CHINA HAIDIAN HOLDINGS LIMITED

中國海澱集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 256)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013

The board of directors (the "Board") of China Haidian Holdings Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2013 together with the consolidated statement of financial position of the Group as at 31 December 2013, and the notes with comparative figures for the year ended 31 December 2012 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	**2013 HK$'000**	2012 HK$'000
Revenue	5	**3,176,423**	2,240,304
Cost of sales		**(1,697,584)**	(1,022,583)
Gross profit		**1,478,839**	1,217,721
Other income and financial income		**74,945**	29,182
Selling and distribution expenses		**(724,581)**	(513,278)
Administrative expenses		**(542,743)**	(351,448)
(Loss)/gain on fair value changes in financial assets at fair value through profit or loss, net		**(11,450)**	2,056
Gain on fair value changes in derivative financial instruments		**12,093**	6,187
Net surplus on revaluation of investment properties		**8,185**	7,525
Dividend income from available-for-sale financial assets		**30,965**	17,169
Gain on disposal of available-for-sale financial assets	6(a)	**456,023**	–
Share of profit of associates		**12,134**	13,499
Finance costs	7	**(36,554)**	(14,894)
Profit before income tax	8	**757,856**	413,719
Income tax expense	9	**(157,246)**	(103,432)
Profit for the year		**600,610**	310,287
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
– Remeasurement of defined benefit obligations		**1,785**	–
Items that may be subsequently reclassified to profit or loss			
– Exchange gain on translation of financial statements of foreign operations		**32,719**	16,468
– Release of investment revaluation reserve upon disposal	6(a)	**(456,023)**	–
– Changes in fair value of available-for-sale financial assets	6(b)	**94,418**	601,480
		(328,886)	617,948
Other comprehensive income for the year		**(327,101)**	617,948
Total comprehensive income for the year		**273,509**	928,235
Profit for the year attributable to:			
Owners of the Company		**565,434**	270,425
Non-controlling interests		**35,176**	39,862
		600,610	310,287
Total comprehensive income for the year attributable to:			
Owners of the Company		**233,899**	887,501
Non-controlling interests		**39,610**	40,734
		273,509	928,235
Earnings per share attributable to owners of the Company during the year	11		
– Basic		**HK 12.50 cents**	HK 6.39 cents
– Diluted		**HK 12.47 cents**	HK 6.36 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	**2013**	2012
		HK$'000	HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**553,193**	320,780
Investment properties		**109,097**	100,912
Prepaid land lease payments		**38,921**	39,357
Goodwill	12	**670,777**	621,382
Interests in associates		**70,203**	58,065
Available-for-sale financial assets		**699,408**	1,409,176
Intangible assets		**278,263**	149,049
Prepayments and deposits		**26,771**	7,809
Deferred tax assets		**1,344**	1,311
		2,447,977	2,707,841
Current assets			
Inventories		**1,987,473**	1,587,657
Trade receivables	14	**633,269**	347,366
Prepaid land lease payments		**935**	834
Prepayments, deposits and other receivables		**250,782**	250,652
Financial assets at fair value through profit or loss		**214,302**	106,929
Short-term investments		**55,696**	31,234
Cash and cash equivalents		**471,621**	228,624
		3,614,078	2,553,296
Assets of a disposal group classified as held for sale	13	**211,576**	–
		3,825,654	2,553,296
Current liabilities			
Trade payables	15	**400,456**	307,006
Other payables and accruals		**368,546**	352,903
Dividend payables		**453**	82,253
Tax payables		**60,373**	44,059
Borrowings		**231,011**	478,512
Derivative financial instruments		**49,450**	40,126
Due to associates		**92,545**	–
Due to related companies		**12,821**	159
		1,215,655	1,305,018
Liabilities of a disposal group classified as held for sale	13	**55,523**	–
		1,271,178	1,305,018

	Notes	**2013**	2012
		HK$'000	HK$'000
Net current assets		**2,554,476**	1,248,278
Total assets less current liabilities		**5,002,453**	3,956,119
Non-current liabilities			
Other payables		**48,937**	–
Borrowings		**366,779**	–
Deferred tax liabilities		**24,693**	–
		440,409	–
Net assets		**4,562,044**	3,956,119
EQUITY			
Equity attributable to owners of the Company			
Share capital		**472,840**	426,806
Reserves		**3,842,239**	3,362,215
		4,315,079	3,789,021
Non-controlling interests		**246,965**	167,098
Total equity		**4,562,044**	3,956,119

1. GENERAL INFORMATION

China Haidian Holdings Limited (the "Company") is a limited liability company incorporated in the Cayman Islands. Its registered office address is P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands and its principal place of business is Units 1902-04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the principal activities of the Company and its subsidiaries (together referred to as the "Group") include:

– Manufacture and distribution of watches and timepieces

– Property investments

– Distribution of yachts

On 23 September 2013, the Group entered into an agreement with third parties to sell its 51% equity interest in Ruihuang (Chongqing) Watch Company Limited ("Ruihuang") together with the assignment of the loans from the group companies and unpaid dividend and selling and distribution networks at the total consideration of RMB100,523,000 (equivalent to approximately HK$127,245,000). Details of the transaction are set out in the Company's announcement dated 23 September 2013.

As management considers that the disposals of Ruihuang is highly probable as at 31 December 2013, in accordance with HKFRS 5, the Group has reclassified the assets and liabilities of Ruihuang as at 31 December 2013 as assets and liabilities of a disposal group classified as held for sale in the Group's consolidated statement of financial position.

Other than the aforementioned and the acquisition disclosed in note 12(b), there was no other significant change in the Group's operations during the year. The Group's principal places of the business are in Hong Kong, Switzerland and the People's Republic of China (the "PRC").

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

2.2 Basis of measurement

The financial statements have been prepared under historical cost convention except for investment properties, financial instruments classified as available-for-sale and at fair value through profit or loss, and derivative financial instruments, which are stated at fair values. The adoption of new/revised HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

2.3 Functional and presentation currency

The financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") unless otherwise stated.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

(a) Adoption of new/revised HKFRSs – effective 1 January 2013

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by HKICPA, which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2013:

HKFRSs (Amendments)	Annual Improvements 2009–2011 Cycle
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 27 (2011)	Separate Financial Statements
HKAS 28 (2011)	Investments in Associates and Joint Ventures
HKAS 19 (2011)	Employee Benefits

Except as explained below, the adoption of the new/revised standards and interpretations has no significant impact on the Group's financial statements.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis.

The Group has adopted the amendments retrospectively for the financial year ended 31 December 2013. Items of other comprehensive income that may and may not be reclassified to profit and loss in the future have been presented separately in the consolidated statement of comprehensive income. As the amendments affect presentation only, there are no effects on the Group's financial position or performance.

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them.

The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The accounting requirements in HKAS 27 (2008) on other consolidation related matters are carried forward unchanged. The Group has changed its accounting policy in determining whether it has control of an investee and therefore is required to consolidate that interest. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements. As the new standard affects only disclosure, there is no effect on the Group's financial position and performance.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 is applied prospectively. HKFRS 13 did not materially affect any fair value measurements of the Group's assets and liabilities and therefore has no effect on the Group's financial position and performance.

HKAS 19 (2011) – Employee Benefits

HKAS 19 (2011) abandons the corridor approach with the result that changes in defined benefit obligations and the fair value of plan assets are recognised in the period in which they occur. The revised standard requires the changes in the Group's net defined benefit liability (or asset) to be separated into three components: service cost (including current and past service cost and settlements) recognised in profit or loss; net interest on the net defined benefit liability recognised in profit or loss; and re-measurements of the defined benefit liability (or asset) recognised in other comprehensive income. The revised standard distinguishes between short-term and long-term employee benefits based on the expected date of settlement. The previous standard used the term "due to be settled". HKAS 19 (2011) provides additional guidance on the definition of termination benefits. Benefits that are conditional on future service being provided including those that increase if additional service is provided are not termination benefits. The revised standard requires that a liability for termination benefits is recognised on the earlier of the date when the entity can no longer withdraw the offer of those benefits and the date the entity recognises any related restructuring costs. The adoption did not have material impact on the Group's financial position and performance.

(b) New/revised HKFRSs that have been issued and have been early adopted

Amendments to HKAS 36 – Recoverable Amount Disclosures

The amendments limit the requirements to disclose the recoverable amount of an asset or cash generating unit ("CGU") to those periods in which an impairment loss has been recognised or reversed, and expand the disclosures where the recoverable amount of impaired assets or CGUs has been determined based on fair value less costs of disposal. The amendments are effective for annual periods commencing on or after 1 January 2014. The Group has early adopted the amendments to HKAS 36 in the current year.

(c) New/revised HKFRSs that have been issued but are not yet effective

The following new/revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group.

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9	Financial Instruments
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities[1]
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions[2]
HKFRSs (Amendments)	Annual Improvements 2010–2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements 2011–2013 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 July 2014

3 Effective for annual periods beginning, or transaction occurring, on or after 1 July 2014

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

HKFRS 9 – Financial Instruments

Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds. The amendments provide an exception to the consolidation requirements in HKFRS 10 Consolidated Financial Statements and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

Amendments to HKAS 19 (2011) – Defined Benefit Plans: Employee Contributions

The amendments permit contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered instead of allocating the contributions to periods of service.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policies for the first period beginning after the effective date of the pronouncements.

The Group is in the process of making an assessments of the potential impact of these new/revised HKFRSs and the directors so far concluded that the application of these new/revised HKFRSs will have no material impact on the Group's financial statements.

4. SEGMENT INFORMATION

The chief operating decision-maker is identified as executive directors. The executive directors have identified the Group's product and service lines as operating segments as follows:

(a) manufacture and distribution of watches and timepieces;

(b) property investments; and

(c) distribution of yachts.

These operating segments are monitored and strategic decisions are made on the basis of adjusted segment operating results.

2013

	Watches and timepiece HK$'000	Property investment HK$'000	Yacht HK$'000	Total HK$'000
Segment revenue and income:				
Sales to external customers	**3,152,966**	**16,957**	**6,500**	**3,176,423**
Other income and financial income	**59,630**	**4,239**	**1,000**	**64,869**
Total	**3,212,596**	**21,196**	**7,500**	**3,241,292**
Segment results	**392,288**	**9,983**	**(1,618)**	**400,653**
Unallocated corporate income and expenses, net				**(74,400)**
				326,253
Gain on disposal of available-for-sale financial assets				**456,023**
Share of profit of associates				**12,134**
Finance costs				**(36,554)**
Profit before income tax				**757,856**
Income tax expense				**(157,246)**
Profit for the year				**600,610**
Segment assets	**3,893,191**	**166,317**	**46,061**	**4,105,569**
Goodwill				**670,777**
Interests in associates				**70,203**
Available-for-sale financial assets				**699,408**
Financial assets at fair value through profit or loss				**214,302**
Short-term investments				**55,696**
Assets of a disposal group classified as held for sale				**211,576**
Unallocated corporate assets				**246,100**
				6,273,631
Segment liabilities	**771,594**	**42,289**	**–**	**813,883**
Borrowings				**597,790**
Due to associates				**92,545**
Due to related companies				**12,821**
Derivative financial instruments				**49,450**
Liabilities of a disposal group classified as held for sale				**55,523**
Unallocated corporate liabilities				**89,575**
				1,711,587
Other segment information				
Interest income	**11,752**	**229**	**–**	**11,981**
Provision for impairment loss on trade receivables	**2,380**	**–**	**–**	**2,380**
Depreciation and amortisation	**77,957**	**5,076**	**1**	**83,034**
Additions to non-current assets	**219,070**	**–**	**–**	**219,070**
Net surplus on revaluation of investment properties	**–**	**8,185**	**–**	**8,185**

2012

	Watches and timepiece HK$'000	Property investment HK$'000	Yacht HK$'000	Total HK$'000
Segment revenue and income:				
Sales to external customers	2,225,082	15,222	–	2,240,304
Other income and financial income	24,404	2,764	197	27,365
Total	2,249,486	17,986	197	2,267,669
Segment results	456,935	7,735	(3,555)	461,115
Unallocated corporate income and expenses, net				(46,001)
				415,114
Share of profit of associates				13,499
Finance costs				(14,894)
Profit before income tax				413,719
Income tax expense				(103,432)
Profit for the year				310,287
Segment assets	2,780,269	157,344	52,629	2,990,242
Goodwill				621,382
Interests in associates				58,065
Available-for-sale financial assets				1,409,176
Financial assets at fair value through profit or loss				106,929
Short-term investments				31,234
Unallocated corporate assets				44,109
				5,261,137
Segment liabilities	640,806	39,676	–	680,482
Borrowings				478,512
Due to related companies				159
Derivative financial instruments				40,126
Unallocated corporate liabilities				105,739
				1,305,018
Other segment information				
Interest income	6,355	2,740	–	9,095
Depreciation and amortisation	46,612	4,389	27	51,028
Additions to non-current assets	232,876	12,922	–	245,798
Net surplus on revaluation of investment properties	–	7,525	–	7,525

Management determines the Group is domiciled in Hong Kong, which is the location of the Group's principal office. The Group's revenues from external customers and its non-current assets (other than available-for-sale financial assets and deferred tax assets) are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong (domicile)	**44,495**	10,872	**101,515**	75,952
PRC	**2,747,379**	2,131,988	**1,140,972**	1,067,952
Switzerland	**45,763**	97,444	**501,550**	153,450
Germany	**35,491**	–	**679**	–
Singapore	**32,441**	–	**–**	–
Other	**270,854**	–	**2,509**	–
	3,176,423	2,240,304	**1,747,225**	1,297,354

The geographical location of customers is based on the location at which the goods and services are delivered. For goodwill and intangible assets, the geographical location is based on the areas of operation of CGUs. The geographical location of other non-current assets is based on the physical location of the asset.

The Group has a large number of customers and there is no significant revenue derived from specific external customers for years ended 31 December 2013 and 2012.

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and rental income received and receivable. Revenue recognised during the year is as follows:

	2013	2012
	HK$'000	HK$'000
Sales of goods	**3,159,466**	2,225,082
Gross rental income	**16,957**	15,222
	3,176,423	2,240,304

6. GAIN ON DISPOSAL OF AVAILABLE-FOR-SALE FINANCIAL ASSETS

(a) During the year, the Group has completed the disposal of 88,600,000 shares of Citychamp Dartong Company Limited (referred to "Citychamp Shares") at a cash consideration of RMB637,100,000 (equivalent to HK$804,189,000). The related cumulative gain previously recognised in other comprehensive income of HK$456,023,000 was reclassified from the investment revaluation reserve to profit or loss for the year.

(b) During the year, the increase in fair value of Citychamp Shares of HK$94,418,000 (2012: HK$601,480,000) has been dealt with in other comprehensive income and the investment revaluation reserve.

7. FINANCE COSTS

	2013	2012
	HK$'000	HK$'000
Interest charged on bank and other loans wholly repayable within five years	**36,554**	14,894

8. PROFIT BEFORE INCOME TAX

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

	2013	2012
	HK$'000	HK$'000
Cost of inventories recognised as expense, including:	**1,697,584**	1,022,583
– Provision for inventories	**27,630**	1,079
Depreciation	**65,879**	43,091
Amortisation of prepaid land lease payments	**1,015**	739
Amortisation of intangible assets	**17,297**	8,576
Minimum lease payments under operating leases in respect of land and buildings	**40,920**	25,708
Auditor's remuneration	**2,100**	1,900
Gross rental income	**(16,957)**	(15,222)
Less: direct operating expenses	**3,033**	2,510
Net rental income	**(13,924)**	(12,712)
Exchange losses	**18,880**	1,914
Loss on disposal of property, plant and equipment	**317**	3,028
Provision for impairment loss on trade receivables	**2,380**	–
Research and development expenses	**73,166**	44,277

9. INCOME TAX EXPENSE

For both the years ended 31 December 2013 and 2012, Hong Kong profits tax was provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. The subsidiaries established in the PRC are subject to income taxes at tax rates ranging between 15% and 25% (2012: 15% and 25%). Overseas tax is calculated at the rates applicable in the respective jurisdictions.

Under the current general provisions of the PRC Corporate Income Tax Law and published tax circulars, the Group would be subject to PRC withholding tax at the rate of 10% in respect of its PRC sourced income earned, including rental income from properties in PRC and dividend income derived from PRC incorporated company.

	2013	2012
	HK$'000	HK$'000
Current tax for the year		
PRC	**158,816**	103,588
Europe	**99**	101
Over-provision in respect of prior years		
PRC	**(1,669)**	(257)
Total income tax expense	**157,246**	103,432

10. DIVIDENDS

10.1 Dividend attributable to the year

	2013	2012
	HK$'000	HK$'000
Interim dividend: Nil (2012: HK1 cent per share)	**–**	42,681

The directors do not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: Nil).

10.2 Dividend attributable to the previous financial year, approved and paid during the year

	2013	2012
	HK$'000	HK$'000
Final dividend in respect of the previous financial year (2012: HK4.5 cents per share)	**–**	192,000

11. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share attributable to the owners of the Company are based on the following data:

	2013	2012
Earnings	**HK$'000**	HK$'000
Profit attributable to the owners of the Company for the purpose of calculating basic and diluted earnings per share	**565,434**	270,425

	2013	2012
	Number of	Number of
	shares	shares
Number of shares	**'000**	'000
Weighted average number of shares for the purpose of calculating basic earnings per share	**4,522,925**	4,232,782
Effect of dilutive potential shares:		
– share options issued by the Company	**11,045**	21,691
Weighted average number of shares for the purpose of calculating diluted earnings per share	**4,533,970**	4,254,473

12. GOODWILL

(a) The amount of goodwill capitalised as assets recognised in the consolidated statement of financial position, arising from business combinations, is as follows:

	2013	2012
	HK$'000	HK$'000
Year ended 31 December		
Opening net book value	**621,382**	621,382
Acquisition of subsidiaries (note 12(b))	**49,395**	–
Net carrying amount	**670,777**	621,382

(b) On 9 July 2013, the Group acquired the entire equity interest of Montres Corum Sàrl and its subsidiaries (collectively referred to as "Corum Group"). Corum Group principally engaged in the development, manufacture and sale of Swiss luxury timepieces through it global distribution network. Following the acquisition, the Group owned the entire equity interest in Corum Group and obtained the controls over Corum Group through the Group's right to nominate all the members of Corum Group's board of directors, and Corum Group became wholly owned subsidiaries of the Group. The acquisition of Corum Group was made with the aim to expand the Group's manufacture and distribution of watches and timepieces business.

Details of the net assets acquired as at the date of acquisition are as follows:

	HK$'000
Fair value of share consideration	275,145
Compensation receivable	(33,188)
Total purchase consideration	241,957
Less: Fair value of net assets acquired	(192,562)
Goodwill	49,395

Total purchase consideration comprised share consideration and compensation receivables. The fair value of 404,625,000 ordinary shares issued by the Company was determined by reference to the quoted market price of the Company's share of HK$0.68 per share at the date of acquisition. The compensation receivable represents the fair value of the compensation to be offered by the vendor regarding the shortfall in net assets of Corum Group at the date of acquisition below the guaranteed net assets which is determined on Swiss GAAP in the acquisition agreement.

The goodwill of HK$49,395,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

13. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As mentioned in note 1, the Group's management committed to dispose of its 51% equity interest in Ruihuang. In accordance with HKFRS 5, the Group has reclassified the assets and liabilities of Ruihuang (the "Disposal Group") as at 31 December 2013 as assets and liabilities of a disposal group classified as held for sale in the Group's consolidated statement of financial position.

An analysis of the assets and liabilities of the Disposal Group classified as held for sale as at the 31 December 2013 is as follows:

	HK$'000
Assets of a disposal group classified as held for sale:	
Property, plant and equipment	3,229
Intangible assets	7,824
Inventories	163,213
Trade receivables	21,796
Prepayments, deposits and other receivables	8,422
Cash and cash equivalents	7,092
	211,576
Liabilities of a disposal group classified as held for sale:	
Trade payables	31,252
Other payables and accruals	23,610
Tax payables	661
	55,523

The aggregated income recognised in the other comprehensive income relating to the Disposal Group is approximately HK$4,377,000.

14. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for certain customers, where payment in advance is required. The credit period is generally for a period of one to six months (2012: one to two months) for major customers. Each customer has a maximum credit limit. The credit term for customers is determined by the management according to various market criteria. In view of the aforementioned and the fact that the Group's trade receivables relate to a wide range of customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

Ageing analysis of trade receivables as at the reporting date, based on invoice date, and net of provisions, is as follows:

	2013	2012
	HK$'000	HK$'000
1 to 3 months	**471,195**	319,787
4 to 6 months	**84,981**	24,760
Over 6 months	**77,093**	2,819
	633,269	347,366

15. TRADE PAYABLES

Ageing analysis of trade payables as at the reporting dates, based on the invoice dates, is as follows:

	2013	2012
	HK$'000	HK$'000
1 to 3 months	**385,583**	289,235
4 to 6 months	**13,193**	8,353
Over 6 months	**1,680**	9,418
	400,456	307,006

Trade payables are non-interest-bearing.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Group achieved substantial revenue and profit growth in 2013.

For the year ended 31 December 2013, the Group recorded revenue of approximately HK$3,176,423,000 (31 December 2012: HK$2,240,304,000), an increase of HK$936,119,000 or 42% over 2012. Gross profit for the year was approximately HK$1,478,839,000 (31 December 2012: HK$1,217,721,000), an increase of HK$261,118,000 or 21% over 2012. Profit after tax of the Group for the year was approximately HK$600,610,000 (31 December 2012: HK$310,287,000), an increase of HK$290,323,000 or 94% over 2012.

BUSINESS REVIEW

Proprietary brands in Mainland China, namely Rossini and EBOHR, achieved an impressive growth in revenue and net profit after taxes. Their collective revenue grew by 19% from HK$1,397,564,000 to HK$1,669,430,000 while the net profit after taxes grew by 28% from HK$368,314,000 to HK$471,069,000. The favorable results were also attributable to the increase in gross margin due to their superior positioning advantage and strong pricing power.

Proprietary brands in Switzerland, namely, Codex, Eterna and Corum, achieved different milestones in product and market development. In addition to further development of the distribution channels, they have prepared fantastic new products for the Basel World in 2014.

It is the strategy of the Group to focus on the organic growth of the proprietary brands in Mainland China and at the same time, explore the products and markets in overseas. Essentially, the Group applies the increasingly strong recurring income from the well established proprietary brands in Mainland China to invest the proprietary brands in Switzerland and to develop the distribution channels overseas.

(1) Watches and timepieces – proprietary brands

The Group has built a sophisticated vertically integrated business model that equipped the Group with an effective and tight control over the entire value chain, from raw materials and component procurement, product design and development, manufacturing of mechanical movement, assembling, inventory management, distribution to marketing in Mainland China and overseas. Such integrated model enables us to monitor and control the quality of our products effectively and respond quickly to our customers' needs and preferences. It also allows more operational flexibility, better product diversity in terms of styles and functionalities and better market penetration. The speed that the Group can adjust the product mix is a great competitive advantage. Such business model sets us apart from our peers, and enables us to further improve our profitability in the medium term.

Zhuhai Rossini Watch Industry Ltd.

Zhuhai Rossini Watch Industry Ltd. ("Rossini"), a 91% subsidiary of the Group, achieved impressive result in 2013. Revenue in 2013 was HK$904,479,000, an increase of HK$178,569,000, or 25%, from HK$725,910,000 for the last year. Profit after tax in 2013 was HK$298,608,000, after share of 91% by the Company, the net profit after tax attributable to owners of the Company was HK$271,733,000 compared with HK$200,729,000 for the last year, an increase of HK$71,004,000, or 35%.

Rossini has outperformed its peers in Mainland China owing to the continuous development of distribution outlets, new products and brand awareness.

During the year, Rossini has increased its number of distribution outlets by 437. The total number of distribution outlets as of 31 December 2013 was 2,348 (1,382 counters in department stores, 960 authorized dealers and 6 boutiques). Rossini's extensive distribution network of outlets, which is one of the largest among the competitors, should drive further revenue and market share in the fragmented watch market of Mainland China. The growth outlook for distribution outlets is promising as Rossini watches offer product diversity in terms of design and style to attract Chinese consumers with different tastes and preferences, through which Rossini watches are able to reach a wide range of consumers across different economic and age groups. Meanwhile, Rossini adjusts certain product lines for the area where the economic growth is faster than the average national growth, to ensure that Rossini could capture the relatively strong market potential in those area and dominate the competition.

To further build up the brand awareness and image, various activities have been attempted. Recently Rossini has partnered with a well-known Chinese artist as its official ambassador. The new ambassador will attend functions and shoot advertisement and television commercial. Continuous new product development was conducted to maintain the brand awareness; new products were based on the market surveys on those target customers to ensure their success.

Internet sales, through the online stores at major E-commerce platform in Mainland China, increased to HK$65,513,000 in 2013 from HK$29,161,000 in 2012 and its respective proportion of total revenue to 7.2% from 4%. Unique product lines, that are different than those available in the physical distribution outlets, are developed for Internet sales. While the Internet sale is a powerful tool to extend the customer reach targeting the group of younger customers aged 18 to 25, it is considered complementary to the sales from physical distribution outlets and expected to grow significantly. The customer consumption data and feedback from the Internet sale is also useful to generating revenue from physical distribution outlets.

The watch museum in the headquarters attracted totaling around 40,000 tourists and generating revenue of over HK$6,325,000. Rossini would put stronger efforts in attracting tourists and generating revenue.

Rossini has been awarded China's 500 most valuable brands with brand value at RMB5.2 billion, for the first time exceeding RMB5 billion in the history of Rossini, and Asia's 500 Most Influential Brands of the year 2013 by the World Brand Laboratory. Rossini is the only watch company from Mainland China that obtains the latter award for the last six years and the value of the brand is the highest among all the local watches brands. Rossini has also been awarded the 2013 Guangdong Government Quality Prize, being the only enterprise in the watch industry awarded such prize.

Rossini continues to benefit from a high-quality growth profit, the strong track record and leading market position in the watch industry in Mainland China. Rossini continues to offer a business model with products present in all price segments, great brand awareness, strong pricing power and with continued expansion all over Mainland China.

EBOHR Group

EBOHR Group is composed of EB Brand Limited, EBOHR Luxuries International Limited ("EBOHR"), Swiss Chronometric AG and Shenzhen EBOHR Luxuries E-Commerce Co., Ltd.

EBOHR Group achieved impressive result in 2013. Revenue for 2013 was HK$764,951,000, an increase of HK$93,297,000, or 14%, from HK$671,654,000 for the last year. Net profit after tax for 2013 was HK$199,336,000, compared favorably with HK$167,585,000 for the last year, an increase of HK$31,751,000, or 19%.

During the year, there was an increase of 373 distribution outlets. The total number of distribution outlets as of 31 December 2013 was 2,095 (1,361 counters in department stores, 733 through authorized dealers and 1 self-owned boutique). Such expansion would be particularly relevant to EBOHR's objective to increase emphasis on entry level product lines and the expected increased demand for such product lines.

EBOHR also revised the remuneration structure for sale staff so that they are motivated to sell more aggressively. The fixture and fittings in the distribution outlets were upgraded to generate more customer flow.

Internet sales, through the online stores at the major E-commerce platforms in Mainland China, was HK$59,077,000 in 2013 accounting for 7.7% of total revenue. EBOHR put efforts in developing brand awareness among Internet users by expanding the online presence through popular social media and hence generated increasingly strong Internet sale. More efforts and resources were incurred in the Internet sales with the objective to produce relatively higher proportion of Internet sale out of the total sale.

EBOHR owns three sub-brands, namely EBOHR, KANA and EC. Creative, attractive and stylish product design is one of the core competencies of EBOHR. The design team is keeping track on customers' tastes and the fast-changing trends in Mainland China. With additional new product lines and different sub-brands introduced, EBOHR streamlined the existing product lines so that it could focus on the performing product lines and thus more effectively monitored the inventory level. Different product lines and sub-brands target different market segments and thus facilitate EBOHR generating additional revenue from those market segments.

EBOHR has been awarded China's 500 most valuable brands of the year 2013 by the World Brand Laboratory. EBOHR also received various provincial and city awards for its product design and quality.

Swiss Chronometric, a subsidiary 100% owned by the Group through EBOHR, manufactures and distributes Codex watches in Switzerland. Coupled with continued brand marketing, Codex is now gaining increasingly strong recognition in Lucerne and Mainland China. The boutiques in Luzene and Shanghai attracted customers from world travelers. Besides, Codex started producing quartz watch in order to cater for the mass market in Mainland China. Revenue increased but administrative expenses decreased for the period as Swiss Chronometric streamlined the Swiss operation. Loss for the year was HK$6,687,000 compared with HK$26,252,000 for the last year.

Eterna Group

Eterna Group is composed of Eterna AG Uhrenfabrik ("Eterna"), Eterna (Asia) Limited ("Eterna (Asia)"), Eterna Movement AG ("Eterna Movement") and Eterna Uhren Gmbh. Eterna focuses on manufacturing and distribution of Eterna in areas other than Asia, while Eterna (Asia) focuses distribution of Eterna watches in Asia.

2013 was a year of transition for Eterna and Eterna Movement. Eterna was organized with changes in business strategies and the management team. The brand was essentially repositioned and their price levels were adjusted. The scale of Eterna Movement was reduced in order to reduce capital and revenue expenditure. For instance, 5,000 pieces of Calibre 39 would be produced initially.

As of 31 December 2013, there were 235 distribution outlets for Eterna watch (294 at 31 December 2012), of which 207, 8 and 20 were in Europe, America and Middle East respectively.

Eterna (Asia) has established 31 distribution outlets (31 December 2012: 12), including 18 outlets in Hong Kong, 7 in Mainland China and 6 in other areas in Asia. Asia, especially Mainland China and Hong Kong, would be the areas of focus for the network development. It is expected to open significant number of operating entities and distribution outlets in Mainland China and Hong Kong in the near future to cater for the increasing demand for Swiss-made watches. There should be synergy arising from the cooperation of global distribution of Eterna watches and Corum watches.

Eterna focuses on three product segments, namely: mechanical watches with Eterna movement, mechanical watches with purchased movement and quartz watches. New products from those three segments have been developed and presented to the market during the Basel World 2013. In additions, new marketing campaigns for branding and strategic marketing including sponsorships, joint promotions and exhibitions was launched in 2013 in Europe, Hong Kong and Mainland China. For instance, Eterna sponsors KonTiki movie in Switzerland, teams up with Southampton Football Club in England, sponsors Eterna Cup, a golf tournament in Beijing a tennis tournament in Gstaad, Switzerland, places advertisement in inflight magazines such as CAAC and local popular newspapers, launches TV commercials on CCTV, the largest TV network in Mainland China and advertises in leading MTRC stations in Hong Kong and other carefully selected prime locations. As a result, Eterna would be able to attract a high visibility of the brand logo and brand awareness and a wide range of customers, especially in Mainland China and Hong Kong.

During 2013, Eterna developed new markets such as Brazil, Colombia and Mexico.

Eterna Group contributed revenue and net loss after tax for 2013 of approximately HK$53,272,000 (31 December 2012: HK$98,285,000) and HK$183,228,000 (31 December 2012: HK$69,275,000) respectively. The net loss was due to the new product development cost, new market development cost, incremental operating cost, development cost for mechanical movement, and in particular promotional and advertising cost incurred for the branding and strategic marketing activities conducted in Mainland China, Hong Kong and overseas. Given the increasingly strong revenue being generated from Hong Kong Mainland China and overseas, Eterna is expected to achieve breakeven within a couple of years.

Corum Group

Pursuant to the Sale and Purchase Agreement executed on 23 April 2013, The Group acquired 100% equity interest of the Corum Group by issuance of 404,625,000 Consideration Shares. The acquisition was closed on 9 July 2013.

The Corum Group is principally engaged in the development, manufacture and sale of Swiss luxury timepieces through its global distribution network with its history dating back to its origin in 1924. It owns a renowned Swiss elite luxury watch brand, Corum, together with a proprietary portfolio of innovative and technical movements. Its technical craftsmanship and non-traditional designs are especially well reflected in its original and unique in-line baguette shaped movements, which are housed in four-sided transparent cases to highlight the innovative mechanisms. As of 31 December 2013, it held 10 distribution subsidiaries and sold its watches through an exclusive global distribution network of nine premier branded boutiques and 580 high-end independent specialty retailers in over 90 countries.

With its exceptional design and mechanical movement, the Corum brand focuses on manufacturing and distributing top-end products and serving top-end markets. It is strategically important for the sustainable development of the Group. The Corum brand is complementary to Codex and Eterna brands, both of which focus on the mid-range products and markets. The Corum brand is also complementary to Rossini and EBOHR brands, both of which focus on products for the mass markets in Mainland China. Compared with existing products of the Group, the average selling price of the Corum watches is relatively higher, its market are global in nature and its channels of distribution are through international distributors. Therefore, the addition of the Corum brand will expand the Group's product portfolio and broaden its revenue source. The Courm brand provide the opportunity for distribution companies to not only expand their distribution network, but also extend product lines, widen customer base and most importantly increase revenue.

Furthermore, the Corum's expertise in the design of sophisticated movements and luxury watches will enhance the Group's technology know-how and capability in those aspects. The ability of Corum to develop and manufacture its unique movements enables the Group to enter into the high-end luxury watch segment.

There is clear penetration potential for Corum in Mainland China. Leveraging on the Group's existing expertise and resources of extensive channels of distribution in Mainland China, Corum is expected to be able to quickly build its own channels of distribution in Mainland China and benefit from the enormous potential of the Mainland China's imported watch market.

Corum Group contributed revenue and net loss after tax for 2013 of approximately HK$351,289,000 and HK$61,141,000 respectively. The net loss after tax of Corum Group for 2013 included an adjustment that increased the cost of sales of approximately HK$51,680,000, which represents the effect of inventories remeasured at fair value on 9 July 2013 (being the completion date of acquisition) and subsequently sold during the year. Excluding non-cash accounting adjustments, the loss for the period would be approximately HK$8,311,000

(2) Watches and timepieces – non-proprietary brands

The Group has invested in seven distribution companies to develop more market share in distribution of non-proprietary brands in different provinces and cities. Through the watch distribution companies, which have around 280 self-owned brand image retail shops and distribution outlets, the Group distributed over 25 international brands in Beijing, Chongquing, Fujian, Guangdong, Henan, Jilin, Liaoning, Shenyang, Sichuan, and other leading cities in Mainland China.

As our management teams of the distribution companies are talented professionals with substantial knowledge and contacts, these distribution companies are well poised to expand the network of distribution in catering for the insatiable demand for luxury branded products in their designated territories.

The revenue is expected to continue to increase due to favorable government policies such as continuous import duties reduction, continuous economic growth, rapid urbanization, increased disposable income and most importantly, increasing demand for luxury goods.

Except for Permanence, all distribution companies are 51% owned by the Group. These distribution companies are different in the products they distribute and in the cities they focus. Collectively, they contributed revenue and net profit after tax attributable to owners of the Company for 2013 of HK$971,265,000 (31 December 2012: HK$659,741,000) and HK$9,194,000 (31 December 2012: HK$25,268,000) respectively. Revenue increased in line with the expanded product range and distribution network. Net profit after tax decreased due to the challenging business environment.

Pursuant to the share transfer agreement signed on 23 September 2013, the Group would sell 51% equity interest in Ruihuang (Chongqing) Watch Co., Ltd. ("Ruihuang") at a consideration of RMB25,300,000. The Group considers that the disposal represents an opportunity for the Group to realise its investment in Ruihuang and to use the proceeds from the disposal for future potential investments. The disposal has not been closed as at 31 December 2013.

The Group has entered into joint venture agreement with the PRC partner of the Henan Jinjue Enterprise Co., Ltd, under which the PRC partner guaranteed the profit after tax for the year ended 31 December 2013 shall be RMB15,600,000. The actual Profit after tax for the year ended 31 December 2013 was RMB5,984,000. The Group has received compensation of RMB3,500,000 as of March 2014.

(3) Watches and timepieces – production

The Group has the capability to produce mechanical movement ranging from basic mechanical movement to tourbillon and fashion watch on OEM basis for leading global brands at competitive cost.

Guangzhou Five Goat Watch Company Limited

Guangzhou Five Goat Watch Company Limited ("Five Goat"), a 78% owned subsidiary of the Group, is engaged in the manufacture and distribution of mechanical movement and watch and owns two watch brands, namely, Guangzhou and Dixmont. Five Goat contributed revenue, of which 95% from mechanical movement and 5% from watch, and net profit after tax attributable to owners of the Company of approximately HK$83,632,000 (31 December 2012: HK$69,492,000) and HK$8,043,000 (31 December 2012: HK$7,172,000) respectively in 2013.

Fair Future Industrial Limited

Fair Future Industrial Limited ("Fair Future"), a 25% owned associate of the Group, is engaged in the manufacture of watches and accessories of watches for a well-known Japanese brand on an OEM basis. Creative and stylish design is one of the core-competence of Fair Future. With a design team of 50 professionals well exposed to the changing consumer behavior in the world, Fair future has made product portfolios that are well received by the OEM customers. Coupled with good quality and cost control, Fair Future is well positioned for sustainable development.

Fair Future contributed profit in 2013 of HK$12,134,000 (31 December 2012: HK$13,499,000). Share of profit after tax decreased due to the challenging business environment.

There was no issue of compensation for Fair Future as the guaranteed profit for the year ended 31 December 2013 had been duly fulfilled.

(4) Investment in Citychamp Dartong Company Ltd ("Citychamp Dartong")

During the year, the Group received cash dividend of HK$30,965,000 from Citychamp Dartong. On 27 February 2014, Citychamp Dartong announced its results under PRC GAAP for the year ended 31 December 2013. Consolidated profit was RMB1,284,801,000 (31 December 2012: RMB861,742,000), in which RMB1,277,775,000 (31 December 2012: RMB830,837,000) was attributable to owners of Citychamp Dartong.

58,600,000 shares and 30,000,000 shares of Citychamp Dartong were disposed on 13 June 2013 and 21 November 2013 respectively. The Group generated a gain on disposal of HK$456,023,000. As at 31 December 2013, there were 85,389,058 shares of Citychanp Dartong with a market value of HK$699,326,000 owned by the Group after the disposal.

Given the recently directives published by Shanghai Stock Exchange, all listed companies are required to distribute certain percentage of their earnings as dividend, the cash dividend from Citychamp Dartong is expected to increase in line with the earnings of Citychamp Dartong.

(5) Property investment

The factory complex in Dongguan, the property on Yan He South Road, Luohu District, Shenzhen, three shop units on Xianghua Road, Zhuhai, in Guangdong Province of Mainland China, and one apartment in Hong Kong owned by the Group have been leased out, with stable rental returns to the Group for the year under review. During the year, these investment properties generated rental income of HK$5,953,000 (31 December 2012: HK$5,515,000).

(6) Motor yacht

In order to focus on the watch business, Chart Victory Limited ("Chart Victory") will consider to terminate the motor yacht distribution business. During the year, Chart Victory contracted to sell one motor yacht. Chart Victory incurred net loss after tax of approximately HK$1,618,000 (31 December 2012: HK$3,556,000). As of March 2014, Chart Victory has contracted to sell one more motor yacht.

FINANCIAL POSITION

(1) Liquidity, financial resources and capital structure

As at 31 December 2013, the Group had non-pledged cash and bank balances of approximately HK$471,621,000 (31 December 2012: HK$228,624,000). Based on the bank loans of HK$597,790,000 (31 December 2012: HK$478,512,000) and shareholders' equity of HK$4,315,079,000 (31 December 2012: HK$3,789,021,000), the Group's gearing ratio (being loans divided by Shareholders' equity) was 14% (31 December 2012: 13%).

As at 31 December 2013, the Group's bank loans amounting to HK$231,011,000 (39% of all bank loans) were repayable within one year.

(2) Charge on assets

As at 31 December 2013, banking facilities of the Company were secured by the Group's trade receivables of HK$206,834,000, investment properties in Hong Kong of HK$22,200,000 and land and buildings in Switzerland with net book values of HK$144,552,000, totaling HK$373,586,000 (31 December 2012: HK$69,777,000).

(3) Capital commitments

The Group had no material capital commitments as at 31 December 2013.

FINANCIAL REVIEW

(1) Gross profit

Gross profit was HK$1,478,839,000 an increase of 21% from HK$1,217,721,000 for the last year. Before making adjustments for intra-group transactions, Rossini contributed gross profit of HK$638,673,000 and gross margin of 70% while EBOHR contributed gross profit of HK$548,386,000 and gross margin of 62%.

(2) Selling and distribution expenses

Total selling and distribution expenses was HK$724,581,000, an increase of 41% from HK$513,278,000 last year. Such increase was in line with the increase in revenue. Rossini, EBOHR, Eterna and Corum contributed selling and distribution expenses of HK$229,352,000, HK$226,551,000, HK$65,579,000 and HK$64,393,000 respectively.

(3) Administrative expenses

Total administrative expenses was HK$542,743,000, an increase of 54% from HK$351,448,000 for the last year. Rossini, EBOHR, Eterna and Corum contributed administrative expenses of HK$69,536,000, HK$71,490,000, HK$103,329,000 and HK$74,542,000 respectively.

(4) Net profit attributable to owners of the Company

Net profit attributable to owners of the Company was HK$565,434,000, an increase of 109% from HK$270,425,000 for the last year. Rossini contributed net profit of HK$271,733,000 while EBOHR contributed net profit of HK$199,336,000. Sale of 88,600,000 shares of Citychamp Dartong contributed a gain on disposal of HK$456,023,000.

(5) Inventory

Inventory was HK$1,987,473,000, an increase of 25% from HK$1,587,657,000 for the same period last year. Such increase is in line with the increase in revenue. Rossini, EBOHR, Eterna and Corum contributed inventory of HK$322,581,000, HK$538,154,000, HK$275,317,000 and HK$398,576,000 respectively.

There are two reasons for the considerable increase in inventory. Firstly, there was a significant increase of number of directly managed distribution outlets. Apart from replenishment of existing sales network, additional inventory would also be required for new distribution outlets in the pipeline. Secondly, in order to activate the development and production of new products, especially in the cases of EBOHR and Eterna, relatively more watches are produced but have not been sold to ultimate customers yet, contributing to higher level of inventory. Stocks were increased by around HK$400,000,000 after the acquisition of Corum.

As the Group has initiated measures to enhance sales efficiency at distribution outlet level, improve overall inventory management with more rapid information exchange between the distribution outlet, the regional sale office and the headquarters, and put increasingly strong efforts to clear old inventory, it is expected that the level of inventory would be gradually in line with revenue generated in the medium term.

OUTLOOK

The global economy is on track of mild recovery. The US is the driver for global economic growth and at the same time, Europe and Japan are also on their course of recovery. However, emerging markets with relatively weak trade balance would experience some fluctuations. In Mainland China, slipping economic growth, lower inflationary pressure and decorating money supply growth leave room the Central Government for accommodative monetary policy and pro-growth policy. It is expected that the Central Government will gradually loosen the monetary policy and step up pro-growth policies in 2014. As a result, the economy in Mainland China will post a moderate recovery. Such macro-economic perspectives should have favorable impact on the performance of the Group.

It is expected that the performance of the Eterna and Corum will improve in the future as the market recognition of the high brand value of Eterna and Corum will increase following the investments on product development, marketing and advertising strategies and restructuring of its brand building strategy during the previous years. The expected expansion of presence in the Mainland China market will also help Eterna and Corum capture the enormous potential of the Mainland China's imported watch market.

The Group will remain focused on executing the various initiatives under the strategic plan of developing both proprietary brands and non-proprietary brands. The Group would continue the impressive organic growth through product, market and distribution development, leveraging on our ample financial resources. These multiple strategic moves to achieve a balanced portfolio in a prudent manner are expected to drive significant growth in the years to come.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2013, the Group had approximately 3,000 full-time staff in Hong Kong and Mainland China and more than 200 staff in Switzerland. The remuneration packages offered to the employees were determined and reviewed on an arm's length basis with reference to the market condition and individual performance. The Group also provides other benefits to its employees, including year-end double pay, medical insurance and retirement benefits, and incentive bonus are offered with reference to the Group's operating results and employees' individual performance. All employees of the Group in Hong Kong have joined the provident fund schemes. Employees of Group's Subsidiaries in Mainland China also participate in social insurance scheme administrated and operated by local authorities and contributions are made according to the local laws and regulations.

FINAL DIVIDEND

The Board has resolved not to recommend to distribute a final dividend for the year ended 31 December 2013 (year ended 31 December 2012: Nil). The buy-back of 340,300,000 shares of the Company will probably be executed in April 2014 and the Board considered that the buy-back will enhance the net asset value per share and increase shareholders' value.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has applied the principles and complied with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2013, except for the deviations from code provisions E.1.2 of the Code as explained in the Company's interim report for the period ended 30 June 2013.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the directors. Having made specific enquiry with all the Company's directors, the Company has ascertained that all of its directors have complied with the required standards set out in the Model Code throughout the accounting year covered by this annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three Independent Non-executive Directors of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial matters including the review of the audited financial statements for the year ended 31 December 2013.

REMUNERATION COMMITTEE

The Company has established a remuneration committee (the "Remuneration Committee") on 23 August 2005 in compliance with the Listing Rules, terms of reference of which have been adopted by the Board of the Company are consistent with the requirements of the Code. The Remuneration Committee currently comprises the three Independent Non-executive Directors, Mr. Fung Tze Wa (the Chairman of the Committee), Dr. Kwong Chun Wai, Michael and Mr. Li Qiang, the Chairman of the Board, Mr. Hon Kwok Lung and the Chief Executive Officer, Mr. Shang Jianguang.

NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") on 26 March 2012 in compliance with the Listing Rules, terms of reference of which have been adopted by the Board of the Company are consistent with the requirements of the Code. The Remuneration Committee currently comprises the three Independent Non-executive Directors, Mr. Fung Tze Wa, Dr. Kwong Chun Wai, Michael and Mr. Li Qiang, the Chairman of the Board, Mr. Hon Kwok Lung and the Chief Executive Officer, Mr. Shang Jianguang. Mr. Hon Kwok Lung has been appointed as the chairman of the Nomination Committee.

PURCHASE, SALE OR REDEMPTION OF SHARES

On 13 February 2014, the Company entered into a share buy-back agreement with Severin Participations GmbH and the trustee of Severin Wunderman Family Trust for the benefit of Michael Wunderman as the vendors ("Vendors"), pursuant to which the Company conditionally agreed to purchase and Vendors conditionally agreed to sell 340,300,000 shares of the Company, representing approximately 7.17% of the issued capital of the Company as at 13 February 2014. The agreed repurchase price is HK$0.75 and the aggregate consideration is HK$255,225,000. Following completion of the share buy-back, the number of shares in issue will be reduced by 340,300,000. The buy-back shares are part of the shares issued by the Company to the Vendors for their then equity interests in Montres Corum Sàrl under the acquisition. Details of the transaction are set out in the Company's announcement dated 13 February 2014.

SCOPE OF WORK OF BDO LIMITED ON THIS PRELIMINARY ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2013 have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on this preliminary announcement.

PUBLICATION OF ANNUAL RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The annual results announcement will be published on the website of the Stock Exchange at www.hkexnews.hk and the Company's websites at www.irasia.com/listco/hk/chinahaidian and www.chinahaidian.com in due course.

APPRECIATION

I would like to thank our Board of Directors and the Directors of our subsidiaries and associated companies for their wise counsel and the diligence and care with which they have performed their duties during the past year. I also extend our grateful thanks and appreciation to our business partners, with whom we look forward to further extending our cooperation in the coming year. I would also like to thank our management team and staff for their commitment and outstanding performance. Lastly, on behalf of my entire team, I thank our shareholders and customers for their long-standing loyalty and confidence in the Group.

By Order of the Board
China Haidian Holdings Limited
Hon Kwok Lung
Chairman

Hong Kong, 22 March 2014

As at the date of this announcement, the Board comprises Mr. Hon Kwok Lung, Mr. Shang Jianguang, Mr. Shi Tao, Mr. Lam Toi Man, Mr. Bi Bo and Ms. Sit Lai Hei as the executive Directors; and Mr. Fung Tze Wa, Dr. Kwong Chun Wai, Michael and Mr. Li Qiang as the independent non-executive Directors.