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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 2019

FINANCIAL HIGHLIGHTS

- Revenue from continuing operations for the six months ended 31 December 2019 (“**1H FY2020**”) decreased by approximately 11.2% to approximately HK\$1,058.9 million as compared with approximately HK\$1,192.2 million for the six months ended 31 December 2018 (“**1H FY2019**”).
- Gross profit from continuing operations for 1H FY2020 decreased by approximately 10.1% to approximately HK\$785.8 million, as compared with approximately HK\$874.6 million for 1H FY2019.
- Gross profit margin from continuing operations increased from approximately 73.4% for 1H FY2019 to approximately 74.2% for 1H FY2020.
- The board did not recommend a payment of interim dividend for the six months ended 31 December 2019 (six months ended 31 December 2018: HK2 cents per share).

- Profit attributable to owners of the Company from continuing operations for 1H FY2020 was approximately HK\$121.0 million, representing an increase of approximately 4.6% as compared with approximately HK\$115.7 million for 1H FY2019.
- Basic earnings per share from continuing operations for 1H FY2020 was HK5.8 cents (1H FY2019: HK5.6 cents).
- **Other information:**

Retail network decreased to 2,905 points of sales (“POS”) as at 31 December 2019, with a net decrease of 50 POS as compared to 2,955 POS as at 30 June 2019.

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2019

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 2019, together with the unaudited comparative figures for the six months ended 31 December 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2019

		Six months ended 31 December	
	Notes	2019 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited) (Restated)
Continuing operations			
Revenue	3	1,058,941	1,192,227
Cost of sales		(273,093)	(317,644)
Gross profit		785,848	874,583
Other income	4	46,705	41,598
Other gains and losses	5	(13,022)	(25,218)
(Loss) reversal on impairment of trade receivables		(2,375)	141
Selling and distribution costs		(587,950)	(643,930)
Administrative expenses		(72,994)	(82,109)
Finance costs		(600)	(254)
Share of results of a joint venture		844	–
Profit before taxation		156,456	164,811
Income tax	6	(35,090)	(48,325)
Profit for the period from continuing operations	7	121,366	116,486
Discontinued operation			
(Loss) profit for the period from discontinued operation	8	(41,969)	8,758
Profit for the period		79,397	125,244
Other comprehensive income (expense)			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of leasehold land and buildings		254	245
Exchange differences arising on translation		(34,579)	(79,645)
Items that may be reclassified subsequently to profit or loss:			
Fair value change on debt instruments at fair value through other comprehensive income		2,897	243
Total comprehensive income for the period		47,969	46,087

		Six months ended	
		31 December	
		2019	2018
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
			(Restated)
Profit (loss) for the period attributable to owners of the Company			
– from continuing operations		120,964	115,657
– from discontinued operation		(21,217)	4,770
		<u>99,747</u>	<u>120,427</u>
Profit (loss) for the period attributable to non-controlling interest			
– from continuing operations		402	829
– from discontinued operation		(20,752)	3,988
		<u>(20,350)</u>	<u>4,817</u>
Total comprehensive income (expense) attributable to:			
Owners of the Company		69,508	42,062
Non-controlling interests		(21,539)	4,025
		<u>47,969</u>	<u>46,087</u>
From continuing and discontinued operations			
Earnings per share – basic (<i>HK cents</i>)	10	<u>4.8</u>	<u>5.8</u>
From continuing operations			
Earnings per share – basic (<i>HK cents</i>)	10	<u>5.8</u>	<u>5.6</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	As at 31 December 2019 HK\$'000 (Unaudited)	As at 30 June 2019 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	259,675	231,713
Right-of-use assets	11	58,064	–
Prepaid lease payments		–	34,708
Investment property	12	113,900	113,900
Interest in a joint venture		10,308	9,481
Deposits paid for acquisition of property, plant and equipment		4,071	1,919
Financial assets at fair value through profit or loss	13	284,717	383,918
Debt instruments at fair value through other comprehensive income	14	203,529	200,298
Financial asset at amortised cost		55,650	–
Deferred tax assets		54,325	48,863
		1,044,239	1,024,800
Current assets			
Inventories	15	447,073	480,665
Prepaid lease payments		–	1,306
Trade receivables	16	273,479	370,046
Other receivables, deposits and prepayments		83,595	113,384
Tax recoverable		1,415	20
Financial assets at fair value through profit or loss	13	134,700	274,656
Debt instrument at fair value through other comprehensive income	14	19,529	19,441
Pledged bank deposits		2,000	7,793
Bank balances and cash		575,538	421,748
		1,537,329	1,689,059
Assets classified as held for sale	8	33,135	–
		1,570,464	1,689,059
Current liabilities			
Trade payables and bills payable	17	50,740	79,228
Other payables and accrued charges		135,064	163,831
Contract liabilities		–	182
Tax liabilities		35,439	37,754
Bank borrowings and overdraft	18	38,433	62,542
Other loans		7,828	143,333
Lease liabilities	11	10,065	–
		277,569	486,870
Liabilities associated with assets classified as held for sale	8	7,184	–
		284,753	486,870
Net current assets		1,285,711	1,202,189
Total assets less current liabilities		2,329,950	2,226,989

		As at 31 December 2019 <i>Notes</i> HK\$'000 (Unaudited)	As at 30 June 2019 <i>HK\$'000</i> (Audited)
Capital and reserves			
Share capital		207,995	207,995
Reserves		<u>1,995,623</u>	<u>2,015,553</u>
Equity attributable to owners of the Company		2,203,618	2,223,548
Non-controlling interests		<u>38,003</u>	<u>(64,517)</u>
Total equity		<u>2,241,621</u>	<u>2,159,031</u>
Non-current liabilities			
Lease liabilities	11	13,376	–
Deferred tax liabilities		<u>74,953</u>	<u>67,958</u>
		<u>88,329</u>	<u>67,958</u>
		<u>2,329,950</u>	<u>2,226,989</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2019

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.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) and the new principal accounting policies as set out below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2019 are the same as those followed in the preparation of the Group’s consolidated financial statements for the year ended 30 June 2019.

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

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and 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 these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be assessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to lease of approximately HK\$27,540,000 that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets of approximately HK\$1,420,000. Lease payments on short-term leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;

Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 “Income Taxes” requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

As a lessor

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

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 “Determining whether an Arrangement contains a Lease” and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 July 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 July 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment. Specifically, discount rate for certain leases of properties in the People’s Republic of China (the “PRC”) and equipment in Hong Kong was determined on a portfolio basis; and

- iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities and right-of-use assets of approximately HK\$27,247,000 as at 1 July 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities ranging from 4.69% to 4.91%.

	As at 1 July 2019 HK\$'000
Operating lease commitments disclosed as at 30 June 2019	58,390
Less: Recognition exemption – short-term leases	(27,540)
Recognition exemption – low value assets	(1,420)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16	29,430
Lease liabilities discounted at relevant incremental borrowing rates	(2,183)
Lease liabilities as at 1 July 2019	27,247
Analysed as	
Current	10,208
Non-current	17,039
	27,247

The carrying amount of right-of-use assets as at 1 July 2019 comprises the following:

	Right-of-use assets <i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	27,247
Prepaid lease payments	<u>36,014</u>
	<u><u>63,261</u></u>

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 July 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 30 June 2019 <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	Carrying amounts under HKFRS 16 as at 1 July 2019 <i>HK\$'000</i>
Non-current Assets			
Right-of-use assets	–	63,261	63,261
Prepaid lease payments	34,708	(34,708)	–
Current Assets			
Prepaid lease payments	1,306	(1,306)	–
Current Liabilities			
Lease liabilities	–	10,208	10,208
Non-current Liabilities			
Lease liabilities	<u>–</u>	<u>17,039</u>	<u>17,039</u>

2.2 New principal accounting policies

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell which continue to be measured in accordance with the accounting policies as set out in respective sections.

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

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

HKFRS 17	Insurance Contracts ¹
Amendments to HKFRS 3	Definition of a Business ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and Investor and its Associate or Joint Venture ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ⁵
Amendments to HKAS 1 and HKAS 8	Definition of Material ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform ⁴

¹ Effective for annual periods beginning on or after 1 January 2021

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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 2020

⁵ Effective for annual periods beginning on or after 1 January 2022

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 July 2020.

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

Amendments to HKFRS 3 “Definition of a Business”

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1 July 2020.

Amendments to HKAS 1 and HKAS 8 “Definition of Material”

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

3. REVENUE AND SEGMENT INFORMATION

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

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

An operating segment regarding the “Other Brands (Global) Business” (being the Group’s global distribution of owned and licensed international brands of watches business) was discontinued in the current period. The segment information reported on the next pages does not include any amounts for this discontinued operation, which are described in more detail in note 8.

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 2019, the Group's revenue was recognised at a point in time.

Six months ended 31 December 2019 (Unaudited)

Continuing operations

	Tian Wang Watch Business HK\$'000	Balco Watch Business HK\$'000	Watch Movements Trading Business HK\$'000	Other Brands (PRC) Business HK\$'000	Consolidated HK\$'000
Revenue					
External sales	879,401	25,989	68,293	85,258	1,058,941
Inter-segment sales	–	–	10,767	–	10,767
Segment revenue	<u>879,401</u>	<u>25,989</u>	<u>79,060</u>	<u>85,258</u>	1,069,708
Elimination					<u>(10,767)</u>
Group revenue					<u>1,058,941</u>
Results					
Segment results	<u>169,172</u>	<u>(12,351)</u>	<u>6,161</u>	<u>(3,093)</u>	159,889
Interest income					23,470
Unallocated other income, gains and losses					(2,768)
Central administration costs					(23,535)
Finance costs					<u>(600)</u>
Profit before taxation from continuing operations					<u>156,456</u>

Six months ended 31 December 2018 (Unaudited)

Continuing operations

	Tian Wang Watch Business <i>HK\$'000</i>	Balco Watch Business <i>HK\$'000</i>	Watch Movements Trading Business <i>HK\$'000</i>	Other Brands (PRC) Business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue					
External sales	970,348	41,253	72,947	107,679	1,192,227
Inter-segment sales	—	—	18,246	—	18,246
Segment revenue	<u>970,348</u>	<u>41,253</u>	<u>91,193</u>	<u>107,679</u>	1,210,473
Elimination					<u>(18,246)</u>
Group revenue					<u>1,192,227</u>
Results					
Segment results	<u>190,241</u>	<u>(15,713)</u>	<u>5,032</u>	<u>2,545</u>	182,105
Interest income					19,885
Unallocated other income, gains and losses					(14,075)
Central administration costs					(22,850)
Finance costs					<u>(254)</u>
Profit before taxation from continuing operations					<u>164,811</u>

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

	Six months ended	
	31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
		(Restated)
Continuing operations		
<i>Other income:</i>		
Bank interest income	3,234	1,617
Interest income on financial assets measured		
at fair value through profit or loss	14,661	17,169
Interest income from debt instruments at fair value through other		
comprehensive income	5,575	1,099
Watch repair and maintenance services income	2,805	3,531
Government subsidies (<i>Note</i>)	10,622	6,731
Rental income	2,043	2,043
Others	7,765	9,408
	<u>46,705</u>	<u>41,598</u>

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

5. OTHER GAINS AND LOSSES

	Six months ended 31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited) (Restated)
Continuing operations		
Loss on disposal and written-off of property, plant and equipment	(4,887)	(4,766)
Loss from changes in fair value of financial assets measured at fair value through profit or loss	(1,508)	–
Net exchange loss	(6,627)	(20,452)
	<u>(13,022)</u>	<u>(25,218)</u>

6. INCOME TAX

	Six months ended 31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited) (Restated)
Continuing operations		
Current tax:		
Hong Kong Profits Tax	2,257	724
PRC Enterprise Income Tax	31,452	44,337
PRC withholding tax	177	29,370
	<u>33,886</u>	<u>74,431</u>
(Overprovision) underprovision in prior years:		
PRC Enterprise Income Tax	(312)	(400)
Hong Kong Profits Tax	–	473
	<u>33,574</u>	<u>74,504</u>
Deferred taxation	<u>1,516</u>	<u>(26,179)</u>
	<u>35,090</u>	<u>48,325</u>

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

Under the law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of EIT Law, the Enterprise Income Tax rate is 25%. Subject to certain preferential tax treatment, the applicable tax rate of the PRC subsidiaries is ranging from 15% to 25% for both periods. On 16 October 2018, Tian Wang Electronics (Shenzhen) Company Limited (“Tian Wang Shenzhen”), a wholly owned subsidiary of the Company, was granted a qualification as high technology and new technology enterprise by relevant authority for a 3-year period ending 31 December 2020. Tian Wang Shenzhen obtained the official certificate of this qualification in early 2019. With this qualification, Tian Wang Shenzhen is entitled to a preferential tax treatment and the applicable tax rate for the calendar year ended 31 December 2019 was 15%.

Federal and State tax rate in the USA are calculated at 21% and ranging from 0% to 12% 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 FROM CONTINUING OPERATIONS

	Six months ended 31 December	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
Continuing operations		
Profit for the period from continuing operations has been arrived at after charging:		
Staff costs (including Directors' remuneration)	195,486	197,099
Retirement benefits scheme contributions (including Directors' remuneration)	27,579	29,601
Total staff costs	223,065	226,700
Depreciation of property, plant and equipment	35,175	34,788
Depreciation of right-of-use assets	6,878	–
Short-term lease payments	41,333	–
Allowance for obsolete inventories recognised as cost of sales	962	1,592
Concessionaire fee (<i>Note</i>)	159,194	219,466

Note: Being variable lease payment, 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. (LOSS) PROFIT FROM DISCONTINUED OPERATION/ASSETS HELD FOR SALE/LIABILITIES ASSOCIATED WITH ASSETS HELD FOR SALE

During the current period, the directors of the Company had resolved the termination of license of Kenneth Cole and the cessation of the Other Brands (Global) Business and the Group had entered into a termination letter with the brand owner to terminate the license agreement for the grant of the Kenneth Cole license. The cessation of business is consistent with the Group's long-term policy to focus its activities on the Group's other businesses. Since then, the Group has started negotiations with interested parties for the disposal of assets and liabilities. The assets and liabilities attributable to Other Brands (Global) Business that are expected to be sold within twelve months from the end of the current interim reporting period have been classified as assets classified as held for sale and liabilities associated with assets held for sale respectively and are separately presented in the condensed consolidated statement of financial position.

The (loss) profit for the period from the discontinued operation (i.e. Other Brands (Global) Business) is set out below. The comparative figures in the condensed consolidated statement of profit or loss and other comprehensive income have been restated to re-present the Other Brands (Global) Business as a discontinued operation.

	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue	91,041	176,184
Cost of sales	(76,865)	(87,716)
Other income	6,414	4,647
Other gains and losses	(434)	(56)
Reversal (loss) on impairment of trade receivables	4,582	(5)
Selling and distribution costs	(37,687)	(57,533)
Administrative expenses	(26,928)	(23,090)
Finance costs	(2,075)	(3,557)
(Loss) profit before tax	(41,952)	8,874
Income tax expense	(17)	(116)
(Loss) profit for the period	(41,969)	8,758

	Six months ended	
	31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
(Loss) profit for the period from discontinued operation had been arrived at after charging (crediting):		
Staff costs	12,326	26,069
Retirement benefits scheme contributions	98	170
Total staff costs	12,424	26,239
Depreciation of property, plant and equipment	213	210
Short-term lease payments	6,974	–
Operating lease payment in respect of office premises	–	7,016
(Reversal) loss of allowance for doubtful debts, net	(4,582)	5
Cash flows from discontinued operation:		
Net cash flows used in operating activities	(28,776)	(19,719)
Net cash flows (used in) from investing activities	(208)	999
Net cash flows from financing activities	39,802	20,880
Net cash flows	10,818	2,160

Major classes of assets and liabilities of the Other Brands (Global) Business as at the end of the current interim period are as follows:

	As at 31 December 2019 <i>HK\$'000</i> (Unaudited)
Inventories	23,503
Prepayments	118
Pledged bank deposits	5,806
Bank balances and cash	<u>3,708</u>
Assets classified as held for sale	<u><u>33,135</u></u>
Trade and other payables	<u>7,184</u>
Liabilities associated with assets classified as held for sale	<u><u>7,184</u></u>

9. DIVIDENDS

	Six months ended 31 December 2019 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited) (Restated)
Dividends recognised as distribution during the period:		
2019 Final – HK4.3 cents per share	89,438	–
2018 Final – HK3.75 cents per share	<u>–</u>	<u>77,998</u>
	<u><u>89,438</u></u>	<u><u>77,998</u></u>

The board did not recommend a payment of interim dividend for the six months ended 31 December 2019 (six months ended 31 December 2018: HK 2 cents per share).

10. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic earnings per share from continuing and discontinued operations attributable to the owners of the Company is based on the following data:

	Six months ended	
	31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Earnings:		
Earnings for the purpose of calculating basic earnings per share		
from continuing and discontinued operations		
– profit for the period attributable to owners of the Company	<u>99,747</u>	<u>120,427</u>
	'000	'000
Numbers of shares:		
Weighted average number of ordinary shares for the purpose of		
calculating basic earnings per share	<u>2,079,946</u>	<u>2,079,946</u>

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

From continuing operations

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

Earnings figures are calculated as follows:

	Six months ended	
	31 December	
	2019	2018
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit for the period attributable to the owners of the Company	99,747	120,427
Less: Loss (profit) for the period attributable to the owners of the Company from discontinued operation	<u>21,217</u>	<u>(4,770)</u>
Earnings for the purpose of basic earnings per share from continuing operations	<u>120,964</u>	<u>115,657</u>

From discontinued operation

Basic loss per share from discontinued operation is HK1.0 cents per share (2018: earnings per share of HK0.2 cent per share from discontinued operation), based on the loss attributable to the owners of the Company for the period from discontinued operation of approximately HK\$21.2 million (2018: profit for the period of approximately HK\$4.8 million) and the denominators detailed above for basic earnings per share.

11. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended 31 December 2019, the Group purchased property, plant and equipment of approximately HK\$72,947,000 (six months ended 31 December 2018: approximately HK\$62,032,000).

During the six months ended 31 December 2019, the Group entered into new lease agreements for the use of shops counters and office premises ranging from 1 to 4 years. The Group is required to make fixed monthly payments and additional variable payments depending on the usage of the asset during the contract period. On lease commencement, the Group recognised approximately HK\$3,053,000 of right-of-use assets and approximately HK\$3,053,000 lease liabilities.

12. INVESTMENT PROPERTY

HK\$'000

Fair value

At 1 July 2018	111,000
Increase in fair value recognised in profit or loss	<u>2,900</u>
At 30 June 2019 and 31 December 2019	<u><u>113,900</u></u>

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

As at 30 June 2019, the fair value of the Group's investment property located in Hong Kong has been arrived at on the basis of a valuation carried out by LCH (Asia-Pacific) Surveyors Limited, independent qualified professional valuers not connected to the Group.

In the opinion of directors, there is no significant change of fair value of the investment property as at 31 December 2019 compared to 30 June 2019.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December 2019 <i>HK\$'000</i> (Unaudited)	As at 30 June 2019 <i>HK\$'000</i> (Audited)
Certificates of deposit (a)	282,257	288,597
Investment in a trust (b)	45,660	92,861
Structured deposits (c)	89,040	274,656
Life insurance (d)	2,460	2,460
	<u>419,417</u>	<u>658,574</u>
Analysed for reporting purposes as:		
Non-current assets	284,717	383,918
Current assets	134,700	274,656
	<u>419,417</u>	<u>658,574</u>

- (a) As at 31 December 2019, financial assets at FVTPL included certificates of deposit issued by a bank in the PRC with interest payable monthly at a fixed rate of 4.18% per annum. These certificates are transferrable subject to market conditions. The maturity date of the certificates is in December 2021 and early redemption is not acceptable. The fair value is quoted by the bank and expected to be at par value.
- (b) As at 31 December 2019, financial assets at FVTPL included certain subordinated units of a trust in PRC. The assets of the trust are loan and interest receivables. The trust is transferrable and redeemable. The maturity date of the trust is 15 July 2020. Based on the terms of the trust, the Company is entitled to receive the principal of its investments after the privileged investor in the same trust received all of their investment principals and returns. The principal of the Group's investments are not guaranteed.
- (c) The structured deposits are principal protected deposits entered into with a bank in the PRC which will mature within one year. The counterparty bank guaranteed 100% of the invested capital and the returns of which were determined by reference to the exchange rate of Hong Kong dollar against US dollar or the fluctuation of share index price of China Securities Index 500 ("CSI 500").

- (d) As at 31 December 2019, financial assets at FVTPL included a life insurance scheme of an executive director of the Company with an insurance company, an independent third party. Pursuant to the scheme, the Company is the holder and the beneficiary of the scheme. The total premium to be paid by the Company is HK\$10,000,000, which should be settled by five consecutive annual installments of HK\$2,000,000. As at 31 December 2019, the Company paid HK\$2,000,000.

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

14. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	As at 31 December 2019 <i>HK\$'000</i> (Unaudited)	As at 30 June 2019 <i>HK\$'000</i> (Audited)
Debt instruments	<u>223,058</u>	<u>219,739</u>
Analysed for reporting purposes as:		
Non-current assets	203,529	200,298
Current assets	<u>19,529</u>	<u>19,441</u>
	<u><u>223,058</u></u>	<u><u>219,739</u></u>

15. INVENTORIES

	As at 31 December 2019 <i>HK\$'000</i> (Unaudited)	As at 30 June 2019 <i>HK\$'000</i> (Audited)
Raw materials and consumables	63,429	71,887
Work in progress	7,573	5,227
Finished goods	<u>376,071</u>	<u>403,551</u>
	<u><u>447,073</u></u>	<u><u>480,665</u></u>

16. TRADE RECEIVABLES

	As at 31 December 2019 <i>HK\$'000</i> (Unaudited)	As at 30 June 2019 <i>HK\$'000</i> (Audited)
Trade receivables from third parties	312,131	409,691
Trade receivables from related companies	1,126	2,844
Less: allowance for doubtful debts	(39,778)	(42,489)
	<u>273,479</u>	<u>370,046</u>

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 2019 and 30 June 2019:

	As at 31 December 2019 <i>HK\$'000</i> (Unaudited)	As at 30 June 2019 <i>HK\$'000</i> (Audited)
0 to 60 days	222,672	310,481
61 to 120 days	31,990	39,785
121 to 180 days	10,172	7,872
Over 180 days	7,519	9,064
	<u>272,353</u>	<u>367,202</u>

The following is an ageing analysis of trade receivables from a related company, including an entity related to non-controlling interests of a subsidiary, presented based on the date of delivery of goods, which approximates to the date of revenue recognition, as at 31 December 2019 and 30 June 2019:

	As at 31 December 2019 <i>HK\$'000</i> (Unaudited)	As at 30 June 2019 <i>HK\$'000</i> (Audited)
0 to 60 days	<u>1,126</u>	<u>2,844</u>

17. TRADE PAYABLES AND BILLS PAYABLE

	As at 31 December 2019 <i>HK\$'000</i> (Unaudited)	As at 30 June 2019 <i>HK\$'000</i> (Audited)
Trade payables	44,540	70,146
Bills payable	6,200	5,860
Trade payables to related companies	<u>–</u>	<u>3,222</u>
	<u>50,740</u>	<u>79,228</u>

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 2019 and 30 June 2019:

	As at 31 December 2019 <i>HK\$'000</i> (Unaudited)	As at 30 June 2019 <i>HK\$'000</i> (Audited)
0 to 30 days	28,171	43,254
31 to 60 days	9,261	9,075
61 to 90 days	3,430	10,933
Over 90 days	<u>3,678</u>	<u>6,884</u>
	<u>44,540</u>	<u>70,146</u>

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 2019 and 30 June 2019:

	As at 31 December 2019 <i>HK\$'000</i> (Unaudited)	As at 30 June 2019 <i>HK\$'000</i> (Audited)
Over 90 days	—	3,222
	<u>—</u>	<u>3,222</u>

Bills payable as at 31 December 2019 and 30 June 2019 is aged within 30 days based on goods receipt date.

18. BANK BORROWINGS AND OVERDRAFT

	As at 31 December 2019 <i>HK\$'000</i> (Unaudited)	As at 30 June 2019 <i>HK\$'000</i> (Audited)
Bank overdraft – secured	7,491	23,815
Trust receipts loans – secured	<u>30,942</u>	<u>38,727</u>
	<u>38,433</u>	<u>62,542</u>

As at 31 December 2019, the Group's secured bank borrowings of approximately HK\$38,433,000 (30 June 2019: approximately HK\$62,542,000) were secured by pledged bank deposits of approximately HK\$2,000,000 (30 June 2019: approximately HK\$7,793,000) for short-term bank borrowings.

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

Bank overdraft and trust receipt loans are arranged at floating rates at Hong Kong Prime rate minus 2.25% (30 June 2019: Hong Kong Prime rate minus 2.25%) and LIBOR plus 1.75% (30 June 2019: LIBOR plus 1.50% to 1.75%), respectively. The weighted average market interest rate of these borrowings is approximately 3.67% per annum as at 31 December 2019 (30 June 2019: approximately 3.96% per annum). Thus the Group exposes to interest rate risk.

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

	As at 31 December 2019 <i>HK\$'000</i> (Unaudited)	As at 30 June 2019 <i>HK\$'000</i> (Audited)
HK\$	<u>7,491</u>	<u>23,815</u>

19. EVENT AFTER THE REPORTING PERIOD

There was a general outbreak of the novel coronavirus in the PRC subsequent to 31 December 2019 and since January 2020 which has affected the operation of the Group's POS across China. Management is of the view that the Group's businesses due to this epidemic will inevitably be affected. Management will closely and continuously monitor the situation and assess the financial impact to the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Revenue

During the second half of 2019, the global economy continued to experience a downward trend due to the Sino U.S. trade war which also affected the overall economy of China. As a combined result of many unfavourable factors, the revenue of Time Watch Investments Limited (the “Company” or “Time Watch”) and its subsidiaries (collectively, the “Group”) decreased by approximately HK\$133.3 million or approximately 11.2% from approximately HK\$1,192.2 million for the six months ended 31 December 2018 (“1HFY2019”) to approximately HK\$1,058.9 million for the six months ended 31 December 2019 (“1HFY2020”). It was primarily due to the decrease of approximately 13.1% in the retail sales of Tian Wang Watch Business, the Group’s main source of revenue, for 1HFY2020 as compared to 1HFY2019 which has been affected by the weak performance of retail market in the PRC.

Tian Wang Watch Business

Revenue of Tian Wang Watch Business, which accounted for approximately 83.0% of the total revenue of the Group for 1HFY2020 (1HFY2019: approximately 81.4%) and continued to be the Group’s main source of revenue, decreased by approximately HK\$90.9 million or approximately 9.4% from approximately HK\$970.3 million for 1HFY2019 to approximately HK\$879.4 million for 1HFY2020. The retail network remained stable from 2,532 point of sales (“POS”) as at 30 June 2019 to 2,499 POS as at 31 December 2019, with a net decrease of 33 POS. The retail sales recorded a decrease of approximately 13.1% as compared to 1HFY2019. Sales of watches through e-commerce channels remained stable for both 1HFY2019 and 1HFY2020.

Balco Watch Business

Revenue of Balco Watch Business, which accounted for approximately 2.5% of the total revenue of the Group for 1HFY2020 (1HFY2019: approximately 3.5%), decreased by approximately HK\$15.3 million or approximately 37.0% from approximately HK\$41.3 million for 1HFY2019 to approximately HK\$26.0 million for 1HFY2020. Sales of Balco Watch in the PRC decreased by approximately HK\$10.0 million or approximately 29.4% from approximately HK\$34.0 million for 1HFY2019 to approximately HK\$24.0 million for 1HFY2020. Sales of Balco Watch to multi-brand watch distributors in Hong Kong, Macau and Taiwan dropped by approximately HK\$5.2 million or approximately 72.2% from approximately HK\$7.2 million for 1HFY2019 to approximately HK\$2.0 million for 1HFY2020.

Other Brands (PRC) Business

Retail sales of well-known brand watches other than Tian Wang and Balco Watch decreased by approximately HK\$22.4 million or approximately 20.8% from approximately HK\$107.7 million for 1HFY2019 to approximately HK\$85.3 million for 1HFY2020, which accounted for approximately 8.1% of the total revenue of the Group for 1HFY2020 (1HFY2019: approximately 9.0%). The decrease in revenue of Other Brands (PRC) Business was mainly due to the close-down of those under-performed POS.

Watch Movements Trading Business

Revenue of Watch Movements Trading Business accounted for approximately 6.4% of the Group's total revenue for 1HFY2020 (1HFY2019: approximately 6.1%). For 1HFY2020, revenue from trading of watch movements was approximately HK\$68.3 million, representing a decrease of approximately HK\$4.7 million or approximately 6.4% from approximately HK\$72.9 million for 1HFY2019. The decline was primarily due to the slowdown of Watch Movements Trading Business in Hong Kong and the PRC during 1HFY2020.

Gross Profit

The Group's gross profit decreased by approximately HK\$88.7 million or approximately 10.1% from approximately HK\$874.6 million for 1HFY2019 to approximately HK\$785.8 million for 1HFY2020. The drop was mainly due to the decrease in Tian Wang Watch Business which was in line with the decrease in its revenue. The Group's gross profit margin increased by approximately 0.8 percentage point from approximately 73.4% for 1HFY2019 to approximately 74.2% for 1HFY2020. The increase was mainly due to the contribution of the higher gross profit margin from Tian Wang Watch Business.

Other Income, Gains and Losses

The Group's other income increased by approximately HK\$5.1 million or approximately 12.3% from approximately HK\$41.6 million for 1HFY2019 to approximately HK\$46.7 million for 1HFY2020. The increase was mainly due to increase in interest income from financial instruments and bank deposits and government subsidies of approximately HK\$3.6 million and approximately HK\$3.9 million respectively.

The Group's other gains and losses increased by approximately HK\$12.2 million or approximately 48.4% from approximately HK\$25.2 million for 1HFY2019 to approximately HK\$13.0 million for 1HFY2020. The decrease was mainly due to decrease in exchange loss of approximately HK\$13.8 million.

Selling and Distribution Costs

The Group's selling and distribution costs decreased by approximately HK\$56.0 million or approximately 8.7% from approximately HK\$643.9 million for 1HFY2019 to approximately HK\$588.0 million for 1HFY2020. The decline was mainly due to (i) the decrease in concessionaire fee and rental expenses as in line with the decrease in revenue and (ii) the decrease in advertising and promotion expenses.

Administrative Expenses

The Group's administrative expenses decreased by approximately HK\$9.1 million or approximately 11.1% from approximately HK\$82.1 million for 1HFY2019 to approximately HK\$73.0 million for 1HFY2020. The decrease was mainly due to one-off expenses of approximately HK\$5.8 million for celebration of 30th anniversary of Tian Wang Watch Brand in 1HFY2019 and decrease in other taxes of approximately HK\$4.2 million during 1HFY2020.

Finance Costs and Income Tax

The Group's finance costs increased by approximately HK\$0.3 million or approximately 136.2% from approximately HK\$0.3 million for 1HFY2019 to approximately HK\$0.6 million for 1HFY2020. The Group's income tax decreased by approximately HK\$13.2 million or approximately 27.4% from approximately HK\$48.3 million for 1HFY2019 to approximately HK\$35.1 million for 1HFY2020. The decrease was primarily due to preferential tax treatment granted to the relevant PRC subsidiary in current period. The Group's effective tax rate decreased from approximately 29.3% for 1HFY2019 to approximately 22.4% for 1HFY2020.

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 from continuing and discontinued operations for 1HFY2020 decreased by approximately HK\$20.7 million or approximately 17.2% from approximately HK\$120.4 million for 1HFY2019 to approximately HK\$99.7 million for 1HFY2020.

Business Review

Overview

During 1HFY2020, 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 and its ancillary Watch Movements Trading Business.

Tian Wang Watch Business continues to be the Group's core brand business, which contributed approximately 83.0% of the total revenue of the Group in 1HFY2020. Its over-30-years-long brand heritage and reputation of delivering high quality, precise and stylish watches are key factors of the success of Tian Wang Watch Business and widespread brand recognition. Based on the information gathered from customers through the Group's national wide POS network, the Group can strive to cater for increasing demand for high quality and trendy watches from different age group of the customers.

Retail Network

The Group's retail network principally comprises sales counters located in department stores and shopping malls which are directly managed and controlled by the Group. Over 67% of the Group's sales of Tian Wang and Balco Watch were made through the Group's directly managed POS. Since the Group sells most of its watches to its retail customers directly, the Group has been able to obtain first hand market information and direct feedback from customers through its frontline sales staff. The Group considers that this is a competitive advantage over its competitors, which generally do not have fully and directly managed sales network and sell their products through distributors.

With the development of shopping malls and the increasing popularity of online shopping platforms, the consumption channels become more diversified. To further optimise the retail network, the Group reduced the number of sales counters located in department stores and increased the number of sales counters in shopping malls across China. As at 31 December 2019, number of the Group's POS for Tian Wang Watch Business was 2,499, representing a net decrease of 33 POS as compared to the number of POS for Tian Wang Watch Business as at 30 June 2019. As at 31 December 2019, number of the Group's POS for Balco Watch Business was 340, representing a net decrease of 13 POS as compared to the number of POS for Balco Watch Business as at 30 June 2019. As at 31 December 2019, number of the Group's POS for Other Brands (PRC) Business was 66, representing a net decrease of 4 POS as compared to the number of POS for Other Brands (PRC) Business as at 30 June 2019.

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 83.0% of the Group's total revenue for 1HFY2020 (1HFY2019: approximately 81.4%). The retail sales of Tian Wang Watch Business for 1HFY2020 decreased by approximately 9.4% as compared to 1HFY2019. It was primarily due to shrinking retail market of traditional watches as well as competition from electronic and digital wearable devices. The uncertain domestic macroeconomic outlook affected the general consumer confidence and consumer sentiment, which has put the overall retail market under pressure. During 1HFY2020, the Group has launched not less than 40 new models of Tian Wang watches with price range from approximately RMB300 to RMB13,000 per watch for direct retail sales, e-commerce channels and corporate sales. The wide range of Tian Wang watches allowed the Group to cater for the different needs and increasing demand from customers of different income levels and age groups.

Balco Watch

Balco watches are assembled in and imported from Switzerland. For 1HFY2020, revenue from Balco Watch Business was approximately HK\$26.0 million as compared with approximately HK\$41.3 million for 1HFY2019, representing a decrease of approximately HK\$15.3 million or approximately 37.0%. The decrease was mainly resulted from the general decline in the retail market in Hong Kong, Macau and Taiwan and the keen competition from other imported watches of similar price range. The Group continues to implement constructive business plans to improve the performance of Balco Watch Business, which includes optimising its sales and distribution channels within and outside of the PRC and launching new stylish models of Balco watches for younger generation.

Other Brands (PRC) Business

Revenue of Other Brands (PRC) Business was approximately HK\$85.3 million for 1H FY2020 as compared with approximately HK\$107.7 million for 1H FY2019, representing a decrease of approximately HK\$22.4 million or approximately 20.8%. The decrease in revenue of Other Brands (PRC) Business was mainly due to the general decline in the retail market of watches in the PRC, especially for the imported mid-range and high-end watches and keen competition from other imported watches with similar price range.

Watch Movements Trading Business

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

E-commerce Business

The Group launched e-commerce business in 2013 and has started strategic cooperation with several major online sales platforms (including but not limited to Tmall and JD.com) since then. The watches sold through e-commerce business are exclusive and different from those selling in the Tian Wang POS in order to avoid overlapping of sales channel. Moreover, the watches available online are principally designed and targeted for younger generation in order to capture its rising consumption power. The Directors believe that a wide variety of watches enables the Group to reach out to an extensive range of customers across different age groups. For 1H FY2020, e-commerce business continued as one of the main drivers for the revenue of the Group but owing to keen competition, the sales of watches experienced pressure on further growth. The sales from Tmall on Alibaba's "Single's Day" (November 11th) remained steady for 1H FY2020 as compared with 1H FY2019 and the Group continued to be top of the Tmall's domestic watch sales chart for seven consecutive years.

Cessation of the Other Brands (Global) Business

One of the businesses segments of the Group “Other Brands (Global) Business” is the global distribution of third-party licensed international brands of watches under certain license agreement, “Kenneth Cole” is one of the principal brands licensed to the Group which the brand owner has granted an exclusive worldwide license for sale and manufacture on a wholesale basis.

During 1HFY2020, the Company has resolved the termination of license of Kenneth Cole and the cessation of the Other Brands (Global) Business, which was consistent with the Group’s long-term policy to focus its activities on the Group’s core brand retail businesses. The assets and liabilities of “Other Brands (Global) Business” have been classified as assets held for sale and liabilities associated with assets classified as held for sale and have been separately presented in the condensed consolidated statement of financial position.

Reason for the cessation

Since the acquisition of the international licensed brand business in 2015, the Group has recorded continuing segmental losses. Although the Group has been able to narrow such loss in recent accounting period by stringent costs control, the competition from wearable devices and trade war between China and the United States still affects the global watch industry deeply. This cessation could allow the Group to focus more on the core business segment in order to maximize the return for the shareholders of the Company. The termination of the licensed brand together with the cessation of the “Other Brands (Global) Business” is expected to have no material adverse impact on the financial position and business of the Group, and the action is in the best interest of the Company and its shareholders as a whole. Please refer to the announcement of the Company dated 29 November 2019 for further details.

Inventory Control

The Group's inventory balance was approximately HK\$447.1 million as at 31 December 2019, representing a decrease of approximately HK\$33.6 million or approximately 7.0% as compared with approximately HK\$480.7 million as at 30 June 2019. The Group's inventory turnover days improved to approximately 243 days for 1HFY2020, as compared with approximately 247 days for the year ended 30 June 2019. 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\$144.3 million and approximately HK\$147.6 million as at 31 December 2019 and 30 June 2019 respectively, with corresponding provision for these inventory balances of approximately HK\$91.3 million and approximately HK\$92.7 million respectively. The management of the Group regularly monitors the age, quality and quantity of inventory so as to make sure that the stocks are kept at their best value and optimal level that are most favorable for our business operation. It also assesses and reviews the inventory ageing analysis at the end of each reporting period and identifies the slow moving inventory items that are no longer suitable for use in production or sales. At the end of each reporting period, the management of the Group will make necessary provision if the net realisable value of the inventory is estimated to be below the cost.

Liquidity, Financial Resources and Capital Structure

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

The Group financed its operations primarily through cash flows from operations and short-term bank loans. The cash and cash equivalents, net with bank overdraft, were approximately HK\$568.0 million and approximately HK\$397.9 million as at 31 December 2019 and 30 June 2019 respectively.

The Group's net cash generated from operating activities for 1H FY2020 was approximately HK\$200.1 million, representing a decrease of approximately HK\$36.4 million from approximately HK\$236.5 million for 1H FY2019. The amount was primarily attributable to profit before taxation from continuing operations and discontinued operation of approximately HK\$114.5 million from the Group's operations adjusted for non-cash items of approximately HK\$47.5 million, increase of working capital balances of approximately HK\$50.5 million, income taxes paid of approximately HK\$35.9 million and interest received of approximately HK\$23.5 million.

The Group's net cash from investing activities for 1H FY2020 was approximately HK\$91.6 million, which was mainly attributable to purchase of property, plant and equipment of approximately HK\$72.9 million, increase in fixed deposit of approximately HK\$55.7 million and net cash inflow from financial assets at fair value through profit or loss ("FVTPL") of approximately HK\$224.0 million.

The Group's net cash used in financing activities for 1H FY2020 was approximately HK\$136.8 million, which was mainly attributable to the combined effect of net decrease in bank borrowings and overdraft and other loans of approximately HK\$35.8 million and dividends paid of approximately HK\$89.4 million. The Group had a net cash position as at 31 December 2019 and 30 June 2019. As at 31 December 2019, the Group's total equity was approximately HK\$2,241.6 million, representing an increase of approximately HK\$82.6 million from approximately HK\$2,159.0 million as at 30 June 2019. The Group's working capital was approximately HK\$1,285.7 million as at 31 December 2019, representing an increase of approximately HK\$83.5 million as compared with approximately HK\$1,202.2 million as at 30 June 2019.

As at 31 December 2019, the Group's bank balances and cash were mainly denominated in Renminbi and Hong Kong dollar. As at 31 December 2019, all the Group's bank borrowings were short-term bank borrowings that were principally denominated in Hong Kong dollar, Renminbi and United States dollar, were subject to variable and fixed interest rates and were repayable within one year.

The gearing ratio being calculated as total debt over total equity was approximately 2.1% and approximately 9.5% as at 31 December 2019 and 30 June 2019 respectively.

Charge on Group Assets

There was no material charge on the Group's assets as at 31 December 2019 and 30 June 2019.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2019 and 30 June 2019.

Capital Commitments

Set out below is the breakdown of capital commitment of the Group as at 31 December 2019 and 30 June 2019:

	As at 31 December 2019 <i>HK\$'000</i>	As at 30 June 2019 <i>HK\$'000</i>
Capital commitments in respect of life insurance contract (<i>note 13</i>)	8,000	8,000
Capital commitments in respect of property, plant and equipment	<u>13,771</u>	<u>49,277</u>
	<u>21,771</u>	<u>57,277</u>

Foreign Currency Exposure

The Group has foreign currency sales, which exposed itself to foreign currency risk. In addition, financial assets at FVTOCI, 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 2019, the Group employed a total of approximately 5,100 full time employees from continuing operations (30 June 2019: approximately 5,200). The staff costs incurred during 1HFY2020 was approximately HK\$223.1 million (1HFY2019: approximately HK\$226.7 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 1HFY2020 amounted to approximately HK\$5.5 million (1HFY2019: approximately HK\$3.4 million). No donations were made to political parties.

Prospect and Strategies

The Sino-United States trade war showed signs of abating after the two countries signed the phase one trade deal in January 2020 in the bilateral negotiation on resolving their trade disputes. This can bode well for the Chinese economy whose growth had already decelerated to 6.1% in 2019, the slowest since 1990, amid the trade conflicts. Unfortunately, what could have been a brighter prospect was darkened by the outbreak of novel coronavirus pneumonia in Wuhan, the capital of Hubei province, China in December 2019. The disease has since developed into a pandemic in January and February of 2020. This outbreak is casting an adverse impact to the country with social and economic activities mostly halted in the seriously affected cities which can aggravate China's already slowing economy. The business environment can be very challenging in 2020 even though the Chinese government may step up its economic stimulus plan.

Since local governments required closure of shopping malls and department stores during the period of epidemic where the sales points of the Group were located at, the Group has temporarily suspended the operation of various shops in China. The Group initially expects that most retail stores in China (except for those located in Hubei province) will gradually resume normal operations by the end of February.

In view of the current situation, the Group would prudently review the performance of its POS for the business of Tian Wang Watch in all regions in the PRC. It will cautiously invest in new stores in shopping malls which are targeted at the younger generation instead of retail outlets at traditional department stores in second-, third- and fourth-tier cities. The Group will continue to closely monitor and assess the performance of all existing POS regularly and to optimise the network of POS in order to achieve the best market coverage and increase its profitability.

In addition, the Group's e-commerce business is expected to encounter very keen competition. As more and more new and existing brands are offering different models of watches in varied styles in the online market, it can be tough and challenging to conduct sales through the internet. Growth in the e-commerce business is expected to be moderate or slow. However, the Group will continue to allocate additional resources and put more efforts in order to maintain its share of the online market for watches. Especially during such period of epidemic when retail stores and other offline sales channels are temporarily closed, the Group will proactively shift sales to e-commerce platform and strengthen online marketing support.

In the light of the recent challenging retail environment and economic condition facing the Group, the directors are of the view that the Group's performance and financial position will inevitably be affected to certain extent in this and next financial year. Maintaining liquidity and adequate working capital will be the key to continuing the business at this difficult moment.

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 1HFY2020.

MATERIAL ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During 1HFY2020, the Group did not have material acquisition or disposal of subsidiaries or associated companies.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Corporate Governance Code (the “**CG Code**”) contained in Appendix 14 to the Listing Rules as its code of corporate governance practices. Save as disclosed below, during 1HFY2020, 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 1HFY2020.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the unaudited condensed consolidated financial statements of the Company for 1H FY2020 and discussed the financial related matters with the management of the Group.

INTERIM DIVIDEND

The board did not recommend a payment of interim dividend for the six months ended 31 December 2019 (six months ended 31 December 2018: HK 2 cents per share).

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 2019 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 2020

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