

PPacific Powerwell

宏峰太平洋集團有限公司
Powerwell Pacific Holdings Limited

(a company incorporated in Bermuda with limited liability)

Stock code : 8265

Third Quarterly Report **2012**

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “EXCHANGE”)

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Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of Powerwell Pacific Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

The board (the "Board") of directors of the Company announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to the "Group") for the three months and nine months ended 30 September 2012 together with the comparative unaudited figures for the corresponding periods in 2011 as follows:

FINANCIAL HIGHLIGHTS

- The Group's revenue amounted to HK\$161,337,000 (2011: HK\$177,932,000) for the nine months ended 30 September 2012 (the "Period") which represented a decrease of 9.3% as compared with the corresponding period in 2011 (the "Previous Period").
- The profit attributable to owners of the Company was HK\$4,828,000 (2011: HK\$9,757,000) for the Period which represented a decrease of 50.5% as compared with the Previous Period.
- The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2012.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue	3	49,906	65,938	161,337	177,932
Cost of sales		(36,831)	(49,545)	(122,740)	(135,307)
Gross profit		13,075	16,393	38,597	42,625
Other income		235	112	397	274
Selling and distribution costs		(3,221)	(2,199)	(7,579)	(6,538)
Administrative expenses		(8,161)	(8,107)	(24,439)	(23,574)
Finance costs	5	(100)	(37)	(270)	(43)
Profit before income tax	6	1,828	6,162	6,706	12,744
Income tax expense	7	(507)	(1,416)	(1,878)	(2,982)
Profit for the period		1,321	4,746	4,828	9,762
Other comprehensive income for the period					
— Exchange differences arising on translation of foreign operations		12	89	38	270
Total comprehensive income for the period		1,333	4,835	4,866	10,032
Profit for the period attributable to:					
Owners of the Company		1,321	4,746	4,828	9,757
Non-controlling interests		—	—	—	5
		1,321	4,746	4,828	9,762
Total comprehensive income for the period attributable to:					
Owners of the Company		1,333	4,835	4,866	10,027
Non-controlling interests		—	—	—	5
		1,333	4,835	4,866	10,032
Earnings per share for profit attributable to owners of the Company					
— Basic and diluted	9	HK0.9 cents	HK3.2 cents	HK3.2 cents	HK6.7 cents

CONDENSED STATEMENTS OF CHANGES IN EQUITY

	Equity attributable to owners of the Company									
	Share capital	Share premium	Capital reserve	Merger reserve	Translation reserve	Proposed		Total	Non- controlling interests	Total equity
						final dividend	Retained profits			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2012 (audited)	15,000	6,937	155	1,033	429	3,000	31,882	58,436	—	58,436
Transactions with owner:										
Dividend paid (note 8)	—	—	—	—	—	(3,000)	—	(3,000)	—	(3,000)
	15,000	6,937	155	1,033	429	—	31,882	55,436	—	55,436
Total comprehensive income for the period	—	—	—	—	38	—	4,828	4,866	—	4,866
At 30 September 2012 (unaudited)	15,000	6,937	155	1,033	467	—	36,710	60,302	—	60,302
At 1 January 2011 (audited)	10	—	155	1,033	170	3,000	25,989	30,357	20	30,377
Transactions with owners:										
Dividend paid (note 8)	—	—	—	—	—	(3,000)	(1,500)	(4,500)	—	(4,500)
Capitalisation issue	10,790	(10,790)	—	—	—	—	—	—	—	—
Placing of Shares	4,200	29,400	—	—	—	—	—	33,600	—	33,600
Share placement expenses	—	(11,673)	—	—	—	—	—	(11,673)	—	(11,673)
	15,000	6,937	155	1,033	170	—	24,489	47,784	20	47,804
Total comprehensive income for the period	—	—	—	—	270	—	9,757	10,027	5	10,032
At 30 September 2011 (unaudited)	15,000	6,937	155	1,033	440	—	34,246	57,811	25	57,836

Notes:

1. GENERAL INFORMATION

The Company was incorporated in Bermuda on 14 June 2010 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. The Company's registered office is located at Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda. The Company's principal place of business is located at 19/F, Henry Centre, 131 Wo Yi Hop Road, Kwai Chung, New Territories, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are the provision of sourcing and procurement solutions to customers for production of watches, costume jewelries, and display and packaging products (the "Sourcing Business"), as well as the design, manufacture and sale of the Group's owned brands of watches through its sales points in the People's Republic of China (the "PRC") (the "PRC Watch Business").

The Company's shares were listed on the GEM of the Exchange on 26 January 2011 (the "Listing").

This condensed consolidated financial information is presented in Hong Kong dollars ("HK\$"), unless otherwise stated. This condensed consolidated financial information was approved for issue on 26 October 2012.

This condensed consolidated financial information has not been audited.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated financial information for the nine months ended 30 September 2012 has been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011.

Except as for the adoption of new and revised HKFRSs issued by the HKICPA, which are effective for the Group's financial year beginning 1 January 2012, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2011, as described in those annual financial statements. The Directors anticipate that the application of these new and revised HKFRSs will not have material impact on the condensed consolidated financial information of the Group.

Taxes on income in the periods are accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the Period.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

The Group has not early applied the new and revised HKFRSs that have been issued by the HKICPA but are not yet effective. The application of these new and revised HKFRSs will not have material impact on the condensed consolidated financial information of the Group.

The preparation of condensed consolidated financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2011.

3. REVENUE

An analysis of the revenue from the Group's principal activities, which is also the Group's turnover are as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue				
Sales of goods	49,616	65,577	160,224	176,827
Freight income	290	361	1,113	1,105
	49,906	65,938	161,337	177,932

4. SEGMENT INFORMATION

Information regarding the Group's reportable operating segments including the reconciliations to profit before income tax is as follows:

	Sourcing Business <i>HK\$'000</i>	PRC Watch Business <i>HK\$'000</i>	Elimination <i>HK\$'000</i>	Total <i>HK\$'000</i>
Nine months ended 30 September 2012 (unaudited)				
Reportable segment revenue	142,806	18,531	—	161,337
Reportable segment profit/(loss)	15,701	(3,189)	—	12,512
Interest income				158
Corporate income and expenses				(5,964)
Profit before income tax				6,706
Adjusted EBITDA (<i>note (b)</i>)	16,349	(2,825)	—	13,524
Nine months ended 30 September 2011 (unaudited)				
Total segment revenue	163,845	14,240	(153)	177,932
Inter-segment revenue	—	(153)	153	—
Reportable segment revenue	163,845	14,087	—	177,932
Reportable segment profit/(loss)	20,397	(2,355)	—	18,042
Interest income				41
Corporate income and expenses				(5,339)
Profit before income tax				12,744
Adjusted EBITDA (<i>note (b)</i>)	21,080	(2,165)	—	18,915

Notes:

- (a) There were no inter-segment sales for the Period.
- (b) During the Period, adjusted earnings before interest, taxation, depreciation and amortisation ("Adjusted EBITDA") is also a measurement basis regularly reviewed by the Directors in assessing the performance of the Group and making decision for resources allocation. This measurement basis is consistent with that of the segment results except that any non-recurring expenditure from the operating segments and depreciation and amortisation charge are not included in the Adjusted EBITDA. Similar information is presented in Previous Period for comparison.

5. FINANCE COSTS

	Nine months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Interest on bank borrowings and overdrafts wholly repayable within five year	270	43

6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	Nine months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Depreciation of property, plant and equipment	887	949
Net exchange loss/(gain)	(364)	(168)
Operating lease charges in respective of land and building	902	762

7. INCOME TAX EXPENSE

	Nine months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Current income tax:		
Hong Kong Profits Tax		
— charge for the period	1,878	3,171
— over-provision in prior year	—	(192)
	1,878	2,979
PRC Enterprise Income Tax		
— under-provision in prior year	—	3
Total income tax expense	1,878	2,982

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for that financial year. The estimated average annual tax rate used for the year ending 31 December 2012 is 28.1%.

No deferred tax has been provided as the Group did not have any material temporary differences which gave rise to a deferred tax asset or liability for the periods.

8. DIVIDENDS

Final dividend that relates to the year ended 31 December 2011 and that amounts to HK\$3,000,000 was paid in May 2012 (2011: HK\$3,000,000).

The Board does not recommend the payment of an interim dividend for the three months ended 30 September 2012 (2011: Nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the Period is based on the profit attributable to the owners of the Company amounting to HK\$4,828,000 (2011: HK\$9,757,000) and the weighted average number of shares of 150,000,000 (2011: 146,140,000) in issue throughout the Period.

The Group had no potential dilutive ordinary shares in issue during the Period and Previous Period.

10. GUARANTEES

The Company had given unlimited corporate guarantees to a bank in connection with general banking facilities granted by the bank to a subsidiary. Certain group entities, including the Company, had given limited corporate guarantees up to HK\$8,000,000 to another bank in connection with another general banking facilities granted by the bank to another subsidiary.

At the end of the Period, such facilities were drawn down by the subsidiaries to extent of HK\$10,066,000 (31 December 2011: HK\$9,192,000). The maximum liability of the Company under the guarantee issued represents the amount drawn down by the subsidiaries. No recognition was made because the fair value of the guarantee was insignificant and that the Directors did not consider it is probable that a claim would be made against the Company under the guarantee.

The Group did not have any other significant contingent liabilities as at the end of the Period (31 December 2011: Nil).

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Sourcing Business

As a result of slow recovery in the western economy, the revenue of our sourcing business was reduced and our gross profit was also affected with a slight contraction in the margin of our display and packaging as well as costume jewelries products. Even though we experienced a decline in sales during the Period, we strove hard to maintain our share of market from our key customers and continued to proactively pursue new business opportunities. We also focused on developing quality products with competitive price ranges in order to meet decreasing purchasing power of consumers.

PRC Watch Business

Despite a general slowdown in consumer spending and the recent disrupted retail sales in the PRC stemming from the large-scale demonstrations in cities across China, we recorded an increase in revenue of our PRC Watches Business for the Period compared to Previous Period which was attributed to our fine-tuning of marketing strategy and the repositioning of watches products with a better perceived value by our devoted team. The promotional campaign for 30th anniversary of Tianba watch and the participation in 23rd China Watch & Clock Fair also played a significant role in boosting the brand identity among our end consumers.

We have approximately 110 self managed retail outlets and 90 outlets operated by approximately 50 wholesalers to distribute our Tianba watches by the end of the Period. During the 3rd quarter, we had successfully contracted with new wholesalers with approximately 40 additional outlets to distribute our watches.

Financial Review

The Group's profit attributable to owners of the Company of HK\$4,828,000 for the Period, representing a period-on-period decrease of HK\$4,929,000 or 50.5% compared to HK\$9,757,000 for Previous Period mainly due to the weak global economy and decrease in our Sourcing Business.

The Group's revenue level dropped for the Period compared to the Previous Period. For the Period, the Group reported a total revenue of HK\$161,337,000 (2011: HK\$177,932,000) representing a decrease of HK\$16,595,000 or 9.3% from the Previous Period, due to the decrease in the Sourcing Business by HK\$21,039,000 or 12.8%, to HK\$142,806,000 (2011: HK\$163,845,000) for the Period. On the other hand, revenue from our PRC Watch Business increased by 31.5% or HK\$4,444,000 to HK\$18,531,000 (2011: HK\$14,087,000).

For the Period, the Group's gross profit decreased by 9.4% or HK\$4,028,000 to HK\$38,597,000 (2011: HK\$42,625,000), of which HK\$30,719,000 (2011: HK\$36,177,000) was contributed by Sourcing Business.

The Group recorded a decline in adjusted EBITDA by approximately 28.5% or HK\$5,391,000 to HK\$13,524,000 (2011: HK\$18,915,000), attributed by the Sourcing Business amounted to HK\$16,349,000 (2011: HK\$21,080,000) and PRC Watch Business amounted to loss of HK\$2,825,000 (2011: loss of HK\$2,162,000), which was mainly as a result of spending on promotion to solidify the brand image of Tianba watches to enable horizontal expansion and further penetration of existing market and to increase perceived value to the company's goodwill and enhance growth in revenue.

The gearing ratio representing the ratio of total borrowings to the total equity of the Group was 17% as at the end of the Period (31 December 2011: 16%). The Group has sufficient financial resources to satisfy its working capital requirement and to achieve its business objectives. Moreover, the Group's inventory level had been closely monitored as to match the business requirements.

Prospect

Under economic uncertainties and challenging business environment, the Group will remain cautious of challenges by imposing stringent cost controls in order to protect revenue margin and to stay competitive in the market. In line with global economic recovery, we envisage purchasing power of end consumers will be picking up in the coming two years.

For sourcing business, our key customers are amongst global leading brands. We will remain committed to provide support to the brand owners and their agents and to further enhance business development. We are also firm on our course to strengthen production capability and quality assurance for our watches and other products in sourcing business in order to maintain high standard and perceived value of the products. Furthermore, we will cultivate and develop new brand customers to achieve growth in sales.

We are confident to produce Tianba watches of value and style which suits the demand of consumers in our target market and to stimulate our sales of Tianba products to new customers and distributors with celebrity endorsement and promotion campaign.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at the date of this announcement, the interests of the Directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and the Exchange pursuant to the model code for securities transactions by Directors of the Company (the "Model Code"), were as follows:

Long positions in shares of the Company

(a) Interest in the share of the Company

Director	Capacity/Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Mr. Liu Tin Chak, Arnold	Corporate interest (Note)	108,000,000	72.00%

Note: These shares are held by an associated corporation Data Champion Limited. Directors' interests in an associated corporation are as disclosed immediately below.

(b) Interest in the share of an associated corporation

Name of associated corporation: Data Champion Limited

Director	Capacity/Nature of interest	Number of shares held	Percentage of shareholding
Mr. Liu Tin Chak, Arnold	Beneficial owner	952	47.60%
Mr. Lam Chi Wai, Peter	Beneficial owner	476	23.80%
Mr. Wong Yu Man, Elias	Beneficial owner	476	23.80%

SUBSTANTIAL SHAREHOLDERS INTERESTS IN SHARES

As at date of this announcement, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions

Ordinary shares of the Company

Name of shareholder	Capacity/Nature of interest	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Data Champion Limited	Beneficial owner	108,000,000	72.00%

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

INTERESTS OF THE COMPLIANCE ADVISER

As notified by the compliance adviser of the Company, CIMB Securities Limited ("CIMB"), as at 30 September 2012, except for the compliance adviser agreement entered into between the Company and the CIMB dated 3 December 2010, neither CIMB or its directors, employees or associates had any interest in relation to the Group.

DIRECTORS' INTEREST IN A COMPETING BUSINESS

As at the date of this announcement, none of the Directors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause a significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

AUDIT COMMITTEE

The Audit Committee is currently composed of the three independent non-executive Directors and chaired by Mr. Cheung Chi Man, Dennis, who has appropriate professional qualifications and experience as required by the GEM Listing Rules.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the Period, which is of the opinion that such statements comply with the applicable accounting standards, the Exchange and legal requirements, and that adequate disclosures have been made.

By order of the Board
Powerwell Pacific Holdings Limited
Liu Tin Chak, Arnold
Chairman

Hong Kong, 26 October 2012

As at the date of this report, the executive Directors are Liu Tin Chak, Arnold, Lam Chi Wai, Peter, Wong Yu Man, Elias and Yang Yijun and the independent non-executive Directors are Cheung Chi Man, Dennis, Lui Tai Lok and Yip Kwok Kwan.