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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2033)

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 31 December 2013 ("**1HFY2014**") grew by approximately 23.9% to approximately HK$1,154.8 million as compared with approximately HK$931.9 million for the six months ended 31 December 2012 ("**1HFY2013**").

- Gross profit for 1HFY2014 increased by approximately 35.1% to approximately HK$743.5 million, as compared with approximately HK$550.4 million for 1HFY2013. The gross profit for Tian Wang watches for 1HFY2014 was approximately HK$623.1 million, representing an increase of approximately 39.6% as compared with approximately HK$446.4 million for 1HFY2013.

- Gross profit margin improved from approximately 59.1% for 1HFY2013 to approximately 64.4% for 1HFY2014. The gross profit margin of Tian Wang watches was approximately 79.6% for 1HFY2014, a slight increase as compared with approximately 77.5% for 1HFY2013.

- Profit attributable to owners of the Company for 1HFY2014 was approximately HK$150.4 million, representing an increase of approximately 44.4% as compared with approximately HK$104.2 million for 1HFY2013.

- Basic earnings per share for 1HFY2014 was HK7.2 cents (1HFY2013: HK6.9 cents).

- **Other information:**
  Retail network expanded to 2,287 points of sales ("**POS**") as at 31 December 2013, with a net addition of 290 POS in 1HFY2014.

  Proposed interim dividend for 1HFY2014 is HK2.0 cents per share.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2013

The board (the "**Board**") of Directors (the "**Directors**") of Time Watch Investments Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 31 December 2013, together with the audited comparative figures for the six months ended 31 December 2012 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2013

		Six months ended 31 December	
		2013	2012
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Audited)
Revenue	*3*	**1,154,836**	931,895
Cost of sales		**(411,385)**	(381,451)
Gross profit		**743,451**	550,444
Other gains and income	*4*	**13,920**	10,626
Other expenses	*4*	**–**	(21,002)
Selling and distribution costs		**(501,179)**	(352,102)
Administrative expenses		**(55,481)**	(38,049)
Finance costs	*5*	**(408)**	(5,515)
Profit before taxation		**200,303**	144,402
Income tax	*6*	**(46,296)**	(38,410)
Profit for the period	*7*	**154,007**	105,992
Other comprehensive income which will not be reclassified subsequently to profit or loss:			
Exchange differences arising on translation		**1,639**	7,293
Total comprehensive income for the period		**155,646**	113,285
Profit for the period attributable to:			
Owners of the Company		**150,443**	104,216
Non-controlling interests		**3,564**	1,776
		154,007	105,992
Total comprehensive income attributable to:			
Owners of the Company		**152,279**	111,130
Non-controlling interests		**3,367**	2,155
		155,646	113,285
Earnings per share, basic *(HK cents)*	*9*	**7.2**	6.9

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	**As at 31 December 2013** *HK$'000* **(Unaudited)**	As at 30 June 2013 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment		**94,640**	69,868
Deferred tax assets		**12,023**	12,023
		106,663	81,891
Current assets			
Inventories	*10*	**560,308**	442,097
Trade receivables	*11*	**347,981**	340,529
Other receivables, deposits and prepayments		**88,784**	68,518
Short-term deposit		**–**	150,000
Bank balances and cash		**618,164**	537,240
		1,615,237	1,538,384
Current liabilities			
Trade payables and bills payable	*12*	**142,701**	105,372
Other payables and accrued charges		**77,370**	82,048
Tax liabilities		**33,612**	29,343
Bank borrowings	*13*	**35,762**	40,511
		289,445	257,274
Net current assets		**1,325,792**	1,281,110
Total assets less current liabilities		**1,432,455**	1,363,001

	As at 31 December 2013 *HK$'000* (Unaudited)	As at 30 June 2013 *HK$'000* (Audited)
Capital and reserves		
Share capital	**207,995**	207,995
Reserves	**1,126,775**	1,078,493
Equity attributable to owners of the Company	**1,334,770**	1,286,488
Non-controlling interests	**58,659**	45,960
Total equity	**1,393,429**	1,332,448
Non-current liabilities		
Deferred tax liabilities	**39,026**	30,553
	1,432,455	1,363,001

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). In addition, the condensed consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and by the Hong Kong Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2013.

In the current period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Government Loans*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*
HKFRS 10	*Consolidated Financial Statements*
HKFRS 11	*Joint Arrangements*
HKFRS 12	*Disclosure of Interests in Other Entities*
HKFRS 10, HKFRS 11 and HKFRS 12 Amendments	Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 – Transition Guidance
HKFRS 13	*Fair Value Measurement*
HKAS 19 (Revised 2011)	*Employee Benefits*
HKAS 27 (Revised 2011)	*Separate Financial Statements*
HKAS 28 (Revised 2011)	*Investments in Associates and Joint Ventures*
Annual Improvements 2009-2011 Cycle	Amendments to a number of HKFRSs issued in June 2012

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

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

Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[1]
HKFRS 9	Financial instruments[3]
Amendments to HKAS 19	Defined benefit plans: employee contributions[2]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[1]
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets[1]
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting[1]
Amendments to HKFRSs	Annual improvements to HKFRS 2010-2012 cycle[4]
Amendments to HKFRSs	Annual improvements to HKFRS 2011-2012 cycle[2]
HK(IFRIC) – INT 21	Levies[3]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application – the mandatory effective date will be determined when the outstanding phase of HKFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

3. REVENUE AND SEGMENT INFORMATION

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

a. Manufacturing, trading of own branded and retailing business of watches – Tian Wang Watch ("Tian Wang Watch Business");

b. Trading of own branded and retailing business of watches – Balco Watch ("Balco Watch Business");

c. Trading of watch movements ("Watch Movements Trading Business"); and

d. Retailing business of imported watches mainly of well-known brands ("Other Brands").

These operating divisions are the basis of internal reports about components which are regularly reviewed by the chief operating decision maker, the chief executive of the Company, for the purposes of resources allocation and assessing their performance. Each of the operating division represents an operating segment.

Segment revenue and results

Six months ended 31 December 2013 (Unaudited)

	Tian Wang Watch Business *HK$'000*	**Balco Watch Business** *HK$'000*	**Watch Movements Trading Business** *HK$'000*	**Other Brands** *HK$'000*	**Consolidated** *HK$'000*
Revenue					
External sales	**783,102**	**84,207**	**144,998**	**142,529**	**1,154,836**
Inter-segment sales	**–**	**–**	**48,758**	**–**	**48,758**
Segment revenue	**783,102**	**84,207**	**193,756**	**142,529**	**1,203,594**
Elimination					**(48,758)**
Group revenue					**1,154,836**
Results					
Segment results	**202,267**	**3,323**	**7,221**	**579**	**213,390**
Interest income					**4,160**
Central administration costs					**(16,839)**
Finance costs					**(408)**
Profit before taxation					**200,303**

Six months ended 31 December 2012 (Audited)

	Tian Wang Watch Business *HK$'000*	Balco Watch Business *HK$'000*	Watch Movements Trading Business *HK$'000*	Other Brands *HK$'000*	Consolidated *HK$'000*
Revenue					
External sales	575,829	66,321	164,981	124,764	931,895
Inter-segment sales	–	–	14,951	–	14,951
Segment revenue	575,829	66,321	179,932	124,764	946,846
Elimination					(14,951)
Group revenue					931,895
Results					
Segment results	155,993	7,323	7,634	8,650	179,600
Interest income					1,135
Financial guarantee income					4,000
Central administration costs					(34,818)
Finance costs					(5,515)
Profit before taxation					144,402

Segment results represent the results of each segment without allocation of corporate items, including interest income, financial guarantee income, listing expenses, central administration costs and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

4. OTHER GAINS AND INCOME/OTHER EXPENSES

	Six months ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Other gains and income		
Bank interest income	**4,160**	1,135
Financial guarantee income	**–**	4,000
Refund of Value Added Tax ("**VAT**") *(Note a)*	**2,744**	–
Government grants *(Note b)*	**950**	–
Others	**6,066**	5,491
	13,920	10,626
Other expenses		
Listing expenses	**–**	21,002

Notes:

(a) Under the current People's Republic of China ("**PRC**") tax regulation, Tian Wang Electronics (Shenzhen) Co., Ltd ("**Tian Wang Shenzhen**") is entitled to a refund of VAT paid in respect of its qualification as a high and new technology enterprise.

(b) This amount relates to unconditional government grants received during the six months ended 31 December 2013, which was granted to reimburse the expenses incurred by Tian Wang Shenzhen for research and development activities in the PRC.

5. FINANCE COSTS

	Six months ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
The finance costs represent interests on:		
Bank borrowings wholly repayable within five years	**408**	5,515

6. INCOME TAX

	Six months ended 31 December 2013 HK$'000 (Unaudited)	2012 HK$'000 (Audited)
Current tax:		
Hong Kong	**1,638**	–
PRC Enterprise Income Tax	**36,882**	31,198
PRC withholding tax	**1,266**	3,095
	39,786	34,293
Overprovision in prior years:		
PRC Enterprise Income Tax	**(1,963)**	(280)
	37,823	34,013
Deferred taxation	**8,473**	4,397
	46,296	38,410

7. PROFIT FOR THE PERIOD

	Six months ended 31 December 2013 HK$'000 (Unaudited)	2012 HK$'000 (Audited)
Profit for the period has been arrived at after charging (crediting):		
Staff costs (including Directors' remuneration)	**133,122**	93,985
Retirement benefits scheme contributions (including Directors' remuneration)	**16,797**	9,789
Total staff costs	**149,919**	103,774
Depreciation of property, plant and equipment	**17,584**	11,905
Allowance (reversal of allowance) for obsolete inventories recognised as cost of sales	**5,000**	(329)
Allowance for doubtful debts	**1,000**	–
Loss on disposal and write off of property, plant and equipment	**2,526**	1,087
Concessionaire fee *(Note)*	**227,869**	177,595

Note: Certain shop counters of the Group paid concessionaire fee to department stores based on monthly sales recognised by these shop counters pursuant to the terms and conditions as set out in the respective agreements signed with individual department stores.

8. DIVIDEND

During the six months ended 31 December 2013, the Company declared and paid final and special dividends of HK3 cents and HK2 cents per share, amounting to approximately HK$62,398,000 and HK$41,599,000 respectively. During the six months ended 31 December 2012, the Company declared and paid a total dividend of HK$70,541,000 to its immediate holding company.

For the six months ended 31 December 2013, the Directors have recommended an interim dividend of HK2 cents (six months ended 31 December 2012: nil) per share, amounting to approximately HK$41,599,000.

9. EARNINGS PER SHARE

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

	Six months ended 31 December	
	2013	2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	**150,443**	104,216
	'000	*'000*
Numbers of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**2,079,946**	1,500,000

There was no diluted earnings per share for the six months ended 31 December 2013 and 2012 as there were no potential ordinary shares in issue during the six months ended 31 December 2013 and 2012.

10. INVENTORIES

	As at 31 December 2013	As at 30 June 2013
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Raw materials and consumables	**64,630**	41,309
Work in progress	**14,900**	11,280
Finished goods	**480,778**	389,508
	560,308	442,097

11. TRADE RECEIVABLES

	As at 31 December 2013 *HK$'000* **(Unaudited)**	As at 30 June 2013 *HK$'000* (Audited)
Trade receivables from third parties	**342,197**	332,557
Trade receivable from a fellow subsidiary	**5,625**	6,563
Trade receivables from related companies	**1,531**	1,842
Less: allowance for doubtful debts	**(1,372)**	(433)
	347,981	340,529

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

The following is an aged analysis of trade receivables from third parties net of allowance for doubtful debts presented based on the date of delivery of goods which approximates to the respective date of revenue recognition, as at 31 December 2013 and 30 June 2013:

	As at 31 December 2013 *HK$'000* **(Unaudited)**	As at 30 June 2013 *HK$'000* (Audited)
0 to 60 days	**275,468**	276,770
61 to 120 days	**36,888**	38,549
121 to 180 days	**21,157**	6,781
Over 180 days	**7,312**	10,024
	340,825	332,124

The following is an aged analysis of trade receivable from a fellow subsidiary presented based on the date of delivery of goods, which approximates to the respective date of revenue recognition, as at 31 December 2013 and 30 June 2013:

	As at 31 December 2013 *HK$'000* **(Unaudited)**	As at 30 June 2013 *HK$'000* (Audited)
0 to 60 days	**5,625**	4,407
61 to 120 days	**–**	2,156
	5,625	6,563

The following is an aged analysis of trade receivables from related companies (in which a Director of the Company, Mr. Tung Koon Ming ("**Mr. Tung**") has control) presented based on the date of delivery of goods, which approximates to the date of revenue recognition, as at 31 December 2013 and 30 June 2013:

	As at 31 December 2013 *HK$'000* **(Unaudited)**	As at 30 June 2013 *HK$'000* (Audited)
0 to 60 days	**1,531**	1,100
61 to 120 days	**–**	742
	1,531	1,842

12. TRADE PAYABLES AND BILLS PAYABLE

	As at 31 December 2013 *HK$'000* **(Unaudited)**	As at 30 June 2013 *HK$'000* (Audited)
Trade payables	**129,652**	95,801
Bills payable	**8,079**	8,455
Trade payables to entities owned by non-controlling shareholders of subsidiaries	**4,970**	1,116
	142,701	105,372

The average credit period on purchases of goods is 30 to 60 days. The following is an aged analysis of trade payables presented based on the invoice date as at 31 December 2013 and 30 June 2013:

	As at 31 December 2013 *HK$'000* **(Unaudited)**	As at 30 June 2013 *HK$'000* (Audited)
0 to 30 days	**69,971**	52,222
31 to 60 days	**31,452**	23,860
61 to 90 days	**13,048**	12,101
Over 90 days	**15,181**	7,618
	129,652	95,801

The entities owned by non-controlling shareholders of subsidiaries did not have a specified credit period policy granted to the Group and the Group normally settled trade payables within three months. The following is an aged analysis of trade payables to entities owned by non-controlling shareholders of subsidiaries based on the invoice date as at 31 December 2013 and 30 June 2013:

	As at 31 December 2013 *HK$'000* **(Unaudited)**	As at 30 June 2013 *HK$'000* (Audited)
0 to 30 days	**2,801**	1,116
31 to 60 days	**290**	–
61 to 90 days	**1,692**	–
Over 90 days	**187**	–
	4,970	1,116

Bills payable as at 31 December 2013 and 30 June 2013 is aged within 30 days based on goods receipt date.

13. BANK BORROWINGS

	As at 31 December 2013 *HK$'000* **(Unaudited)**	As at 30 June 2013 *HK$'000* (Audited)
Unsecured:		
Trust receipts loans	**17,762**	27,511
Bank loans	**18,000**	13,000
	35,762	40,511

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

Revenue of the Group has increased by approximately HK$222.9 million or approximately 23.9% from approximately HK$931.9 million for 1HFY2013 to approximately HK$1,154.8 million for 1HFY2014.

Tian Wang Watches

Sales of Tian Wang watches continued to be the Group's main source of revenue and accounted for approximately 67.8% of the total revenue of the Group for 1HFY2014 (1HFY2013: 61.8%). Sales of Tian Wang watches recorded a revenue of approximately HK$783.1 million for 1HFY2014, representing an increase of approximately HK$207.3 million or approximately 36.0% as compared with approximately HK$575.8 million for 1HFY2013. The growth in the current period was mainly fuelled by the expansion of the retail network which had an increase of approximately 15.1% from 1,514 POS as at 30 June 2013 to 1,742 POS as at 31 December 2013. The average monthly revenue per POS of Tian Wang watches remained stable at approximately HK$70,000 for 1HFY2014 (1HFY2013: HK$71,000).

Balco Watches

Sales of Balco watches increased by approximately HK$17.9 million or approximately 27.0% from approximately HK$66.3 million for 1HFY2013 to approximately HK$84.2 million for 1HFY2014, and accounted for approximately 7.3% of the total revenue of the Group for 1HFY2014 (1HFY2013: 7.1%). The increase was primarily due to the increase in the number of POS which increased by approximately 12.3% from 405 POS as at 30 June 2013 to 455 POS as at 31 December 2013. In addition, sales to multi-brand watch distributors in Hong Kong, Macau and Taiwan and sales to the Group's corporate customers increased from approximately HK$16.7 million for 1HFY2013 to approximately HK$23.1 million for 1HFY2014, representing an increase of approximately HK$6.4 million or 38.3%.

Other Brands Watches

Sales of well-known branded watches other than Tian Wang and Balco brands ("**Other Brands**") watches increased by approximately HK$17.8 million or approximately 14.2% from approximately HK$124.8 million for 1HFY2013 to approximately HK$142.5 million for 1HFY2014, and accounted for approximately 12.3% of the total revenue of the Group for 1HFY2014 (1HFY2013: 13.4%). The increase in sales of Other Brands watches can be attributed to Time Watch (Sichuan) Company Limited ("**Time Watch Sichuan**") which contributed approximately HK$14.0 million to the revenue of the Group for 1HFY2014. As Time Watch Sichuan was only fully operational from June 2013 onwards, no revenue had been recorded for 1HFY2013.

Watch Movements Trading Business

Trading of watch movements accounted for approximately 12.6% of the Group's total revenue for 1HFY2014 (1HFY2013: 17.7%). For 1HFY2014, revenue from trading of watch movements was approximately HK$145.0 million, representing a decrease of approximately HK$20.0 million or approximately 12.1% as compared with approximately HK$165.0 million for 1HFY2013. The decrease was primarily due to less watch movements spared for trading after allocation for production of Tian Wang Watches.

Gross Profit

The Group's gross profit increased by approximately HK$193.0 million or approximately 35.1% from approximately HK$550.4 million for 1HFY2013 to approximately HK$743.5 million for 1HFY2014, while the gross profit margin improved to approximately 64.4% for 1HFY2014 from approximately 59.1% for 1HFY2013. The increase in gross profit and improvement in gross profit margin was primarily due to increase in sales contribution of Tian Wang watches from approximately 61.8% for 1HFY2013 to approximately 67.8% for 1HFY2014 of the Group's total revenue, as well as improvement in gross profit margin of Tian Wang watches from approximately 77.5% for 1HFY2013 to approximately 79.6% for 1HFY2014, as a result of increased sales of regular-priced watch models.

Other Gains and Income and Other Expenses

The Group's other income increased from approximately HK$10.6 million for 1HFY2013 to approximately HK$13.9 million for 1HFY2014, representing an increase of approximately HK$3.3 million or approximately 31.0%. This was primarily due to increase in bank interest income, as well as refund of VAT and unconditional government grants received during the six months ended 31 December 2013. The Group's other expenses for 1HFY2013 represented professional fees incurred for the initial public offering of the ordinary shares ("**Shares**") of HK$0.10 each in the share capital of the Company.

Selling and Distribution Costs

The Group's selling and distribution costs increased by approximately HK$149.1 million or approximately 42.3% from approximately HK$352.1 million for 1HFY2013 to approximately HK$501.2 million for 1HFY2014, representing approximately 43.4% of the Group's total revenue for 1HFY2014 (1HFY2013: 37.8%). The increase was mainly due to (i) an increase in concessionaire and rental fees of approximately HK$54.7 million as a result of increase in revenue, (ii) an increase in salaries of sales personnel of approximately HK$36.4 million as a result of increase in number of sales staff which was in line with increased number of POS and increased sales commissions which was in line with increased revenue, (iii) an increase in advertising and promotion fee of approximately HK$25.0 million; and (iv) an increase of approximately HK$33.0 million in other sales related costs such as depreciation, packing, entertainment expenses, service charges and management fee, which were in connection with the Group's market expansion.

Administrative Expenses

The Group's administrative expenses increased to approximately HK$55.5 million for 1HFY2014 from approximately HK$38.0 million for 1HFY2013, representing an increase of approximately HK$17.4 million or approximately 45.8%, primarily due to an increase in salaries for administrative staff of approximately HK$8.4 million and an increase in PRC local regulatory surcharges (such as city construction tax and education levy) of approximately HK$3.7 million, which was in line with increase in revenue.

Finance Costs and Income Tax Expenses

The Group's finance costs decreased by approximately HK$5.1 million or approximately 92.6% from approximately HK$5.5 million for 1HFY2013 to approximately HK$0.4 million for 1HFY2014 as a result of decreased bank borrowings during the current financial period. The Group's income tax increased from approximately HK$38.4 million for 1HFY2013 to approximately HK$46.3 million for 1HFY2014, representing an increase of approximately HK$7.9 million or approximately 20.5%. The Group's effective tax rate (exclusive of listing expenses) remained stable at approximately 23.1% for 1HFY2014 (1HFY2013: 23.2%).

Profit for the period

For the factors above, the Group's net profit for the period increased by approximately HK$48.0 million or approximately 45.3% from approximately HK$106.0 million for 1HFY2013 to approximately HK$154.0 million for 1HFY2014. The net profit margin improved from approximately 11.4% for 1HFY2013 to approximately 13.3% for 1HFY2014.

Business Review

Overview

During the period under review, the Group's business primarily focused on the manufacture and retail sales of its two proprietary brands watches (namely, Tian Wang and Balco), the retail sales of the Other Brands watches in the PRC and its ancillary watch movements trading business.

The Group achieved a sales growth of approximately 23.9% for 1HFY2014. Tian Wang watches continued to be the Group's core brand business, which contributed approximately 67.8% of the total revenue of the Group for 1HFY2014.

The Group recorded a same store sales growth of approximately 4.2% for 1HFY2014, as compared with approximately 18.3% for 1HFY2013. The same store sales growth of Tian Wang watches was approximately 4.2% for 1HFY2014, as compared to approximately 21.8% for 1HFY2013. The decrease in same store sales growth could be attributed to the declining confidence among domestic consumers in the PRC which resulted in slower growth in sales, as well as high base for comparison from last year. In light of the decrease of same store sales growth rate for 1HFY2014 and the slowdown of the PRC economy, to boost the same store sales growth in the coming year, the Group will adopt the following measures: (i) organising more promotion and marketing activities including but not limited to inviting celebrities and/or models to attend promotion functions at the Group's POS or locations in the PRC with great pedestrian flow; (ii) setting up some temporary promotion counters in shopping malls or department stores to enhance the atmosphere for the Group's promotion activities; (iii) launching a series of television commercials featuring the new spokesperson of Tian Wang brand after the Group has engaged the new spokesperson; and (iv) introducing more new models of watches to the market such that the Group can cater for the needs of a wider range of consumers.

Retail Network

The Group's retail network principally comprises sales counters located inside department stores which are directly managed and controlled by the Group. Over 85.0% of the sales of Tian Wang and Balco watches by the Group were made through the Group's directly managed sales network. Since the Group sells most of its watches directly to retail customers, the Group has been able to obtain first hand market information and direct feedback from frontline staff and customers. The Group considers that this is a competitive advantage over its competitors which do not have fully directly managed sales network and thus mainly sell their products through their distributors.

Besides, as part of the strategic expansion of the Group, apart from opening new POS, the Group will also form new joint ventures with other independent local operators which shall inject their existing retail network into the joint venture companies formed. During the six months ended 31 December 2013, the Group has formed two new joint ventures, namely, Time Watch (Chengdu) Company Limited and Zhengzhou Time Watch Company Limited, which are in addition to the existing joint ventures of the Group, namely Suzhou Paragon Watch Co., Ltd, Time Watch (Hefei) Timepieces Company Limited, Time Watch (Shanghai) Timepieces Company Limited and Time Watch Sichuan.

As at 31 December 2013, the Group's retail network of Tian Wang watches had 1,742 POS, a net increase of 228 and 358 POS as compared to 30 June 2013 and 31 December 2012 respectively. The retail network of Balco watches and Other Brands watches had 455 and 90 POS respectively as at 31 December 2013, a net increase of 50 and 12 POS respectively as compared to the number of POS as at 30 June 2013, and a net increase of 74 and 24 POS respectively as compared to the number of POS as at 31 December 2012.

Proprietary Watches of the Group

Tian Wang Watches

Sales of Tian Wang watches were still the major source of revenue of the Group, which contributed approximately 67.8% of the Group's total revenue for 1HFY2014 (1HFY2013: 61.8%). During 1HFY2014, the Group launched not less than 80 new models of Tian Wang watches with price ranging from approximately RMB100 to RMB8,000 for direct retail sales, corporate sales and e-commerce. The wide price range can fit the different requirements from customers, and can capture more customers from different income level.

Balco Watches

Balco watches are assembled and imported from Switzerland. The Group faces keen competition from other imported watches of similar price range, including Citizen, Casio, Titoni and Enicar. In 1HFY2014, revenue from Balco watches was approximately HK$84.2 million as compared with approximately HK$66.3 million in 1HFY2013, representing an increase of approximately HK$17.9 million or approximately 27.0%. Sales of Balco watches had accounted for approximately 7.3% of the Group's total revenue for 1HFY2014 (1HFY2013: 7.1%). The Group continued to seek other ways to develop the Balco watch business, including broadening its sales and distribution channels in and outside of the PRC. There is an increase in the sales of Balco watches to Hong Kong, Macau and Taiwan through multi-brand watches distributors and the sales to the Group's corporate customers. Revenue from these sales increased from approximately HK$16.7 million for 1HFY2013 to approximately HK$23.1 million for 1HFY2014.

Other Brands Watches

Revenue from sales of Other Brands watches was approximately HK$142.5 million for 1HFY2014 as compared with approximately HK$124.8 million for 1HFY2013, an increase of approximately HK$17.8 million or approximately 14.2% and accounted for approximately 12.3% of the Group's total revenue for 1HFY2014 (1HFY2013: 13.4%). The increase in sales of Other Brands watches was mainly attributed to contribution of six months' revenue from Time Watch Sichuan for 1HFY2014 as the subsidiary was fully operational from June 2013 onwards.

Watch Movements Trading Business

The Directors consider that the in-house watch movement procurement and trading arm of the Group is an integral segment of the Group's overall business operation for providing reliable and stable supply of watch movements for the assembly of its Tian Wang watches and bringing revenue to the Group through the watch movement trading business with other watch manufacturers and distributors when there is surplus of watch movements.

E-commerce

In March 2013, the Group had established a 70%-owned subsidiary, Shenzhen Time Watch Trading Company Limited ("**Shenzhen Time Watch**"), which has signed co-operation agreements with several online sales platform (including but not limited to Paipai (Tencent QQ), Jingdong mall and Tmall) and offered sales of lower-priced watches and new youth series watches products for the younger generation to capture their growing consumption power. The Directors believe that a wide variety of watches can enable the Group to reach out to an extensive range of customers across different age groups. In 1HFY2014, sales of watches through e-commerce channel was approximately HK$81.5 million (six months ended 30 June 2013: HK$9.2 million).

Inventory Control

The Group's inventory balance was approximately HK$560.3 million as at 31 December 2013, representing an increase of HK$118.2 million or 26.7% as compared to approximately HK$442.1 million as at 30 June 2013. The increase was in line with the increase in the Group's inventory balance of Tian Wang finished watches from approximately HK$217.5 million as at 30 June 2013 to approximately HK$287.5 million as at 31 December 2013. The Group's inventory turnover days remained stable at approximately 224 days for 1HFY2014, as compared with 220 days for the year ended 30 June 2013. The Group will continue to monitor and control its inventory level vigilantly while implementing its sales network expansion plan in order to ensure that the expansion plan and inventory level will not adversely affect the cash flow and liquidity of the Group. The inventory quantity per Tian Wang POS was approximately 472 as at 31 December 2013.

The inventory aged over two years were approximately HK$59.1 million and approximately HK$79.5 million as at 30 June 2013 and 31 December 2013 respectively, with corresponding provision for these inventory balances of approximately HK$41.0 million and approximately HK$39.6 million respectively. The management assesses and reviews the inventory ageing analysis at the end of each reporting period and identifies the slow-moving inventory items that are no longer suitable for use in production or sales. At the end of each reporting period, the management will provide necessary provision if the net realisable value of the inventory is estimated to be below the cost.

Liquidity, Financial Resources and Capital Structure

The Group financed its operations primarily through cash flows from operations and short-term bank loans. The cash and cash equivalents were approximately HK$618.2 million and approximately HK$537.2 million as at 31 December 2013 and 30 June 2013 respectively.

The Group's net cash generated from operating activities for 1HFY2014 was approximately HK$71.6 million. The amount was primarily attributable to profit before taxation of approximately HK$200.3 million from the Group's operations adjusted for non-cash items of approximately HK$22.4 million, increase of working capital balances of approximately HK$121.5 million, income taxes paid of approximately HK$33.7 million and interest received of approximately HK$4.1 million.

The Group's net cash generated from investing activities for 1HFY2014 was approximately HK$105.3 million, which was mainly attributable to withdrawal of short-term deposit of HK$150.0 million, partially offset by purchase of property, plant and equipment of approximately HK$44.7 million.

The Group's net cash used in financing activities for 1HFY2014 was approximately HK$96.7 million, which was mainly attributable to dividends paid of approximately HK$104.0 million and repayment of bank borrowings of approximately HK$152.8 million, partially offset by borrowings raised of approximately HK$148.1 million, capital injected by non-controlling shareholders of subsidiaries of approximately HK$12.4 million. The Group's bank borrowings were approximately HK$35.8 million and approximately HK$40.5 million as at 31 December 2013 and 30 June 2013 respectively.

The Group has a net cash position as at 31 December 2013 and 30 June 2013. As at 31 December 2013, the Group's total equity was approximately HK$1,393.4 million, representing an increase of approximately HK$61.0 million from approximately HK$1,332.4 million as at 30 June 2013. The Group's working capital was approximately HK$1,325.8 million as at 31 December 2013, an improvement of approximately HK$44.7 million as compared with approximately HK$1,281.1 million as at 30 June 2013.

Details of the Group's bank borrowings as at 31 December 2013 are set out in note 13 to this interim results announcement.

Charge on Group Assets

There was no charge on the Group's assets as at 31 December 2013 and 30 June 2013.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2013 and 30 June 2013.

Capital Commitments

The Group did not have any material capital commitments as at 31 December 2013 and 30 June 2013.

Foreign Exchange Risks

Certain group entities have foreign currency sales, which expose the Group to foreign currency risk. In addition, certain trade receivables, other receivables and deposits, bank balances, other payables and accrued expenses, and bank borrowings of the Group and intra group balances are denominated in foreign currencies.

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

Employees and Emoluments Policies

As at 31 December 2013, the Group employed a total of approximately 3,800 full time employees (30 June 2013: approximately 2,800) engaging in design, purchasing, production, sales and marketing and administration. The staff costs incurred during 1HFY2014 was approximately HK$149.9 million (1HFY2013: HK$103.8 million). The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme and medical insurance, discretionary bonuses are also awarded to employees according to the assessment of individual performance.

Outlook

It is expected that the growth of consumer market in China will continue to slow down for the six months ending 30 June 2014. For retail sales, we will continue to execute our plan of opening not less than 200 POS for Tian Wang per year. These new POS will be mainly located in 2nd or 3rd tier cities in China, where the purchasing power is improving in these years along with the development of China. They will become the revenue drivers for our Tian Wang retail sales in the coming years. Besides, the Group will continue to allocate more resources on the development of the e-commerce business. The target customers of our e-commerce business are mainly the younger generation, and the products sold through our e-commerce channels are exclusive and different from those sold in the Tian Wang POS. Hence, the competition between Tian Wang retail business and Tian Wang e-commerce business is minimised. We have confidence that the e-commerce business is complementary to Tian Wang retail business and the higher growth in revenue generated from the e-commerce business will compensate for some slow down in the growth of retail sales in the future. On the above basis, the Directors are confident that the Group will maintain steady growth in its business in the near future.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2013.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules. Save as disclosed below, during the six months ended 31 December 2013, the Company had complied with the code provisions of the CG Code.

Pursuant to code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Taking into account of Mr. Tung Koon Ming's strong expertise and insight of the watch industry, the Board considered that the roles of chairman and chief executive officer being performed by Mr. Tung Koon Ming enables more effective and efficient overall business planning, decision making and implementation thereof by the Group. In order to maintain good corporate governance and fully comply with code provisions of the CG Code, the Board will regularly review the need to appoint different individuals to perform the roles of chairman and chief executive officer separately.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"). Having made specific enquiry of all the Directors, the Company is satisfied that and the Directors confirmed that they have fully complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transaction during the six months ended 31 December 2013.

AUDIT COMMITTEE

The audit committee has reviewed the unaudited condensed consolidated financial statements of the Company for the six months ended 31 December 2013 and discussed the financial related matters with the management of the Group.

INTERIM DIVIDEND

The Directors have recommended an interim dividend of HK2.0 cents per share, amounting to approximately HK$41.6 million for the six months ended 31 December 2013 (six months ended 31 December 2012: nil) to the shareholders of the Company. The proposed interim dividend will be paid to shareholders whose name appears on the register of members of the Company at the close of business on 14 March 2014. It is expected that the proposed interim dividend will be paid on or about 21 March 2014.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 14 March 2014 and no transfer of shares will be effected on that date. In order to qualify for the proposed interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 13 March 2014.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the Stock Exchange's website at www.hkexnews.hk and the Company's website at www.timewatch.com.hk. The interim report for the six months ended 31 December 2013 will be despatched to the shareholders of the Company and will be published on the aforesaid websites of the Stock Exchange and the Company in due course in accordance with the Listing Rules.

By Order of the Board
Time Watch Investments Limited
Mr. Tung Koon Ming
Chairman and Executive Director

Hong Kong, 27 February 2014

As at the date of this announcement, the executive Directors are Mr. Tung Koon Ming, Mr. Lo Wing Sang, Mr. Hou Qinghai and Mr. Tung Wai Kit, and the independent non-executive Directors are Mr. Ma Ching Nam, Mr. Wong Wing Keung Meyrick and Mr. Choi Ho Yan.