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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 31 December 2016 ("**1HFY2017**") increased by approximately 8.8% to approximately HK$1,404.2 million as compared with approximately HK$1,291.1 million for the six months ended 31 December 2015 ("**1HFY2016**").

- Gross profit for 1HFY2017 increased by approximately 3.5% to approximately HK$908.3 million, as compared with approximately HK$877.7 million for 1HFY2016. The gross profit for Tian Wang watches for 1HFY2017 was approximately HK$753.6 million, representing a decrease of approximately 1.1% as compared with approximately HK$761.6 million for 1HFY2016.

- Gross profit margin decreased from approximately 68.0% for 1HFY2016 to approximately 64.7% for 1HFY2017. The decrease was primarily due to the contribution of a low gross margin from Other Brands (Global) watches. The gross profit margin of Tian Wang watches was approximately 81.9% for 1HFY2017, which was stable as compared with approximately 81.8% for 1HFY2016.

- Profit attributable to owners of the Company for 1HFY2017 was approximately HK$101.5 million, representing a decrease of approximately 40.1% as compared with approximately HK$169.5 million for 1HFY2016.

- Basic earnings per share for 1HFY2017 was HK4.9 cents (1HFY2016: HK8.1 cents).

- **Other information:**

  Retail network expanded to 3,088 points of sales ("**POS**") as at 31 December 2016, with a net increase of 130 POS in 1HFY2017.

  The Directors have declared for the payment of an interim dividend for 1HFY2017 of HK2 cents per share.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2016

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 2016, together with the unaudited comparative figures for the six months ended 31 December 2015 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2016

	Notes	**Six months ended 31 December 2016 HK$'000 (Unaudited)**	2015 HK$'000 (Unaudited)
Revenue	*3*	**1,404,217**	1,291,069
Cost of sales		**(495,878)**	(413,398)
Gross profit		**908,339**	877,671
Other income, gains and losses	*4*	**13,260**	451
Selling and distribution costs		**(693,872)**	(610,087)
Administrative expenses		**(104,473)**	(73,548)
Other expenses	*4*	**–**	(8,491)
Finance costs	*5*	**(3,164)**	(849)
Profit before taxation		**120,090**	185,147
Income tax	*6*	**(45,477)**	(28,215)
Profit for the period	*7*	**74,613**	156,932
Other comprehensive income (expense)			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of leasehold land and buildings		**180**	–
Exchange differences arising on translation		**(4,715)**	(34,478)
Item that may be reclassified subsequently to profit or loss:			
Fair value change of available-for-sale investments		**(1,487)**	–
Reclassified to profit and loss on disposal of available-for-sale investments		**206**	–
Total comprehensive income for the period		**68,797**	122,454
Profit (loss) for the period attributable to:			
Owners of the Company		**101,455**	169,488
Non-controlling interests		**(26,842)**	(12,556)
		74,613	156,932
Total comprehensive income (expense) attributable to:			
Owners of the Company		**95,762**	136,812
Non-controlling interests		**(27,171)**	(14,358)
		68,591	122,454
Earnings per share, basic *(HK cents)*	*9*	**4.9**	8.1

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

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

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2016

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2016 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2016.

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

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

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

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

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers[1]
HKFRS 16	Leases[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from contracts with customers[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 7	Disclosure initiative[4]
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses[4]

[1] Effective for annual periods beginning on or after 1 January 2018
[2] Effective for annual periods beginning on or after 1 January 2019
[3] Effective for annual periods beginning on or after a date to be determined
[4] Effective for annual periods beginning on or after 1 January 2017

3. REVENUE AND SEGMENT INFORMATION

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

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

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

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

d. Retailing business of imported watches mainly of well-known brands in the People's Republic of China ("**PRC**") ("**Other Brands (PRC)**"); and

e. Global distributing of owned and licensed international brands of watches ("**Other Brands (Global)**").

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

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

Segment revenue and results

Six months ended 31 December 2016 (Unaudited)

	Tian Wang Watch Business *HK$'000*	Balco Watch Business *HK$'000*	Watch Movements Trading Business *HK$'000*	Other Brands (PRC) *HK$'000*	Other Brands (Global) *HK$'000*	Consolidated *HK$'000*
Revenue						
External sales	**920,090**	**68,769**	**85,602**	**121,046**	**208,710**	**1,404,217**
Inter-segment sales	**–**	**–**	**43,877**	**–**	**–**	**43,877**
Segment revenue	**920,090**	**68,769**	**129,479**	**121,046**	**208,710**	**1,448,094**
Elimination						**(43,877)**
Group revenue						**1,404,217**
Results						
Segment results	**212,704**	**(24,985)**	**1,874**	**(3,954)**	**(45,271)**	**140,368**
Interest income						**4,129**
Central administration costs						**(21,243)**
Finance costs						**(3,164)**
Profit before taxation						**120,090**

Six months ended 31 December 2015 (Unaudited)

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

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

4. OTHER INCOME, GAINS AND LOSSES/OTHER EXPENSES

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

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

Other expenses

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

5. FINANCE COSTS

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

6. INCOME TAX

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

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

7. PROFIT FOR THE PERIOD

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

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

8. DIVIDENDS

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

9. EARNINGS PER SHARE

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

	Six months ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Earnings:		
Earnings for the purpose of calculating basic earnings per share (profit for the period attributable to owners of the Company)	**101,455**	169,488
	'000	*'000*
Numbers of shares:		
Weighted average number of ordinary shares for the purpose 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 shares outstanding for both periods.

10. PROPERTY, PLANT AND EQUIPMENT

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

11. AVAILABLE-FOR-SALE INVESTMENTS

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

12. INVENTORIES

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

13. TRADE RECEIVABLES

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

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

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

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

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

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

14. TRADE PAYABLES AND BILLS PAYABLE

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

The average credit period on purchases of goods is 30 to 60 days. The following is an aged analysis of trade payables presented based on the invoice date as at 31 December 2016 and 30 June 2016:

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

Revenue of the Group increased by approximately HK$113.1 million or approximately 8.8% from approximately HK$1,291.1 million for the 1HFY2016 to approximately HK$1,404.2 million for 1HFY2017.

Tian Wang Watches

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

Balco Watches

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

Other Brands (PRC) Watches

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

Other Brands (Global) Watches

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

Watch Movements Trading Business

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

Gross Profit

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

Other Income, Gains and Losses and Other Expenses

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

Selling and Distribution Costs

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

Administrative Expenses

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

Finance Costs and Income Tax Expenses

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

Profit for the Period

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

Business Review

Overview

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

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

Retail Network

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

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

Proprietary Watches of the Group

Tian Wang Watches

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

Balco Watches

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

Other Brands (PRC) Watches

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

Other Brands (Global) Watches

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

Watch Movements Trading Business

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

E-commerce Business

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

Inventory Control

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

The inventory aged over two years were approximately HK$128.9 million and approximately HK$112.7 million as at 31 December 2016 and 30 June 2016, respectively, with corresponding provision for these inventory balances of approximately HK$87.3 million and approximately HK$71.6 million, respectively. The management assesses and reviews the inventory ageing analysis at the end of each reporting period and identifies the slow-moving inventory items that are no longer suitable for use in production or sales. At the end of each reporting period, the management will provide necessary provision if the net realisable value of the inventory is estimated to be below the cost.

Liquidity, Financial Resources and Capital Structure

The Group adopts a conservative treasury policy. The Group monitors and maintains a level of cash and cash equivalents which are deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

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

The Group's net cash generated from operating activities for 1HFY2017 was approximately HK$116.2 million. The amount was primarily attributable to profit before taxation of approximately HK$120.1 million from the Group's operations adjusted for non-cash items of approximately HK$63.5 million, increase in working capital balances of approximately HK$25.4 million, income taxes paid of approximately HK$45.1 million and interest received of approximately HK$3.1 million.

The Group's net cash generated from investing activities for 1HFY2017 was approximately HK$23.0 million, which was mainly attributable to withdrawal of short-term deposits of approximately HK$80.0 million and disposal of intangible assets of approximately HK$2.9 million, which was offset by purchase of property, plant and equipment of approximately HK$41.3 million and purchase of available-for-sale investments of approximately HK$18.6 million.

The Group's net cash used in financing activities for 1HFY2017 was approximately HK$7.3 million, which was mainly attributable to dividends paid of approximately HK$63.3 million and repayment of borrowings of approximately HK$323.3 million, which was partially offset by borrowings raised of approximately HK$382.4 million. The Group's borrowings were approximately HK$130.5 million and approximately HK$110.2 million as at 31 December 2016 and 30 June 2016, respectively.

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

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

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

Charge on Group Assets

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

Contingent Liabilities

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

Capital Commitments

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

Foreign Currency Exposure

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

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

Employees and emoluments policies

As at 31 December 2016, the Group employed a total of approximately 5,100 full time employees (30 June 2016: approximately 5,000) engaging in design, purchasing, production, sales and marketing and administration. The staff costs incurred during 1HFY2017 was approximately HK$245.2 million (1HFY2016: approximately HK$222.8 million). The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme and medical insurance, discretionary bonuses are also awarded to employees according to the assessment of individual performance.

Outlook

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2016.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During 1HFY2017, there was no material acquisition or disposal of subsidiaries or associated companies by the Company.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules as its code of corporate governance practices. Save as disclosed below, during the six months ended 31 December 2016, the Company had complied with the code provisions of the CG Code.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "**Model Code**"). Having made specific enquiry of all the Directors, the Company is satisfied that and the Directors confirmed that they have fully complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transaction during the six months ended 31 December 2016.

AUDIT COMMITTEE

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

INTERIM DIVIDEND

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

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 13 March 2017 and no transfer of shares will be effected on that date. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar of the Company, Tricor Investor Services Limited, at Level 22, Hopewell Centre,183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on 10 March 2017.

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 2016 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, 23 February 2017

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