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 2017

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 31 December 2017 ("**1HFY2018**") increased by approximately 6.1% to approximately HK$1,489.5 million as compared with approximately HK$1,404.2 million for the six months ended 31 December 2016 ("**1HFY2017**").

- Gross profit for 1HFY2018 increased by approximately 13.2% to approximately HK$1,028.2 million, as compared with approximately HK$908.3 million for 1HFY2017.

- Gross profit margin increased from approximately 64.7% for 1HFY2017 to approximately 69.0% for 1HFY2018. The gross profit margin of Tian Wang Watch Business remain stable for both periods.

- Profit attributable to owners of the Company for 1HFY2018 was approximately HK$146.2 million, representing an increase of approximately 44.1% as compared with approximately HK$101.5 million for 1HFY2017.

- Basic earnings per share for 1HFY2018 was HK7.0 cents (1HFY2017: HK4.9 cents).

- **Other information:**

  Retail network decreased to 3,067 points of sales ("**POS**") as at 31 December 2017, with a net decrease of 26 POS as compared to 3,093 POS as at 30 June 2017.

  The Directors have declared for the payment of an interim dividend for 1HFY2018 of HK2 cents per share.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2017

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 2017, together with the unaudited comparative figures for the six months ended 31 December 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2017

		Six months ended 31 December	
		2017	2016
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*3*	**1,489,491**	1,404,217
Cost of sales		**(461,250)**	(495,878)
Gross profit		**1,028,241**	908,339
Other income, gains and losses	*4*	**4,983**	13,260
Selling and distribution costs		**(733,253)**	(693,872)
Administrative expenses		**(98,141)**	(104,473)
Finance costs	*5*	**(3,908)**	(3,164)
Profit before taxation		**197,922**	120,090
Income tax	*6*	**(57,093)**	(45,477)
Profit for the period	*7*	**140,829**	74,613
Other comprehensive income (expense)			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of leasehold land and buildings		**237**	180
Exchange differences arising on translation		**27,040**	(4,715)
Items that may be reclassified subsequently to profit or loss:			
Fair value change of available-for-sale investments		**(170)**	(1,487)
Reclassification adjustment relating to available-for-sale investment disposed of during the period		**1,498**	206
Total comprehensive income for the period		**169,434**	68,797

	Notes	Six months ended 31 December 2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		**146,169**	101,455
Non-controlling interests		**(5,340)**	(26,842)
		140,829	74,613
Total comprehensive income (expense) attributable to:			
Owners of the Company		**174,061**	95,968
Non-controlling interests		**(4,627)**	(27,171)
		169,434	68,797
Earnings per share – basic *(HK cents)*	*9*	**7.0**	4.9

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	**As at 31 December 2017 *HK$'000* (Unaudited)**	As at 30 June 2017 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	*10*	**163,107**	162,475
Prepaid lease payments		**37,773**	37,745
Investment property	*11*	**104,946**	104,946
Deposits paid for acquisition of property, plant and equipment		**8,756**	4,301
Available-for-sale investments		**19,674**	19,744
Deferred tax assets		**28,858**	28,238
		363,114	357,449
Current assets			
Inventories	*12*	**595,632**	549,104
Prepaid lease payments		**1,399**	1,320
Trade receivables	*13*	**379,319**	418,265
Other receivables, deposits and prepayments		**131,425**	165,939
Tax recoverable		**11**	1,491
Available-for-sale investments		**30,168**	65,553
Structured deposits	*14*	**293,500**	172,650
Pledged bank deposits		**5,995**	6,192
Bank balances and cash		**748,438**	658,808
		2,185,887	2,039,322
Current liabilities			
Trade payables and bills payable	*15*	**115,245**	122,101
Other payables and accrued charges		**153,120**	145,255
Tax liabilities		**40,730**	39,963
Borrowings and bank overdraft		**79,792**	65,018
		388,887	372,337
Net current assets		**1,797,000**	1,666,985
Total assets less current liabilities		**2,160,114**	2,024,434

	As at 31 December 2017 *HK$'000* (Unaudited)	As at 30 June 2017 *HK$'000* (Audited)
Capital and reserves		
Share capital	**207,995**	207,995
Reserves	**1,781,462**	1,670,030
Equity attributable to owners of the Company	**1,989,457**	1,878,025
Non-controlling interests	**(34,772)**	(29,923)
Total equity	**1,954,685**	1,848,102
Non-current liabilities		
Deferred tax liabilities	**72,462**	60,972
Other loans	**132,967**	115,360
	205,429	176,332
	2,160,114	2,024,434

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2017

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical basis except for leasehold land and buildings, investment property and certain financial instruments, which are measured at revalued amounts and fair values.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2017.

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 HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

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

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[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 9	Prepayment Features with Negative Compensation[2]
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 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[2]

[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 2021

3. REVENUE AND SEGMENT INFORMATION

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

a. **Tian Wang Watch Business** – Manufacturing, trading and retailing business of own brand watches – Tian Wang Watch;

b. **Balco Watch Business** – Trading and retailing business of own brand watches – Balco Watch;

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

d. **Other Brands (PRC) Business** – Retailing business of imported watches mainly of well-known brands; and

e. **Other Brands Global Business** – Global distribution of owned and licensed international brands of watches.

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

Segment revenue and results

Six months ended 31 December 2017 (Unaudited)

	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*
Revenue						
External sales	1,065,342	63,516	77,390	110,473	172,770	1,489,491
Inter-segment sales	–	–	45,668	–	–	45,668
Segment revenue	1,065,342	63,516	123,058	110,473	172,770	1,535,159
Elimination						(45,668)
Group revenue						1,489,491
Results						
Segment results	238,842	(14,538)	222	414	(7,543)	217,397
Interest income						7,428
Unallocated other income, gains and losses						(1,208)
Central administration costs						(21,786)
Finance costs						(3,908)
Profit before taxation						197,923

Six months ended 31 December 2016 (Unaudited)

	Tian Wang Watch Business *HK$'000*	Balco Watch Business *HK$'000*	Watch Movements Trading Business *HK$'000*	Other Brands (PRC) Business *HK$'000*	Other Brands (Global) Business *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
Unallocated other income, gains and losses						518
Central administration costs						(21,761)
Finance costs						(3,164)
Profit before taxation						120,090

Segment results represent the results of each segment without allocation of corporate items, including interest income, certain other income, gains and losses, central administration costs and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

4. OTHER INCOME, GAINS AND LOSSES

	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Other income:		
Bank interest income	**5,838**	1,657
Interest income on available-for-sale investments	**1,590**	2,472
Watch repair and maintenance services income	**3,450**	4,291
Government subsidies *(Note)*	**4,918**	8,543
Rental income	**3,353**	1,690
Others	**2,862**	4,622
	22,011	23,275
Other gains and losses:		
Allowance for doubtful debts, net	**(10,739)**	–
Loss on disposal and written-off of property, plant and equipment	**(5,608)**	(4,382)
Loss on disposal of available-for-sale investments	**(1,680)**	–
Loss on disposal of intangible assets	**–**	(2,172)
Net exchange gain (loss)	**999**	(3,461)
	(17,028)	(10,015)
	4,983	13,260

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 People's Republic of China ("**PRC**").

5. FINANCE COSTS

	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest on bank borrowings	**1,096**	1,490
Imputed interest on loan from a non-controlling interest of a subsidiary	**1,443**	1,245
Interest on loan from a non-controlling interest of a subsidiary	**249**	–
Interest on loan from a related party	**884**	429
Interest on loan from a director	**236**	–
	3,908	3,164

6. INCOME TAX

	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**21**	–
PRC Enterprise Income Tax	**46,074**	40,374
PRC withholding tax	**128**	3,183
	46,223	43,557
Overprovision in prior years:		
PRC Enterprise Income Tax	**–**	(133)
	46,223	43,424
Deferred taxation	**10,870**	2,053
	57,093	45,477

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits.

Under the law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of EIT Law, the Enterprise Income Tax rate is 25%. 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.

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 for both periods. No provision of tax has been made for both periods since this subsidiary incurred tax loss during both periods.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Dividends distributed from the PRC subsidiaries are subject to withholding tax at 5% to 10%. Deferred tax in relation to withholding income tax for the undistributed profits of the PRC subsidiaries have been provided.

7. PROFIT FOR THE PERIOD

	Six months ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging:		
Staff costs (including Directors' remuneration)	**228,451**	220,264
Retirement benefits scheme contributions (including Directors' remuneration)	**27,375**	24,953
Total staff costs	**255,826**	245,217
Depreciation of property, plant and equipment	**40,831**	42,334
Allowance for obsolete inventories recognised as cost of sales	**3,393**	16,061
Concessionaire fee *(Note)*	**246,422**	238,488

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	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Dividends recognised as distribution during the period:		
2017 Final – HK3 cents per share	**62,398**	–
2016 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	
	2017	2016
	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	**146,169**	101,455
	'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 2017, the Group purchased property, plant and equipment of approximately HK$37,575,000 (six months ended 31 December 2016: approximately HK$41,320,000) and wrote off property, plant and equipment of approximately HK$5,608,000 (six months ended 31 December 2016: approximately HK$4,441,000).

11. INVESTMENT PROPERTY

	HK$'000
Fair value	
At 1 July 2016	–
Addition	104,946
At 30 June 2017 and 31 December 2017	104,946

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

As at 30 June 2017, the fair value of the Group's investment property located in Hong Kong has been arrived at on the basis of a valuation carried out by Messrs LCH (Asia-Pacific) Surveyors Limited, independent qualified professional valuers not connected to the Group.

In the opinion of directors, there is no significant change of fair value of the investment property between 31 December 2017 and 30 June 2017.

12. INVENTORIES

	As at 31 December 2017 ***HK$'000*** **(Unaudited)**	As at 30 June 2017 *HK$'000* (Audited)
Raw materials and consumables	**72,845**	42,958
Work in progress	**12,052**	7,867
Finished goods	**510,735**	498,279
	595,632	549,104

13. TRADE RECEIVABLES

	As at 31 December 2017 HK$'000 (Unaudited)	As at 30 June 2017 HK$'000 (Audited)
Trade receivables from third parties	**384,504**	415,384
Trade receivables from related companies	**4,985**	8,233
Less: allowance for doubtful debts	**(10,170)**	(5,352)
	379,319	418,265

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 ageing analysis of trade receivables from third parties net of allowance for doubtful debts presented based on the date of delivery of goods which approximates to the respective date of revenue recognition, as at 31 December 2017 and 30 June 2017:

	As at 31 December 2017 HK$'000 (Unaudited)	As at 30 June 2017 HK$'000 (Audited)
0 to 60 days	**315,630**	346,215
61 to 120 days	**40,516**	41,560
121 to 180 days	**7,122**	10,165
Over 180 days	**11,774**	12,092
	375,042	410,032

The following is an ageing analysis of trade receivables from related companies, including entities owned by non-controlling interests of subsidiaries, presented based on the date of delivery of goods, which approximates to the date of revenue recognition, as at 31 December 2017 and 30 June 2017:

	As at 31 December 2017 ***HK$'000*** **(Unaudited)**	As at 30 June 2017 *HK$'000* (Audited)
0 to 60 days	**3,958**	3,922
61 to 120 days	**319**	4,311
	4,277	8,233

14. STRUCTURED DEPOSITS

During the year ended 30 June 2017, the Group entered into two structured deposits with a bank in the PRC with an aggregate amount of approximately HK$172,650,000. The structured deposits are interest rate-linked principal protected deposits with a floating interest rate. The nature of the structured deposits is RMB fixed deposits. The counterparty bank guaranteed 100% of the invested capital and the returns of which the interest income shall be determined by reference to the London Interbank Offered Rate of United States dollars' bank deposits and the effective interest rate of these desposits range from 3.6% to 4.2% per annum. The structured deposits have a term of six months and three months respectively which would be matured in the year ending 30 June 2018.

During the six months ended 31 December 2017, the Group entered into two types of structured deposits with banks in the PRC with an aggregate amount of approximately HK$293,500,000. The structured deposits are interest rate-linked or exchange rate-linked principal protected deposits. The nature of the structured deposits is RMB fixed deposits. The counterparty bank guaranteed 100% of the invested capital and the returns of which the interest income shall be determined by reference to the fluctuation of London Interbank Offered Rate of United States dollars' bank deposits or the exchange rate of Euro to US dollars and the effective interest rate of these deposits are 4.1% per annum or 3.2% per annum. The structured deposits have terms range from one to three months which would be matured in the year ending 30 June 2018.

15. TRADE PAYABLES AND BILLS PAYABLE

	As at 31 December 2017 ***HK$'000*** **(Unaudited)**	As at 30 June 2017 *HK$'000* (Audited)
Trade payables	**95,260**	58,116
Bills payable	**7,917**	3,262
Trade payables to related companies	**12,068**	60,723
	115,245	122,101

The average credit period on purchases of goods is 30 to 60 days. The following is an ageing analysis of trade payables presented based on the invoice date as at 31 December 2017 and 30 June 2017:

	As at 31 December 2017 *HK$'000* **(Unaudited)**	As at 30 June 2017 *HK$'000* (Audited)
0 to 30 days	**74,549**	35,684
31 to 60 days	**12,368**	12,976
61 to 90 days	**2,572**	3,310
Over 90 days	**5,771**	6,146
	95,260	58,116

The related companies, including companies in which entities owned by non-controlling interests of subsidiaries did not have a specified credit period policy granting to the Group and the Group normally settled trade payables within three months. The following is an ageing analysis of trade payables to related companies based on the invoice date as at 31 December 2017 and 30 June 2017:

	As at 31 December 2017 *HK$'000* **(Unaudited)**	As at 30 June 2017 *HK$'000* (Audited)
0 to 30 days	**1,078**	12,779
31 to 60 days	**–**	7,413
61 to 90 days	**20**	645
Over 90 days	**10,970**	39,886
	12,068	60,723

Bills payable as at 31 December 2017 and 30 June 2017 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$85.3 million or approximately 6.1% from approximately HK$1,404.2 million for 1HFY2017 to approximately HK$1,489.5 million for 1HFY2018.

Tian Wang Watch Business

Revenue of Tian Wang Watch Business continued to be the Group's main source of revenue which accounted for approximately 71.5% of the total revenue of the Group for 1HFY2018 (1HFY2017: approximately 65.5%). Revenue of Tian Wang Watch Business increased by approximately HK$145.3 million or approximately 15.8% from approximately HK$920.1 million for 1HFY2017 to approximately HK$1,065.3 million for 1HFY2018. The retail network remains stable from 2,569 POS as at 30 June 2017 to 2,571 POS as at 31 December 2017, with a net increase of 2 POS. The retail sales recorded an increase of approximately 4.3% as compared to 1HFY2017. Sales of watches through e-commerce channels increased significantly by approximately HK$116.2 million or approximately 62.8% from approximately HK$185.1 million for 1HFY2017 to approximately HK$301.3 million for 1HFY2018.

Balco Watch Business

Revenue of Balco Watch Business decreased by approximately HK$5.3 million or approximately 7.6% from approximately HK$68.8 million for 1HFY2017 to approximately HK$63.5 million for 1HFY2018, which accounted for approximately 4.3% of the total revenue of the Group for 1HFY2018 (1HFY2017: approximately 4.9%). Sales of Balco Watch in the PRC decreased by approximately HK$3.9 million or approximately 7.5% from approximately HK$51.8 million for 1HFY2017 to approximately HK$47.9 million for 1HFY2018. Sales of Balco Watch to multi-brand watch distributors in Hong Kong, Macau and Taiwan decreased by approximately HK$1.4 million or approximately 8.2% from approximately HK$17.0 million for 1HFY2017 to approximately HK$15.6 million for 1HFY2018.

Other Brands (PRC) Business

Retail sales of other well-known brand watches other than Tian Wang and Balco Watch decreased by approximately HK$10.6 million or approximately 8.7% from approximately HK$121.0 million for 1HFY2017 to approximately HK$110.5 million for 1HFY2018, which accounted for approximately 7.4% of the total revenue of the Group for 1HFY2018 (1HFY2017: approximately 8.6%). The decrease in revenue of Other Brands (PRC) Business was mainly due to the general decline in the retail market of the PRC, especially for the imported mid-range and high-end watches and keen competition from other imported watches with similar price range.

Other Brands (Global) Business

Revenue of global distribution of certain owned and licensed international brands of watches decreased by approximately HK$35.9 million or approximately 17.2% from approximately HK$208.7 million from 1HFY2017 to approximately HK$172.8 million for 1HFY2018, which accounted for approximately 11.6% of the total revenue of the Group for 1HFY2018 (1HFY2017: approximately 14.9%). Although revenue was decreased, the negative segment results significantly decreased by approximately HK$37.7 million or approximately 83.3% from approximately HK$45.3 million from 1HFY2017 to approximately HK$7.5 million for 1HFY2018.

Watch Movements Trading Business

Revenue of Watch Movements Trading Business accounted for approximately 5.2% of the Group's total revenue for 1HFY2018 (1HFY2017: approximately 6.1%). For 1HFY2018, revenue from trading of watch movements was approximately HK$77.4 million, representing a decrease of approximately HK$8.2 million or approximately 9.6% from approximately HK$85.6 million for 1HFY2017. The decrease was primarily due to the slowdown of watch movements trading business in Hong Kong and the PRC during 1HFY2018.

Gross Profit

The Group's gross profit increased by approximately HK$119.9 million or approximately 13.2% from approximately HK$908.3 million for 1HFY2017 to approximately HK$1,028.2 million for 1HFY2018. The increase was mainly due to (i) increase in Tian Wang Watch Business as in line with the increase in revenue; and (ii) increase in contribution of higher gross margin sales in Other Brands (Global) Business. The Group's gross profit margin increased by 4.3 percentage point from approximately 64.7% for 1HFY2017 to approximately 69.0% for 1HFY2018. The increase was mainly due to the contribution of the higher gross profit margin from Other Brands (Global) Business, Other Brands (PRC) Business and Balco Watch Business. The gross profit margin of Tian Wang Watch Business remained stable for both periods.

Other Income, Gains and Losses

The Group's other income, gains and losses decreased by approximately HK$8.3 million or approximately 62.4% from approximately HK$13.3 million for 1HFY2017 to approximately HK$5.0 million for 1HFY2018. The decrease was mainly due to a combined effect of increase in bank interest income and rental income of approximately HK$4.2 million and approximately HK$1.7 million respectively, decrease in government subsidies of approximately HK$3.6 million, increase in allowance for doubtful debts of approximately HK$10.7 million (1HFY2017: nil) and loss on disposal of available-for-sale investments of approximately HK$1.7 million for 1HFY2018 (1HFY2017: nil).

Selling and Distribution Costs

The Group's selling and distribution costs increased by approximately HK$39.4 million or approximately 5.7% from approximately HK$693.9 million for 1HFY2017 to approximately HK$733.3 million for 1HFY2018. The increase was mainly due to a combined effect of increase in staff costs of sales personnel, advertising and promotion expenses as in line with the increase in revenue and the decrease of the overall selling and distribution expenses in Other Brands (Global) Business.

Administrative Expenses

The Group's administrative expenses decreased by approximately HK$6.3 million or approximately 6.1% from approximately HK$104.5 million for 1HFY2017 to approximately HK$98.1 million for 1HFY2018. The decrease was mainly due to (i) a decrease in donations of approximately HK$4.9 million; (ii) a decrease in legal and professional fees of approximately HK$4.8 million; and (iii) an increase in service charges of approximately HK$1.8 million.

Finance Costs and Income Tax

The Group's finance costs increased by approximately HK$0.7 million or approximately 23.5% from approximately HK$3.2 million for 1HFY2017 to approximately HK$3.9 million for 1HFY2018 as a result of the increase in bank borrowings and other loans during 1HFY2018. The Group's income tax increased by approximately HK$11.6 million or approximately 25.5% from approximately HK$45.5 million for 1HFY2017 to approximately HK$57.1 million for 1HFY2018. The increase was mainly due to increase of the Group's profit before tax for 1HFY2018 as compared to 1HFY2017.

Profit attributable to the owners of the Company

As a combined result of the factors discussed above, the profit attributable to the owners of the Company for 1HFY2018 increased by approximately HK$44.7 million or approximately 44.1% from approximately HK$101.5 million for 1HFY2017 to approximately HK$146.2 million for 1HFY2018.

Business Review

Overview

During 1HFY2018, the Group's principal business remained manufacturing, retail sales and e-commerce business of its two proprietary brands watches (namely, Tian Wang and Balco Watch), retail sales of Other Brands of watches in the PRC, global distribution of Other Brands of watches and its ancillary Watch Movements Trading Business.

Tian Wang Watch Business continues to be the Group's core brand business, which contributed approximately 71.5% of the total revenue of the Group in 1HFY2018. Its over-26-years-long brand heritage and reputation of delivering high quality, precise and stylish watches are key factors of Tian Wang Watch Business continuing success and widespread brand recognition. Based on the information gathered from customers through the Group's national wide POS network, the Group can strive to cater for increasing demand for high quality and trendy watches from different age group of the customers.

Retail Network

The Group's retail network principally comprises sales counters located in department stores which are directly managed and controlled by the Group. Over 70% of the Group's sales of Tian Wang and Balco Watch were made through the Group's directly managed POS. Since the Group sells most of its watches to its retail customers directly, the Group has been able to obtain first hand market information and direct feedback from customers through its frontline sales staffs. The Group considers that this is a competitive advantage over its competitors, which generally do not have fully directly managed sales network and sell their products through distributors.

As at 31 December 2017, number of the Group's POS for Tian Wang Watch Business was 2,571, representing a net increase of 2 POS as compared to the number of POS for Tian Wang Watch Business as at 30 June 2017. As at 31 December 2017, number of the Group's POS for Balco Watch Business was 419, representing a net decrease of 22 POS as compared to the number of POS for Balco Watch Business as at 30 June 2017. As at 31 December 2017, number of the Group's POS for Other Brands (PRC) Business was 77, representing a net decrease of 6 POS as compared to the number of POS for Other Brands (PRC) Business as at 30 June 2017.

Proprietary Watches of the Group

Tian Wang Watch

Revenue of Tian Wang Watch Business remained the Group's major source of revenue, which contributed approximately 71.5% of the Group's total revenue for 1HFY2018 (1HFY2017: approximately 65.5%). The retail sales of Tian Wang Watch Business for 1HFY2018 increased by approximately 15.8% as compared to 1HFY2017. During 1HFY2018, the Group has launched not less than 60 new models of Tian Wang watches with price range from approximately RMB400 to RMB7,700 per watch for direct retail sales, e-commerce channels and corporate sales. The wide price range of Tian Wang watches allowed the Group to cater for the different needs and more demand from customers of different income level and age groups.

Balco Watch

Balco watches are assembled in and imported from Switzerland. For 1HFY2018, revenue from Balco Watch Business was approximately HK$63.5 million as compared with approximately HK$68.8 million for 1HFY2017, representing a decrease of approximately HK$5.3 million or approximately 7.6%. The decrease was mainly resulting from the (i) general decline in the retail market in Hong Kong, Macau and Taiwan; and (ii) the keen competition from other imported watches of similar price range, including but not limited to Citizen, Casio, Titoni and Enicar. The Group continued to implement constructive business plans to improve the performance of Balco Watch Business, which including but not limited to optimising its sales and distribution channels within and outside of the PRC and launching new stylish models of Balco watches to the market.

Other Brands (PRC) Business

Revenue of Other Brands (PRC) Business was approximately HK$110.5 million for 1HFY2018 as compared with approximately HK$121.0 million for 1HFY2017, representing a decrease of approximately HK$10.6 million or approximately 8.7%. The decrease in revenue of Other Brands (PRC) Business was mainly due to the general decline in the retail market in the PRC, especially for the imported mid-range and high-end watches and keen competition from other imported watches with similar price range. Due to less allowance for inventories made through implementation of stringent inventory control, we recorded a small positive segment results of approximately HK$0.4 million for 1HFY2018 while negative segment results of approximately HK$4.0 million for 1HFY2017.

Other Brands (Global) Business

Revenue from global distribution of Other Brands (Global) Business was approximately HK$172.8 million for 1HFY2018 as compared with approximately HK$208.7 million for 1HFY2017, representing a decrease of approximately HK$35.9 million or approximately 17.2%. Through implementation of constructive business restructure plans, the negative segment results significantly decreased by approximately HK$37.7 million or approximately 83.3% from approximately HK$45.3 million from 1HFY2017 to approximately HK$7.5 million for 1HFY2018 while the revenue for 1HFY2018 was decreased as compared to 1HFY2017.

Watch Movements Trading Business

The Directors consider that the in-house watch movements procurement and trading arm of the Group is an integral segment of the Group's overall business operation for providing reliable and stable supply of watch movements for the assembly of its Tian Wang watches and generating revenue to the Group through its Watch Movements Trading Business with other watch manufacturers and distributors when there is a surplus of watch movements which are not used for the Group's manufacture of watches for Tian Wang Watch Business.

E-commerce Business

Starting from 2013, the Group commenced e-commerce business and started strategic operations with several major online sales platforms (including but not limited to Jingdong mall and Tmall) and offered sales of lowerpriced watches and new youth series watches products for younger generation in order to capture their rising consumption power. The Directors believe that a wide variety of watches enable the Group to reach out to an extensive range of customers across different age groups. For 1HFY2018, e-commence business continued as one of the main driver for revenue increase and recorded a significant increase in sales of watches through e-commerce channels by approximately HK$116.2 million or approximately 62.8% from approximately HK$185.1 million for 1HFY2017 to approximately HK$301.3 million for 1HFY2018. The e-commerce business achieved double digits percentage growth in sale of watches for four consecutive financial years since its establishment in 2013.

Inventory Control

The Group's inventory balance was approximately HK$595.6 million as at 31 December 2017, representing an increase of approximately HK$46.5 million or approximately 8.5% as compared with approximately HK$549.1 million as at 30 June 2017. The Group's inventory turnover days decreased to approximately 227 days for 1HFY2018, as compared with 238 days for the year ended 30 June 2017. The Group will continue to monitor and control its inventory level vigilantly while implementing its sales network expansion plan in order to ensure that the expansion plan and inventory level will not adversely affect the cash flow and liquidity of the Group.

The inventory aged over two years were approximately HK$152.9 million and approximately HK$134.5 million as at 31 December 2017 and 30 June 2017 respectively, with corresponding provision for these inventory balances of approximately HK$86.9 million and approximately HK$82.3 million respectively. Management of the Group 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, 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 deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The Group financed its operations primarily through cash flows from operations and short-term bank loans. The cash and cash equivalents, net with bank overdraft, were approximately HK$741.0 million and approximately HK$651.0 million as at 31 December 2017 and 30 June 2017 respectively.

The Group's net cash generated from operating activities for 1HFY2018 was approximately HK$241.1 million, representing an increase of approximately HK$87.8 million from approximately HK$153.3 million for 1HFY2017. The amount was primarily attributable to profit before taxation of approximately HK$197.9 million from the Group's operations adjusted for non-cash items of approximately HK$62.4 million, increase of working capital balances of approximately HK$23.6 million, income taxes paid of approximately HK$45.2 million and interest received of approximately HK$2.4 million.

The Group's net cash used in investing activities for 1HFY2018 was approximately HK$124.8 million, which was mainly attributable to purchase of property, plant and equipment of approximately HK$37.6 million, new placed of structured deposits of approximately HK$117.4 million which was partially offset by proceeds from disposal of available-for-sale investments of approximately HK$36.6 million.

The Group's net cash used in financing activities for 1HFY2018 was approximately HK$34.7 million, which was mainly attributable to dividends paid of approximately HK$62.4 million and repayment of bank borrowings of approximately HK$139.9 million, which was partially offset by borrowings raised of approximately HK$170.2 million. The Group's bank borrowings and overdraft were approximately HK$79.8 million and approximately HK$65.0 million as at 31 December 2017 and 30 June 2017 respectively. The Group had a net cash position as at 31 December 2017 and 30 June 2017. As at 31 December 2017, the Group's total equity was approximately HK$1,954.7 million, representing an increase of approximately HK$106.6 million from approximately HK$1,848.1 million as at 30 June 2017. The Group's working capital was approximately HK$1,797.0 million as at 31 December 2017, representing an increase of approximately HK$130.0 million as compared with approximately HK$1,667.0 million as at 30 June 2017.

As at 31 December 2017, the Group's bank balances and cash were mainly denominated in Renminbi and Hong Kong dollar. As at 31 December 2017, all the Group's bank borrowings were short-term bank borrowings that were principally denominated in Hong Kong dollar and United States dollar, were subject to variable interest rates and were repayable within one year.

The gearing ratio being calculated as total debt over total equity was approximately 10.9% and approximately 9.8% as at 31 December 2017 and 30 June 2017 respectively.

Investment Property

During the year ended 30 June 2017 ("**FY2017**"), the Group entered into a sale and purchase agreement with a third party, which is independent of the Group and its connected person (within the meaning of the Listing Rules), to acquire an investment property for a consideration of approximately HK$96.3 million. The acquisition of the investment property did not constitute notifiable transaction under Chapter 14 of the Listing Rules. The investment property comprises several workshops and car parking space at CEO Tower, No. 77 Wing Hong Street, Kowloon, Hong Kong. In January 2018, the investment property was leased out to third parties which are independent of the Group and its connected person (within the meaning of the Listing Rules) for rental income.

Charge on Group Assets

There was no material charge on the Group's assets as at 31 December 2017 and 30 June 2017.

Contingent Liabilities

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

Capital Commitments

The Group did not have any material capital commitments as at 31 December 2017 and 30 June 2017.

Foreign Currency Exposure

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

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

Employees and Emoluments Policies

As at 31 December 2017, the Group employed a total of approximately 5,200 full time employees (30 June 2017: approximately 5,200). The staff costs incurred during 1HFY2018 was approximately HK$255.8 million (1HFY2017: approximately HK$245.2 million). The Group's emolument policies are formulated on the performance of individual employees and on the basis of the trends of salaries in various regions, which will be reviewed regularly every year. Apart from provident fund scheme and medical insurance, discretionary bonuses are also awarded to employees according to the assessment of individual performance.

Social Responsibility

The Group's charitable and other donations for 1HFY2018 amounted to approximately HK$0.1 million (1HFY2017: approximately HK$5.0 million). No donations were made to political parties.

Prospects and Strategies

Looking forward, 2018 will be another challenging year but at the same time filled with numerous opportunities as the Group has laid a solid foundation in the recent past for its future developments.

For retail business, the Group continues to roll out POS expansion for Tian Wang Watch Business in a steady and conservative pace. It is the Group's strategy to increase its market share and bolster its presence through opening new POS for Tian Wang Watch Business per year in the 2nd, 3rd and 4th tier cities in PRC, where the purchasing power is improving in recent years along with the development of the PRC. At the same time, the Group will also closely monitor and assess the performance of all existing POS on a regular basis and implement strategic business plan to the POS distribution network in order to optimise the market coverage and enhance profitability.

E-commerce business continues to be another revenue driver for the Group and focus on targeting customers from the younger generation. The watches for e-commerce business are exclusive and different from those selling in the Tian Wang POS, in order to avoid overlapping of sales channel. The Group will continue to allocate more resources and put more efforts to the e-commerce business in order to fuel growth on sales and profitability. The management are confident that the sustainable high growth in e-commerce business will compensate for the slowdown in the growth of retail sales.

For Other Brands (Global) Business, through implementation of constructive business restructure plans during FY2017, the negative segment results was significantly decreased as compared to 1HFY2017. We will stay focus and strictly implement business plans to increase sales, control costs and continue to narrow the losses of the business.

For other business segments, they are still experiencing difficulties and affected by uncontrollable market factors given the market downward trend in their respective markets. The Group will closely monitor and formulate constructive business plans to improve its business performance.

The management are confident that the Group will maintain steady growth in its business in the coming future through the implementation of the above strategic business plans.

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 2017.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During 1HFY2018, 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 2017, 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 2017.

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 2017 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 2016: HK2 cents per share), amounting to approximately HK$41.6 million for the six months ended 31 December 2017 (six months ended 31 December 2016: approximately HK$41.6 million) to the shareholders of the Company. The interim dividend will be paid to shareholder whose name appears on the register of members of the Company at the close of business on 15 March 2018. It is expected that the interim dividend will be paid on or about 26 March 2018.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed on 15 March 2018 and no transfer of shares will be effective from 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 4:30p. m. on 14 March 2018.

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 2017 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 2018

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.