of RMB against HK$, RMB against USD, USD against HK$ and CHF against HK$.

## 33. FINANCIAL INSTRUMENTS (cont'd)

**Financial risk management objectives and policies (cont'd)**

*Currency risk (cont'd)*

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| HK$ | **31,251** | 35,752 | **50,664** | 25,702 |
| USD | **314,150** | 135,493 | **28,711** | 351 |
| RMB | **472** | 228 | **–** | – |
| CHF | **233** | 1,686 | **–** | – |

For entities with a USD functional currency holding monetary assets and liabilities denominated in HK$, the directors of the Company considered that, as HK$ is pegged to USD, the Group is not subject to significant foreign currency risk from change in foreign exchange rate of USD against HK$.

Other than above, several subsidiaries of the Group have the following intra-group receivables/payables denominated in HK$, USD, CHF and RMB, which are foreign currencies of the relevant group entities.

| | Amounts due from group entities | | Amounts due to group entities | |
|---|---|---|---|---|
| | **2019** | 2018 | **2019** | 2018 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| HK$ | **1,065,771** | 866,523 | **840,779** | 634,624 |
| USD | **105,645** | 97,729 | **557** | 36 |
| RMB | **12,049** | 7,635 | **15,665** | 14,047 |
| CHF | **12,551** | 34,200 | **–** | – |

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

## 33. FINANCIAL INSTRUMENTS (cont'd)

**Financial risk management objectives and policies (cont'd)**

***Currency risk (cont'd)***

*Sensitivity analysis*

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against HK$, RMB against USD and CHF against HK$. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items as well as amounts due from and to group entities where the denomination of the balance is in a foreign currency of the group entity. A positive number below indicates an increase in post-tax profit for the year where the HK$ and USD strengthen 5% against RMB and CHF. For a 5% weakening of the HK$ and USD against RMB and CHF, there would be an equal and opposite impact on the post-tax profit for the year.

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Increase in post-tax profit for the year | **22,715** | 18,918 |

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent currency risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

***Interest rate risk***

The Group's fair value interest rate risk relates primarily to the fixed rate debt instruments at FVTOCI, investment in certificate of deposits, structured bank deposits and investment in subordinated units in a trust included in financial assets at FVTPL, pledged bank deposits and fixed rate other loans. The Group's cash flow interest rate risk relates to the bank balances as well as variable rate bank borrowings and overdraft (note 25 for details of bank borrowings and overdraft). The bank borrowings and overdraft were mainly exposed to fluctuation of Hong Kong Prime rate, United States Base rate and LIBOR.

The Group has not used any interest rate swaps in order to mitigate its exposure associated with fluctuations relating to cash flows interest rate risk. However, the management of the Group will consider hedging significant interest rate exposure should the need arise.

*Sensitivity analysis*

In the opinion of management of the Group, the expected change in interest rate on bank balances will not be significant in the near future, hence sensitivity analysis is not presented.

## 33. FINANCIAL INSTRUMENTS (cont'd)

**Financial risk management objectives and policies (cont'd)**

***Interest rate risk (cont'd)***

*Sensitivity analysis (cont'd)*

The sensitivity analyses below have been determined based on the exposure to interest rates at the end of the reporting period. For variable rate bank borrowings and overdraft, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2018: 50 basis points) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates. In the opinion of management of the Group, the expected change in interest rate will not have significant impact on the interest income or expenses on payments for bank balances, hence bank balances are excluded from the sensitivity analysis.

If interest rates had been 50 basis points (2018: 50 basis points) higher/lower and all other variables were held constant, the impact on the Group's post-tax profit for the years ended 30 June 2019 and 2018 would be:

| | **2019**<br>***HK$'000*** | 2018<br>*HK$'000* |
|---|---|---|
| Decrease/increase | **235** | 253 |

In the management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk as the exposure at the end of the reporting period does not reflect the exposure during the year.

***Credit risk and impairment assessment***

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the financial assets (including debt instruments at FVTOCI) whose carrying amounts best represent the maximum exposure to credit risk.

## 33. FINANCIAL INSTRUMENTS (cont'd)

### Financial risk management objectives and policies (cont'd)

*Credit risk and impairment assessment (cont'd)*

*Trade receivables arising from contracts with customers*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Before accepting any new customer, the Group uses an internal credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed once a year. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2018: incurred loss model) on not credit impaired trade balances based on provision matrix and credit impaired trade balances based on individual assessment. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The concentration of credit risk is limited due to the customer base being large and unrelated. Management of the Group believes that there is no further credit provision required in excess of the allowance for credit losses.

*Other receivables and deposits*

The management of the Group makes periodic collective assessment as well as individual assessment for debtors with significant balances on the recoverability of other receivables and deposits based on historical settlement records, past experience, and also quantitative and qualitative information that is reasonable, supportive and forward looking information that is available starting from 1 July 2018. The management of the Group believes that there is no material credit risk inherent in the Group's outstanding balance of deposits and other receivables. ECL on deposits and other receivables is insignificant at 1 July 2018 and 30 June 2019 as the exposure of deposits and other receivables is insignificant.

*Debt instruments at FVTOCI*

The Group only invests in debt securities with low credit risk. The Group's debt instruments at FVTOCI mainly comprise listed bonds that are graded in the top investment grade as per globally understood definitions and therefore are considered to be low credit risk investments. During the year ended 30 June 2019, expected credit losses on debt instruments at FVTOCI is insignificant.

*Pledged bank deposits and bank balances*

The credit risks on pledged bank deposits and bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. No loss allowance provision for pledged bank deposits and bank balances was recognised upon application of HKFRS 9 as the amount is insignificant. The Group has limited exposure to any single financial institution.

## 33. FINANCIAL INSTRUMENTS (cont'd)

**Financial risk management objectives and policies (cont'd)**

*Credit risk and impairment assessment (cont'd)*

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade receivables | Other financial assets |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts | Lifetime ECL (not credit-impaired) | 12m ECL |
| Medium risk | Debtor frequently repays after due dates but usually settle within 90 days after due date | Lifetime ECL (not credit-impaired) | 12m ECL |
| High risk | Debtor frequently repays after 90 days after due date | Lifetime ECL (not credit-impaired) | 12m ECL |
| Loss | There is evidence indicating the asset is credit-impaired | Lifetime ECL (credit-impaired) | Lifetime ECL (credit-impaired) |
| Write-off | There is evidence indicating the debtor is in severe financial difficulty and the Company has no realistic prospect of recovery or trade receivables are over two years past due | Amount is written-off | Amount is written-off |

## 33. FINANCIAL INSTRUMENTS (cont'd)

### Financial risk management objectives and policies (cont'd)

*Credit risk and impairment assessment (cont'd)*

The tables below detail the credit risk exposures of the Group's financial assets which are subject to ECL assessment:

| 2019 | *Notes* | External credit rating | Internal credit rating | 12-month or lifetime ECL | Gross carrying amounts *HK$* |
|---|---|---|---|---|---|
| **Debt instruments at FVTOCI** | | | | | |
| Investments in listed bonds | *19* | Aa1 | N/A | 12m ECL | 219,739 |
| **Financial assets at amortised cost** | | | | | |
| Trade receivables | *22* | N/A | *(note i)* | Lifetime ECL (provision matrix) | 376,735 |
| | | N/A | Loss *(note i)* | Lifetime ECL (credit-impaired) | 35,800 |
| Other receivables and deposits | *22* | N/A | *(note ii)* | 12m ECL | 83,949 |
| Pledged bank deposits | *23* | Aa1 to A1 *(note iii)* | N/A | 12m ECL | 7,793 |
| Bank balances | *23* | Aa1 to Baa3 *(note iii)* | N/A | 12m ECL | 421,748 |

*Notes:*

(i) For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL.

The estimated loss rates on trade receivables are estimated based on historical credit loss of the Group experienced of the Group and study of industry's default and recovery data from international credit-rating agencies and are adjusted for forward-looking information (for example, the current and forecasted economic growth rates in the PRC, which reflect the general economic conditions of the industry in which the debtors operate) that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

As part of the Group's credit risk management, the Group uses debtors' past due ageing to assess the impairment for its customers in relation to its operation because the customers of the Group consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables from customers which are assessed based on provision matrix as at 30 June 2019 within lifetime ECL (not credit-impaired). Debtors with credit-impaired balances with gross carrying amounts of approximately HK$35,800,000 as at 30 June 2019 were assessed individually.

## 33. FINANCIAL INSTRUMENTS (cont'd)

**Financial risk management objectives and policies (cont'd)**

*Credit risk and impairment assessment (cont'd)*

*Notes: (cont'd)*

(i) (cont'd)

**Gross carrying amount**

| | Average loss rate | Trade receivables past due<br>*HK$'000* |
|---|---|---|
| Current (not past due) | 0.1% | 314,001 |
| 1-30 days past due | 2.8% | 23,628 |
| 31-60 days past due | 5.4% | 20,335 |
| 61-90 days past due | 8.1% | 12,962 |
| More than 90 days past due | 20.9% | 5,809 |
| | | 376,735 |

During the year ended 30 June 2019, the Group provided HK$4,532,000 impairment allowance for trade receivables, based on the provision matrix. Impairment allowance of HK$8,161,000 were made on credit impaired debtors.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach.

| | Lifetime ECL (not credit-impaired)<br>*HK$'000* | Lifetime ECL (credit-impaired)<br>*HK$'000* | Trade receivables<br>*HK$'000* |
|---|---|---|---|
| **As at 30 June 2018 under HKAS 39** | – | 25,148 | 25,148 |
| Adjustment upon application of HKFRS 9 | 5,660 | – | 5,660 |
| **As at 1 July 2019 – As restated** | 5,660 | 25,148 | 30,808 |
| Changes due to financial instruments recognised as at 1 July: | | | |
| – Reversal of impairment losses | (2,415) | (2,673) | (5,088) |
| – Transfer to credit-impaired | (3,317) | 3,317 | – |
| New financial assets originated | 6,947 | 10,834 | 17,781 |
| Exchange realignment | (186) | (826) | (1,012) |
| **As at 30 June 2019** | 6,689 | 35,800 | 42,489 |

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier. No trade receivable (2018: HK$8,929,000) was written off by the Group during the year ended 30 June 2019.

# *NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*
For the year ended 30 June 2019

## 33. FINANCIAL INSTRUMENTS (cont'd)

**Financial risk management objectives and policies (cont'd)**

***Credit risk and impairment assessment (cont'd)***

*Notes: (cont'd)*

(ii) For the purpose of internal credit risk management, the Company uses past due information to assess whether credit risk has increased significantly since initial recognition.

| | Past due | Not past due/no fixed repayment terms | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Deposits and other receivables | – | 76,723 | 76,723 |
| Amount due from a joint venture | – | 7,226 | 7,226 |

(iii) External credit ratings are from international credit-rating agencies.

***Liquidity risk***

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

## 33. FINANCIAL INSTRUMENTS (cont'd)

### Financial risk management objectives and policies (cont'd)

*Liquidity risk (cont'd)*

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment dates. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

| | Weighted average effective interest rate | Repayable on demand or less than 3 months | 3 – 6 months | Total undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|
| | *%* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **As at 30 June 2019** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade payables and bills payable | **N/A** | **79,228** | **–** | **79,228** | **79,228** |
| Other payables and accrued charges | **N/A** | **108,647** | **–** | **108,647** | **108,647** |
| Bank borrowings | **3.96** | **38,727** | **–** | **38,727** | **38,727** |
| Bank overdraft | **4.64** | **23,815** | **–** | **23,815** | **23,815** |
| Other loans | **4.24** | **97,129** | **47,346** | **144,475** | **143,333** |
| | | **347,546** | **47,346** | **394,892** | **393,750** |
| **As at 30 June 2018** | | | | | |
| **Non-derivative financial liabilities** | | | | | |
| Trade payables and bills payable | N/A | 88,083 | – | 88,083 | 88,083 |
| Other payables and accrued charges | N/A | 111,312 | – | 111,312 | 111,312 |
| Bank borrowings | 3.77 | 59,460 | – | 59,460 | 59,460 |
| Bank overdraft | 2.75 | 8,061 | – | 8,061 | 8,061 |
| Other loans | 4.48 | 235 | 137,270 | 137,505 | 135,118 |
| | | 267,151 | 137,270 | 404,421 | 402,034 |

## *NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*

For the year ended 30 June 2019

### 33. FINANCIAL INSTRUMENTS (cont'd)

**Financial risk management objectives and policies (cont'd)**

***Liquidity risk (cont'd)***

Bank borrowings with a repayment on demand clause are included in the "Repayment on demand or less than 3 months" time band in the above maturity analysis. As at 30 June 2019, the aggregate carrying amount of these bank loans of amounted to approximately HK$38,727,000 (2018: HK$59,460,000). Taking into account the Group's financial position, management does not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. Management of the Group believes that such bank loans of the Group will be repaid after the end of reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to approximately HK$38,940,000 (2018: HK$59,789,000).

For the purpose of managing liquidity risk, management reviews the expected cash flow information of the Group's bank borrowings based on the scheduled repayment dates set out in the bank borrowings agreements as set out in the table below:

| | Weighted average effective interest rate | Repayable less than 3 months | 3 – 6 months | Total undiscounted cash flows | Total carrying amount |
|---|---|---|---|---|---|
| | *%* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Bank borrowings:** | | | | | |
| As at 30 June 2019 | 3.96 | 32,482 | 6,458 | 38,940 | 38,727 |
| As at 30 June 2018 | 3.77 | 49,042 | 10,747 | 59,789 | 59,460 |

***Other price risk***

The Group is exposed to debt price risk through its investments in debt instruments at FVTOCI (2018: listed debt securities as available-for-sale investments). Management of the Group manages this exposure by maintaining a portfolio of investments with different risks. The Group's debt price risk is mainly concentrated on debt instruments listed in the Stock Exchange and Singapore Exchange Limited. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to debt price risk at the reporting date. If the prices of the respective debt instruments had been 10% (2018: 10%) higher/lower, other comprehensive income for the year ended 30 June 2019 would increase/decrease by approximately HK$21,974,000 (2018: HK$4,878,000) as a result of the changes in fair value of debt instruments measured at FVTOCI (2018: available-for-sale investments).

## 33. FINANCIAL INSTRUMENTS (cont'd)

**Fair value measurements of financial instruments**

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent qualified valuers to perform the valuation. The chief financial officer works closely with the independent qualified valuers to establish the appropriate valuation techniques and inputs to the model. The chief financial officer reports the findings to the board of directors of the Company every quarter to explain the cause of fluctuations in the fair value of the assets and liabilities.

### *(i) 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 are determined (in particular, the valuation technique(s) and inputs used).

| Financial assets | Fair value as at 30 June | | Fair value hierarchy | Valuation technique and key input | Significant unobservable input |
|---|---|---|---|---|---|
| | **2019** **HK$'000** | 2018 HK$'000 | | | |
| Debts instruments at FVTOCI | | | | | |
| – Corporate bonds traded in inter-bank market | **219,739** | – | Level 1 | Quoted bid prices from inter-bank market | N/A |
| Available-for-sale investment | | | | | |
| – Corporate bonds traded in inter-bank market | **–** | 48,782 | Level 1 | Quoted bid prices from inter-bank market | N/A |
| Financial assets at FVTPL | | | | | |
| – Structured bank deposits | **274,656** | – | Level 3 | Discounted cash flow approach | 1. Discount rate *(Note 1)* 2. Expected interest rate *(Note 2)* |
| – Structured bank deposits | **–** | 337,725 | Level 2 | Quoted value from banks | N/A |
| – Certificate of deposits | **288,597** | – | Level 3 | Discounted cash flow approach | Discount rate *(Note 1)* |
| – Investment in a trust | **92,861** | – | Level 3 | Discounted cash flow approach | Discount rate *(Note1)* |

## 33. FINANCIAL INSTRUMENTS (cont'd)

**Fair value measurements of financial instruments (cont'd)**

***(i) Fair value of the Group's financial assets that are measured at fair value on a recurring basis (cont'd)***

| | Fair value as at 30 June | | Fair value hierarchy | Valuation technique and key input | Significant unobservable input |
|---|---|---|---|---|---|
| | **2019** **HK$'000** | 2018 *HK$'000* | | | |
| – Life insurance | **2,460** | – | Level 3 | Discounted cash flow approach | 1. Discount rate *(Note 1)*<br>2. Marginal Death Rate *(Note 3)* |

*Note 1:* The higher the discount rate, the lower the fair value.

*Note 2:* If the linked USD LIBOR rate or the exchange rate of USD against HK$ within a specific range, the higher the interest rate for expected return, then the higher the fair value.

*Note 3:* The higher the marginal death rate, the higher the fair value.

There were no transfers between Level 1 and 2 in the year.

## 33. FINANCIAL INSTRUMENTS (cont'd)

**Fair value measurements of financial instruments (cont'd)**

*(ii) Reconciliation of Level 3 fair value measurements of financial assets*

| | Financial assets at FVTPL HK$'000 |
|---|---|
| **At 1 July 2018** | – |
| Additions | 2,923,212 |
| Disposals | (2,254,027) |
| Fair value change to profit or loss | 8,032 |
| Exchange realignment | (18,643) |
| **At 30 June 2019** | 658,574 |

Of the total gain for the period included in profit or loss, HK$8,032,000 relates to financial assets at FVTPL held at the end of the current reporting period. Fair value gains or losses on financial assets at FVTPL is included in "Other gains and losses".

*(iii) Fair value of the Group's financial assets that are not measured at fair value on a recurring basis*

Management of the Group considers that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 34. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Dividend payables<br>*HK$'000* | Bank borrowings and overdraft<br>*HK$'000* | Other loans<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| At 1 July 2017 | – | 65,279 | 115,360 | 180,639 |
| Financing cash flows | (107,243) | 2,124 | 15,688 | (89,431) |
| Imputed interest on loan from a non-controlling interest of a subsidiary | – | – | 3,887 | 3,887 |
| Dividends declared | 107,243 | – | – | 107,243 |
| Foreign exchange translation | – | 118 | 183 | 301 |
| At 30 June 2018 | – | 67,521 | 135,118 | 202,639 |
| At 1 July 2018 | – | 67,521 | 135,118 | 202,639 |
| Financing cash flows | (123,853) | (4,732) | 7,813 | (120,772) |
| Imputed interest on loan from a non-controlling interest of a subsidiary | – | – | 940 | 940 |
| Dividends declared | 123,853 | – | – | 123,853 |
| Foreign exchange translation | – | (247) | (538) | (785) |
| At 30 June 2019 | – | 62,542 | 143,333 | 205,875 |

### 35. RELATED PARTY TRANSACTIONS

Other than trade receivables from related companies, amount due from a joint venture, trade payables to related companies and amounts due to non-controlling interests of subsidiaries and other loans as disclosed in notes 22, 24 and 28, respectively, the Group had the following related party transactions during the year:

| | **2019**<br>***HK$'000*** | 2018<br>*HK$'000* |
|---|---|---|
| Sales to entities related to a non-controlling interest of subsidiaries *(Note b)* | **9,848** | 9,240 |
| Purchases from entities related to a non-controlling interest of subsidiaries *(Note b)* | **–** | 9,121 |
| Sales commission received/receivable from entities related to a non-controlling interest of subsidiaries *(Note b)* | **–** | 80 |
| Interest expense paid/payable to a related party *(Note c)* | **1,882** | 1,815 |
| Interest expense paid/payable to a director | **512** | 469 |

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

| | **2019** *HK$'000* | 2018 *HK$'000* |
|---|---:|---:|
| Interest expense paid/payable to a non-controlling interest of subsidiaries | **471** | 482 |
| Purchases from an entity owned by a related party *(Notes b & c)* | **17,613** | 50,448 |
| Service fee paid/payable to entities related to a non-controlling interest of subsidiaries *(Note b)* | **1,830** | 5,157 |
| Sales commissions paid/payable to entities related to a non-controlling interest of subsidiaries *(Note b)* | **69** | 857 |
| Rental expenses paid/payable to related companies *(Notes a & b)* | **4,950** | 4,967 |
| Refund of service fee received/receivable from non-controlling interests of subsidiaries | **675** | 712 |
| Service fee received/receivable from entities related to a non-controlling interest of subsidiaries *(Note b)* | **69** | 23 |
| Royalty income received/receivable from a non-controlling interest of a subsidiary | **1,769** | 1,769 |
| Imputed interest paid/payable to a non-controlling interest of subsidiaries | **940** | 3,887 |
| Dividends paid/payable to non-controlling interests of subsidiaries | **4,256** | 3,246 |

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

*Notes:*

(a) The related companies are wholly owned and controlled by Mr. Tung.

(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.

**Compensation of key management personnel**

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Short-term benefits | **27,085** | 25,336 |
| Post-employment benefits | **170** | 144 |
| | **27,255** | 25,480 |

The remuneration of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at the end of the reporting period are as follows:

| Name of subsidiary | Country/ place of incorporation/ establishment | Country/ Place of operation | Issued and fully paid share capital/ registered capital | Attributable equity interest of the Group As at 30 June | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | **2019** | 2018 | |
| **Directly:** | | | | | | |
| Immense Ocean Investments Limited | BVI | Hong Kong | 1 share of US$1 | **100%** | 100% | Investment holding |
| **Indirectly:** | | | | | | |
| Win Source Trading Limited 偉鑫貿易有限公司 | Hong Kong | Hong Kong | 1 share of HK$1 | **100%** | 100% | Trading of watch movements |
| Win Sun International Limited 捷新國際有限公司 | Hong Kong | Hong Kong | 1 share of HK$1 | **100%** | 100% | Trading of watches |
| Gold Joy Investments Limited 金愉投資有限公司 | Hong Kong | Hong Kong | 1 share of HK$1 | **100%** | 100% | Investment holding |
| Sky Sun Investments Limited 天新投資有限公司 | Hong Kong | Hong Kong | 1 share of HK$1 | **100%** | 100% | Investment holding |
| Gold Reach Investments Limited 金達投資有限公司 | Hong Kong | Hong Kong | 1 share of HK$1 | **100%** | 100% | Investment holding |
| Ye Guang Li Electronics (Meizhou) Company Limited[1] 業廣利電子(梅州)有限公司 | PRC | PRC | HK$3,880,000 | **100%** | 100% | Assembling and trading of watches |
| Suzhou Paragon[2] 蘇州寶利辰表行有限公司 | PRC | PRC | RMB24,000,000 (2018: RMB20,000,000)[4] | **51%** | 51% | Sales of watches |
| Tian Wang Shenzhen[1] 天王電子(深圳)有限公司 | PRC | PRC | HK$99,000,000 | **100%** | 100% | Assembling and trading of own branded watches |
| Time Watch (Hefei) Timepieces Company Limited[2] 時計寶(合肥)鐘表有限公司 | PRC | PRC | RMB14,000,000 | **51%** | 51% | Sales of watches |
| Time Watch (Shanghai) Timepieces Company Limited[2] 時計寶(上海)鐘表有限公司 | PRC | PRC | RMB14,000,000 | **51%** | 51% | Sales of watches |
| Balco Switzerland SAGL | Switzerland | Switzerland | 20 shares of CHF1,000 each | **100%** | 100% | Sales of watches |
| Shenzhen Time Watch Management Consulting Limited[3] 深圳時計寶管理諮詢有限公司 | PRC | PRC | RMB6,000,000 | **100%** | 100% | Marketing and consulting |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (cont'd)

| Name of subsidiary | Country/ place of incorporation/ establishment | Country/ Place of operation | Issued and fully paid share capital/ registered capital | Attributable equity interest of the Group As at 30 June | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | 2019 | 2018 | |
| Time Watch (Sichuan) Company Limited[2]<br>時計寶(四川)鐘表有限公司 | PRC | PRC | RMB20,000,000 | **51%** | 51% | Sales of watches |
| Shenzhen Time Watch Trading Company Limited[3]<br>深圳市時計寶商貿有限公司 | PRC | PRC | RMB5,000,000 | **70%** | 70% | Sales of watches |
| Time Watch (Chengdu) Company Limited[2]<br>時計寶(成都)鐘表有限公司 | PRC | PRC | RMB20,000,000 | **51%** | 51% | Sales of watches |
| Shenzhen Half Hour Trade and Commercial Limited[3]<br>深圳市半小時商貿有限公司 | PRC | PRC | RMB1,000,000 | **70%** | 70% | Sales of watches |
| Shenzhen Yi Cun Jin Technology Co., Limited[3]<br>深圳市壹寸金科技有限公司 | PRC | PRC | RMB1,000,000 | **70%** | 70% | Sales of watches |
| TWB Investments Limited ("TWB") | Hong Kong | Hong Kong | HK$100 | **51%** | 51% | Design and sales of watches |
| Geneva Watch Group, Inc. ("GWG") | USA | USA | USD5,000,000 | **51%** | 51% | Design and sales of watches |
| Strong Goal Investments Limited<br>強高投資有限公司 | BVI | Hong Kong | 1 share of US$1 | **100%** | 100% | Property investment |
| 天王(深圳)營運發展有限公司[3] | PRC | PRC | RMB1,000,000 | **100%** | 100% | Sales of watches |
| 深圳市聖緹斯科技有限公司[3] | PRC | PRC | RMB5,000,000 | **70%** | 70% | Sales of watches |
| 深圳時計寶控股有限公司[3] | PRC | PRC | RMB30,000,000 | **70%** | 70% | Sales of watches |
| 深圳市天唯雅科技有限公司[3] | PRC | PRC | RMB2,000,000 | **70%** | 70% | Sales of watches |
| 深圳市釉銘電子有限公司[3] | PRC | PRC | RMB2,000,000 | **70%** | 70% | Sales of watches |

1 Established in the PRC in the form of wholly foreign-owned enterprise.

2 Established in the PRC in the form of sino-foreign equity joint venture.

3 Established in the PRC in the form of domestic-invested enterprise.

4 During the year ended 30 June 2019, the paid-up capital of Suzhou Paragon was increased from RMB20,000,000 to RMB24,000,000. The Group and the non-controlling interests contributed RMB1,996,000 (equivalent to HK$2,267,000) and RMB1,918,000 (equivalent to HK$2,178,000) respectively in accordance with their proportional interest in Suzhou Paragon.

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (cont'd)

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year. In the opinion of the directors of the Company, a complete list of the particulars of subsidiaries will be of excessive length and therefore the above list contains only the particulars of those subsidiaries which materially contribute to the net income of the Group or hold a material portion of the assets and liabilities of the Group.

### Details of a non-wholly owned subsidiary that have material non-controlling interest

The table below shows details of a non-wholly-owned subsidiary of the Group that have materials non-controlling interest:

| Name of subsidiary | Place of incorporation and principal place of business | Proportion of ownership interests and voting rights held by non-controlling interests | | Loss allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2019** | 2018 | **2019** | 2018 | **2019** | 2018 |
| | | | | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| TWB and its subsidiaries | Hong Kong/ USA/PRC | **49%** | 49% | **(10,475)** | (20,318) | **(104,922)** | (94,833) |
| Individually immaterial subsidiaries with non-controlling interests | | | | | | **40,405** | 47,232 |
| | | | | | | **(64,517)** | (47,601) |

## 36. PARTICULARS OF PRINCIPAL SUBSIDIARIES (cont'd)

**Details of a non-wholly owned subsidiary that have material non-controlling interest (cont'd)**

Summarised consolidated financial information in respect of TWB and its wholly owned subsidiaries, GWG and 時計商貿(梅州)有限公司 is set out below. The summarised financial information below represents amounts before intragroup eliminations.

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current assets | **122,788** | 114,859 |
| Non-current assets | **638** | 883 |
| Current liabilities | **(334,818)** | (309,275) |
| Non-current liabilities | **(2,735)** | – |
| Net liabilities | **(214,127)** | (193,533) |
| Equity attributable to owners of the Company | **(109,205)** | (98,700) |
| Non-controlling interests | **(104,922)** | (94,833) |
| | **(214,127)** | (193,533) |
| Revenue | **292,295** | 299,240 |
| Expenses | **(313,673)** | (340,706) |
| Loss for the year | **(21,378)** | (41,466) |
| Loss attributable to owners of the Company | **(10,903)** | (21,148) |
| Loss attributable to non-controlling interests | **(10,475)** | (20,318) |
| Loss for the year | **(21,378)** | (41,466) |
| Other comprehensive income/(expense) attributable to owners of the Company | **402** | (453) |
| Other comprehensive income/(expense) attributable to non-controlling interests | **386** | (434) |
| Other comprehensive income/(expense) for the year | **788** | (887) |
| Total comprehensive expense attributable to owners of the Company | **(10,501)** | (21,601) |
| Total comprehensive expense attributable to non-controlling interests | **(10,089)** | (20,752) |
| Total comprehensive expense for the year | **(20,590)** | (42,353) |
| Net cash outflow from operating activities | **(24,135)** | (50,763) |
| Net cash outflow from investing activities | **(7,150)** | (2,738) |
| Net cash inflow from financing activities | **21,609** | 50,213 |
| Net cash outflow | **(9,676)** | (3,288) |

## 37. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Non-current assets | | |
| Unlisted investments in subsidiaries, at cost | **222,516** | 218,425 |
| Amounts due from subsidiaries | **670,786** | 630,257 |
| Financial assets at fair value through profit or loss | **2,460** | – |
| Debt instruments at fair value through other comprehensive income | **200,298** | – |
| Available-for-sale investments | **–** | 19,165 |
| | **1,096,060** | 867,847 |
| Current assets | | |
| Other receivables | **4,522** | 1,008 |
| Debt instruments at fair value through other comprehensive income | **19,441** | – |
| Available-for-sale investments | **–** | 29,617 |
| Amounts due from subsidiaries | **133,413** | 44,118 |
| Bank balances | **193,500** | 121,136 |
| | **350,876** | 195,879 |
| Current liabilities | | |
| Accrued charges | **312** | 362 |
| Amounts due to subsidiaries | **3,200** | 3,100 |
| | **3,512** | 3,462 |
| Net current assets | **347,364** | 192,417 |
| Total assets less current liabilities | **1,443,424** | 1,060,264 |
| Capital and reserves | | |
| Share capital | **207,995** | 207,995 |
| Reserves | **1,235,429** | 852,269 |
| Total equity | **1,443,424** | 1,060,264 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2019

### 37. THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (cont'd)

**Reserves of the Company**

| | Share premium *HK$'000* | Investment revaluation reserve *HK$'000* | Translation reserve *HK$'000* | Accumulated profits *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| At 30 June 2017 | 511,101 | (2,389) | (74,342) | 499,087 | 933,457 |
| Total comprehensive income (expense) for the year | – | 63 | 33,871 | (11,125) | 22,809 |
| Dividend recognised as distribution during the year *(note 12)* | – | – | – | (103,997) | (103,997) |
| At 30 June 2018 | 511,101 | (2,326) | (40,471) | 383,965 | 852,269 |
| At 30 June 2018 | **511,101** | **(2,326)** | **(40,471)** | **383,965** | **852,269** |
| Total comprehensive income (expense) for the year | **–** | **6,686** | **(46,830)** | **542,901** | **502,757** |
| Dividend recognised as distribution during the year *(note 12)* | **–** | **–** | **–** | **(119,597)** | **(119,597)** |
| At 30 June 2019 | **511,101** | **4,360** | **(87,301)** | **807,269** | **1,235,429** |

# FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years, as extracted from the published audited financial information and consolidated financial statements, is set out below.

| | For the year ended 30 June | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | ***(Note)*** | | | | |
| **Results** | | | | | |
| Revenue | **2,670,209** | 2,962,262 | 2,762,884 | 2,606,570 | 2,652,625 |
| Profit for the year attributable to owners of the Company | **305,360** | 291,447 | 235,744 | 296,341 | 336,755 |

| | At 30 June | | | | |
|---|---|---|---|---|---|
| | **2019** | 2018 | 2017 | 2016 | 2015 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Assets and liabilities** | | | | | |
| Total assets | **2,713,859** | 2,669,756 | 2,396,771 | 2,210,167 | 2,055,747 |
| Total liabilities | **(554,828)** | (616,662) | (548,669) | (438,406) | (359,896) |
| | **2,159,031** | 2,053,094 | 1,848,102 | 1,771,761 | 1,695,851 |
| Equity attributable to the owners of the Company | **2,223,548** | 2,100,695 | 1,878,025 | 1,752,053 | 1,630,147 |
| Non-controlling interests | **(64,517)** | (47,601) | (29,923) | 19,708 | 65,704 |
| | **2,159,031** | 2,053,094 | 1,848,102 | 1,771,761 | 1,695,851 |

*Note:* In the current year, the Group has applied HKFRS 15, HKFRS 9 and other amendments to HKFRSs (see note 2 of the Notes to the Consolidated Financial Statements section for the summary of the corresponding financial impact). Accordingly, certain comparative information for the years ended 30 June 2015, 2016, 2017 and 2018 may not be comparable to the year ended 30 June 2019 as such comparative information was prepared under HKAS 18 and HKAS 39. Accounting policies resulting from application of HKFRS 15 and HKFRS 9 are disclosed in the "Significant Accounting Policies" Section.

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Tung Koon Ming
*(Chairman and chief executive officer)*
Mr. Hou Qinghai
*(retired with effect from 22 November 2018)*
Mr. Tung Koon Kwok Dennis
*(appointed with effect from 1 March 2019)*
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
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre, 183 Queen's Road East
Hong Kong

## REGISTERED OFFICE

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

## HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

## STOCK CODE ON THE HONG KONG STOCK EXCHANGE

2033

## INVESTOR INFORMATION

For more information about the Group,
please contact the Investor Relations Department at:

Tel: (852) 2136 6185
Fax: (852) 3170 6606
Email: timewatch@iprogilvy.com

## WEBSITE

www.timewatch.com.hk

## CORPORATE CALENDAR

| | |
|---|---|
| Annual general meeting | 21 November 2019 |
| Payment of final dividend | On or about 9 December 2019 |
| Announcement of interim results for six months ending 31 December 2019 | February 2020 |
| Announcement of final results for year ending 30 June 2020 | September 2020 |