# 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 2011

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 2011 together with the consolidated statement of financial position of the Group as at 31 December 2011, and the notes with comparative figures for the year ended 31 December 2010 as follows:

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **Continuing operations:** | | | |
| Revenue | 5 | 1,465,276 | 800,604 |
| Cost of sales | | (637,042) | (307,030) |
| **Gross profit** | | 828,234 | 493,574 |
| Other income and financial income | 6 | 21,027 | 10,492 |
| Selling and distribution expenses | | (343,908) | (205,511) |
| Administrative expenses | | (234,144) | (150,211) |
| Gain on fair value changes in financial assets at fair value through profit or loss, net | | 10,947 | 6,669 |
| Excess of fair value of the net identifiable assets over the cost of acquisition of subsidiaries | 16 | 46,904 | – |
| Net surplus on revaluation of investment properties | | 5,675 | 13,004 |
| Dividend income from available-for-sale financial assets | | 6,551 | 5,172 |
| Share of profit of associates | | 1,991 | 6,979 |
| (Loss)/Gain on disposals of associates | 10.2, 13 | (4,952) | 177,711 |
| Finance costs | 7 | (4,331) | (1,811) |
| **Profit before income tax** | 8 | 333,994 | 356,068 |
| Income tax expense | 9 | (68,240) | (82,349) |
| Profit after income tax from continuing operations | | 265,754 | 273,719 |
| **Discontinued operations:** | | | |
| Profit for the year from discontinued operations | 10.3 | 16,036 | 7,063 |
| **Profit for the year** | | 281,790 | 280,782 |
| **Other comprehensive income** | | | |
| – Exchange gain on translation of financial statements of foreign operations | | 14,570 | 28,948 |
| – Transfer of exchange fluctuation reserve to profit or loss on disposal of a jointly controlled entity | | (17,496) | – |
| – Changes in fair value of available-for-sale financial assets | | (305,401) | (327,623) |
| **Other comprehensive income for the year** | | (308,327) | (298,675) |
| **Total comprehensive income for the year** | | (26,537) | (17,893) |

| | Notes | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Profit for the year attributable to: | | | |
| Owners of the Company | | 255,874 | 271,566 |
| Non-controlling interests | | 25,916 | 9,216 |
| | | 281,790 | 280,782 |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | (54,105) | (27,672) |
| Non-controlling interests | | 27,568 | 9,779 |
| | | (26,537) | (17,893) |
| Earnings per share attributable to owners of the Company | 12 | | |
| From continuing and discontinued operations | | | |
| – Basic | | HK cents 6.19 | HK cents7.42 |
| – Diluted | | HK cents 6.11 | HK cents 7.21 |
| From continuing operations | | | |
| – Basic | | HK cents 5.80 | HK cents 7.23 |
| – Diluted | | HK cents 5.73 | HK cents 7.02 |
| From discontinued operations | | | |
| – Basic | | HK cent 0.39 | HK cent 0.19 |
| – Diluted | | HK cent 0.38 | HK cent 0.19 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 31 December 2011*

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | 228,939 | 87,777 |
| Investment properties | | 93,387 | 87,712 |
| Prepaid land lease payments | | 28,235 | 27,980 |
| Goodwill | | 621,382 | 621,382 |
| Interests in associates | | 164 | 158 |
| Available-for-sale financial assets | | 807,696 | 1,113,095 |
| Intangible assets | | 55,944 | 10,397 |
| Prepayments and deposits | | 5,290 | 2,397 |
| Deferred tax assets | | 1,295 | 1,250 |
| | | 1,842,332 | 1,952,148 |
| **Current assets** | | | |
| Inventories | | 956,273 | 428,831 |
| Trade and bill receivables | 14 | 244,284 | 113,762 |
| Prepaid land lease payments | | 730 | 667 |
| Prepayments, deposits and other receivables | | 175,527 | 160,969 |
| Financial assets at fair value through profit or loss | | 107,803 | 91,764 |
| Cash and cash equivalents | | 351,276 | 837,872 |
| | | 1,835,893 | 1,633,865 |
| Non-current asset held for sale | 10.6 | – | 43,729 |
| Assets of a disposal group classified as held for sale | 10.5 | – | 257,344 |
| | | 1,835,893 | 1,934,938 |
| **Current liabilities** | | | |
| Trade and bill payables | 15 | 194,448 | 123,696 |
| Other payables and accruals | | 221,214 | 135,846 |
| Dividend payables | | 252 | 644 |
| Tax payables | | 41,044 | 86,726 |
| Borrowings | | 86,171 | 35,353 |
| Due to related companies | | 157 | 26,230 |
| | | 543,286 | 408,495 |
| Liabilities of a disposal group classified as held for sale | 10.5 | – | 164,704 |
| | | 543,286 | 573,199 |
| **Net current assets** | | 1,292,607 | 1,361,739 |
| **Total assets less current liabilities/Net assets** | | 3,134,939 | 3,313,887 |

| | Notes | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | | 413,975 | 409,007 |
| Proposed dividend | | 186,289 | 143,153 |
| Reserves | | 2,458,125 | 2,732,622 |
| | | 3,058,389 | 3,284,782 |
| Non-controlling interests | | 76,550 | 29,105 |
| Total equity | | 3,134,939 | 3,313,887 |

## 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

In December 2010, the Group was committed to a plan to sell its 49% equity interest in a jointly-controlled entity, namely Fuzhou Dartong Machinery and Electronic Company Limited ("Fuzhou Dartong"), and its 25.58% equity interest in an associate, namely Jiangsu Dartong M&E Co., Limited ("Jiangsu Dartong"), both of which are also principally engaged in the manufacture and distribution of enamelled copper wires. As management considered that the disposals of Fuzhou Dartong and Jiangsu Dartong were highly probable as at 31 December 2010, in accordance with HKFRS 5, the Group had reclassified:

(a) the assets and liabilities of Fuzhou Dartong as at 31 December 2010 as assets/liabilities of a disposal group classified as held for sale in the Group's consolidated statement of financial position;

(b) the interests in Jiangsu Dartong as at 31 December 2010 as non-current asset held for sale in the Group's consolidated statement of financial position; and

(c) the income and expenses of Fuzhou Dartong for the year ended 31 December 2010 as discontinued operation in the Group's consolidated statement of comprehensive income.

The manufacture and distribution of enamelled copper wires businesses are referred to as the Discontinued Enamelled Copper Wire Business hereinafter.

On 6 January 2011, the Group entered into 2 transfer agreements with Honour Aim Limited ("Honour Aim"), a company ultimately beneficially wholly-owned by Mr. Hon Kwok Lung, the chairman and an executive director of the Company, in respect of the disposals of Fuzhou Dartong and Jiangsu Dartong, under which:

(a) The Company agreed to sell its 49% equity interest in Fuzhou Dartong to Honour Aim for a consideration of HK$93,342,000 (the "Fuzhou Dartong Agreement").

(b) The Company agreed to its 25.58% equity interest in Jiangsu Dartong to Honour Aim for a consideration of HK$40,768,000 (the "Jiangsu Dartong Agreement").

The Fuzhou Dartong Agreement and Jiangsu Dartong Agreement constituted major and connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and are subject to approval from the Company's independent shareholders, details of which have been set out in the Company's circular dated 22 February 2011.

It was resolved in the extraordinary general meeting held on 9 March 2011 that the Fuzhou Dartong Agreement and the Jiangsu Dartong Agreement had already obtained the approval from the independent shareholders by way of poll.

In June and July 2011, the Group has completed the disposal of its 49% equity interests in Fuzhou Dartong and the disposal of its 25.58% equity interest in Jiangsu Dartong. Details of the disposal of Fuzhou Dartong and Jiangsu Dartong are set out in note 10.

Other than the Discontinued Enamelled Copper Wire Business as described above and the acquisition of the subsidiaries as described in note 16, there were no other significant changes in the Group's operations during the year. The Group's principal places of the business are in Hong Kong 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 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 Listing Rules.

### 2.2 BASIS OF MEASUREMENT

The financial statements have been prepared under historical cost convention except for investment properties and 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.

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 2011

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 2011:

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs 2010 |
| HKAS 24 (Revised) | Related Party Disclosures |

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

### HKFRS 3 (Amendments) – Business Combinations

As part of the improvements to HKFRSs issued in 2010, HKFRS 3 has been amended to clarify that the option to measure non-controlling interests ("NCI") at either fair value or the NCI's proportionate share in the recognised amounts of the acquiree's identifiable net assets is limited to instruments that are present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. Other components of NCI are measured at their acquisition date fair value unless another measurement basis is required by HKFRSs. The Group has amended its accounting policies for measuring NCI but the adoption of the amendment has had no impact on the Group's financial statements.

### HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has reassessed the identification of its related parties in accordance with the revised definition. The adoption of HKAS 24 (Revised) has no impact on the Group's reported profit or loss, total comprehensive income or equity for any period presented.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

## (B) 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 HKFRS 7 | Disclosures – Transfers of Financial Assets[1] |
| Amendments to HKAS 12 | Deferred Tax – Recovery of Underlying Assets[2] |
| Amendments to HKAS 1 (Revised) | Presentation of Items of Other Comprehensive Income[3] |
| HKFRS 9 | Financial Instruments[5] |
| HKFRS 10 | Consolidated Financial Statements[4] |
| HKFRS 12 | Disclosure of Interests in Other Entities[4] |
| HKFRS 13 | Fair Value Measurement[4] |
| HKAS 27 (2011) | Separate Financial Statements[4] |
| HKAS 19 (2011) | Employee Benefits[4] |
| HKAS 28 (2011) | Investments in Associates and Joint Ventures[4] |

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2015

### Amendments to HKFRS 7 – Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 improve the disclosure requirements for transfer transactions of financial assets and allow users of financial statements to better understand the possible effects of any risks that may remain with the entity on transferred assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

### Amendments to HKAS 12 – Deferred Tax – Recovery of Underlying Assets

The amendments to HKAS 12 introduce a rebuttable presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments will be applied retrospectively.

### 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 future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis.

## 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 de-recognition of financial assets and financial liabilities.

## 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 implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

## 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.

## 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.

### 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". This change may result in more plans being classified as long-term employee benefit plans that will need to be accounted for in a similar way to defined benefit plans. 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. This could lead to later recognition of voluntary termination benefits in some cases. The amendments will generally be applied retrospectively with two exceptions.

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

The Group is in the process of making an assessment 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.

As mentioned in note 1, since 2010, the Group has planned to dispose of the Discontinued Enamelled Copper Wire Business. In accordance with HKFRS 5, the Discontinued Enamelled Copper Wire Business for the years ended 31 December 2011 and 2010 were classified as discontinued operations in the Group's financial statements. Further details regarding the results of the Discontinued Enamelled Copper Wire Business are set out in note 10.3.

Inter-segment sales are charged at prevailing market prices.

2011

| | Watches and timepiece HK$'000 | Property investment HK$'000 | Yacht HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Segment revenue and income: | | | | |
| Sales to external customers | 1,420,168 | 15,300 | 29,808 | 1,465,276 |
| Other income and financial income | 10,135 | 8,075 | 1 | 18,211 |
| Total | 1,430,303 | 23,375 | 29,809 | 1,483,487 |
| Segment results | 336,182 | 10,182 | (5,401) | 340,963 |
| Unallocated corporate income and expenses, net | | | | (43,605) |
| | | | | 297,358 |
| Share of profit of associates | | | | 1,991 |
| Loss on disposal of an associate | | | | (4,952) |
| Excess of fair value of the net identifiable assets over the cost of acquisition of subsidiaries | | | | 46,904 |
| Finance costs | | | | (4,331) |
| Equity-settled share-based compensation | | | | (2,976) |
| Profit before income tax | | | | 333,994 |
| Income tax expense | | | | (68,240) |
| Profit for the year from continuing operations | | | | 265,754 |
| Profit for the year from discontinued operations (note 10.3) | | | | 16,036 |
| Profit for the year | | | | 281,790 |
| Segment assets | 1,798,304 | 100,379 | 58,781 | 1,957,464 |
| Goodwill | | | | 621,382 |
| Interests in associates | | | | 164 |
| Available-for-sale financial assets | | | | 807,696 |
| Financial assets at fair value through profit or loss | | | | 107,803 |
| Unallocated corporate assets | | | | 183,716 |
| Total assets | | | | 3,678,225 |
| Segment liabilities | 396,357 | 16,861 | 319 | 413,537 |
| Borrowings | | | | 86,171 |
| Due to related companies | | | | 157 |
| Unallocated corporate liabilities | | | | 43,421 |
| Total liabilities | | | | 543,286 |
| Other segment information | | | | |
| Interest income | (363) | – | (1) | (364) |
| Depreciation and amortisation of prepaid land lease payments | 16,514 | 1,613 | 46 | 18,173 |
| Net surplus on revaluation of investment properties | – | (5,675) | – | (5,675) |

2010

| | Watches and timepiece HK$'000 | Property investment HK$'000 | Yacht HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Segment revenue and income: | | | | |
| Sales to external customers | 776,216 | 10,016 | 14,372 | 800,604 |
| Other income and financial income | 3,148 | 1,814 | 920 | 5,882 |
| Total | 779,364 | 11,830 | 15,292 | 806,486 |
| Segment results | 213,161 | 13,545 | 169 | 226,875 |
| Unallocated corporate income and expenses, net | | | | (46,055) |
| | | | | 180,820 |
| Share of profit of associates | | | | 6,979 |
| Gain on disposal of associate | | | | 177,711 |
| Finance costs | | | | (1,811) |
| Equity-settled share-based compensation | | | | (7,631) |
| Profit before income tax | | | | 356,068 |
| Income tax expense | | | | (82,349) |
| Profit for the year from continuing operations | | | | 273,719 |
| Profit for the year from discontinued operations (note 10.3) | | | | 7,063 |
| Profit for the year | | | | 280,782 |
| Segment assets | 776,230 | 88,664 | 61,397 | 926,291 |
| Goodwill | | | | 621,382 |
| Interests in associates | | | | 158 |
| Available-for-sale financial assets | | | | 1,113,095 |
| Financial assets at fair value through profit or loss | | | | 91,764 |
| Non-current assets held for sale | | | | 43,729 |
| Assets of a disposal group classified as held for sale | | | | 257,344 |
| Unallocated corporate assets | | | | 833,323 |
| Total assets | | | | 3,887,086 |
| Segment liabilities | 233,741 | 15,398 | 887 | 250,026 |
| Borrowings | | | | 35,353 |
| Due to related companies | | | | 26,230 |
| Liabilities of a disposal group classified as held for sale | | | | 164,704 |
| Unallocated corporate liabilities | | | | 96,886 |
| Total liabilities | | | | 573,199 |
| Other segment information | | | | |
| Interest income | (294) | – | (3) | (297) |
| Depreciation and amortisation of prepaid land lease payments | 8,749 | 2,309 | 31 | 11,089 |
| Net surplus on revaluation of investment properties | – | (13,004) | – | (13,004) |

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 financial instruments and deferred tax assets) are divided into the following geographical areas:

| | Revenue from external customers (including continuing and discontinued operations) | | Non-current assets | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Hong Kong (domicile) | 30,127 | 14,492 | 27,766 | 24,589 |
| PRC | 1,884,801 | 1,480,647 | 876,534 | 799,586 |
| Europe | 55,391 | 1,584 | 129,041 | 13,628 |
| | 1,970,319 | 1,496,723 | 1,033,341 | 837,803 |

The geographical location of customers is based on the location at which the goods and services are delivered. The geographical location of the non-current assets is based on the physical location of the asset.

In 2011, the revenue from the Group's largest customer included in Discontinued Enamelled Copper Wire Business amounted to HK$425,102,000 or 22% (2010: HK$581,476,000 or 39%) of the Group's total revenue (including continuing and discontinued operations).

## 5. REVENUE

Revenue on continuing operations, 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:

| | 2011 | 2010 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Continuing operations | | |
| Sales of goods | 1,449,976 | 790,588 |
| Gross rental income | 15,300 | 10,016 |
| | 1,465,276 | 800,604 |

## 6. OTHER INCOME AND FINANCIAL INCOME

| | 2011 | 2010 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Continuing operations | | |
| Bank interest income | 9,314 | 1,675 |
| Dividend income from financial assets at fair value through profit or loss | 716 | 657 |
| Exchange gain | 689 | 5,142 |
| Sales of scrap materials and parts | 2,835 | 1,457 |
| Sub-lease income | 864 | 991 |
| Sundry income | 6,609 | 570 |
| | 21,027 | 10,492 |

## 7. FINANCE COSTS

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest charged on bank and other loans wholly repayable within five years | 4,331 | 1,811 |

## 8. PROFIT BEFORE INCOME TAX

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| **Continuing operations** | | |
| Cost of inventories recognised as expense | 637,042 | 307,030 |
| Depreciation | 22,057 | 12,573 |
| Amortisation of prepaid land lease payments | 721 | 588 |
| Amortisation of intangible assets | 1,877 | 1,336 |
| Minimum lease payments under operating leases in respect of land and buildings | 18,625 | 18,511 |
| Auditor's remuneration | 1,670 | 1,580 |
| Gross rental income | (15,300) | (10,016) |
| Less: direct operating expenses | 2,250 | 1,920 |
| Net rental income | (13,050) | (8,096) |
| Exchange loss | 2,742 | 1,848 |
| Loss on disposals of property, plant and equipment | – | 113 |
| Loss/(Gain) on disposals of associates | 4,952 | (177,711) |

## 9. INCOME TAX EXPENSE

For both the years ended 31 December 2011 and 2010, 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% (2010: 13% and 25%). Overseas tax is calculated at the rates applicable in the respective jurisdictions.

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Continuing operations<br>HK$'000 | Discontinued operations<br>HK$'000 | Continuing operations<br>HK$'000 | Discontinued operations<br>HK$'000 |
| Current tax for the year | | | | |
| Hong Kong | 9,600 | – | 8,184 | – |
| PRC | 58,504 | 879 | 88,057 | 730 |
| Under/(Over) provision in respect of prior years | | | | |
| PRC | 136 | – | (13,892) | – |
| Total income tax expense | 68,240 | 879 | 82,349 | 730 |

## 10. NON-CURRENT ASSET HELD FOR SALE/ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE/DISCONTINUED OPERATIONS

### 10.1 DISCONTINUED ENAMELLED COPPER WIRES BUSINESS

As mentioned in note 1, since 2010, the Group had planned to dispose of its 49% equity interest in its jointly controlled entity, namely Fuzhou Dartong. In accordance with HKFRS 5, the Group reclassified the assets and liabilities of Fuzhou Dartong (the "Disposal Group") as at 31 December 2010 as assets/liabilities of a disposal group classified as held for sale in the Group's consolidated statement of financial position. In addition, the Discontinued Enamelled Copper Wire Business represented separate major line of business, and the operations and cash flows of which can be clearly distinguished from the rest of the Group.

In June 2011, the disposal of 49% equity interests in Fuzhou Dartong was completed. Therefore, as at 31 December 2011, the Group has no assets/liabilities of a disposal group classified as held for sale in the consolidated statement of financial position.

Details of the Discontinued Enamelled Copper Wire Business for the years ended 31 December 2011 and 2010 are set out in note 10.3, and details of the assets/liabilities of a disposal group classified as held for sale as at 31 December 2010 are set out in note 10.5.

### 10.2 INTEREST IN AN ASSOCIATE RECLASSIFIED AS NON-CURRENT ASSET HELD FOR SALE

As mentioned in note 1, since 2010, the Group had planned to dispose of its 25.58% equity interests in an associate, namely Jiangsu Dartong. In accordance with HKFRS 5, as at 31 December 2010, the interests in Jiangsu Dartong had been included in non-current assets held for sale in the statement of financial position of the Group.

In July 2011, the disposal of its 25.58% equity interests in Jiangsu Dartong was completed. Therefore, the Group has no non-current assets held for sale in their statement of financial position as at 31 December 2011.

An analysis of the Group's loss on disposal of an associate, Jiangsu Dartong for the year ended 31 December 2011 is as follows:

| | HK$'000 |
|---|---|
| Cash consideration from disposal of Jiangsu Dartong | 40,768 |
| Less: Carrying amount of interests in Jiangsu Dartong upon disposal | (45,720) |
| Loss on disposal of Jiangsu Dartong | (4,952) |

The cash consideration of HK$40,768,000 collected from the disposal of Jiangsu Dartong has been fully received by the Group during the year.

Details of the Group's non-current assets held for sale as at 31 December 2010 are set out in note 10.6.

10.3 An analysis of the Group's results of the Discontinued Enamelled Copper Wire Business for the years ended 31 December 2011 and 2010 is as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Revenue | 505,043 | 696,119 |
| Cost of sales | (489,238) | (694,429) |
| Gross profit | 15,805 | 1,690 |
| Other income and financial income | 568 | 25,221 |
| Selling and distribution expenses | (1,905) | (3,628) |
| Administrative expenses | (4,394) | (7,597) |
| Finance costs – interest on bank loans wholly repayable within five years | (5,439) | (7,893) |
| Profit before income tax | 4,635 | 7,793 |
| Gain on disposal of Fuzhou Dartong (note 10.4) | 12,280 | – |
| Income tax expense | (879) | (730) |
| Profit for the year | 16,036 | 7,063 |

10.4 Gain on disposal of the Discontinued operation, i.e. the jointly controlled entity, namely Fuzhou Dartong, for the year ended 31 December 2011 was analysed as follows:

| | HK$'000 |
|---|---|
| Net assets disposed of: | |
| Property, plant and equipment | 115,825 |
| Prepaid land lease payments | 10,945 |
| Inventories | 36,710 |
| Trade and bill receivables | 116,648 |
| Prepayments, deposits and other receivables | 3,144 |
| Derivative financial instruments | 81 |
| Cash and cash equivalents | 39,638 |
| Trade and bill payables | (76,187) |
| Other payables and accruals | (3,081) |
| Tax payables | (1,974) |
| Borrowings | (143,191) |
| | 98,558 |
| Release of exchange fluctuation reserve upon disposal | (17,496) |
| | 81,062 |
| Less: Proceeds from disposal of Fuzhou Dartong | (93,342) |
| Gain on disposal of Fuzhou Dartong | 12,280 |

10.5 An analysis of the assets and liabilities of the Discontinued Enamelled Copper Wires Business classified as held for sale as at 31 December 2010 was as follows:

| | HK$'000 |
|---|---|
| Assets of a disposal group classified as held for sale: | |
| Property, plant and equipment | 115,497 |
| Prepaid land lease payments | 10,809 |
| Inventories | 31,871 |
| Trade and bill receivables | 61,042 |
| Prepayments, deposits and other receivables | 3,355 |
| Cash and cash equivalents | 34,770 |
| | 257,344 |
| Liabilities of a disposal group classified as held for sale: | |
| Trade and bill payables | 51,078 |
| Other payables and accruals | 2,574 |
| Tax payables | 560 |
| Derivative financial instruments | 544 |
| Borrowings | 109,948 |
| | 164,704 |

10.6 An analysis of non-current assets held for sale as at 31 December 2010 was as follows:

| | HK$'000 |
|---|---|
| Interest in Jiangsu Dartong, an associate (note 10.2) | 43,729 |

## 11. DIVIDENDS

### 11.1 DIVIDEND ATTRIBUTABLE TO THE YEAR

| | **2011**<br>**HK$'000** | 2010<br>HK$'000 |
|---|---|---|
| Interim dividend of HK1 cent per share (2010: HK1.5 cents) | **41,404** | 56,161 |
| Proposed final dividend of HK4.5 cents per share (2010: HK3.5 cents) | **186,289** | 143,153 |
| | **227,693** | 199,314 |

The final dividend declared after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of retained profits and share premium for the year ended 31 December 2011.

### 11.2 DIVIDEND ATTRIBUTABLE TO THE PREVIOUS FINANCIAL YEAR, APPROVED AND PAID DURING THE YEAR

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, of HK3.5 cents per share (2010: HK4.1 cents) | 145,044* | 151,509 |

* The amount of actual final 2010 dividend paid was HK$145,044,000 as a result of the increase in ordinary shares. During the year, 54,055,000 (2010: 45,855,000) new ordinary shares were issued as a consequence of exercise of share options (2010: 106,815,620 new ordinary shares were issued from a share placement) before the closure of members' register on 23 May 2011. And these ordinary shares issued are entitled to the final 2010 dividend.

## 12. 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:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Earnings | | |
| Profit attributable to the owners of the Company for the purpose of calculating basic and diluted earning per share: | | |
| Continuing operations | 239,838 | 264,503 |
| Discontinued operations | 16,036 | 7,063 |
| Total profit from continuing and discontinued operations | 255,874 | 271,566 |

| | 2011<br>Number of shares<br>'000 | 2010<br>Number of shares<br>'000 |
|---|---|---|
| Number of shares | | |
| Weighted average number of shares for the purpose of calculating basic earnings per share | 4,132,582 | 3,658,250 |
| Effect of dilutive potential shares: | | |
| – share options issued by the Company | 55,232 | 107,233 |
| Weighted average number of shares for the purpose of calculating diluted earnings per share | 4,187,814 | 3,765,483 |

## 13. GAIN ON DISPOSALS OF ASSOCIATES

In 2010, the Group had disposed of its 30% equity interests in an associate, Shenzhen Guanyang Real Estate Co., Limited to an independent third party for a cash consideration of RMB186,000,000 (equivalent to HK$211,353,000). A gain on disposal of HK$177,711,000 was recognised in the profit or loss for the year ended 31 December 2010.

## 14. TRADE AND BILL 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 two months (2010: one to two months) for major customers. Each customer has a maximum credit limit. Trade debtors with balances that are more than three months overdue are required to settle all outstanding balances before any further credit is granted. 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 and bill receivables as at the reporting date, based on invoice date, and net of provisions, is as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| 1 to 3 months | 219,731 | 103,499 |
| 4 to 6 months | 20,310 | 6,595 |
| Over 6 months | 4,243 | 3,668 |
| | 244,284 | 113,762 |

## 15. TRADE AND BILL PAYABLES

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

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| 1 to 3 months | 154,151 | 121,557 |
| 4 to 6 months | 17,253 | 1,314 |
| Over 6 months | 23,044 | 825 |
| | 194,448 | 123,696 |

## 16. ACQUISITION OF SUBSIDIARIES

On 29 June 2011, the Group acquired the entire equity interests of Eterna AG Uhrenfabrik and its subsidiary (together the "Eterna Group"), which is principally engaged in manufacturing and distribution of watches and timepieces in Switzerland and Germany, for a cash consideration of HK$213,920,000. Following the acquisition, the Group owned the entire equity interest in Eterna Group and obtained the control over Eterna Group through the Group's right to nominate all the members of Eterna Group's board of directors, and Eterna Group become wholly owned subsidiaries of the Group. The acquisition of Eterna 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 |
|---|---|
| Cash consideration paid | 213,920 |
| Less: Fair value of net assets acquired | (260,824) |
| Excess of fair value of the net identifiable assets over the cost of acquisition of subsidiaries | 46,904 |

The gain recognised in respect of the excess of fair value of the net identifiable assets over the cost of acquisition of subsidiaries of HK$46,904,000 (2010: Nil) was recognised in profit or loss for the year ended 31 December 2011. The excess of fair value of the net identifiable assets over the cost of acquisition of subsidiaries represents the increase in fair value of intangible assets, inventories and land and buildings. This represents the intrinsic value of the Eterna Group identified by the Group's management, which have not been recognised in the books of Eterna Group before the acquisition.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OPERATING RESULTS

For the year ended 31 December 2011, the Group's revenue (continuing and discontinued operations) amounted to HK$1,970,319,000, an increase of HK$473,596,000 over the last year. Gross profit increased by HK$348,775,000 to HK$844,039,000 while net profit after tax increased by HK$1,008,000 to HK$281,790,000. Having set apart the financial impact of the loss on disposals of associates for the year of HK$4,952,000 (2010: gain of HK$177,711,000), the Group should have an increase of net profit of HK$183,671,000 from its continuing and discontinued operations compared with the net profit last year.

## BUSINESS REVIEW

During 2011, as a result of continuous strategic planning, the Group has put into tremendous efforts in acquiring Eterna AG Uhrenfabrik, a watch company in Switzerland of over 100 years' history with well-known brands and mechanical movement manufacturing capability. In Hong Kong, the Group has acquired 25% of Fair Future Industrial Limited, that is engaged in the manufacture of watches and accessories of watches. In Mainland China, the Group has also established three new subsidiaries: 78% owned Guangzhou Five Sheep Watch Limited, 51% owned Liaoning Hengjia Horologe Co., Ltd. and 51% owned Beijing Haina Tianshi Watch Company Limited. Through the domestic and foreign acquisitions, the Group has set up a portfolio of strategic resources that enhance the development of watch business. Following the disposals of enamelled copper wire companies, the core-business of the Group becomes apparent. At the same time, the Group improves the corporate governance and internal control. Through the restructuring of existing businesses, the Group is now composed of various entities capable of designing, manufacturing, and distributing domestic and international proprietary watches, distributing non-proprietary watches, manufacturing mechanical movement, and manufacturing key watch components. All resources would be integrated and allocated among these entities. During 2011, the Group has transformed itself to become one of the leading watch players in the world and achieved remarkable result.

### (1) WATCHES AND TIMEPIECES – PROPRIETARY BRANDS

#### Eterna AG Uhrenfabrik

On 29 June 2011, International Volant Limited, a wholly-owned subsidiary of the Group, acquired the shares and loans of Eterna at a total consideration of HK$213,920,000 or CHF22,911,001.

Eterna was founded in 1856 in Switzerland. It manufactures timepieces under two brands, namely the self-owned brand Eterna and the licensed brand Porsche Design. Eterna is authorized to use the Porsche Design trademark and to develop, manufacture and distribute the licensed watches through selected distributors. Eterna watches are distributed through independent points of sales and agencies while the Porsche Design watches are distributed through points of sales and own/franchised shops all over the world. Eterna is able to manufacture its own mechanical movement, comprising manual, automatic, with and without date, and chronograph functionalities.

The acquisition of Eterna would provide additional Swiss watches for the Group's comprehensive distribution network in Mainland China. It is anticipated that the revenue of Eterna and Porsche Design watches would increase rapidly after strengthening brand awareness, improving customer service and developing the target products for the Mainland China market. Besides, the capability to manufacture mechanical movements enable the group to secure the supply of mechanical movements. It is anticipated that Eterna would complete the development of its recently created modular mechanical movements by the end of 2012. Modular mechanical can be easily modified to include additional features, such as date, tourbillion and chronograph functionalities, with relatively simple process and at relatively competitive cost. Eterna would then supply the newly created modular mechanical movement for its own production in Switzerland within two years.

A new management team has been created following the appointments of the new CEO and Vice President. It is the goal of the new management team to aggressively develop new products and markets for Eterna and Porsche Design watches.

During the second half of 2011, seven new products were developed. They have been well received in the Basel Fair 2012.

As of 31 December 2011, there were 251 distribution outlets for Eterna watch, of which 227, 7, and 17 were in Europe, America and Middle East respectively. There were 528 distribution outlets for Porsche Design watch, of which, 398, 67, 27, 36 were in Europe, America, Asia and Middle East respectively.

Asia, especially Mainland China, would be the area of focus for the network development. It is expected to open significant number of distribution outlets in Mainland China in the near future.

Eterna contributed revenue and net profit after tax of HK$42,886,000 and HK$16,573,000 respectively in 2011. The net profit after tax included HK$46,904,000, being excess of fair value of the net identifiable assets over the cost of acquisition of Eterna.

### Zhuhai Rossini Watch Industry Ltd.

Zhuhai Rossini Watch Industry Ltd. ("Rossini"), a 91% subsidiary of the Group, also achieved impressive result in 2011. Revenue was HK$548,729,000, an increase of HK$185,414,000, or 51%, from HK$363,315,000 of last year, contributing net profit of approximately HK$162,553,000 to the Group.

During the year, Rossini has increased its number of distribution outlets by 363 (226 outlets through department stores and 137 outlets through authorized dealers) from 1,112 to 1,475, mostly in second and third-tier cities. The total number of distribution outlets as of 31 December 2011 was 1,475 (992 through department stores, 480 through authorized dealers and 3 boutiques). Such new distribution outlets accounted for 8% of revenue.

In July 2011, Rossini improved its distribution outlets by renovating the outlook and introducing new equipment and interior layout. The new appearance was proved to enhance the image and revenue of the distribution outlets. In December 2011, Rossini started conducting sale on internet.

The number of new products introduced was 32, accounting for almost 10% of revenue. In the second half of 2011, Rossini introduced another sport watch line that was well received by the market as evidenced by the impressive revenue generated.

Rossini invested greater efforts in the training of sale staff. It provided training manuals to distribution outlets so as to improve the selling and service expertise of the sale staff.

Rossini has been awarded China's 500 most valuable brands and Asia's 500 most valuable brands of the year 2011 by the World Brand Laboratory. Rossini is the only watch company from Mainland China that obtains the latter award and the value of the brand is the highest among all the local watches brands.

Moreover, Rossini has developed its spectacles frame brand and established a comprehensive network of over 100 outlets.

### EBOHR Luxuries International Company Limited

EBOHR Luxuries International Company Limited ("EBOHR"), a wholly-owned subsidiary of the Group, and its directly owned subsidiaries achieved satisfactory result in 2011. Revenue was HK$490,410,000, an increase of HK$153,380,000, or 46%, from HK$337,030,000 last year, contributing net profit of approximately HK$101,515,000 to the Group. EBOHR took up the loss of approximately HK$21,430,000 incurred by Swiss Chronometric S.A. ("Swiss Chronometric"), a wholly owned subsidiary of EBOHR in Switzerland.

During the year there was an increase of 281 distribution outlets (189 outlets through department stores and 93 outlets through authorized dealers and a decrease of 1 boutique). The total number of distribution outlets as of 31 December 2011 was 1,423 (824 outlets through department stores, 596 through authorized dealers and 3 boutiques).

EBOHR has improved its distribution outlets by renovating the outlook and interior layout. The new appearance should enhance the image and revenue of the distribution outlets. To improve profitability, EBOHR continued to offer the relevant products to capture opportunities arising from the emerging middle class with increasing purchasing power. Promotion events organized by the regional sale managers and headquarters proved to be effective. During the year, there were approximately 300 promotion events contributing around 10% of the total revenue, Besides, revenue from sale of watch on Internet achieved over 4% of total revenue.

EBOHR has completed the design of the EBOHR Complication series, a product line composed of tourbillion watches and watches of sophisticated mechanical movement. Those products would be distributed through the outlet of Swiss Chronometric in Luzern. EBOHR has been awarded China's 500 most valuable brands of the year 2011 by the World Brand Laboratory.

### Swiss Chronometric S.A.

In addition to the self-owned distribution outlet in Lucerne of Switzerland, Swiss Chronometric established another one in Shanghai in December 2011. It is the plan to establish 20 distribution outlets in the major cities in Mainland China. During the year, Swiss Chronometric has established distribution outlets in selected European countries.

## (2) WATCHES AND TIMEPIECES – NON-PROPRIETARY BRANDS

### Shenzhen Permanence Commerce Co., Ltd.

Shenzhen Permanence Commerce Co., Ltd. ("Permanence"), a 100% owned subsidiary of the Group, primarily focusing on distribution of Citizen and Casio watches, contributed revenue and net profit after tax of HK$63,109,000 (2010: HK$51,729,000) and HK$4,811,000 (2010: HK$1,491,000) respectively. Revenue and net profit after tax increased in line with the expanded distribution network. Gross and net profit margin increased as Permanence became more efficient. While distribution of Citizen and Casio in three provinces were strong revenue drivers, Permanence started distributing Ernest Borel, Enicar and Titoni during the year. As of 31 December 2011, there were 60 distribution outlets and 2 single-brand retail boutiques; Permanence also supplied to 53 wholesale customers.

### Ruihuang (Chongqing) Watch Co., Ltd.

Ruihuang (Chongqing) Watch Co., Ltd. ("Ruihuang"), a 51% owned subsidiary of the Group, developed leading boutiques for well known Swiss watch brands such as Longines and Tissot; distributed leading Swiss and Japanese watch brands such as Rado, Enicar, Titoni and Ernest Borel through the leading department stores; and set up maintenance centre for various imported watches in Chongqing.

Ruihuang contributed revenue and net profit after tax of approximately HK$190,022,000 (2010: HK$24,141,000) and HK$6,775,000 (2010: Net loss after tax of HK$234,000) respectively. By 31 December 2011, Ruihuang have already established 30 multi-brand retail shops and supplied to 10 wholesale customers.

### Guangdong Juxin Watch Co., Ltd.

Guangdong Juxin Watch Co., Ltd. ("Juxin"), a 51% owned subsidiary of the Group, was established in January 2011. Juxin distributed leading Swiss and Japanese watch brands such as Casio, Citizen, Ernest Borel, Mido, Sandoz, Seiko, Tissot, Titoni and Tudor through the leading department stores in various cities in Guangdong such as Foshan, Guangzhou, Zhongshan, Shaoguan and Qingyuan. Juxin contributed revenue and net profit after tax of approximately HK$42,728,000 and HK$1,096,000 respectively. Casio was the strongest revenue driver for Juxin during the year. Juxin was awarded the "Outstanding Distributor" by Casio in April 2011. As of 31 December 2011, there were 8 multi-brand retail shops, 3 single-brand boutiques and 14 distribution outlets.

### Liaoning Hengjia Horologe Co., Ltd.

Liaoning Hengjia Horologe Co., Ltd. ("Hengjia"), a 51% owned subsidiary of the Group, was established in May 2011. Hengjia distributed leading Swiss and Japanese watch brands. Hengjia operates 2 single-brand boutiques, one for Rado and one for Tissot. The Tissot boutique was considered to be one of the top performers of Tissot in Mainland China in 2011. Hengjia also operates multi-brand retail shops in the leading department stores in various leading cities in Liaoning. Henjia is actively developing single-brand boutiques and multi-brand retail shops in Liaoning. As of 31 December 2011, there were 6 multi-brand retail shops, 2 single-brand boutiques and over 10 wholesale customers. Hengjia contributed revenue and net profit after tax of approximately HK$42,734,000 and HK$630,000 respectively.

### Beijing Haina Tianshi Watch Company Limited

On 29 December 2011, the Group agreed to invest RMB15,300,000 in cash and Beijing Kuntai Hengshi Trading Company Limited ("Kuntai Hengshi") to invest RMB14,700,000 in cash for 51% and 49% of Beijing Haina Tianshi Watch Company Limited ("Haina") respectively. Haina will take up all the operating assets, businesses, operating contracts and staff of each of Kuntai Henshi, Beijing Rirui Fengcai Trading Company Limited ("Rirui Fengcai") and Beijing Rirui Tianshi Watch Company Limited ("Rirui Tianshi").

Kuntai Hengshi, principally engaged in the wholesale and retail of watches, has set up branch companies and retail stores in various locations including Tianjin, Beijing, Shijiazhuang and Inner Mongolia for the sale of certain well-known international watch brands. Rirui Fengcai, principally engaged in the wholesale and retail of watches, has set up certain branch companies and retail stores in Beijing and Kunming for sale of certain well-known international watch brands. Rirui Tianshi, a wholly-owned PRC subsidiary of Rirui Fengcai, operates retail stores of a well-known international watch brand.

The acquisition would broaden the Group's retail network and expand its business of distribution of international watch brands. In particular, it allows the Group to enter into the Beijing and Tianjin retail watch market.

## (3) WATCHES AND TIMEPIECES – PRODUCTION

### Guangzhou Five Sheep Watch Limited

On 10 November 2011, Shenzhen Seti Trading Development Company Limited ("Seti Trading"), a wholly-owned subsidiary of the Company, and Rossini agreed to invest cash of RMB73 million and RMB5 million respectively and Guangzhou Watch Factory to invest assets of RMB22 million to establish Guangzhou Five Sheep Watch Limited ("Five Sheep"), which is engaged in the manufacture and distribution of mechanical movements and watches. Seti Trading, Rossini and Guangzhou Watch Factory own 73%, 5% and 22% of Five Sheep respectively. It is expected that given their comprehensive experience, Guangzhou Watch Factory would give Five Sheep their enormous leverage in the production quality. When its production commences in March 2012, Five Sheep would serve to provide mechanical movement production facilities and watch manufacturing facilities for the Group. It would be a profit driver for the Group.

### Fair Future Industrial Limited

On 15 December 2011, Sure Best Management Limited, a wholly-owned subsidiary of the Group, agreed to acquire 25% of the issued shares of Fair Future Industrial Limited ("Fair Future") at a total consideration of HK$56,000,000. The consideration will be settled by the allotment and issue of the shares of the Company.

Fair Future is principally engaged in the manufacture of watches and accessories of watches in Hong Kong. Fair Future manufactures watches for a well-known Japanese brand on an OEM basis. Fair Future contracts the manufacture of watches to its Shenzhen subsidiary.

The acquisition would not only broaden the Group's source of income but also enhance the Group's manufacturing base.

## (4) INVESTMENT IN CITYCHAMP DARTONG

During the year, the Group received cash dividend of HK$6,551,000 from Citychamp Dartong Company Limited ("Citychamp Dartong"). On 15 March 2012, Citychamp Dartong announced its results under PRC GAAP for the year ended 31 December 2011. The earnings per share for the year was RMB1.08, which represented an increase of 54% as compared with last year. The annual dividends from Citychamp Dartong and gradual divestment of shares of Citychamp Dartong shares will provide sources of funds for potential watches and timepieces related acquisitions.

## (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 the PRC, 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.

## (6) MOTOR YACHT

Chart Victory Limited ("Chart Victory"), a 100% owned subsidiary of the Group, acts as the sole distributor of Princess Yachts International plc in Hong Kong. Four motor yachts were sold during the year. Chart Victory contributed revenue and net loss of approximately HK$29,809,000 (31 December 2010:HK$14,372,000) and HK$6,390,000 (2010: HK$1,000) respectively.

## (7) ENAMELLED COPPER WIRES BUSINESS

The Group completed the disposal of Fuzhou Dartong Machinery and Electronic Company Limited ("Fuzhou Dartong") on 30 June 2011 and the disposal of Jiangsu Dartong M&E Co. Ltd. ("Jiangsu Dartong") on 14 July 2011.

Fuzhou Dartong contributed profit after tax of HK$16,036,000 (2010: HK$7,063,000) of which HK$12,280,000 was gain on disposal. The Group's share of profit of Jiangsu Dartong was HK$1,991,000 (2010: HK$6,979,000) and the loss on disposal of Jiangsu Dartong was HK$4,952,000.

## FINANCIAL POSITION

### (1) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2011, the Group had non-pledged cash and bank balances of approximately HK$351,276,000 (31 December 2010: HK$837,872,000). Based on the bank loans of HK$86,171,000 (31 December 2010: HK$35,353,000) and shareholders' equity of HK$3,058,389,000 (31 December 2010: HK$3,284,782,000), the Group's gearing ratio (being loans divided by shareholders' equity) was 3% (31 December 2010: 1%).

As at 31 December 2011, the Group's bank loans amounted to HK$86,171,000 and all were repayable within one year.

### (2) CHARGE ON ASSETS

Banking facilities of the Company were secured by the Group's investment properties in Tai Hang with net book values amounting to approximately HK$19,000,000 as at 31 December 2011 (31 December 2010: HK$18,800,000).

### (3) CAPITAL COMMITMENTS

As at 31 December 2011, the Group had capital commitments of HK$119,721,000 (31 December 2010: HK$36,843,000). The capital commitments included HK$62,730,000 for the establishment of a joint venture company in the PRC, namely Beijing Haina Tianshi Watch Company Limited, which will be principally engage in the wholesale and retail of watches and accessories in the PRC and HK$56,000,000 for the acquisition of 25% equity interest in Fair Future Industrial Limited which is principally engaged in the manufacture of watches and accessories of watches.

## FINANCIAL REVIEW

### (1) GROSS PROFIT

Gross profit (continuing and discontinued operations) was HK$844,039,000, an increase of 70% from HK$495,264,000 in last year. Gross profit margin increased slightly.

### (2) SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses (continuing and discontinued operations) of HK$345,813,000 were 65% higher than last year. Such increase was in line with the increase in revenue. Rossini contributed selling and distribution expenses of HK$141,371,000, while EBOHR contributed selling and distribution expenses of HK$145,720,000.

### (3) ADMINISTRATIVE EXPENSES

Administrative expenses (continuing and discontinued operations) of HK$238,538,000 were 51% higher that last year. Such increase was lower than the increase in revenue. Rossini contributed administrative expenses of HK$34,217,000 while EBOHR contributed administrative expenses of HK$55,729,000.

## OUTLOOK

The volatility of the global financial markets increased during the first three months of 2012. This was mainly because of fears of a global slowdown due to two major factors: the Eurozone soverign debt crisis and concern over the US economy. The markets remain skeptical about the fiscal policies adopted by world leaders for the recovery of the global economy. Notwithstanding these challenges, Mainland China's economy is expected to be optimistic as the relevant fiscal imposed to enhance economic development momentum and further urbanization, which generate the domestic demand. In short, Mainland China is more likely to weather any further deterioration better than the western countries.

Looking ahead, following the strategic transformation of the Group, the Group has now integrated the value chain with the capability of designing, manufacturing, and distributing domestic and international proprietary watches, distributing non-proprietary watches, manufacturing mechanical movement, and manufacturing key watch components. Strongly rooted in Mainland China, the Group would gradually develop its business internationally and improved the management. It is the objective of the Group to grow steadily and lay a strong foundation for sustainable growth.

Our existing subsidiaries that focusing on both proprietary brands and non-proprietary brands would continue the impressive organic growth through product, distribution and market development from the first-tier cities to second- and third-tier cities. That relatively strong capability to develop and manufacture mechanical movement would further enhance the dominant position in the Mainland China watch industry. The Group would take the opportunity in the Mainland China markets to improve the brand image and generate the revenue and profit and strive to provide the best return for the stakeholders.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2011, the Group had approximately 3,000 full-time staff in Hong Kong and the PRC. 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.

## DIVIDENDS AND CLOSURE OF REGISTER OF MEMBERS

The Board recommended the payment of a final dividend of HK4.5 cents per share for the year ended 31 December 2011, subject to the approval by shareholders at the forthcoming Annual General Meeting (year ended 31 December 2010: HK3.5 cents). If approved by shareholders at the Annual General Meeting, the final dividend is expected to be paid in Hong Kong dollars on or before 31 July 2012 to those members registered in the Company's register of members as at 5 July 2012.

The register of members of the Company will be closed from 3 July 2012 to 5 July 2012, both days inclusive, during which period no transfer of share will be registered. In order to qualify for the final dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's share registrars in Hong Kong, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 29 June 2012.

## 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2011, except for the deviations from code provisions E.1.2 of the Code as explained in the Company's interim report for the six months ended 30 June 2011.

Details of compliance with the Code will be set out in the corporate governance report in the 2011 Annual Report.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2011.

## AUDIT COMMITTEE

The Company has an audit committee ("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 2011.

## 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

In the year under review, the Company repurchased a total of 17,362,000 of its ordinary shares of HK$0.10 each on the Stock Exchange at prices ranging from HK$0.64 to HK$1.05 per share, for a total consideration of HK$17,253,000.

Apart from the above, there were no purchase, sales or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

## 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

The Group's impressive performance in the past period was the result of the dedicated work by the management and its staff. I would like to take this opportunity to express our sincere gratitude to our employees, customers, bankers, professional consultants and shareholders for their support.

By order of the Board
Hon Kwok Lung
*Chairman*

Hong Kong, 26 March 2012

*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.*