THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Haidian Holdings Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or to the transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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)

PROPOSED OFF-MARKET SHARE BUY-BACK

Financial Adviser to China Haidian Holdings Limited

Quam CAPITAL 華富嘉洛企業融資

Independent Financial Adviser to the Independent Board Committee

ALTUS CAPITAL LIMITED

A letter from the Board is set out on pages 5 to 15 of this circular. A letter from the Independent Board Committee is set out on page 16 of this circular. A letter from the Independent Financial Adviser, containing its advice to the Independent Board Committee, is set out on pages 17 to 27 of this circular.

A notice convening the EGM to be held at Units 1902–04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong on Monday, 31 March 2014 at 11:00 a.m. is set out on pages 148 to 149 of this circular. Whether or not you propose to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the Company's share registrar in Hong Kong, Tricor Secretaries Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event so as to arrive not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the meeting or any adjournment thereof if you so wish.

6 March 2014

CONTENTS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"Acquisition"	the acquisition of 100% equity interest in Montres Corum Sàrl by the Company and related transactions, details of which were disclosed in the Company's announcements dated 23 April 2013 and 10 July 2013 and circular dated 25 June 2013
"acting in concert"	has the meaning ascribed to it under the Takeovers Code
"Announcement"	the announcement of the Company dated 13 February 2014 in relation to the Share Buy-back
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Business Day"	a day on which commercial banks are open for business in Hong Kong (excluding Saturdays, Sundays, public holidays and any weekday on which typhoon signal no. 8 or higher is hoisted or a black rain storm warning is given in Hong Kong at any time during 9:00 a.m. to 5:00 p.m.)
"Buy-back Code"	the Code on Share Buy-backs
"Buy-back Price"	HK$0.75 per Share to be payable by the Company for the Share Buy-back
"Buy-back Shares"	340,300,000 Shares held by the Vendors to be bought back by the Company pursuant to the Share Buy-back Agreement
"Companies Law"	the Companies Law of the Cayman Islands
"Company"	China Haidian Holdings Limited 中國海澱集團有限公司, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
"Completion"	completion of the sale and purchase of the Buy-back Shares pursuant to the Share Buy-back Agreement

"Completion Date"	the date of Completion
"connected person"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company
"EGM"	an extraordinary general meeting of the Company to be held at Units 1902–04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong on Monday, 31 March 2014 at 11:00 a.m., for the purpose of considering, and if thought fit, approving the Share Buy-back
"Executive"	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any of his delegates
"Full Day"	a company incorporated in the British Virgin Islands with limited liability and is wholly-owned by Mr. Hon Kwok Lung, the Chairman of the Company
"Group"	the Company and its subsidiaries
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Independent Board Committee"	the committee of the Board comprising all the independent non-executive Directors, namely Mr. Fung Tze Wa, Dr. Kwong Chun Wai, Michael and Mr. Li Qiang, which has been established for the purpose of advising and giving recommendation to the Independent Shareholders in respect of the Share Buy-back
"Independent Financial Adviser" or "Altus Capital"	Altus Capital Limited, a licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO and the independent financial adviser appointed to advise the Independent Board Committee on the terms of the Share Buy-back Agreement
"Independent Shareholders"	Shareholders other than the Vendors, their associates and parties acting in concert with any of them

"Latest Practicable Date"	4 March 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Montres Corum Sàrl"	a company incorporated in Switzerland with limited liability and a wholly-owned subsidiary of the Company
"Mr. Tomlin"	Mr. Richard E. Tomlin Jr
"MW"	Severin Wunderman Family Trust for the benefit of Michael Wunderman
"Promissory Notes"	the promissory notes in the aggregate principal amount of US$26,311,856 (equivalent to approximately HK$204.4 million) to be issued by the Company to the Vendors at the Completion Date pursuant to the Share Buy-back Agreement
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) of HK$0.1 each in the share capital of the Company
"Share Buy-back"	the buy-back of the Buy-back Shares by the Company from the Vendors pursuant to the terms of the Share Buy-back Agreement
"Share Buy-back Agreement"	the agreement dated 13 February 2014 entered into between the Company and the Vendors in respect of the Share Buy-back
"Shareholder(s)"	holder(s) of the Shares
"Share Options"	share options granted by the Company pursuant to its share option scheme adopted on 30 May 2008
"SPG"	Severin Participations GmbH (formerly known as Severin Participations AG)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Takeovers Code"	The Code on Takeovers and Mergers
"Vendors"	SPG and Mr. Tomlin, as the trustee of MW
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the People's Republic of China and the exchange rate between RMB and HK$ for the purpose of this circular is RMB1: HK$1.28
"US$"	United States dollar, the lawful currency of the United States and the exchange rate between US$ and HK$ for the purpose of this circular is US$1: HK$7.77
"%"	per cent.

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)

Executive Directors:
Hon Kwok Lung
Shang Jianguang
Shi Tao
Lam Toi Man
Bi Bo
Sit Lai Hei

Independent non-executive Directors:
Fung Tze Wa
Kwong Chun Wai, Michael
Li Qiang

Registered office:
P.O. Box 309
Ugland House
South Church Street
Grand Cayman
Cayman Islands

Principal place of business:
Units 1902–04, Level 19
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

6 March 2014

To the Shareholders,

Dear Sir or Madam,

PROPOSED OFF-MARKET SHARE BUY-BACK

I. INTRODUCTION

Reference is made to the Announcement in relation to the Share Buy-back.

The purpose of this circular is to provide the Shareholders with, among other things, (i) details of the Share Buy-back; (ii) the letter from the Independent Board Committee giving its recommendation to the Independent Shareholders on the Share Buy-back; (iii) the letter from Altus Capital containing its advice to the Independent Board Committee; (iv) the notice of the EGM; and (v) other information as required under the Takeovers Code and the Buy-back Code.

THE SHARE BUY-BACK AGREEMENT

Date

13 February 2014

Parties

(i) The Company, as the purchaser; and

(ii) SPG and Mr. Tomlin, as the trustee of MW, as the vendors.

SPG is wholly-owned by Severin Investment Company, which in turn is wholly-owned by Severin Wunderman Trust. The Severin Wunderman Family Foundation is the residual beneficiary of the Severin Wunderman Trust, an irrevocable trust governed by the laws of the States of Nevada, the United States. The trustee of each of the Severin Wunderman Family Foundation and MW is Mr. Tomlin. Although Mr. Tomlin holds the position of an executive director at Montres Corum Sàrl, a subsidiary of the Company, he is not a member of the board of gérants (equivalent to board of directors) of Montres Corum Sàrl. Save for the aforesaid, the Vendors' interest in the Buy-back Shares and Mr. Tomlin's interest in 31,125,000 Shares through Tomlin Management Company, to the best knowledge of the Directors, information and belief, having made all reasonable enquiries, the Vendors and their beneficiaries are independent of and not connected with the Company or its connected persons.

Shares to be bought back

Pursuant to the Share Buy-back Agreement, the Company conditionally agreed to purchase and the Vendors conditionally agreed to sell the Buy-back Shares, representing approximately 7.17% of the issued share capital of the Company as at the date of the Share Buy-back Agreement and the Latest Practicable Date.

The Buy-back Shares will be purchased by the Company free and clear of any encumbrances and together with all rights attaching to them on or after Completion (including the right to receive any dividends or other distributions which are declared, made or paid on or after Completion). The Vendors are entitled to receive all distributions and dividends in respect of the Buy-back Shares declared and paid prior to the Completion Date. All distributions and dividends declared prior to but paid after the Completion, and all distributions and dividends declared and/or paid after the Completion shall belong to the Vendors only in the event the transactions under the Share Buy-back is unwound.

Consideration

The Buy-back Price is HK$0.75 per Share. The aggregate consideration for the Buy-back Shares is HK$255,225,000 (equivalent to US$32,889,820 as agreed in the Share Buy-back Agreement). On the Completion Date, the aggregate consideration shall be satisfied by the Company as follows:

(i) the Company shall pay to SPG US$5,174,130 (equivalent to approximately HK$40.2 million) less SPG's share of stamp duty;

(ii) the Company shall pay to MW US$1,403,834 (equivalent to approximately HK$10.9 million) less MW's share of stamp duty; and

(iii) the Company shall issue four Promissory Notes to each of the Vendors with the principal amounts and due dates set out below:

	Principal amount		Due date
	SPG	**MW**	
1.	US$5,174,130 (equivalent to approximately HK$40.2 million)	US$1,403,834 (equivalent to approximately HK$10.9 million)	15 June 2014
2.	US$5,174,130 (equivalent to approximately HK$40.2 million)	US$1,403,834 (equivalent to approximately HK$10.9 million)	15 December 2014
3.	US$5,174,130 (equivalent to approximately HK$40.2 million)	US$1,403,834 (equivalent to approximately HK$10.9 million)	15 June 2015
4.	US$5,174,130 (equivalent to approximately HK$40.2 million)	US$1,403,834 (equivalent to approximately HK$10.9 million)	15 December 2015

The aggregate consideration will be financed by the Group's internal resources. The Buy-back Price was arrived at after arm's length negotiations between the Company and the Vendors having taken into account that (i) 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 and the consideration Shares were issued at the issue price of HK$0.8 per Share, or a total of approximately HK$272.2 million, on 9 July 2013; and (ii) the then market prices of the Shares prior to the date of the Share Buy-back Agreement.

The Buy-back Price represents:

(i) a discount of 6.25% to the issue price of the Buy-back Shares of HK$0.8 per Share;

(ii) a discount of approximately 6.25% to the closing price of HK$0.80 per Share quoted on the Stock Exchange on 12 February 2014, being the last trading day prior to the date of the Share Buy-back Agreement;

(iii) a discount of approximately 3.85% to the average closing price of approximately HK$0.78 per Share quoted on the Stock Exchange for the last five trading days up to and including 12 February 2014;

(iv) a discount of approximately 2.60% to the average closing price of approximately HK$0.77 per Share quoted on the Stock Exchange for the last ten trading days up to and including 12 February 2014;

(v) the average closing price of approximately HK$0.75 per Share quoted on the Stock Exchange for the last 30 trading days up to and including 12 February 2014;

(vi) a discount of approximately 18.48% to the closing price of HK$0.92 per Share quoted on the Stock Exchange on the Latest Practicable Date; and

(vii) a discount of approximately 22.68% to the unaudited net asset value (excluding non-controlling interests) per Share as at 30 June 2013 of approximately HK$0.97.

Conditions precedent

Completion is conditional upon the satisfaction of the following conditions:

(i) the Independent Shareholders having approved the transactions contemplated under the Share Buy-back Agreement in accordance with the requirements of the Buy-back Code and other applicable laws and regulations, and having approved the manner of buy back of the Buy-back Shares in accordance with the requirements of the Company's memorandum and articles of association;

(ii) the Executive having granted and not having withdrawn his approval of the Share Buy-back;

(iii) the representations and warranties given by the parties in the Share Buy-back Agreement remaining true and accurate in all respects and not misleading in any respect as of the Completion Date by reference to the facts and circumstances subsisting as at the Completion Date;

(iv) no notice, order, judgment, action or proceeding of any court, arbitrator, authority, statutory or regulatory body having been served, issued or made which restrains, prohibits or makes unlawful any transaction contemplated by the Share Buy-back Agreement; and

(v) in addition to the approvals and consents referred to in conditions (i) and (ii) above, all necessary approvals and consents required to be obtained by the Company from any authority or other third party in respect of the Share Buy-back Agreement and/or the transactions contemplated thereunder having been obtained unconditionally and irrevocably, or where such approval or consent is given subject to conditions, on such conditions as are reasonably acceptable to the Company.

The Company may at any time waive in whole or part and conditionally or unconditionally any of the above conditions (other than conditions (i), (ii), (iii) (with respect to the warranties given by the Company) and (iv)). The Vendors may at any time waive in whole or part and conditionally or unconditionally condition (iii) (with respect to the warranties given by the Company). None of the above conditions had been satisfied as at the Latest Practicable Date. The Company has no intention to waive any of the above conditions.

Completion

Completion shall take place on the third Business Day of the date on which the last of the aforesaid conditions (other than condition (iii), which shall be satisfied or waived at or before Completion) is satisfied or waived in accordance with the Share Buy-back Agreement (or such other date as may be agreed by the Company and the Vendors in writing). If the conditions (other than condition (iii)) are not satisfied or waived (as the case may be) on or before 15 April 2014 (or such other date as may be agreed by the Company and the Vendors in writing) and condition (iii) is not satisfied or waived on or before the Completion Date, the Share Buy-back Agreement shall automatically lapse without liability to any party thereto save for certain surviving provisions and rights and liabilities accrued prior to such lapse.

Terms of the Promissory Notes

The Promissory Notes shall become due and payable in full by the Company on their respective due dates, subject to the Company's right to redeem the whole or part of the outstanding principal amount of the relevant Promissory Note at any time prior to the due date if the Company has given to the holder of the Promissory Note not less than seven days prior written notice.

Notwithstanding the due dates of the Promissory Notes, the whole amount of the principal amount and all interest payable thereunder shall become immediately due and payable upon the events of (i) the Company failing to pay in full any amount due under the Promissory Notes on the due dates; (ii) the Company becoming insolvent or failing to pay its debts as they fall due; (iii) dissolution of the Company or the Company being under receivership; or (iv) any present or future security on or over all or substantially all of the assets of the Company or any of its material subsidiaries becoming enforceable.

The Promissory Notes will bear interest at 2.2% per annum. Accrued interest shall be paid on the due date or the date of redemption (as the case may be). If any amount due under the Promissory Notes is not paid on the due dates or the date of redemption (as the case may be), the Company will be required to pay interest on such amount at 6.6% per annum until such amount is paid in full.

The Promissory Notes may not be transferred by their holders to any person without the prior written approval of the Company.

EFFECTS ON THE SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates the changes to the Company's shareholding structure as a result of the cancellation of the Buy-back Shares.

Scenario 1: Assuming none of the Share Options are exercised

	As at the Latest Practicable Date		**Immediately upon cancellation of the Buy-back Shares**	
	Number of Shares	%	*Number of Shares*	%
Sincere View International Limited *(Note 1)*	1,163,247,515	24.51	1,163,247,515	26.40
Full Day *(Note 1)*	1,750,000,000	36.87	1,750,000,000	39.72
Lam Suk Ying *(Note 1)*	1,374,000	0.03	1,374,000	0.03
Hon Kwok Lung *(Note 1)*	3,500,000	0.07	3,500,000	0.08
Sub-total of Full Day and parties acting in concert with it	2,918,121,515	61.48	2,918,121,515	66.23
Directors:				
Fung Tze Wa *(Note 2)*	3,500,000	0.07	3,500,000	0.08
Lam Toi Man *(Note 3)*	3,500,000	0.07	3,500,000	0.08
Shang Jianguang *(Note 3)*	8,000,000	0.17	8,000,000	0.18
Shi Tao *(Note 3)*	5,000,000	0.11	5,000,000	0.11
Public Shareholders:				
SPG	267,675,000	5.64	–	–
MW	72,625,000	1.53	–	–
Tomlin Management Company *(Note 4)*	31,125,000	0.66	31,125,000	0.71
Sub-total of the Vendors and parties acting in concert with them	371,425,000	7.83	31,125,000	0.71
Other public Shareholders	1,436,853,691	30.27	1,436,853,691	32.61
Sub-total of public Shareholders	1,808,278,691	38.10	1,467,978,691	33.32
Total	4,746,400,206	100.00	4,406,100,206	100.00

Scenario 2: Assuming the outstanding Share Options are exercised in full

	Immediately upon exercise of the outstanding Share Options in full but before cancellation of the Buy-back Shares		Immediately after the exercise of the outstanding Share Options in full and upon cancellation of the Buy-back Shares	
	Number of Shares	%	*Number of Shares*	%
Sincere View International Limited *(Note 1)*	1,163,247,515	24.42	1,163,247,515	26.30
Full Day *(Note 1)*	1,750,000,000	36.74	1,750,000,000	39.57
Lam Suk Ying *(Note 1)*	1,374,000	0.03	1,374,000	0.03
Hon Kwok Lung *(Note 1)*	3,500,000	0.07	3,500,000	0.08
Sub-total of Full Day and parties acting in concert with it	2,918,121,515	61.26	2,918,121,515	65.98
Directors:				
Fung Tze Wa *(Note 2)*	3,500,000	0.07	3,500,000	0.08
Li Qiang *(Note 2)*	3,500,000	0.07	3,500,000	0.08
Lam Toi Man *(Note 3)*	3,500,000	0.07	3,500,000	0.08
Shang Jianguang *(Note 3)*	8,000,000	0.17	8,000,000	0.18
Shi Tao *(Note 3)*	5,000,000	0.10	5,000,000	0.11
Public Shareholders:				
SPG	267,675,000	5.62	–	–
MW	72,625,000	1.52	–	–
Tomlin Management Company *(Note 4)*	31,125,000	0.65	31,125,000	0.70
Sub-total of the Vendors and parties acting in concert with them	371,425,000	7.79	31,125,000	0.70
Other public Shareholders	1,450,063,691	30.47	1,450,063,691	32.79
Sub-total of public Shareholders	1,821,488,691	38.26	1,481,188,691	33.49
Total	4,763,110,206	100.00	4,422,810,206	100.00

Notes:

1. Sincere View International Limited is owned as to 80% by Mr. Hon Kwok Lung and 20% by Ms. Lam Suk Ying, the spouse of Mr. Hon Kwok Lung. Full Day is wholly-owned by Mr. Hon Kwok Lung. Mr. Hon Kwok Lung is the Chairman of the Company.

2. Mr. Fung Tze Wa and Mr. Li Qiang are independent non-executive Directors.

3. Mr. Lam Toi Man, Mr. Shang Jianguang and Mr. Shi Tao are executive Directors.

4. The sole beneficial owner of Tomlin Management Company is Mr. Tomlin.

Save for 16,710,000 Share Options, there were no outstanding convertibles, warrants or rights to subscribe for any Shares as at the Latest Practicable Date.

Following Completion, the Buy-back Shares will be cancelled in accordance with the Companies Law and the number of Shares in issue following the Share Buy-back will be reduced from 4,746,400,206 Shares (being the number of issued Shares as at the Latest Practicable Date) to 4,406,100,206 Shares (assuming no other change in the issued share capital of the Company) and, therefore, the shareholding interest of the remaining Shareholders will increase proportionally. The Company will be able to maintain the minimum public float requirement pursuant to Rule 8.08 of the Listing Rules after the Share Buy-back.

As illustrated by the above shareholding table, the interest of Full Day will increase from approximately 36.87% as at the Latest Practicable Date to approximately 39.72% immediately upon Completion (assuming no other change in the issued share capital of the Company). The increase in the shareholding interest of Full Day in the Company as a result of the Share Buy-back would give rise to an obligation to make an offer under Rule 26 of the Takeovers Code. Full Day and parties acting in concert with it will hold more than 50% of the issued share capital of the Company before and after Completion. Full Day has made an application to, and the Executive has granted a waiver from such obligation under Note 6(b) to Rule 26.1 of the Takeovers Code. The Share Buy-back will not result in a change of control of the Company.

FINANCIAL EFFECTS OF THE SHARE BUY-BACK

The Share Buy-back will not materially affect the financial position of the Group. The Share Buy-back is expected to result in an increase in consolidated earnings per Share. Assuming the Share Buy-back had taken place on 30 June 2013, the unaudited consolidated net asset value of the Company as at 30 June 2013 would decrease by HK$255,225,000, being the aggregate consideration for the Buy-back Shares. The consolidated net assets value per Share is expected to increase as a result of the Share Buy-back. The consideration of the Share Buy-back will be settled by cash and Promissory Notes. The Share Buy-back is expected to increase the liabilities of the Group due to the Promissory Notes. The use of the Promissory Notes to settle part of the consideration of the Share Buy-back helps defer the payments over a period of 18 months. Given that the Group had surplus funds as at the Latest Practicable Date and the deferred payment of the consideration, the Share Buy-back is not expected to have material adverse impact on the Group's working capital.

REASONS FOR AND BENEFITS OF THE SHARE BUY-BACK

The Company issued 347,562,500 Shares at HK$0.8 per Share to the Vendors for their then equity interests in Montres Corum Sàrl under the Acquisition. The Vendors held 340,300,000 Shares as at the Latest Practicable Date, of which 325,282,854 Shares are subject to lock-up and sale restrictions. Pursuant to the terms of the agreement of the Acquisition, the Company's consent to a sale or disposal of the consideration Shares in higher volumes than permitted under the agreement shall not be withheld unreasonably if such sale or disposal is effected by way of a block trade or share placement with one or several buyers or investors in a negotiated and agreed transaction rather than by way of market sales. The Vendors approached the Company to seek consent for disposing of all their interests in the Company. The Vendors also offered to sell the Shares to the Company, making it known they were willing to accept a discount price in order to allow for successful and expedient disposal.

Given the high volume of the Shares held by the Vendors (being approximately 7.17% of the issued share capital of the Company) compared to the thin average trading volume of the Shares (approximately 0.07% of the issued share capital of the Company for the last 60 trading days prior to and including 12 February 2014, being the last trading day prior to the date of the Share Buy-back Agreement), it may be difficult for the Vendors to dispose of their interests in the Shares by way of block trade or share placement without a substantial discount to the Share prices, which may exert a downward pressure on the Share prices.

The Company considers that the Share Buy-back represents an opportunity to buy back the Shares at a discount to the issue price of the Shares issued to the Vendors in July 2013 and to avoid the possible disposal of a high volume of Shares by the Vendors at a substantial discount to the then Share prices, which may exert a downward pressure on the Share prices.

The Group had surplus funds as at the Latest Practicable Date, which are currently not required to be applied in its normal operations, and thus the Share Buy-back represents an opportunity to utilise the funds in order to augment Shareholders' value. The management of the Group will continue to use the Group's excess cash resources to seek profitable investment opportunities. As at the Latest Practicable Date, the Company had not entered into any agreement in respect of any potential acquisition or investment.

BUY-BACK CODE IMPLICATIONS

The Share Buy-back constitutes an off-market share buy-back by the Company under the Buy-back Code. The Company has made an application to the Executive for approval of the Share Buy-back pursuant to Rule 2 of the Buy-back Code. The Executive's approval, if granted will be conditional upon, among other things, approval of the Share Buy-back by at least three-fourths of the votes cast on a poll by the Independent Shareholders at the EGM. Pursuant to Rule 2(c) of the Buy-back Code, a certified copy of the resolution approving the Share Buy-back is required to be filed with the Executive within three days of the EGM.

GENERAL

The Group is principally engaged in the manufacture and distribution of watches and timepieces. For the two years ended 31 December 2011 and 2012, the audited net profit before taxation of the Group were approximately HK$334.0 million and HK$413.7 million respectively, and the audited net profit after taxation of the Group were approximately HK$265.8 million and HK$310.3 million respectively. As at 30 June 2013, the unaudited net asset value attributable to owners of the Company was approximately HK$4,196.5 million.

The Independent Board Committee (comprising all the independent non-executive Directors, namely, Mr. Fung Tze Wa, Dr. Kwong Chun Wai, Michael and Mr. Li Qiang) has been established to consider the Share Buy-back and to give recommendation to the Independent Shareholders as to how to vote on the resolution to be proposed at the EGM in relation thereof. In this connection, Altus Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee as to whether the Share Buy-back is fair and reasonable and make recommendation on voting. Such appointment has been approved by the Independent Board Committee formed to advise the Independent Shareholders on such matter.

EGM

The notice of the EGM is set out on pages 148 to 149 of this circular. The Vendors and parties acting in concert with them held 371,425,000 Shares, representing approximately 7.83% of the issued share capital of the Company as at the Latest Practicable Date. The Vendors, their associates and parties acting in concert with any of them are required to abstain from voting on the resolution to be proposed at the EGM approving the Share Buy-back. To the best knowledge of the Directors, save for these parties, no other Shareholder is required to abstain from voting on the resolution approving the Share Buy-back. No Director is considered to have a material interest in the Share Buy-back, thus no Director has abstained from voting on the Board resolution approving the Share Buy-back.

VOTING BY WAY OF POLL

All votes at the EGM will be taken by poll pursuant to Rule 2 of the Buy-back Code.

RECOMMENDATION

The Directors (excluding the members of the Independent Board Committee whose views are expressed in the letter from the Independent Board Committee to the Independent Shareholders set out on page 16 of this circular) are of the opinion that the terms of the Share Buy-back Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The Directors recommend the Shareholders to vote in favour of the relevant resolution to be proposed at the EGM. The Independent Shareholders are advised to read the letters from the Independent Board Committee and the Independent Financial Adviser before deciding as to how to vote on the relevant resolution to be proposed at the EGM.

FURTHER INFORMATION

Your attention is also drawn to the financial information of the Group as set out in Appendix I to this circular, general information as set out in Appendix II to this circular and the notice of the EGM as set out on pages 148 to 149 of this circular.

By order of the Board
China Haidian Holdings Limited
Bi Bo
Executive Director

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)

6 March 2014

To the Independent Shareholders

Dear Sir or Madam,

PROPOSED OFF-MARKET SHARE BUY-BACK

We refer to the circular dated 6 March 2014 issued by the Company (the "**Circular**"), of which this letter forms part. Terms used herein shall have the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and advise the Independent Shareholders as to our opinion on whether the terms of the Share Buy-back Agreement are fair and reasonable so far as the Independent Shareholders are concerned.

Altus Capital has been appointed as the independent financial adviser to the Independent Board Committee to advise on the fairness and reasonableness of the terms of the Share Buy-back Agreement. The letter of advice from Altus Capital are set out on pages 17 to 27 of the Circular.

Having taken into account the principal factors and reasons considered by Altus Capital, its conclusion and advice, we concur with the view of Altus Capital that the terms of the Share Buy-back Agreement are fair and reasonable so far as the Independent Shareholders are concerned and the Share Buy-back is in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Share Buy-back Agreement and the transactions contemplated thereunder.

Yours faithfully,
Independent Board Committee
Fung Tze Wa **Kwong Chun Wai, Michael** **Li Qiang**
Independent non-executive Directors

The following is the text of a letter of advice from Altus Capital Limited, the Independent Financial Adviser to the Independent Board Committee in respect of the Share Buy-back Agreement, which has been prepared for the purpose of incorporation in this circular.

ALTUS CAPITAL LIMITED

Altus Capital Limited
21 Wing Wo Street
Central, Hong Kong

6 March 2014

To the Independent Board Committee

China Haidian Holdings Limited
Unit 1902–04, Level 19
International Commerce Centre
1 Austin Road West
Kowloon, Hong Kong

Dear Sirs,

PROPOSED OFF-MARKET SHARE BUY-BACK

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee in respect of the Share Buy-back Agreement. Details of the Share Buy-back Agreement are set out in the "Letter from the Board" contained in the circular of the Company dated 6 March 2014 (the "**Circular**"), of which this letter forms part. Terms used in this letter shall have the same meaning as those defined in the Circular unless the context requires otherwise.

On 13 February 2014, the Company and the Vendors entered into the Share Buy-back Agreement, pursuant to which the Company conditionally agreed to purchase and the Vendors conditionally agreed to sell 340,300,000 Shares, representing approximately 7.17% of the issued share capital of the Company as at the Latest Practicable Date. The Buy-back Price is HK$0.75 per Share. The aggregate consideration for the Buy-back Shares is HK$255,225,000 (equivalent to approximately US$32,889,820).

Following Completion, the Buy-back Shares will be cancelled in accordance with the Companies Law and the number of Shares in issue following the Share Buy-back will be reduced from 4,746,400,206 Shares (being the number of issued Shares as at the Latest Practicable Date) to 4,406,100,206 Shares (assuming no other change in the issued share capital of the Company).

The Share Buy-back constitutes an off-market share buy-back by the Company under the Buy-back Code. The Company has applied to the Executive for approval of the Share Buy-back pursuant to Rule 2 of the Buy-back Code. The Executive's approval, if granted, will be conditional upon, among other things, approval of the Share Buy-back by at least three-fourths of the votes cast on a poll by the Independent Shareholders at the EGM.

The EGM will be convened for the purpose of considering and, if thought fit, approving a resolution for the Share Buy-back. The Vendors, their associates and their respective concert parties are required to abstain from voting on the resolution. To the best knowledge of the Directors, save for the abovementioned parties, no other Shareholder is required to abstain from voting on the resolution.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. FUNG Tze Wa, Mr. KWONG Chun Wai, Michael, and Mr. LI Qiang, has been established to consider the terms of the Share Buy-back Agreement, and to give advice and recommendation to the Independent Shareholders as to whether the terms of the Share Buy-back Agreement are fair and reasonable so far as the Independent Shareholders are concerned and whether the Share Buy-back as contemplated under the Share Buy-back Agreement is in the interests of the Company and the Shareholders as a whole.

As the Independent Financial Adviser to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee as to (i) whether the Share Buy-back Agreement is in the interests of the Company and the Shareholders as a whole; (ii) whether the terms of the Share Buy-back Agreement are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Board Committee should recommend the Independent Shareholders to vote in respect of the resolution relating thereto to be proposed at the EGM.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company ("**Management**"). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular. The Company will notify the Shareholders of any material changes during the period between the despatch of the Circular and the EGM as soon as possible in accordance with Rule 9.1 of the Takeovers Code. The Shareholders will also be correspondingly informed when there are any material changes to the information and opinion contained or referred to in this letter as soon as possible.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

1. Principal activities and financial information of the Group

(a) Principal activities

The Group is principally engaged in the manufacture and global distribution of timepieces and watches, with some minor interests in property investment and motor yacht distribution. The Group owns several well-known, high-end timepiece and watch manufacturers, including Zhuhai Rossini Watch Industry Limited ("**Rossini**"), Eterna Group and, more recently, Montres Corum Sàrl.

(b) Historical financial information

Set out below is a summary of the audited financial information of the Group for the years ended 31 December 2011 and 2012 and the unaudited financial information for the six months ended 30 June 2013 as extracted from the annual report of the Company for the year ended 31 December 2012 ("**2012 Annual Report**") and the interim report for the six months ended 30 June 2013 ("**2013 Interim Report**").

	For the 6 months ended 30 June	For the year ended 31 December	
	2013	**2012**	**2011**[1]
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)
Revenue	1,302,942	2,240,304	1,465,276
Cost of sales	(630,957)	(1,022,583)	(637,042)
Gross profit	671,985	1,217,721	828,234
Total profit for year/period	421,845	310,287	281,790

(1) For like-for-like comparisons, figures for the year ended 31 December 2011 relating to the Group's discontinued enameled copper wire operations have been excluded, as there were no figures relating to discontinued operations for the year ended 31 December 2012 and six months ended 30 June 2013.

	As at 30 June	As at 31 December	
	2013	**2012**	**2011**
	HK$'000	*HK$'000*	*HK$'000*
	(Unaudited)	(Audited)	(Audited)
Cash and cash equivalents	591,967	228,624	351,276
Current assets	3,269,421	2,553,296	1,835,893
Current liabilities	(1,401,433)	(1,305,018)	(543,286)
Net assets	1,867,988	1,248,278	1,292,607

Sources: 2012 Annual Report, 2013 Interim Report

The Group's revenue and gross profit has consistently increased since 2011. Most recently, the revenue and gross profit recorded in the 6 months ended 30 June 2013 increased approximately 35.9% and 26.4% respectively in comparison with approximately HK$959 million and HK$532 million recorded in the 6 months ended 30 June 2012. This growth is being driven principally by the increase in the value of sales of Rossini and the EBOHR Group (a group engaged in the manufacture and distribution of watches owning, amongst others, the EBOHR and Codex brands) which contributed approximately HK$312 million and HK$244 million to the total gross profit of approximately HK$672 million in the 6 months ended 30 June 2013. Rossini and EBOHR's profit growth was principally driven by an increase in distribution outlets while Rossini's Internet sales also saw an increase of approximately 176% in comparison with the corresponding period of the year before. The increase in the cost of sales has been in line with the increased revenue.

As at 30 June 2013, the Group's primary current asset was its inventories, which amounted to approximately HK$1,656 million and comprised over half of the Group's total current assets of approximately HK$3,269 million. The Group's total cash and cash equivalents as at 30 June 2013 amounted to approximately HK$592 million while, of the Group's current liabilities, borrowings comprised the single largest category, amounting to approximately HK$597 million which consisted solely of bank loans.

During the 6 months ended 30 June 2013, the Group's total cash and cash equivalents increased from approximately HK$229 million to HK$592 million. Based on our discussions with the Management, there remain surplus funds as at the Latest Practicable Date which are currently not required to be applied in its normal operations, and thus the Share Buy-back represents an opportunity to utilise the funds in order to augment Shareholder value.

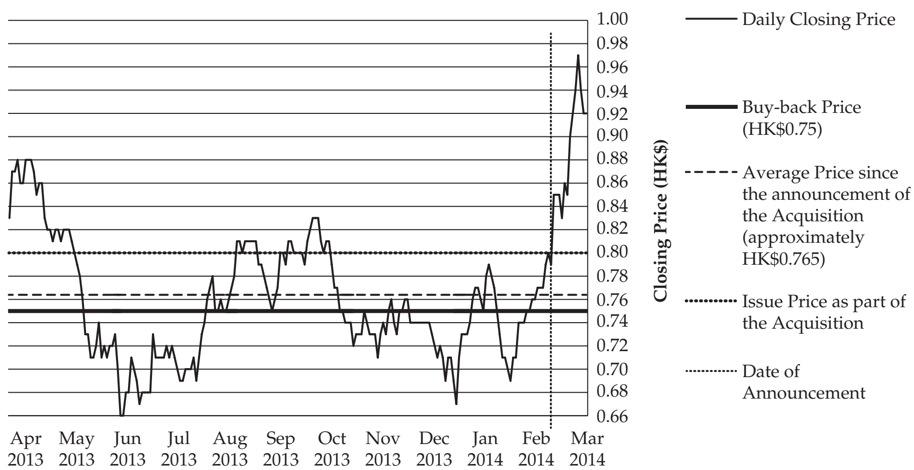
(c) The Acquisition

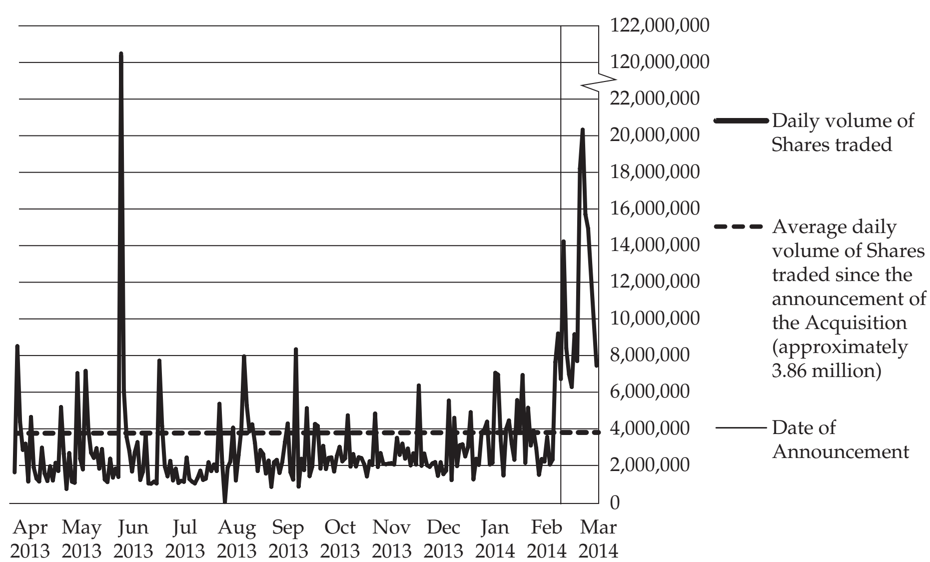
As disclosed in the announcement of the Company dated 10 July 2013, the Group acquired the Vendors' then equity interest in Montres Corum Sàrl, a group principally engaged in the development, manufacture and sale of Swiss luxury timepieces, in consideration for 347,562,500 Shares of the Company, issued at HK$0.80 per Share.

Since the Acquisition, Montres Corum Sàrl has been professionally managed with no involvement from the previous owners, namely the Vendors. The Management has since been working closely with the Montres Corum Sàrl team and believe the disposal under the Share Buy-back Agreement shall have no impact on the management and business operation of Montres Corum Sàrl.

(d) Historical trading price and trading volume

The following graphs show the daily closing price of Shares and the daily trade volume of Shares since release of the announcement relating to the Acquisition on 23 April 2013 up to the Latest Practicable Date.





We noted that the Buy-back Price is at a discount of approximately 6.25% to the issue price as at the Acquisition of HK$0.80 per Share, and is also at a discount of approximately 2.01% to the average closing price of the Shares over the period from the release of the announcement relating to the Acquisition on 23 April 2013 up to the Latest Practicable Date.

The average volume of Shares traded per day from 23 April 2013 up until the Latest Practicable Date was approximately 3.86 million, which represents approximately 1.13% of the total number of Buy-back Shares.

2. Background to the Share Buy-back Agreement

(a) Selling restrictions attached to the Shares issued to the Vendors pursuant to the Acquisition

The Vendors hold 340,300,000 Shares as at the Latest Practicable Date (representing approximately 7.17% of the Group's issued share capital), of which 325,282,854 Shares (representing approximately 6.85% of the Group's issued share capital) are subject to lock-up and sale restrictions. Pursuant to the terms of the agreement of the Acquisition there are two tranches of Shares ("**Tranche A**" and "**Tranche B**"). Of the Shares currently subject to lock up and sale restrictions, we are informed by the Management that approximately 89,118,590 Shares belong to Tranche A and approximately 236,164,264 Shares belong to Tranche B. Tranche A Shares may not be disposed of in excess of 10% of the total Tranche A Shares in any one month in the ten months up until 8 November 2014, and not more than 50% in any one calendar year. Pursuant to the terms of the agreement of the Acquisition, the Company's consent to a sale or disposal of the Tranche A Shares in higher volumes than permitted under the agreement shall not be withheld unreasonably if such sale or disposal is effected by way of a block trade or share placement with one or several buyers or investors in a negotiated and agreed transaction rather than by way of market sales. No amount of Tranche B Shares may be disposed of without the prior written consent of the Company. This lock up restriction will expire on 8 July 2014.

(b) Vendors' recent approach

Given the selling restriction outlined above, the Vendors approached the Company seeking consent to dispose of their interests in the Company, and also offering to dispose of such Shares to the Company, making it known they were willing to accept a discounted price in order to allow for successful and expedient disposal.

As the Share Buy-back represents an opportunity to buy back the Shares at a discounted price in relation to the issue price under the Acquisition and in relation to the closing price per Share at the Latest Practicable Date, and at the same time to avoid any possible downward pressure exerted on the Share price which may have been brought about by the potential disposal of Tranche A Shares as permitted under the agreement of the Acquisition, the Company therefore proposed to conduct the Share Buy-back.

3. The Share Buy-back Agreement

Pursuant to the Share Buy-back Agreement, the Company conditionally agreed to purchase and the Vendors conditionally agreed to sell the Buy-back Shares, representing approximately 7.17% of the issued share capital of the Company as at the date of the Share Buy-back Agreement and the Latest Practicable Date. To assess its fairness and reasonableness, we have considered the following terms of the Share Buy-back Agreement, namely the consideration, the payment method and the terms of Completion.

(a) Consideration

The aggregate consideration for the 340,300,000 Buy-back Shares owned by the Vendors is HK$255,225,000. In assessing the fairness of the consideration, we noted:

i. As the Buy-back Shares were issued at a price of HK$0.80 per Share under 8 months ago, the proposed Buy-back Price of HK$0.75 per Share represents a discount on the Buy-back Shares realised in a relatively short space of time.

ii. As noted in the "Letter from the Board" of the Circular, the Buy-back Price was arrived at after arm's length negotiations between the Company and the Vendors having taken into account (i) 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 and the consideration Shares were issued at the issue price of HK$0.80 per Share on 9 July 2013; and (ii) the then market prices of the Shares prior to the date of the Share Buy-back Agreement. The Buy-back Price also represents:

- a discount of 6.25% to the initial issue price of the Shares issued pursuant to the Acquisition of HK$0.80 per Share;

- a discount of approximately 6.25% to the closing price of HK$0.80 per Share quoted on the Stock Exchange on 12 February 2014, being the last trading day prior to the date of the Share Buy-back Agreement;

- a discount of approximately 3.85% to the average closing price of approximately HK$0.78 per Share quoted on the Stock Exchange for the last five trading days up to and including 12 February 2014;

- a discount of approximately 2.60% to the average closing price of approximately HK$0.77 per Share quoted on the Stock Exchange for the last ten trading days up to and including 12 February 2014;

- the equivalent of the average closing price of approximately HK$0.75 per Share quoted on the Stock Exchange for the last 30 trading days up to and including 12 February 2014; and

- a discount of approximately 18.48% to the closing price of HK$0.92 per Share quoted on the Stock Exchange on the Latest Practicable Date.

Taking these factors into account, and since the Buy-back Price represents a discount of approximately 2.01% on the average closing price since announcement of the Acquisition up to and including the Latest Practicable Date, we believe the Buy-back Price to be fair and reasonable.

(b) Payment method

As noted in the "Letter from the Board" of the Circular, on the Completion Date, the Consideration will be payable in the following manner:

i. the Company shall pay to SPG US$5,174,130 (equivalent to approximately HK$40.2 million) less SPG's share of stamp duty;

ii. the Company shall pay to MW US$1,403,834 (equivalent to approximately HK$10.9 million) less MW's share of stamp duty; and

iii. the Company shall issue four Promissory Notes to each of the Vendors with the principal amounts and due dates set out below:

Principal amount payable to		
SPG	**MW**	**Due date**
US$5,174,130 (equivalent to approximately HK$40.2 million)	US$1,403,834 (equivalent to approximately HK$10.9 million)	15 June 2014
US$5,174,130 (equivalent to approximately HK$40.2 million)	US$1,403,834 (equivalent to approximately HK$10.9 million)	15 December 2014
US$5,174,130 (equivalent to approximately HK$40.2 million)	US$1,403,834 (equivalent to approximately HK$10.9 million)	15 June 2015
US$5,174,130 (equivalent to approximately HK$40.2 million)	US$1,403,834 (equivalent to approximately HK$10.9 million)	15 December 2015

The Promissory Notes shall bear interest at a rate of 2.2% per annum, which shall increase to 6.6% per annum if any amount due is not paid on the due dates until such amount is paid in full.

The cash consideration will be financed using the Group's internal resources. The use of Promissory Notes, entailing multiple reduced payments made over a period of 18 months, shall provide flexibility to the Group's continuing operations, and will avoid an immediate decrease in the liquidity of the Company's financial resources. Whilst the Group's strategy was to use its surplus cash funds to augment Shareholder value, it was also aware of the need to maintain sufficient liquidity for its operations. In this respect, the Promissory Notes' annual interest rate of 2.2% was a favourable option and preferable to the interest rates provided by other potential loan sources available to the Group where the average interest rate of the Group's borrowings and credit facilities is above 5% per annum. Meanwhile as further discussed in paragraph (5) below as an illustration, the Group's gearing ratio will increase from approximately 13.6% as at 30 June 2013 to approximately 18.5% at Completion. Relative to the Group's overall business operations and financial position, we are of the view that the aforesaid interest costs and extent of increase in gearing ratio are manageable and acceptable.

Having weighed the benefits of financial flexibility, while taking into account the interests costs and increase in gearing ratio with the issuance of the Promissory Notes, on balance, we believe this payment method, entailing payment conducted partly by cash and partly by Promissory Notes, is fair and reasonable. Moreover we believe the interest rate borne by the Promissory Notes is acceptable.

(c) Terms of Completion

Completion is conditional upon, among other things (as set out in the "Letter from the Board" of the Circular), the Independent Shareholders having approved the transaction contemplated under the Share Buy-back Agreement in accordance with the requirements of the Buy-back Code and other applicable laws and regulations, and having approved the manner of buy-back of the Buy-back Shares in accordance with the requirements of the Company's memorandum and articles of association; and the Executive having granted and not having withdrawn his approval of the Share Buy-back.

4. Reasons for and benefits of the Share Buy-back Agreement

(a) Avoids significant decrease in Share price

Pursuant to the terms of the agreement relating to the Acquisition, while the Buy-back Shares are subject to lock-up and sale restrictions, the Company's consent is not required for the sale or disposal of the Buy-back Shares by the Vendors in volumes lower than that restricted under the Acquisition agreement. Due to the relatively low average trading volume of the Shares (being approximately 1.13% of the total number of Buy-back Shares between the dates of the announcement relating to the Acquisition and the Latest Practicable Date), we believe any attempt to dispose of the Vendors' Shares on the market over a sustained period of time may result in considerable downward pressure on the Company's Share prices.

(b) Favourable Buy-back Price

The Share Buy-back Agreement represents an opportunity for the Company to derive a gain on the initial issue price of the Shares issued pursuant to the Acquisition, with the Buy-back Price representing a 6.25% discount.

5. Impact of Share Buy-back on net asset value and gearing ratio

The Group's unaudited net asset value (excluding non-controlling interests) per Share as at 30 June 2013 amounted to approximately HK$0.97. We noted that the aforesaid is before taking into account the Acquisition which was completed in July 2013. Given that the Buy-back Price of HK$0.75 per Share is lower than (i) the aforesaid unaudited net asset value of HK$0.97 per Share as at 30 June 2013; and (ii) the initial issue price of the Shares issued pursuant to the Acquisition, the net asset value per Share would have increased when the effects of the Acquisition and the Share Buy-back are taken into account. This is favourable to the Shareholders.

The Consideration is to be paid using cash and Promissory Notes. We note that the method of payment for the Consideration, i.e. the use of Promissory Notes or cash payments, has no impact on the Group's net asset value as the increase in liabilities incurred by the use of Promissory Notes is compensated by a corresponding higher level of assets (since less cash will be deployed in such case) and vice versa.

In terms of gearing, the Group's gearing ratio (being total borrowings divided by total equity) was approximately 13.6% as at 30 June 2013. For illustration, using the Group's financial figures as at 30 June 2013 as reference; at Completion of the Share Buy-back, the Group's gearing ratio would increase to approximately 18.5%. As discussed above, we are of the view that this extent of gearing increase is manageable and acceptable.

RECOMMENDATIONS

Having considered the above principal factors, we are of the view that (i) the Share Buy-back Agreement is in the interests of the Company and the Shareholders as a whole; and (ii) the terms of the Share Buy-back Agreement are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we would recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution relating to the approval of the Share Buy-back Agreement and the transaction contemplated therein when proposed at the EGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Chang Sean Pey
Executive Director

1. FINANCIAL SUMMARY

The following is a summary of the audited consolidated results and assets and liabilities of the Group for the three years ended 31 December 2010, 2011 and 2012 respectively, as audited by BDO Limited and as extracted from each of the relevant annual reports of the Company.

(i) Consolidated results

	Year ended 31 December		
	2012	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Continuing operations:			
Turnover	2,240,304	1,465,276	800,604
Profit before taxation	413,719	333,994	356,068
Income tax expense	(103,432)	(68,240)	(83,349)
Profit after income tax from continuing operations	310,287	265,754	273,719
Discontinued operations:			
Profit for the year from discontinued operations	–	16,036	7,063
Profit for the year	310,287	281,790	280,782
Profit attributable to owners of the Company	270,425	255,874	271,566
Non-controlling interests	39,862	25,916	9,216
Profit for the year	310,287	281,790	280,782
Earnings per Share attributable to owners of the Company for the year			
From continuing and discontinued operations			
— Basic	HK6.39 cents	HK6.19 cents	HK7.42 cents
— Diluted	HK6.36 cents	HK6.11 cents	HK7.21 cents
From continuing operations			
— Basic	HK6.39 cents	HK5.80 cents	HK7.23 cents
— Diluted	HK6.36 cents	HK5.73 cents	HK7.02 cents
From discontinued operations			
— Basic	N/A	HK0.39 cent	HK0.19 cent
— Diluted	N/A	HK0.38 cent	HK0.19 cent

	Year ended 31 December		
	2012	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Interim dividend per Share	HK1 cent	HK1 cent	HK1.5 cents
Final dividend per Share	–	HK4.5 cents	HK3.5 cents
Dividend for the year	42,681	227,693	199,314

The Group had no exceptional or extraordinary items for the three years ended 31 December 2012.

(ii) Consolidated assets and liabilities

	As at 31 December		
	2012	**2011**	**2010**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	5,261,137	3,678,225	3,887,086
Total liabilities	(1,305,018)	(543,286)	(573,199)
Net assets	3,956,119	3,134,939	3,313,887
Equity attributable to owners of the Company	3,789,021	3,058,389	3,284,782
Non-controlling interests	167,098	76,550	29,105
Total equity	3,956,119	3,134,939	3,313,887

None of the audited consolidated financial statements of the Group for the three years ended 31 December 2010, 2011 and 2012 contained qualified opinion.

The following financial information is extracted from the Company's interim report for the six months ended 30 June 2013:

	For the six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Turnover	1,302,942	959,089
Profit before taxation	511,705	170,198
Income tax expense	(89,860)	(50,407)
Profit for the period	421,845	119,791
Profit attributable to owners of the Company	403,386	100,148
Non-controlling interests	18,459	19,643
Profit for the period	421,845	119,791
Basic earnings per Share	HK9.35 cents	HK2.39 cents
Diluted earnings per Share	HK9.32 cents	HK2.34 cents
Interim dividend per Share	–	HK1 cent

The Group had no exceptional or extraordinary items for the six months ended 30 June 2013.

2. AUDITED FINANCIAL STATEMENTS

Set out below is the audited consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in equity and notes to the financial statements of the Group as extracted from pages 40 to 105 of the annual report of the Company for the year ended 31 December 2012. References to page number in this section are to the page numbers of such annual report of the Company.

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2012

	Notes	**2012** *HK$'000*	**2011** *HK$'000*
Continuing operations:			
Revenue	*7*	2,240,304	1,465,276
Cost of sales		(1,022,583)	(637,042)
Gross profit		1,217,721	828,234
Other income and financial income	*8*	29,182	21,027
Selling and distribution expenses		(513,278)	(343,908)
Administrative expenses		(351,448)	(234,144)
Gain on fair value changes in financial assets at fair value through profit or loss, net		2,056	10,947
Gain on fair value changes in derivative financial instruments	*35*	6,187	–
Excess of fair value of net identifiable assets over the cost of acquisition of subsidiaries	*45*	–	46,904
Net surplus on revaluation of investment properties	*19*	7,525	5,675
Dividend income from available-for-sale financial assets	*24(a)*	17,169	6,551
Share of profit of associates		13,499	1,991
Loss on disposals of associates	*12.2*	–	(4,952)
Finance costs	*9*	(14,894)	(4,331)
Profit before income tax	*10*	413,719	333,994
Income tax expense	*11*	(103,432)	(68,240)
Profit after income tax from continuing operations		310,287	265,754
Discontinued operations:			
Profit for the year from discontinued operations	*12.3*	–	16,036
Profit for the year		310,287	281,790

	Notes	2012 HK$'000	2011 HK$'000
Other comprehensive income			
– Exchange gain on translation of financial statements of foreign operations		16,468	14,570
– 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	*24(a)*	601,480	(305,401)
Other comprehensive income for the year		617,948	(308,327)
Total comprehensive income for the year		928,235	(26,537)
Profit for the year attributable to:			
Owners of the Company	*13*	270,425	255,874
Non-controlling interests		39,862	25,916
		310,287	281,790
Total comprehensive income for the year attributable to:			
Owners of the Company		887,501	(54,105)
Non-controlling interests		40,734	27,568
		928,235	(26,537)
Earnings per share attributable to owners of the Company for the year	*15*		
From continuing and discontinued operations			
– Basic		HK6.39 cents	HK6.19 cents
– Diluted		HK6.36 cents	HK6.11 cents
From continuing operations			
– Basic		HK6.39 cents	HK5.80 cents
– Diluted		HK6.36 cents	HK5.73 cents
From discontinued operations			
– Basic		N/A	HK0.39 cent
– Diluted		N/A	HK0.38 cent

Consolidated Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	320,780	228,939
Investment properties	19	100,912	93,387
Prepaid land lease payments	20	39,357	28,235
Goodwill	21	621,382	621,382
Interests in associates	23	58,065	164
Available-for-sale financial assets	24	1,409,176	807,696
Intangible assets	25	149,049	55,944
Prepayments and deposits	26	7,809	5,290
Deferred tax assets	37	1,311	1,295
		2,707,841	1,842,332
Current assets			
Inventories	27	1,587,657	956,273
Trade receivables	28	347,366	244,284
Prepaid land lease payments	20	834	730
Prepayments, deposits and other receivables	26	250,652	175,527
Financial assets at fair value through profit or loss	29	106,929	107,803
Short-term investments	30	31,234	–
Cash and cash equivalents	31	228,624	351,276
		2,553,296	1,835,893

	Notes	2012 HK$'000	2011 HK$'000
Current liabilities			
Trade payables	32	307,006	194,448
Other payables and accruals	33	352,903	221,214
Dividend payables		82,253	252
Tax payables		44,059	41,044
Borrowings	34	478,512	86,171
Derivative financial instruments	35	40,126	–
Due to related companies	36	159	157
		1,305,018	543,286
Net current assets		1,248,278	1,292,607
Total assets less current liabilities/ Net assets		3,956,119	3,134,939
EQUITY			
Equity attributable to owners of the Company			
Share capital	38	426,806	413,975
Proposed dividend	14	–	186,289
Reserves	40	3,362,215	2,458,125
		3,789,021	3,058,389
Non-controlling interests		167,098	76,550
Total equity		3,956,119	3,134,939

Statement of Financial Position

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	2,371	1,749
Interests in subsidiaries	22	1,595,673	1,306,121
		1,598,044	1,307,870
Current assets			
Prepayments, deposits and other receivables	26	8,070	3,766
Financial assets at fair value through profit or loss	29	52,590	52,671
Cash and cash equivalents	31	6,382	89,411
		67,042	145,848
Current liabilities			
Other payables and accruals	33	13,563	14,358
Dividend payables		82,253	251
Borrowings	34	166,784	13,000
		262,600	27,609
Net current (liabilities)/assets		(195,558)	118,239
Total assets less current liabilities/Net assets		1,402,486	1,426,109
EQUITY			
Share capital	38	426,806	413,975
Proposed dividend	14	–	186,289
Reserves	40	975,680	825,845
Total equity		1,402,486	1,426,109

Consolidated Statement of Cash Flows
For the year ended 31 December 2012

	Notes	**2012** *HK$'000*	**2011** *HK$'000*
Cash flows from operating activities of continuing and discontinued operations			
Profit before income tax			
Continuing operations		413,719	333,994
Discontinued operations	*12.3*	–	4,635
Total		413,719	338,629
Adjustments for:			
Interest income		(9,222)	(9,314)
Finance costs		14,894	9,770
Excess of fair value of net identifiable assets over the cost of acquisition of subsidiaries	*45*	–	(46,904)
Dividend income from available-for-sale financial assets	*24(a)*	(17,169)	(6,551)
Dividend income from financial assets at fair value through profit or loss	*8*	(1,262)	(716)
Net surplus on revaluation of investment properties	*19*	(7,525)	(5,675)
Depreciation		43,091	25,625
Amortisation of prepaid land lease payments		739	846
Amortisation of intangible assets	*25*	8,576	1,877
Share of profit of associates		(13,499)	(1,991)
Equity-settled share-based compensation		–	2,983
Gain on disposals of associates	*12.2*	–	4,952
Gain on derivative financial instruments		(6,187)	(625)
Loss on disposal of property, plant and equipment	*10*	3,028	–
Provision for inventories	*10*	1,079	–

	Notes	2012 HK$'000	2011 HK$'000
Operating profit before working capital changes		430,262	312,906
Increase in inventories		(632,463)	(357,473)
Increase in trade receivables		(103,082)	(174,549)
Increase in prepayments, deposits and other receivables		(77,644)	(11,569)
Decrease/(Increase) in financial assets at fair value through profit or loss		874	(16,039)
Increase in trade payables		112,558	61,062
Increase in other payables and accruals		131,689	53,877
Increase in amounts due to related companies		–	(26,073)
Cash used in operations		(137,806)	(157,858)
Interest received		9,222	9,314
Interest paid		(14,894)	(9,770)
Income tax paid		(100,417)	(113,387)
Net cash used in operating activities		(243,895)	(271,701)
Cash flows from investing activities of continuing and discontinued operations			
Dividends received from available-for-sale financial assets		17,169	6,551
Dividends received from financial assets at fair value through profit or loss	*8*	1,262	716
Dividends received from an associate	*23*	11,250	–
Purchases of property, plant and equipment		(134,565)	(80,347)
Purchases of prepaid land lease payments		(11,607)	–
Purchases of intangible assets		(46,729)	(10,366)
Net cash outflow from acquisition of subsidiaries	*45*	–	(209,475)
Proceeds from disposals of associates	*12.2*	–	40,768
Net cash inflow from disposals of a jointly controlled entity	*12.4*	–	53,704
Acquisition of non-controlling interests		–	(2,445)
Proceeds from disposals of property, plant and equipment		120	–
Purchase of short-term investments		(31,234)	–
Net cash used in investing activities		(194,334)	(200,894)

	Notes	2012 *HK$'000*	2011 *HK$'000*
Cash flows from financing activities of continuing and discontinued operations			
Dividends paid to owners of the Company		(152,680)	(186,840)
Dividends paid to non-controlling interests		(23,397)	(9,584)
Increase in bank loans, net		381,557	84,061
Decrease in derivative financial instruments		(2,699)	–
Net proceeds from placement of shares		–	9,900
Proceeds from shares issued under share option scheme		16,508	18,530
Repurchases of ordinary shares		–	(17,253)
Capital contribution from non-controlling interests		73,211	31,906
Net cash generated from/(used in) financing activities		292,500	(69,280)
Net decrease in cash and cash equivalents		(145,729)	(541,875)
Cash and cash equivalents at 1 January		351,276	872,642
Effect of foreign exchange rate changes, net		12,293	20,509
Cash and cash equivalents at 31 December		217,840	351,276
Analysis of balances of cash and cash equivalents			
Cash and bank balances	*31*	228,624	351,276
Bank overdrafts	*34*	(10,784)	–
		217,840	351,276

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Equity attributable to owners of the Company													
	Share capital *HK$'000*	Share premium* *HK$'000*	Share option reserve* *HK$'000*	Other reserve* *HK$'000*	Goodwill arising on con-solidation* *HK$'000*	Statutory reserve* *HK$'000*	Exchange fluctuation reserve* *HK$'000*	Investment revaluation reserve* *HK$'000*	Shares to be issued reserve* *HK$'000*	Retained profits* *HK$'000*	Proposed dividend *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
Balance at 1 January 2011	409,007	844,561	16,421	15,160	(15,300)	27,214	52,240	429,306	–	1,363,020	143,153	3,284,782	29,105	3,313,887
Transactions with owners														
Placement of shares during the year	1,000	1,368	–	7,532	–	–	–	–	–	–	–	9,900	–	9,900
Repurchases of ordinary shares	(1,736)	(15,517)	–	–	–	–	–	–	–	–	–	(17,253)	–	(17,253)
Proceeds from shares issued under share option scheme	5,704	12,826	–	–	–	–	–	–	–	–	–	18,530	–	18,530
Exercise of share options	–	8,656	(8,656)	–	–	–	–	–	–	–	–	–	–	–
Recognition of equity-settled share-based compensation	–	–	2,983	–	–	–	–	–	–	–	–	2,983	–	2,983
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	31,906	31,906
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(2,445)	(2,445)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(9,584)	(9,584)
Payments of final 2010 dividend *(note 14.2)*	–	(1,891)	–	–	–	–	–	–	–	–	(143,153)	(145,044)	–	(145,044)
Payments of interim 2011 dividend *(note 14.1)*	–	(41,404)	–	–	–	–	–	–	–	–	–	(41,404)	–	(41,404)
Total transactions with owners	4,968	(35,962)	(5,673)	7,532	–	–	–	–	–	–	(143,153)	(172,288)	19,877	(152,411)

	Equity attributable to owners of the Company												Non-controlling interests	Total equity
	Share capital	Share premium*	Share option reserve*	Other reserve*	Goodwill arising on con-solidation*	Statutory reserve*	Exchange fluctuation reserve*	Investment revaluation reserve*	Shares to be issued reserve*	Retained profits*	Proposed dividend	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Comprehensive income														
Profit for the year	–	–	–	–	–	–	–	–	–	255,874	–	255,874	25,916	281,790
Other comprehensive income														
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	12,918	–	–	–	–	12,918	1,652	14,570
Transfer to profit or loss on disposal of a jointly controlled entity *(note 12.4)*	–	–	–	–	–	–	(17,496)	–	–	–	–	(17,496)	–	(17,496)
Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	(305,401)	–	–	–	(305,401)	–	(305,401)
Total comprehensive income	–	–	–	–	–	–	(4,578)	(305,401)	–	255,874	–	(54,105)	27,568	(26,537)
Release of statutory reserve upon disposal of a jointly controlled entity	–	–	–	–	–	(946)	–	–	–	946	–	–	–	–
Proposed final 2011 dividend *(note 14.1)*	–	(16,194)	–	–	–	–	–	–	–	(170,095)	186,289	–	–	–
Balance at 31 December 2011 and 1 January 2012	413,975	792,405	10,748	22,692	(15,300)	26,268	47,662	123,905	–	1,449,745	186,289	3,058,389	76,550	3,134,939

	Equity attributable to owners of the Company													
	Share capital HK$'000	Share premium* HK$'000	Share option reserve* HK$'000	Other reserve* HK$'000	Goodwill arising on con-solidation* HK$'000	Statutory reserve* HK$'000	Exchange fluctuation reserve* HK$'000	Investment revaluation reserve* HK$'000	Shares to be issued reserve* HK$'000	Retained profits* HK$'000	Proposed dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Transactions with owners														
Issue of shares for acquisitions of intangible assets and an associate	7,752	35,503	–	–	–	–	–	–	–	–	–	43,255	–	43,255
Shares to be issued for acquisition of an associate[#]	–	–	–	–	–	–	–	–	18,049	–	–	18,049	–	18,049
Proceeds from shares issued under share option scheme	5,079	11,429	–	–	–	–	–	–	–	–	–	16,508	–	16,508
Exercise of share options	–	7,702	(7,702)	–	–	–	–	–	–	–	–	–	–	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	73,211	73,211
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(23,397)	(23,397)
Payments of final 2011 dividend *(note 14.2)*	–	(5,711)	–	–	–	–	–	–	–	–	(186,289)	(192,000)	–	(192,000)
Payments of interim 2012 dividend *(note 14.1)*	–	(42,681)	–	–	–	–	–	–	–	–	–	(42,681)	–	(42,681)
Total transactions with owners	12,831	6,242	(7,702)	–	–	–	–	–	18,049	–	(186,289)	(156,869)	49,814	(107,055)
Comprehensive income														
Profit for the year	–	–	–	–	–	–	–	–	–	270,425	–	270,425	39,862	310,287
Other comprehensive income														
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	15,596	–	–	–	–	15,596	872	16,468
Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	601,480	–	–	–	601,480	–	601,480
Total comprehensive income	–	–	–	–	–	–	15,596	601,480	–	270,425	–	887,501	40,734	928,235
Balance at 31 December 2012	426,806	798,647	3,046	22,692	(15,300)	26,268	63,258	725,385	18,049	1,720,170	–	3,789,021	167,098	3,956,119

* These reserve accounts comprise the consolidated reserves of HK$3,362,215,000 (2011: HK$2,458,125,000) in the consolidated statement of financial position.

\# The shares to be issued reserve represent the fair value of 33,000,000 ordinary shares to be issued for the acquisition of an associate. 15,000,000 and 18,000,000 ordinary shares of which will be issued to the vendor in January 2013 and January 2014 respectively.

Notes to the Financial Statements

For the year ended 31 December 2012

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

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").

The financial statements for the year ended 31 December 2012 were approved for issue by the board of directors on 26 March 2013.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new/revised HKFRSs – effective 1 January 2012

In the current year, the Group has applied for the first time the following new standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to and effective for the Group's financial statements for the annual period beginning on 1 January 2012:

Amendments to HKFRS 7	Disclosure – Transfer of Financial Assets
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets

The adoption of the new/revised standards and interpretations has no significant impact on the Group's financial statements.

(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.

HKFRSs (Amendments)	Annual Improvements 2009-2011 Cycle[2]
Amendments to HKAS 1 (Revised)	Presentation of Items of Other Comprehensive Income[1]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[3]
Amendments to HKFRS 7	Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 19 (2011)	Employee Benefits[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]

1 Effective for annual periods beginning on or after 1 July 2012
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2014
4 Effective for annual periods beginning on or after 1 January 2015

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 (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. The amendments will be applied retrospectively.

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.

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 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 can be adopted early and is applied prospectively.

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

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.

3. BASIS OF PREPARATION

3.1 Statement of compliance

The financial statements have been prepared in accordance with all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRSs") issued by HKICPA. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Listing Rules.

3.2 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. The measurement bases are fully described in the accounting policies below.

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented, unless otherwise stated. The adoption of new/revised HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 2.

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

The Company's financial statements have been prepared on a going concern basis though the Company was in a net current liability position of HK$195,558,000 as at 31 December 2012 (2011: net current asset position of HK$118,239,000). The directors are of the opinion, after considering the distribution of profits available from its subsidiaries when necessary, that the Company will have sufficient cash resources to satisfy its future working capital and other financial requirements and the Company can be operated as a going concern for the next twelve months.

3.3 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.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Business combination and basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (see note 4.2 below) made up to 31 December each year.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions and balances between group companies together with unrealised gains and losses are eliminated in full in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

Acquisition of subsidiaries or businesses is accounted for using acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure non-controlling interest in the subsidiary either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other non-controlling interests are measured at fair value unless another measurement basis is required by HKFRSs. Acquisition-related costs incurred are expensed unless they are incurred in issuing equity instruments in which case the costs are deducted from equity.

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Contingent consideration balances arising from business combinations whose acquisition dates preceded 1 January 2010 (i.e. the date the Group first applied HKFRS 3 (2008)) have been accounted for in accordance with the transition requirements in the standard. Such balances are not adjusted upon first application of the standard. Subsequent revisions to estimates of such consideration are treated as adjustments to the cost of these business combinations and are recognised as part of goodwill.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

4.2 Subsidiaries

A subsidiary is an entity over which the Company is able to exercise control. Control is achieved where the Company, directly or indirectly, has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of the subsidiaries are accounted for by the Company on the basis of dividend received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

4.3 Jointly controlled entities

A jointly venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

In consolidated financial statements, interests in jointly controlled entities are accounted for using proportionate consolidation. The Group combines its share of the jointly controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the Group's purchase of assets from the jointly controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of reduction in the net realisable value of current assets, or an impairment loss.

In the Company's statement of financial position, investment in jointly controlled entities is stated at cost less any impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable. Accounting policies on impairment of jointly controlled entities are described in note 4.6 below.

4.4 Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor a jointly controlled entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee but not control or joint control over those policies.

In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition change in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Profit or loss includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on the investment in associate recognised for the year.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Where unrealised losses on assets sales between the Group and its associates are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each reporting date, the Group determines whether there is any objective evidence that investment in associate is impaired. Accounting policies on impairment of investment in associates or jointly controlled entities are described in note 4.6 below.

In the Company's statement of financial position, investments in associates are carried at cost less any impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable during the year.

4.5 Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), the excess is recognised immediately in profit or loss as a gain on a bargain purchase.

The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assume, and equity instruments issued by the Group, plus any costs directly attributable to the business combination or investment.

Goodwill is stated at cost less any impairment losses. Goodwill is allocated to cash-generating units ("CGUs") and is tested annually for impairment, and whenever there is an indication that the unit may be impaired (see note 4.6). In respect of associates or jointly controlled entities, the carrying amount of goodwill, if any, is included in the carrying amount of the Group's interests in the associate or jointly controlled entity and is assessed for impairment as part of the interests in the associate or jointly controlled entity.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

4.6 Impairment of non-financial assets

On subsequent disposal of a subsidiary, an associate or a jointly controlled entity, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal. Goodwill relating to business combinations or investments in associates or jointly controlled entities prior to 1 January 2001 continues to be held in reserves and will be charged to the retained profits at the time when the business combination, associate or jointly controlled entity to which the goodwill relates is disposed of or when a CGU to which goodwill relates becomes impaired.

Goodwill, intangible assets, property, plant and equipment, prepaid land lease payments and interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing.

Goodwill is tested for impairment at least annually, irrespective of whether there is any indication that it is impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those of other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflow independently (i.e. a CGU). As a result, some assets are tested individually for impairment and some are tested at CGU level. Goodwill in particular is allocated to those CGUs that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for CGUs, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods including impairment losses recognised in an interim period. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34 – Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

4.7 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4.8 Property, plant and equipment

Buildings held for own use which are situated on leasehold land, where the fair value of the buildings could be measured separately from the fair value of the leasehold land at the inception of the lease, and other items of plant and equipment, other than construction in progress ("CIP"), are stated at acquisition cost less accumulated depreciation and any identified impairment.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised as an expense in profit or loss in the year in which they are incurred.

Depreciation is provided to write off the cost less their estimated residual values over their estimated useful lives, using straight-line method, at the following rates per annum:

Buildings	Over the terms of the leases or estimated useful lives, ranging between 20 years and 40 years, whichever is shorter
Leasehold improvements	Over the terms of the leases, or estimated useful life of 5 years, whichever is shorter
Plant and machinery	6% to 20%
Furniture, fixtures and office equipment	6% to 33 ⅓%
Motor vehicles	9% to 20%

The assets' estimated useful lives, estimated residual values and depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period.

CIP, which mainly represents renovation work on buildings and installation of machinery, is stated at cost less any impairment losses and is not depreciated. Cost comprises direct costs incurred during the periods of construction, installation and testing. CIP is reclassified to the appropriate class of property, plant and equipment and depreciation commences when the construction work and installation are substantially completed and the asset is ready for use.

Gain or loss arising on retirement or disposal is determined as the difference between the net sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

4.9 Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property.

The carrying amounts recognised in the consolidated statement of financial position reflect the prevailing market conditions at the reporting date.

Gains or losses arising from either changes in the fair value or the sale of an investment property are included in profit or loss in the period in which they arise.

4.10 Operating leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Operating lease charges as the lessee

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss using straight-line method over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the year in which they are incurred.

(ii) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

Rental income receivable from operating leases is recognised in profit or loss on straight-line method over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the year in which they are earned.

(iii) Prepaid land lease payments

Prepaid land lease payments are up-front payments to acquire the long-term interests in usage of land on which the buildings are situated. These payments are stated at cost less accumulated amortisation and any impairment loss. Amortisation is calculated using straight-line method over the respective lease terms.

4.11 Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are mainly supplier and distribution network and brand name, which are initially recognised at cost. Intangible assets with finite useful lives are carried at cost less accumulated amortisation and any impairment loss. Amortisation is provided on straight-line method over their estimated useful lives of 10 years. Intangible asset with an indefinite useful life shall not be amortised.

(ii) Internally generated intangible assets (research and development costs)

Expenditure on internally developed products is capitalised if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- the Group is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalised development costs are amortised over the periods the Group expects to benefit from selling the products developed. Amortisation expense is recognised in profit or loss.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognised in profit or loss as incurred.

(iii) Impairment

Accounting policies for intangible assets have been set out in note 4.6 above.

4.12 Financial assets

The Group's financial assets are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade date, that is, the date that the Group commits to purchase or sell the asset. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

De-recognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are mainly financial assets held for trading and they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions or using a valuation technique where no active market exists. Fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Group's accounting policies in note 4.19.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(iii) *Available-for-sale financial assets*

These include non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets.

All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value excluding any dividend and interest income is recognised in other comprehensive income and accumulated separately in the investment revaluation reserve in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recycled to profit or loss. Interest calculated using the effective interest method is recognised in profit or loss. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to profit or loss.

For available-for-sale investment in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of loss is recognised in profit or loss of the year in which the impairment occurs.

If, in subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the year in which the reversal occurs.

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in profit or loss as an impairment loss. That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Reversals of impairment for investment in equity instruments classified as available-for-sale are not recognised in profit or loss. The subsequent increase in fair value is recognised in other comprehensive income.

(iii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

For financial assets other than loans and receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of loans and receivables is considered doubtful but not remote, impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of loans and receivables is remote, the amount considered irrecoverable is written off against the loans and receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Impairment losses recognised in an interim period in respect of available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of an annual period, or in a subsequent period, the increase is recognised in other comprehensive income.

4.13 Financial liabilities

The Group's financial liabilities include trade payables, other payables, derivative financial instruments, borrowings and amounts due to related companies. These are included in the statement of financial position line items as trade payables, other payables and accruals, derivative financial instruments, borrowings under current liabilities and amounts due to related companies.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs as set out in note 4.22.

A financial liability is de-recognised when the obligations specified in the relevant contract are discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss. Other than derivative financial instruments which are detailed in note 4.14 below, measurements of the financial liabilities are as follows.

(i) Borrowings

Borrowings are mainly bank loans and are recognised initially at fair value, net of transaction costs incurred. These are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using effective interest method.

Borrowings are classified under current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(ii) Trade and other payables and amounts due to related companies

These are recognised initially at fair value and subsequently measured at amortised cost less settlement payments, using effective interest method.

4.14 Derivative financial instruments

Contracts to buy and sell a non-financial items is accounted for as derivative when it can be settled net in cash or another financial instrument and is not held for the purpose of receipt or delivery of the non-financial item in accordance with the Group's expected purchase, sale or usage requirement.

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date when the derivative contract is entered into. At each reporting date, the fair value is re-measured. Gain or loss arising from changes in fair value is charged immediately to profit or loss for the year, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

4.15 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using weighted average basis, and in the case of work-in-progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less any applicable selling expense and the estimated costs necessary to make the sale.

4.16 Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

4.17 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. These are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

4.18 Income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the reporting dates. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in equity if they relate to items that are charged or credited directly to equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and current tax liabilities are presented in net if, and only if,

a. the Group has the legally enforceable right to set off the recognised amounts; and

b. intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

a. the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

b. the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

    i. the same taxable entity; or

    ii. different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

4.19 Revenue recognition

Revenue comprises the fair value of the sale of goods and services and the use by others of the Group's assets yielding interest and dividends, net of applicable value-added tax ("VAT"), rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Processing income is recognised when services are provided.

Rental income under operating leases is recognised on straight-line method over the term of the relevant lease.

Interest income is accrued on a time basis on the principal outstanding at the applicable interest rate.

Dividend is recognised when the right to receive the dividend is established.

4.20 Employee benefits

Retirement benefits to employees are provided through defined contribution plans and defined retirement benefit plans.

Defined contribution plans

The Group operates a defined contribution staff retirement scheme (the "ORSO Scheme") for certain employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the ORSO Scheme. When an employee leaves the ORSO Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group can be reduced by the relevant amount of forfeited contributions.

The Group also operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees in Hong Kong who are eligible to participate in the MPF Scheme not previously covered by the ORSO Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute certain percentage of its payroll costs to the central pension scheme. The Scheme is responsible for the entire pension obligations payable to the retired employees and the Group has no further obligations for the actual pension payments or other post-retirement benefits beyond the employer contributions. Contributions under the Scheme are charged to profit or loss as they become payable in accordance with the rules of the PRC.

Defined benefit retirement plans

The Group's net obligation in respect of defined benefit retirement plans of certain foreign subsidiaries is calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the end of reporting period on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligation. The calculation is performed by a qualified actuary using the projected unit credit method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on straight-line method over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

In calculating the Group's obligations in respect of a plan, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are fully recognised in other comprehensive income in the year in which they occur.

Where the calculation of the Group's net obligations results in a negative amount, the asset recognised is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for unused annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

4.21 Share-based employee compensation

The Group operates equity-settled share-based compensation plans for remuneration of its employees.

All employee services received in exchange for the grant of any share-based compensation are measured at their fair values. These are indirectly determined by reference to the share options awarded. Their value is appraised at the grant date and excludes the impact of any non-market vesting conditions.

All share-based compensation is recognised as an expense in profit or loss over the vesting period if vesting conditions apply, or recognised as an expense in full at the grant date when the equity instruments granted vest immediately unless the compensation qualifies for recognition as asset, with a corresponding increase in the share option reserve in equity. If vesting conditions apply, the expense is recognised over the vesting period, based on the best available estimate of the number of equity instruments that are expected to vest. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. Estimates are subsequently revised, if there is any indication that the number of equity instruments expected to vest differs from previous estimates.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. After vesting date, when the vested share options are later forfeited or are not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

4.22 Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. Other borrowing costs are expensed when incurred.

4.23 Foreign currency

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the reporting date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with in the exchange fluctuation reserve in equity. Goodwill and fair value adjustments arising on the acquisition of a foreign operation on or after 1 January 2005 have been treated as assets and liabilities of the foreign operation and translated into HK$ at the closing rate.

Other exchange differences arising from the translation of the net investment are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are reclassified from equity to profit or loss as part of the gain or loss on sale.

4.24 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product lines.

The Group has identified the following reportable segments: (a) manufacture and distribution of watches and timepieces; (b) property investments and (c) trading of yachts.

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arms' length prices.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

– expenses related to share-based payments

– share of profit or loss of associates accounted for using equity method

– finance costs

– income tax

– corporate income and expenses which are not directly attributable to the business activities of any operating segment

are not included in arriving at the operating results of the operating segment.

Segment assets include all assets but goodwill, interests in associates, available-for-sale financial assets, deferred tax assets and financial assets at fair value through profit or loss. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

Segment liabilities exclude corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment. These include borrowings and amounts due to related companies.

No asymmetrical allocations have been applied to reportable segments.

4.25 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued any consideration received net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to owners of the Company.

4.26 Non-current assets held for sale and disposal groups

Non-current assets and disposal groups are classified as held for sale when:

– they are available for immediate sale;

– management is committed to a plan to sell;

– it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;

– an active programme to locate a buyer has been initiated;

– the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and

– a sale is expected to complete within 12 months from the date of classification.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount immediately prior to being classified as held for sale in accordance with the Group's accounting policy and fair value less costs to sell.

Following their classification as held for sale, non-current assets (including those in a disposal group) are not depreciated.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimated impairment of goodwill

The Group tests on an annual basis whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 4.5. The recoverable amounts of the CGUs have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates of the future cash flows expected to arise from the CGUs, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. Details in impairment assessment are set out in note 21 to the financial statements.

Provision against slow-moving inventories

Provision for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the provision involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charge/write-back in the period in which such estimate has been changed.

Depreciation and amortisation

The Group depreciates and amortises its property, plant and equipment and intangible assets with definite useful life using straight-line method over their respective estimated useful lives, starting from the date on which the assets are put into productive use. The estimated useful lives reflect the directors' estimate of the period that the Group intends to derive future economic benefits from the use of these assets.

Valuation of share options granted

The fair value of share options granted was calculated using Black-Scholes valuation model based on the Group management's significant inputs into calculation including an estimated life of share options granted to be five years, based on exercise restrictions and behavioural consideration, the volatility of share price, weighted average share prices and exercise price of the share options granted. Furthermore, the calculation assumes no future dividends.

Estimated impairment of trade and other receivables

Impairment loss on trade receivables of the Group is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Allowances for impairment are determined by management of the Group based on the repayment history of its debtors and the current market conditions. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Management reassesses the amount of impairment allowances of receivables, if any, at each reporting date.

Impairment of non-financial assets

The Group assesses impairment at each reporting date by evaluating conditions specific to the Group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates and assumptions about future events, which are subject to uncertainty and might materially differ from the actual results. In making these key estimates and judgements, the directors take into consideration assumptions that are mainly based on market condition existing at the reporting dates and appropriate market and discount rates. These estimates are regularly compared to actual market data and actual transactions entered into by the Group.

Income taxes

The Group is subject to income taxes in the PRC. Significant judgement is required in determining the amount of the provision for income taxes and the timing of the payments of related taxes. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. There is no impact of such a change of enterprise income tax on the Group because there are no material temporary differences. Therefore, no deferred tax has been provided for the year.

Fair value of investment properties

The Group's investment properties are stated at fair value (note 19) in accordance with the accounting policy stated in note 4.9. The fair values of these investment properties are determined by Chung, Chan & Associates and Asset Appraisal Limited, independent professionally qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the judgement, reasonable consideration has been given to the underlying assumptions that are mainly based on market conditions existing at the reporting date. These estimates are regularly compared to actual market data and actual transactions in the market.

Fair value of derivative financial instruments

The directors uses their judgement in selecting appropriate valuation techniques to assess the fair value of the derivative financial instruments as disclosed in note 35, which are financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

6. 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.

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 of prepaid land lease payments	38,036	4,389	27	42,452
Additions to non-current assets	232,876	12,922	–	245,798
Net surplus on revaluation of investment properties	–	7,525	–	7,525

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 9.2)*				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
				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
				548,286
Other segment information				
Interest income	363	–	1	364
Depreciation and amortisation of prepaid land lease payments	16,514	1,613	46	18,173
Additions to non-current assets	113,190	10,268	–	123,458
Net surplus on revaluation of investment properties	–	5,675	–	5,675

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 (including continuing and discontinued operations)		Non-current assets	
	2012	2011	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong (domicile)	10,872	30,127	75,952	27,766
PRC	2,131,988	1,884,801	1,067,952	876,534
Europe	97,444	55,391	153,450	129,041
	2,240,304	1,970,319	1,297,354	1,033,341

Geographical location of customers is based on the location at which the goods and services are delivered. For goodwill and intangible assets, geographical location is based on the entities areas of operation. Geographical location of 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 the year ended 31 December 2012. In 2011, revenue from the Group's largest customer amounted to HK$425,102,000 or 22% of the Group's total revenue (including the continuing and discontinued operations).

7. 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:

	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Sales of goods	2,225,082	1,449,976
Gross rental income	15,222	15,300
	2,240,304	1,465,276

8. OTHER INCOME AND FINANCIAL INCOME

	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Bank interest income	9,222	9,314
Dividend income from financial assets at fair value through profit or loss	1,262	716
Exchange gain	543	689
Sales of scrap materials	1,744	2,835
Sub-lease income	341	864
Bonus from suppliers	6,011	–
Sundry income	10,059	6,609
	29,182	21,027

9. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Interest charged on bank borrowings wholly repayable within five years	14,894	4,331

10. PROFIT BEFORE INCOME TAX

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

	2012	2011
	HK$'000	*HK$'000*
Continuing operations		
Cost of inventories recognised as expense	1,022,583	637,042
Depreciation *(note a)*	43,091	22,057
Amortisation of prepaid land lease payments	739	721
Amortisation of intangible assets	8,576	1,877
Minimum lease payments under operating leases in respect of land and buildings	25,708	18,625
Auditor's remuneration	1,900	1,670
Gross rental income	(15,222)	(15,300)
Less: direct operating expenses	2,510	2,250
Net rental income	(12,712)	(13,050)
Exchange loss	1,914	2,742
Loss on disposal of associates *(note b)*	–	4,952
Loss on disposal of property, plant and equipment	3,028	–
Provision for inventories *(note c)*	1,079	–

Notes:

(a) Depreciation expense of HK$9,394,000 (2011: HK$1,894,000) has been included in cost of sales, HK$8,849,000 (2011: HK$3,290,000) in selling and distribution expenses and HK$24,848,000 (2011: HK$16,873,000) in administrative expenses.

(b) In 2011, the Group disposed of its 25.58% equity interests in an associate, Jiangsu Dartong M&E Co., Limited ("Jiangsu Dartong") and a loss on disposal of HK$4,952,000 was recognised accordingly. Details of the disposal of Jiangsu Dartong are set out in notes 12.2.

(c) Provision of inventories has been included in "cost of sales" on the face of the consolidated statement of comprehensive income.

11. INCOME TAX EXPENSE

For both the years ended 31 December 2012 and 2011, Hong Kong profits tax was provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. Subsidiaries established in the PRC are subject to income taxes at tax rates ranging between 15% and 25% (2011: 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.

	2012		2011	
	Continuing operations	**Discontinued operations**	**Continuing operations**	**Discontinued operations**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current tax for the year				
PRC	103,588	–	68,104	879
Europe	101	–	–	–
(Over)/Under-provision in respect of prior years				
PRC	(257)	–	136	–
Total income tax expense	103,432	–	68,240	879

Reconciliation between income tax expense and accounting profit at applicable tax rates:

	2012		2011	
	Continuing operations	**Discontinued operations**	**Continuing operations**	**Discontinued operations**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Profit before income tax	413,719	–	333,994	4,635
Tax calculated at the rates applicable to the tax jurisdictions concerned	61,667	–	60,577	1,112
Tax effect of income not taxable	(10,557)	–	(14,030)	(269)
Tax effect of non-deductible expenses	48,915	–	8,640	36
(Over)/Under-provision in respect of prior years	(257)	–	136	–
Utilisation of tax losses not recognised	(3,829)	–	(530)	–
Tax effect of tax losses not recognised	7,493	–	13,447	–
Total income tax expense	103,432	–	68,240	879

12. DISCONTINUED OPERATIONS

12.1 Discontinued Enamelled Copper Wires Business

On 6 January 2011, the Company entered into an agreement to dispose of its 49% equity interest in its jointly controlled entity, namely Fuzhou Dartong Machinery and Electronic Company Limited ("Fuzhou Dartong"). The disposal was completed in June 2011. The manufacture and distribution of copper wires business of Fuzhou Dartong was referred to as the Discontinued Enamelled Copper Wire Business hereinafter.

12.2 Disposal of interest in Jiangsu Dartong

On 6 January 2011, the Company entered into an agreement to dispose of its 25.58% equity interest in its associate, namely Jiangsu Dartong. The disposal was completed in July 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 for the disposal of Jiangsu Dartong was fully received by the Group in 2011.

12.3 An analysis of the Group's results of the Discontinued Enamelled Copper Wire Business for the year ended 31 December 2011 is as follows:

	2011 *HK$'000*
Revenue	505,043
Cost of sales	(489,238)
Gross profit	15,805
Other income and financial income	568
Selling and distribution expenses	(1,905)
Administrative expenses	(4,394)
Finance costs – interest on bank borrowings wholly repayable within five years	(5,439)
Profit before income tax	4,635
Gain on disposal of Fuzhou Dartong	12,280
Income tax expense	(879)
Profit for the year	16,036
Operating cash outflows	(28,375)
Financing cash inflows	33,243
Net cash inflows	4,868

12.4 Gain on disposal of the Discontinued Operations, 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 receivables	116,648
Prepayments, deposits and other receivables	3,144
Derivative financial instruments	81
Cash and cash equivalents	39,638
Trade payables	(76,187)
Other payables and accruals	(3,081)
Tax payables	(1,974)
Borrowings	(143,191)
	98,558
Release of reserves upon disposal	
– Exchange fluctuation reserve	(17,496)
	81,062
Less: Proceeds from disposal of Fuzhou Dartong	(93,342)
Gain on disposal of Fuzhou Dartong	12,280

	HK$'000
Net cash inflow arising on disposal of Fuzhou Dartong:	
Cash consideration received	93,342
Less: Cash and cash equivalents disposal of	(39,638)
Net cash inflow	53,704

The cash consideration of HK$93,342,000 for the disposal of Fuzhou Dartong was fully received by the Group in 2011.

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to owners of the Company of HK$270,425,000 (2011: HK$255,874,000), a loss of HK$67,705,000 (2011: HK$12,784,000) has been dealt with in the financial statements of the Company.

14. DIVIDENDS

14.1 Dividend attributable to the year

	2012	2011
	HK$'000	*HK$'000*
Interim dividend of HK1 cent per share (2011: HK1 cent)	42,681	41,404
Proposed final dividend *(note)*	–	186,289
	42,681	227,693

Note: The directors do not recommend the payment of a final dividend for the year ended 31 December 2012 (2011: recommended final dividend of HK4.5 cents per share). For the year ended 31 December 2011, the final dividend declared after the reporting date had not been recognised as a liability at the reporting date, but reflected as an appropriation of retained profits and share premium.

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

	2012	2011
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, of HK4.5 cents per share (2011: HK3.5 cents)	192,000*	145,044

* The amount of actual final 2011 dividend paid was HK$192,000,000 as a result of the issue of 126,917,000 (2011: 54,055,000) new ordinary shares during the year, as a consequence of acquisition of an intangible asset and an associate and exercise of share options before the closure of members' register on 3 July 2012. All these ordinary shares newly issued are entitled to the final 2011 dividend.

15. EARNINGS PER SHARE

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

Earnings	2012	2011
	HK$'000	*HK$'000*
Profit attributable to owners of the Company for the purpose of calculating basic and diluted earnings per share:		
Continuing operations	270,425	239,838
Discontinued operations	–	16,036
Total profit from continuing and discontinued operations	270,425	255,874

Number of shares	2012 Number of shares *'000*	2011 Number of shares *'000*
Weighted average number of shares for the purpose of calculating basic earnings per share	4,232,782	4,132,582
Effect of dilutive potential shares:		
– share options issued by the Company	21,691	55,232
Weighted average number of shares for the purpose of calculating diluted earnings per share	4,254,473	4,187,814

16. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

16.1 Employee benefit expense

	2012 *HK$'000*	2011 *HK$'000*
Continuing operations		
Wages and salaries	403,065	239,513
Pension costs (including defined contribution plans)	24,753	9,955
Equity-settled share-based compensation	–	2,316
	427,818	251,784

16.2 Defined benefit pension plans

	2012 *HK$'000*	2011 *HK$'000*
Defined benefit retirement plans	12,059	9,411

Defined benefit retirement plans primarily arose from Eterna AG Uhrenfabrik and its subsidiaries (together the "Eterna Group"). The Eterna Group makes contributions to the defined benefit plan that provides post-retirement benefits for employees upon retirement. Under the schemes, the employees in Switzerland are entitled to retirement benefits based on the plan assets accumulated on attainment of the retirement age and a fixed annual rate. Since there is potential down-side risk for the employer to pay additional contributions in case when the plan has a deficit, this plan in Switzerland is accounted for under defined benefit plans.

The latest independent actuarial valuations of assets under this plan and the present value of the defined benefit obligation were carried out at 31 December 2012 and 2011 by Martin Schnider, a member of the Institute of Actuaries in Switzerland, using the projected unit credit method.

(a) The amounts recognised in the consolidated statement of financial position are as follows:

	2012	2011
	HK$'000	*HK$'000*
Present value of funded obligations	153,420	118,765
Fair value of planned assets	(141,361)	(109,354)
Present value of unfunded obligations	12,059	9,411

(b) Movement in the present value of fund obligations for the year:

	2012	2011
	HK$'000	*HK$'000*
At 1 January	118,765	122,189
Current service costs	6,194	4,003
Interest cost	2,969	3,010
Contributions by plan participants	–	2,109
Actuarial losses/(gains)	13,935	(1,861)
Benefit received/(paid)	7,757	(10,685)
Exchange realignment	3,800	–
At 31 December	153,420	118,765

(c) Movement in the fair value of plan assets for the year:

	2012	2011
	HK$'000	*HK$'000*
At 1 January	109,354	116,797
Expected return on plan assets	4,375	4,590
Actuarial gains/(losses)	116	(6,492)
Contributions by the employer	2,340	2,109
Contributions by plan participants	2,340	2,109
Contributions by third parties	11,578	926
Benefit received/(paid)	7,757	(10,685)
Exchange realignment	3,501	–
At 31 December	141,361	109,354

(d) The amounts recognised in profit or loss are as follows:

	2012	2011
	HK$'000	*HK$'000*
Current service cost	6,194	4,003
Contributions by employees	(2,340)	–
Contributions by third parties	(11,578)	(926)
Interest cost	2,969	3,010
Expected return on plan assets	(4,375)	(4,590)
	(9,130)	1,497
Actual return on plan assets	4,491	1,902

Of the charge for the year, approximately HK$9,130,000 (2011: HK$1,497,000) has been included in administrative expenses.

(e) The major categories of plan assets at the end of reporting period is as follows:

	2012	2011
	HK$'000	*HK$'000*
Equity instruments	23,769	35,710
Debt instruments	59,080	20,576
Property	50,490	48,942
Cash	8,022	4,126
	141,361	109,354

(f) Current period information

	2012	2011
	HK$'000	*HK$'000*
Present value of defined benefit obligation	153,420	118,765
Fair value of plan assets	(141,361)	(109,354)
Deficit in the plan	12,059	9,411
Experience adjustments arising on plan liabilities	(3,036)	1,861
Experience adjustments arising on plan assets	119	(6,492)

(g) The principal actuarial assumptions used for accounting purposes at 31 December are as follows:

	2012	**2011**
	%	%
Discount rate applied to pension obligations	2	2.5
Expected rate of return on plan assets	4	4
Future salary increases	1.5	1.5

The expected rate of return is weighted average of the expected returns of the various categories of plan assets held. The directors' assessment of the expected returns is based on the historical return trends and analysed predictions of the market for the asset in the next year.

17. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

17.1 Directors' emoluments

2012

	Directors' fees	**Salaries, allowances and benefits in kind**	**Contributions to pension scheme**	**Equity-settled share-based compensation**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors					
Mr. Hon Kwok Lung	–	1,690	14	–	1,704
Mr. Shang Jianguang	–	6,174	72	–	6,246
Mr. Shi Tao	–	1,690	14	–	1,704
Mr. Lam Toi Man	–	1,430	14	–	1,444
Mr. Bi Bo	–	1,439	14	–	1,453
Ms. Sit Lai Hei*	47	1,096	12	–	1,155
Independent non-executive directors					
Mr. Fung Tze Wa	200	–	–	–	200
Dr. Kwong Chun Wai, Michael	150	–	–	–	150
Mr. Li Qiang	150	–	–	–	150
	547	13,519	140	–	14,206

2011

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Contributions to pension scheme HK$'000	Equity-settled share-based compensation HK$'000	Total HK$'000
Executive directors					
Mr. Hon Kwok Lung	–	1,690	12	58	1,760
Mr. Shang Jianguang	–	5,179	72	133	5,384
Mr. Shi Tao	–	1,690	6	83	1,779
Mr. Lam Toi Man	–	1,430	12	58	1,500
Mr. Bi Bo	–	1,421	6	–	1,427
Non-executive director					
Ms. Sit Lai Hei	200	–	–	–	200
Independent non-executive directors					
Mr. Fung Tze Wa	200	–	–	58	258
Dr. Kwong Chun Wai, Michael	150	–	–	58	208
Mr. Li Qiang	150	–	–	58	208
	700	11,410	108	506	12,724

* Ms. Sit Lai Hei was re-designated as an executive director from a non-executive director with the effect from 26 March 2012.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2011: Nil).

No emolument was paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2011: Nil).

17.2 Five highest paid individuals

During the year, the five individuals whose emoluments were the highest in the Group included five (2011: five) directors whose emoluments are reflected in the analysis presented in note 17.1.

18. PROPERTY, PLANT AND EQUIPMENT

Group

	Land and buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	CIP HK$'000	Total HK$'000
At 31 December 2010							
Cost	39,101	14,690	26,521	35,810	21,091	3,196	140,409
Accumulated depreciation	(12,395)	(6,169)	(7,793)	(16,393)	(9,882)	–	(52,632)
Net carrying amount	26,706	8,521	18,728	19,417	11,209	3,196	87,777
Year ended 31 December 2011							
Opening carrying amount	26,706	8,521	18,728	19,417	11,209	3,196	87,777
Additions	14	723	9,091	12,517	14,965	39,141	76,451
Acquisition of subsidiaries *(note 45)*	53,038	–	20,897	6,888	219	13,376	94,418
Depreciation	(3,128)	(1,570)	(5,157)	(6,639)	(5,563)	–	(22,057)
Exchange realignment	(5,104)	66	(1,625)	(156)	204	(1,035)	(7,650)
Closing carrying amount	71,526	7,740	41,934	32,027	21,034	54,678	228,939
At 31 December 2011							
Cost	88,321	15,608	55,044	54,037	39,747	54,678	307,435
Accumulated depreciation	(16,795)	(7,868)	(13,110)	(22,010)	(18,713)	–	(78,496)
Net carrying amount	71,526	7,740	41,934	32,027	21,034	54,678	228,939
Year ended 31 December 2012							
Opening carrying amount	71,526	7,740	41,934	32,027	21,034	54,678	228,939
Additions	1,503	16,901	35,470	31,960	9,961	38,770	134,565
Transfer	84,638	–	–	–	–	(84,638)	–
Depreciation	(3,697)	(5,606)	(11,204)	(16,115)	(6,469)	–	(43,091)
Disposal	–	–	(767)	(1,745)	(636)	–	(3,148)
Exchange realignment	1,456	60	888	433	151	527	3,515
Closing carrying amount	155,426	19,095	66,321	46,560	24,041	9,337	320,780
At 31 December 2012							
Cost	176,167	32,447	88,895	84,040	48,027	9,337	438,913
Accumulated depreciation	(20,741)	(13,352)	(22,574)	(37,480)	(23,986)	–	(118,133)
Net carrying amount	155,426	19,095	66,321	46,560	24,041	9,337	320,780

Company

	Leasehold improvements *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
At 31 December 2010				
Cost	1,700	1,654	8,075	11,429
Accumulated depreciation	(819)	(1,142)	(5,909)	(7,870)
Net carrying amount	881	512	2,166	3,559
Year ended 31 December 2011				
Opening carrying amount	881	512	2,166	3,559
Additions	–	58	–	58
Depreciation	(375)	(168)	(1,325)	(1,868)
Closing carrying amount	506	402	841	1,749
At 31 December 2011				
Cost	1,615	1,776	8,438	11,829
Accumulated depreciation	(1,109)	(1,374)	(7,597)	(10,080)
Net carrying amount	506	402	841	1,749
Year ended 31 December 2012				
Opening carrying amount	506	402	841	1,749
Additions	–	160	1,610	1,770
Depreciation	(347)	(187)	(614)	(1,148)
Closing carrying amount	159	375	1,837	2,371
At 31 December 2012				
Cost	1,615	1,936	10,048	13,599
Accumulated depreciation	(1,456)	(1,561)	(8,211)	(11,228)
Net carrying amount	159	375	1,837	2,371

Notes:

(a) The costs of the Group's land and buildings are held under the following lease terms:

	2012	2011
	HK$'000	*HK$'000*
Short-term leases	2,929	2,895
Medium-term leases	171,202	83,415
Long-term leases	2,036	2,011
	176,167	88,321

At 31 December 2012, land and building in Switzerland with an aggregate carrying value of HK$47,627,000 (2011: Nil) have been pledged to secure banking facilities granted to the Group (note 34). As at 31 December 2011, none of the Group's land and buildings has been pledged.

(b) At 31 December 2012, the Group has not yet obtained the title certificates for certain buildings in the PRC with an aggregate carrying value of approximately HK$927,000 (2011: HK$1,090,000). The Group's legal advisors have confirmed that the Group has legally obtained the rights to use the buildings. The directors are now in process of obtaining the title certificates from the relevant government authorities.

19. INVESTMENT PROPERTIES – GROUP

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

Changes to the carrying amounts presented in the consolidated statement of financial position can be summarised as follows:

	2012	2011
	HK$'000	*HK$'000*
Carrying amount at 1 January	93,387	87,712
Net surplus on revaluation of investment properties	7,525	5,675
Carrying amount at 31 December	100,912	93,387

The carrying amounts of the Group's investment properties situated in Hong Kong and the PRC held under medium-term leases are analysed as follows:

	2012	2011
	HK$'000	*HK$'000*
Hong Kong	22,150	19,000
PRC	78,762	74,387
	100,912	93,387

Investment properties were revalued at 31 December 2012 by Asset Appraisal Limited and Chung, Chan & Associate, independent professionally qualified valuers, at HK$100,912,000 (2011: HK$93,387,000) in aggregate on market approach by reference to market prices for similar properties. Asset Appraisal Limited is a member of Hong Kong Institutes of Surveyors, and Chung, Chan & Associates is a member of Royal Institution of Chartered Surveyors. Both have appropriate qualifications and recent experiences in the valuation of similar properties.

At 31 December 2012, the Group has not obtained the relevant title certificates for investment properties with an aggregate carrying value of HK$39,500,000 (2011: HK$38,800,000). The Group's legal advisors have confirmed that the Group is the rightful and equitable owner of these investment properties. The directors are now in process of obtaining the title certificates from the relevant government authorities.

At 31 December 2012, investment properties in Hong Kong with an aggregate carrying value of HK$22,150,000 (2011: HK$19,000,000) have been pledged to secure banking facilities granted to the Group (note 34).

20. PREPAID LAND LEASE PAYMENTS – GROUP

These represent interests in leasehold land and land use rights in the PRC held under medium-term leases. Changes to the carrying amounts are summarised as follows:

	2012	**2011**
	HK$'000	*HK$'000*
Carrying amount at 1 January	28,965	28,647
Additions	11,607	–
Amortisation during the year	(739)	(721)
Exchange realignment	358	1,039
Carrying amount at 31 December	40,191	28,965
Less: Current portion	(834)	(730)
Non-current portion	39,357	28,235

For both years, all of the Group's prepaid land lease payments are related to land located in the PRC and held under medium-term leases.

21. GOODWILL – GROUP

Goodwill of HK$621,382,000, arose in 2008, related to the acquisition of Jia Cheng Investment Limited ("Jia Cheng") and its subsidiaries (collectively referred to as the "Jia Cheng Group"). Jia Cheng is an investment holding company with an indirect 91% equity interest, held through its wholly owned subsidiary Actor Investments Limited, in the issued share capital of Zhuhai Rossini Watch Industry Limited ("Rossini"). Rossini is principally engaged in manufacturing and distribution of watches and timepieces. Goodwill of HK$621,382,000 was allocated to the CGUs for manufacturing and distribution of watches and timepieces. Net carrying amount of goodwill is summarised as follows.

	2012	**2011**
	HK$'000	*HK$'000*
At 1 January and 31 December		
Gross carrying amount	621,382	621,382
Accumulated impairment	–	–
Net carrying amount	621,382	621,382

A valuation was carried out by Asset Appraisal Limited to assess the recoverable amount of the goodwill arising from the acquisition of the Jia Cheng Group. The recoverable amounts of the CGU have been determined from value-in-use calculations based on cash flow projections from formally approved budgets covering a detailed five-year budget plan, followed by an extrapolation of expected cash flow at the growth rates of 1.45% which do not exceed the long-term growth rate for the business in which CGU operates.

The key assumptions applied in the value-in-use calculation are as follows:

	2012	2011
Growth rates within five-year period	3% to 18.74%	0% to 28.06%
Discount rate	16.09%	16.68%

The Group's management's key assumptions for the Group include stable profit margins, which have been determined based on the past performance and its expectations for the market share after taking into consideration of published market forecasts included in industry reports. The discount rate used is pre-tax and reflect specific risks relating to the relevant segment. On the other hand, the Group's management is not aware of any other probable changes that would necessitate changes in its key estimates.

Goodwill arising from business combinations prior to 2001 had been eliminated against the consolidated reserves. As at 31 December 2012, the carrying amount of goodwill in the consolidated reserves was HK$15,300,000 (2011: HK$15,300,000).

22. INTERESTS IN SUBSIDIARIES – COMPANY

	2012	2011
	HK$'000	*HK$'000*
Unlisted investments, at cost	793,184	793,184
Due from subsidiaries	1,106,192	816,640
	1,899,376	1,609,824
Less: Provision for impairment	(303,703)	(303,703)
	1,595,673	1,306,121

Amounts due from subsidiaries are unsecured, interest-free and are not expected to be repaid within the next twelve months. These balances are classified as non-current assets accordingly.

Particulars of the principal subsidiaries at 31 December 2012 are as follows:

Name	Place/ country of incorporation	Particulars of issued ordinary/ paid-up capital	Percentage of issued ordinary/ paid-up capital held Directly	Indirectly	Principal activities and place of operation
Qingapen Limited	Hong Kong	HK$2	100	–	Property investment in the PRC
China Haidian Commercial Network Services Limited	Hong Kong	HK$2	100	–	Property investment in the PRC
Haidian-Creation International Limited	British Virgin Islands	US$1	100	–	Investment holding in Hong Kong
Sure Best Management Limited	Hong Kong	HK$1	100	–	Property investment in Hong Kong

Name	Place/ country of incorporation	Particulars of issued ordinary/ paid-up capital	Percentage of issued ordinary/ paid-up capital held		Principal activities and place of operation
			Directly	Indirectly	
EBOHR Luxuries International Limited	PRC	HK$36,000,000	–	100	Manufacture and distribution of watches and timepieces in the PRC
Seti Timber Industry (Shenzhen) Co., Ltd.	PRC	US$45,525,860	–	100	Investment holding in PRC
Shenzhen Seti Trading Development Company Limited	PRC	RMB500,000	–	100	Investment holding in the PRC
Jia Cheng Investment Limited	British Virgin Islands	US$1	100	–	Investment holding in Hong Kong
Actor Investments Limited	Hong Kong	HK$10,000	–	100	Investment holding in Hong Kong
Zhuhai Rossini Watch Industry Limited	PRC	RMB60,000,000	–	91	Manufacture and distribution of watches and timepieces in the PRC
PAMA Precision Manufacturing Limited	PRC	RMB10,000,000	–	100	Manufacture and distribution of watches and timepieces in the PRC
Shenzhen Permanence Commerce Co., Limited	PRC	RMB23,000,000	–	100	Distribution of watches and timepieces in the PRC
Zhuhai Rossini Glasses Industry Limited	PRC	RMB1,000,000	–	91	Distribution of glasses in the PRC
Swiss Chronometric AG	Switzerland	CHF2,000,000	–	100	Manufacture and distribution of watches and timepieces in Switzerland
Ruihuang (Chongqing) Watch Company Limited	PRC	RMB30,000,000	–	51	Distribution of watches and timepieces in the PRC

Name	Place/ country of incorporation	Particulars of issued ordinary/ paid-up capital	Percentage of issued ordinary/ paid-up capital held Directly	Indirectly	Principal activities and place of operation
Eterna AG Uhrenfabrik	Switzerland	CHF6,000,000	–	100	Manufacture and distribution of watches and timepieces in Switzerland
Eterna Uhren GmbH, Kronberg	Germany	EUR205,000	–	100	Distribution of watches and timepieces in Germany
Eterna Movement AG	Switzerland	CHF1,000,000	–	100	Manufacturing and distribution of watches and timepieces in Switzerland
Guangdong Juxin Watch Co., Limited	PRC	RMB15,000,000	–	51	Distribution of watches and timepieces in the PRC
Liaoning Hengjia Horologe Co., Limited	PRC	RMB25,500,000	–	51	Distribution of watches and timepieces in the PRC
Guangzhou Five Goat Watch Co., Limited	PRC	RMB100,000,000	–	78	Manufacture and distribution of watches and timepieces in the PRC
Eterna (Asia) Limited	Hong Kong	HK$5,000,000	–	70	Distribution of watches and timepieces in Hong Kong
Beijing Haina Tianshi Watch Company Limited	PRC	RMB30,000,000	–	51	Distribution of watches and timepieces in PRC
Jilin Dayou Watch Limited	PRC	RMB15,000,000	–	51	Distribution of watches and timepieces in PRC

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

23. INTERESTS IN ASSOCIATES – GROUP

	Group	
	2012	**2011**
	HK$'000	*HK$'000*
At 1 January	164	158
Acquisition of an associate *(note)*	55,650	–
Share of profit of associates	13,499	–
Dividend income received from an associate	(11,250)	–
Exchange realignment	2	6
	58,065	164

Note:

During the year, the Group completed the acquisition of 25% equity interests in Fair Future Industrial Limited ("Fair Future"), a company incorporated in Hong Kong. Fair Future and its subsidiary are principally engaged in manufacturing of watches and related accessories. The cost of acquisition of Fair Future comprised the aggregate of:

(i) the fair value of 56,000,000 ordinary shares of the Company issues and to be issued, in which 23,000,000 ordinary shares have been issued up to 31 December 2012 and 15,000,000 and 18,000,000 ordinary shares will be issued to the vendor in January 2013 and January 2014 respectively; and

(ii) the fair value of the financial undertaking provided by the Group to the Vendor of Fair Future in relation to issuance of ordinary shares of the Company (note 35).

Particulars of the associate at 31 December 2012 are as follows:

Name	Particulars of equity held	Country of incorporation	Percentage of interest held	Principal activities
Changzhou Zhongxing Department Store Co., Limited	Paid up capital of RMB182,000	PRC	36.40% (2011: 36.40%)	Dormant
Fair Future Industrial Limited	Paid up capital of HK$600,000	Hong Kong	25% (2011: Nil)	Manufacturing of watches and related accessories

The summarised financial information of the Group's associates extracted from their management account for the year ended 31 December 2012 is as follows:

	2012	**2011**
	HK$'000	*HK$'000*
Assets	436,429	5,249
Liabilities	(356,750)	(4,975)
Revenue	788,240	–
Profit for the year	53,997	–

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2012 *HK$'000*	2011 *HK$'000*
Listed equity investment, at fair value *(note a)*	1,409,097	807,617
Unlisted equity investment, at cost		
– 合肥光大木材工業有限公司 ("Hefei Everbright") *(note b)*	–	3,477
– Others *(note c)*	79	79
Less: Provision for impairment	–	(3,477)
	79	79
Total	1,409,176	807,696

Notes:

(a) During the year, Citychamp Dartong Company Limited (referred to "Citychamp" and its shares referred to as the Citychamp Shares) declared a cash dividend of RMB1.3 (2011: RMB0.5) and issued bonus issues of 6 shares (2011: Nil) for every 10 Citychamp Shares. A dividend income totalling HK$17,169,000 (2011: HK$6,551,000) was recognised by the Group in profit or loss for the year.

Particulars of the available-for-sale financial assets of which the carrying amount of the Group's interest exceeded 10% of the total assets of the Group are as follows:

Name	Country of incorporation	Particulars of issued shares held	Number of shares held by the Group	Percentage of ownership interest attributable to the Group
Citychamp Dartong Company Limited	PRC	Ordinary A Share	173,989,058 (2011: 108,743,161)	14.78% (2011: 14.78%)

During the year, the increase in fair value of the Citychamp Shares of HK$601,480,000 (2011: decrease of HK$305,401,000) has been dealt with in other comprehensive income and the investment revaluation reserve.

(b) The Group held an equity interest of 25.5% in Hefei Everbright, a joint venture company established in the PRC in 2003. Having regard to the deteriorating financial positions of Hefei Everbright, the directors are in the opinion that the investment in Hefei Everbright is not likely to be recoverable and accordingly, an impairment loss of HK$3,477,000 was recognised in 2005. In 2006, the investment in Hefei Everbright was designated as available-for-sale financial assets. Hefei Everbright was subsequently liquidated in 2009.

(c) These are investments in unlisted private entities incorporated in the PRC. Its fair value information is not disclosed because the related fair value cannot be measured reliably.

25. INTANGIBLE ASSETS – GROUP

	Supplier and distribution networks	Brand name	Patent	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2010				
Cost	11,765	–	–	11,765
Accumulated amortisation	(1,368)	–	–	(1,368)
Net carrying amount	10,397	–	–	10,397
Year ended 31 December 2011				
Opening carrying amount	10,397	–	–	10,397
Additions	10,366	–	–	10,366
Acquisition of subsidiaries *(note 45)*	–	36,700	–	36,700
Amortisation	(1,877)	–	–	(1,877)
Exchange realignment	358	–	–	358
Closing carrying amount	19,244	36,700	–	55,944
At 31 December 2011				
Cost	22,467	36,700	–	59,167
Accumulated amortisation	(3,223)	–	–	(3,223)
Net carrying amount	19,244	36,700	–	55,944
Year ended 31 December 2012				
Opening carrying amount	19,244	36,700	–	55,944
Additions	70,068	788	30,541	101,397
Amortisation	(8,497)	(79)	–	(8,576)
Exchange realignment	284	–	–	284
Closing carrying amount	81,099	37,409	30,541	149,049
At 31 December 2012				
Cost	92,858	37,488	30,541	160,887
Accumulated amortisation	(11,759)	(79)	–	(11,838)
Net carrying amount	81,099	37,409	30,541	149,049

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2012	2011	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other receivables	192,866	118,402	4,959	1,776
Prepayments	61,383	60,406	275	313
Deposits	4,212	2,009	2,836	1,677
Carrying amount at 31 December	258,461	180,817	8,070	3,766
Less: Current portion	(250,652)	(175,527)	(8,070)	(3,766)
Non-current portion	7,809	5,290	–	–

27. INVENTORIES – GROUP

	2012	2011
	HK$'000	*HK$'000*
Raw materials	229,656	171,929
Work-in-progress	48,439	37,693
Finished goods and merchandise	1,309,562	746,651
	1,587,657	956,273

28. TRADE RECEIVABLES – GROUP

	2012	2011
	HK$'000	*HK$'000*
Trade receivables	347,366	245,926
Less: Provision for impairment	–	(1,642)
Trade receivables – net	347,366	244,284

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 (2011: 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.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The directors of the Company consider that as trade receivables are expected to be recovered within one year, their fair values are not materially different from their carrying amounts because these balances have short maturity periods on their inception. Movement in the provision for impairment of trade receivables is as follows:

	2012	2011
	HK$'000	*HK$'000*
At 1 January	1,642	1,584
Amount written off	(1,662)	–
Exchange realignment	20	58
At 31 December	–	1,642

At each reporting date, the Group reviews trade receivables for evidence of impairment on both an individual and collective basis. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific impairment provision of HK$1,642,000 is recognised in 2011. There is no specific impairment made in 2012. The Group does not hold any collateral over these balances.

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

	2012	2011
	HK$'000	*HK$'000*
1 to 3 months	319,787	219,731
4 to 6 months	24,760	20,310
Over 6 months	2,819	4,243
	347,366	244,284

Ageing analysis of trade receivables that are not impaired is as follows:

	2012	2011
	HK$'000	*HK$'000*
Neither past due nor impaired	205,818	145,076
1–90 days past due	122,379	73,402
91–180 days past due	16,590	21,563
Over 180 days past due	2,579	4,243
	141,548	99,208
	347,366	244,284

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of customers that have a good track record with the Group. Based on past experience, management believes that no additional impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	2012	**2011**	**2012**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Listed equity investments in Hong Kong, at market value	106,929	107,803	52,590	52,671

Financial assets at fair value through profit or loss are held for trading purposes.

30. SHORT-TERM INVESTMENTS

As at 31 December 2012, the Group had short-term investments of HK$31,234,000 (RMB25,300,000 equivalent) with a major bank in the PRC, of which an amount of HK$18,518,000 (RMB15,000,000 equivalent) has no maturity and an amount of HK$12,716,000 (RMB10,300,000 equivalent) is redeemable in January 2013. For the balance with no maturity, the Group is entitled to redeem the investments from the bank anytime. The estimated return from these short-term investments ranged from 4.4% to 5.73% per annum. The accrued and unpaid interest will be received upon redemption of the investment from the bank. The directors of the Company consider that the carrying value of short-term investments approximate to their fair value at end of the reporting period as it is highly liquid and credit risk involved is insignificant. The Group did not have any short-term investments as at 31 December 2011.

31. CASH AND CASH EQUIVALENTS

	Group		Company	
	2012	**2011**	**2012**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	228,624	351,276	6,382	89,411

Cash at bank earns interest at the floating rates based on the daily bank deposits rates.

Included in cash and cash equivalents of the Group are the amount of HK$194,436,000 (2011: HK$225,769,000) denominated in RMB which are placed with the banks in the PRC. RMB is not freely convertible into other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB into foreign currencies through the banks authorised to conduct foreign exchange business.

32. TRADE PAYABLES

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

	2012	**2011**
	HK$'000	*HK$'000*
1 to 3 months	289,235	154,151
4 to 6 months	8,353	17,253
Over 6 months	9,418	23,044
	307,006	194,448

Trade payables are non-interest-bearing and are normally settled on 60-day terms.

33. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2012	**2011**	**2012**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Accruals	43,867	27,060	1,941	2,237
Other payables	309,036	194,154	11,622	12,121
	352,903	221,214	13,563	14,358

Other payables are unsecured, non-interest bearing and repayable on demand.

34. BORROWINGS

		Effective interest rates	Group		Company	
			2012	**2011**	**2012**	**2011**
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Current						
Bank overdraft	**Floating**	3.38%	10,784	–	10,784	–
Bank borrowings	**Floating**	2.62%–7.57%	467,728	86,171	156,000	13,000
			478,512	86,171	166,784	13,000

Based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause. Bank borrowings are repayable as follows:

	Group		Company	
	2012	**2011**	**2012**	**2011**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Portion of bank borrowings due for repayment within one year	443,034	86,171	156,000	13,000
Other bank borrowings due for repayment after one year:				
After one year but within two years	1,849	–	–	–
After two years but within five years	22,845	–	–	–
	24,694	86,171	–	13,000
	467,728	86,171	156,000	13,000

At the reporting date, the Group's bank borrowings were secured by:

(i) corporate guarantee provided by companies within the Group for bank borrowings as at 31 December 2012 and 2011; and

(ii) a legal charge over certain of the Group's investment properties with carrying amounts of HK$22,150,000 (2011: HK$19,000,000) (note 19).

(iii) a legal charge over certain of the Group's land and buildings with the carrying amounts of HK$47,627,000 (2011: Nil) (note 18).

Certain of bank borrowings contain clause which give the banks the right at their sole discretion to demand immediate repayment at any time irrespective of whether the Company has compiled with the covenants and met the scheduled repayment obligations. The carrying amounts of the borrowings approximate to their fair value. None of the portion of borrowings due for repayment after one year which contain a repayment on demand clause and are classified as current liabilities are expected to be settled within one year.

35. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

	2012	**2011**
	HK$'000	*HK$'000*
Financial undertakings provided by the Group in relation to issuance of ordinary shares for:		
– Acquisition of intangible assets *(note a)*	23,452	–
– Acquisition of an associate *(note b)*	16,674	–
	40,126	–

Notes:

(a) During the year, the Group has completed the acquisition of certain intangible assets, including supplier and distribution networks from a joint venture partner in the PRC at a consideration of RMB51,000,000. The purchase consideration was settled as to RMB6,500,000 by cash and as to RMB44,500,000 by issue and allotment of 54,527,000 ordinary shares ("Consideration Shares for Intangible Assets") of the Company. Pursuant to the terms of the acquisition agreement, the Group has provided financial undertaking to compensate the vendor the shortfall in cash if the average selling price of the Consideration Shares for Intangible Assets disposed of by the vendor within the 12-month period from the expiration of the respective lock-up periods is less than HK$1.

(b) During the year, the Group has completed the acquisition of an associate, Fair Future Industrial Limited, at a consideration of HK$56,000,000. The purchase consideration was settled by issue and allotment of 56,000,000 ordinary shares ("Consideration Shares for Associate") of the Company. Up to 31 December 2012, 23,000,000 ordinary shares have been issued to the vendor, and 15,000,000 and 18,000,000 ordinary shares will be issued to the vendor in January 2013 and January 2014 respectively. Pursuant to the terms of the acquisition agreement, the Group has provided another financial undertaking to compensate the vendor the shortfall in cash if the average selling price of the Consideration Shares for Associate disposed of by the vendor within the 12-month period from the expiration of the respective lock-up periods is less than HK$1.

The aforementioned financial undertakings meet the definition of derivatives in accordance with HKAS 39. The value of the financial undertakings will change in response to changes in the share price of the Company's shares. There are no initial net investments and they are settled at a future date. In these regards, the financial undertakings are accounted for as derivative financial instruments, which are designated as financial liabilities at fair value through profit or loss. The fair value gain of the derivative financial instruments during the year amounted to HK$6,187,000 (2011: Nil), which has been recognised in profit or loss for the year.

36. DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest-free and repayable on demand.

37. DEFERRED TAX

Deferred taxation is calculated in full on temporary differences under liability method using the applicable tax rates prevailing in the jurisdictions in which the Group operates.

Details of the Group's deferred tax assets/(liabilities) recognised and movements are as follows:

	Provision for inventories	Revaluation of intangible assets	Revaluation of property, plant and equipment	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 31 December 2010	1,250	–	–	–	1,250
Acquisition of subsidiaries *(note 45)*	–	(8,441)	(230)	8,671	–
Exchange realignment	45	975	27	(1,002)	45
At 31 December 2011 and 1 January 2012	1,295	(7,466)	(203)	7,669	1,295
Exchange realignment	16	(189)	(5)	194	16
At 31 December 2012	1,311	(7,655)	(208)	7,863	1,311

For the purpose of presentation in statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of deferred tax balances for financial reporting purposes:

	2012	**2011**
	HK$'000	*HK$'000*
Deferred tax assets	1,311	1,295
Deferred tax liabilities	–	–
	1,311	1,295

As at 31 December 2012, the Group has tax losses arising in Hong Kong of HK$192,602,000 (2011: HK$186,008,000), subject to the agreement of Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as these losses were incurred by the companies that have been loss-making for some time.

As at 31 December 2012, the Group has tax losses in Switzerland of HK$587,253,000 (2011: HK$637,310,000), subject to the agreement of tax bureau in Switzerland, that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets of HK$7,655,000 (2011: HK$7,466,000) have been recognised in respect of these losses to the extent of deferred tax liabilities recognised in respect of revaluation of non-current assets as a result of the acquisition. Deferred tax assets have not been recognised in respect of the unused tax losses as these were incurred by the subsidiaries that have been loss-making for some time. These unused tax losses will expire at various dates from 2013 to 2018.

During the year, there was no significant unrecognised deferred tax liability that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders during the year.

As at 31 December 2012, deferred taxation has not been provided in the financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries amounted to HK$875,132,000 (2011: HK$564,533,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

38. SHARE CAPITAL

	2012		**2011**	
	Number of shares *'000*	*HK$'000*	**Number of shares** *'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each at 1 January and 31 December	6,000,000	600,000	6,000,000	600,000
Issued and fully paid:				
At 1 January	4,139,747	413,975	4,090,074	409,007
Issue of shares for acquisition of intangible assets and an associate *(note 35(a) and (b)), (note a)*	77,527	7,752	–	–
Placement of shares during the year *(note b)*	–	–	10,000	1,000
Share option scheme – proceeds from shares issued *(note c)*	50,790	5,079	57,035	5,704
Repurchase of ordinary shares during the year *(note d)*	–	–	(17,362)	(1,736)
At 31 December	4,268,064	426,806	4,139,747	413,975

Notes:

(a) During the year, 54,527,000 and 23,000,000 new ordinary shares of the Company were issued for the acquisition of an intangible asset and an associate respectively. The excess of the fair value of shares issued over the nominal value of the ordinary shares of HK$22,477,000 and HK$13,026,000 have been included in share premium.

(b) In August 2011, the Company entered into a share subscription agreement with an independent third party, in relation to placement of 10,000,000 new ordinary shares at HK$0.99, under which the Group also agreed to grant 210,000,000 options ("2011 Option") for the subscription of the Company's ordinary shares at the exercise price of HK$1.21.Total cash proceeds for this placement were HK$9,900,000.The fair value of the 2011 Option was approximately HK$7,532,000 and was included in other reserve. The amount of HK$1,368,000, representing the excess of the proceeds received over the nominal value of the ordinary shares of HK$1,000,000 and the fair value of the 2011 Option of HK$7,532,000, had been included in share premium. Details of this share placement were set out in the Company's announcement dated 8 August 2011. All shares issued in relation to this placement have the same rights as the Company's other issued ordinary shares.

(c) During the year, 50,790,000 (2011: 57,035,000) new ordinary shares of the Company were issued upon the exercise of share options. Total proceeds received for the issues of shares under the share option scheme are HK$16,508,000 (2011: HK$18,530,000).The amount of HK$11,429,000 (2011: HK$12,826,000), representing the excess of the proceeds received over the nominal value of the ordinary shares of HK$5,079,000 (2011: HK$5,704,000), has been included in share premium.

Details of the share options exercised during the years ended 31 December 2012 and 2011 are summarised in note 39. All shares issued in both years in relation to the share option scheme have the same rights as the Company's other issued ordinary shares.

(d) In 2011, the Company repurchased its own ordinary shares listed in the Stock Exchange as follows.

Period	**Number of ordinary shares repurchased**	**Highest price paid per share**	**Lowest price paid per share**	**Aggregate price paid**
	'000	*HK$*	*HK$*	*HK$'000*
June 2011	15,630	1.05	0.99	15,970
September 2011	1,682	0.76	0.72	1,251
October 2011	50	0.64	0.64	32
	17,362			17,253

The repurchased shares were cancelled and accordingly the issued share capital of the Company was reduced by the nominal value of these shares of HK$1,736,000. The premium paid on the repurchases of the ordinary shares of HK$15,517,000 was charged to share premium. The Company did not repurchase any of its ordinary shares in 2012.

39. SHARE-BASED COMPENSATION

At the general meeting held on 30 May 2008, the shareholders of the Company terminated the option scheme adopted on 25 May 2001 and adopted a new share option scheme (the "New Scheme") for a period of 10 years commencing on the adoption date.

The directors may, at their discretion, invite the eligible participants to take up options to subscribe for shares. The eligible participants include (i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries; (ii) any directors (including executive directors, non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries; and (iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries.

Under the New Scheme, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme shall not exceed 30% of the share capital of the Company in issue from time to time. No options may be granted under the New Scheme if the grant of such option will result in the limit being exceeded. Subject to the approval of the Company's shareholders, the aggregate number of the Company's shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme shall not exceed 30% of the Company's shares in issue from time to time.

Total number of shares issued and which may fall to be issued upon exercise of the options and the options granted under the New Scheme (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company. Where any further grant of options to a grantee would result in the shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the New Scheme in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant requires approval of the shareholders of the Company in general meeting with such grantee and his associates abstaining from voting.

The maximum number of shares issued and to be issued upon exercise of the options granted under the New Scheme to each of any eligible persons (including those cancelled, exercised and outstanding options), in any 12 months period up to the date of the latest grant shall not exceed 1% of the Company's shares in issue provided that the number of shares issued and to be issued upon exercise of all options granted and to be granted to each of the independent non-executive directors or substantial shareholders of the Company or any of their respective associates in the 12 months period up to the date of such grant in excess of 0.1% of the Company's shares in issue and with a value in excess of HK$5 million must be approved in advance by the Company's independent shareholders. Any further grant of options in excess of such limit requires the approval of the shareholders in general meeting in accordance with the requirements of the Listing Rules.

The exercise period of the share options granted is determined by the directors, and should not be later than 10 years from the date of the acceptance of the share options (the "Option Period").

The subscription price is equal to the higher of (i) the nominal value of the share of the Company; (ii) the closing price per share of the Company as stated in the Stock Exchange's daily quotation sheet on the date of grant; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant.

The fair value of share options granted is recognised in profit or loss taking into account the probability that the options will vest over the vesting period. Upon the exercise of the options the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded in the share premium account. At the time when the share options are exercised, the amount previously recognised in share option reserve is transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve is transferred to retained profits. Lapsed options are deleted from the outstanding options prior to their exercise date. All equity-settled share-based compensation expense is settled in equity. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

The grantees may exercise the options in whole or in part by giving exercise notice to the grantor at any time during the Option Period provided that the grantees shall exercise the options to acquire the option shares in accordance with the following vesting schedule:

Vesting schedule	**Maximum percentage of option shares comprised in an option which may be exercised**
One year after the grant date	30%
Two years after the grant date	35%
Three years after the grant date	35%

Details of the share options granted up to the reporting date are as follows:

Date of grant:	9 December 2008
Exercisable period:	9 December 2009 to 7 January 2019
Exercise price:	HK$0.325

Share options and weighted average exercise price are as follows for the reporting periods presented:

	2012		2011	
	Number	Weighted average exercise price	Number	Weighted average exercise price
	'000	*HK$*	*'000*	*HK$*
Outstanding at 1 January	70,875	0.325	127,910	0.325
Exercised	(50,790)	0.325	(57,035)	0.325
Outstanding at 31 December	20,085	0.325	70,875	0.325
Exercisable at the end of the year	20,085	0.325	70,875	0.325

The options outstanding at 31 December 2012 had a weighted average remaining contractual life of 6 years (2011: 7 years). The weighted average share price for share options exercised during the year at the date of exercise was HK$0.80 (2011: HK$0.96) per share.

In 2012, there is no equity-settled share-based compensation. In 2011, equity-settled share-based compensation of HK$2,976,000, comprising HK$507,000 to directors and HK$2,469,000 to employees and other eligible persons, was included in profit or loss. The corresponding amount was credited to share option reserve (note 40). No liabilities were recognised on the equity-settled share-based compensation transactions.

Movements of the New Scheme for the years ended 31 December 2012 and 2011 are as follows:

2012

	Number of share options		
Name or category of participants	At 1 January 2012	Exercised during the year	At 31 December 2012
Executive directors			
Mr. Hon Kwok Lung	1,225,000	(1,225,000)	–
Mr. Shang Jianguang	2,800,000	(2,800,000)	–
Mr. Shi Tao	1,750,000	(1,750,000)	–
Mr. Lam Toi Man	1,225,000	(1,225,000)	–
Independent non-executive directors			
Mr. Fung Tze Wa	1,400,000	–	1,400,000
Dr. Kwong Chun Wai, Michael	1,225,000	(1,225,000)	–
Mr. Li Qiang	3,500,000	–	3,500,000
Sub–total	13,125,000	(8,225,000)	4,900,000
Other eligible employees			
In aggregate	24,235,000	(16,935,000)	7,300,000
Other eligible persons			
In aggregate	33,515,000	(25,630,000)	7,885,000
Total	70,875,000	(50,790,000)	20,085,000

2011

Name or category of participants	At 1 January 2011	Exercised during the year	At 31 December 2011
	Number of share options		
Executive directors			
Mr. Hon Kwok Lung	2,450,000	(1,225,000)	1,225,000
Mr. Shang Jianguang	5,600,000	(2,800,000)	2,800,000
Mr. Shi Tao	3,500,000	(1,750,000)	1,750,000
Mr. Lam Toi Man	2,450,000	(1,225,000)	1,225,000
Independent non-executive directors			
Mr. Fung Tze Wa	2,450,000	(1,050,000)	1,400,000
Dr. Kwong Chun Wai, Michael	2,450,000	(1,225,000)	1,225,000
Mr. Li Qiang	3,500,000	–	3,500,000
Sub-total	22,400,000	(9,275,000)	13,125,000
Other eligible employees			
In aggregate	45,430,000	(21,195,000)	24,235,000
Other eligible persons			
In aggregate	60,080,000	(26,565,000)	33,515,000
Total	127,910,000	(57,035,000)	70,875,000

40. RESERVES

Group

The amounts of the Group's reserves and movements therein during the year are presented in the consolidated statement of changes in equity.

In accordance with the PRC regulations, certain of the Group's subsidiaries established in the PRC are required to transfer part of their profits after tax to the statutory reserve before profit distributions are made. The amounts of the transfers are subject to the approval of the boards of the directors of these subsidiaries, in accordance with their joint venture agreements and/or articles of association. The statutory reserve is non-distributable and has restricted use.

Goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against the consolidated reserves as explained in note 21 to the financial statements.

Company

	Share premium	Share option reserve	Other reserve	Shares to be issued reserves	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2011	844,561	16,421	15,160	–	–	876,142
Placement of shares during the year	1,368	–	7,532	–	–	8,900
Repurchase of ordinary shares	(15,517)	–	–	–	–	(15,517)
Proceeds from shares issued under share option scheme	12,826	–	–	–	–	12,826
Exercise of share options	8,656	(8,656)	–	–	–	–
Recognition of equity-settled share-based compensation *(note 39)*	–	2,983	–	–	–	2,983
Profit and total comprehensive income for the year	–	–	–	–	170,095	170,095
Payments of final 2010 final dividend	(1,891)	–	–	–	–	(1,891)
Payments of interim 2011 dividend *(note 14.1)*	(41,404)	–	–	–	–	(41,404)
Proposed final 2011 dividend *(note 14.1)*	(16,194)	–	–	–	(170,095)	(186,289)
At 31 December 2011 and 1 January 2012	792,405	10,748	22,692	–	–	825,845
Issue of shares for acquisitions of intangible assets and an associate	35,503	–	–	–	–	35,503
Shares to be issued for acquisition of an associate	–	–	–	18,049	–	18,049
Proceeds from shares issued under share option scheme	11,429	–	–	–	–	11,429
Exercise of share options	7,702	(7,702)	–	–	–	–
Profit and total comprehensive income for the year	–	–	–	–	133,246	133,246
Payments of final 2011 final dividend	(5,711)	–	–	–	–	(5,711)
Payments of interim 2012 dividend *(note 14.1)*	(42,681)	–	–	–	–	(42,681)
At 31 December 2012	798,647	3,046	22,692	18,049	133,246	975,680

Under the Companies Law Cap. 22, (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the funds in the Company's share premium are distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

41. OPERATING LEASE ARRANGEMENTS/COMMITMENTS

41.1 At 31 December 2012, total future minimum lease receivables by the Group under non-cancellable leases are as follows:

	2012	2011
	HK$'000	*HK$'000*
Within one year	13,484	9,690
In the second to fifth years	38,145	31,577
After five years	30,343	40,426
	81,972	81,693

The Group leases certain of its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to twenty years. None of the leases include contingent rentals.

41.2 At 31 December 2012, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		Company	
	2012	2011	2012	2011
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	19,688	11,317	9,562	5,444
In the second to fifth years	40,708	10,788	19,889	227
After five years	4,991	7,496	–	–
Total	65,387	29,601	29,451	5,671

The Group and the Company lease certain offices and factory premises under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to ten years. None of the leases include contingent rentals.

41.3 The Group is required to pay an annual fee in respect of the leasehold land in the PRC from 1992 up to 2042 with a 20% increment for every five years. During the year, an annual fee of HK$531,000 (2011: HK$473,000) was charged as an expense in profit or loss of the Group.

42. CAPITAL COMMITMENTS

Group

	2012	2011
	HK$'000	*HK$'000*
Contracted, but not provided for		
Purchases of property, plant and equipment	–	991
Purchases of intangible assets *(note a)*	37,335	62,730
Acquisition of an associate *(note b)*	–	56,000
	37,335	119,721

Notes:

(a) **2012**

On 10 September 2012, the Group entered into a framework agreement (the "2012 Framework Agreement") with independent parties (the "2012 Joint Venture Partners") to establish a joint venture company in the PRC, namely Henan Jinjue Enterprise Company Limited ("Henan Jinjue"), which will be principally engaged in the wholesale and retail of watches and accessories in the PRC. Pursuant to the 2012 Framework Agreement, the Group agreed to pay RMB30,600,000 (equivalent to approximately HK$37,335,000) to the 2012 Joint Venture Partners as a consideration for the transfers of certain intangible assets, including the supplier and distribution networks to Henan Jinjue. The consideration is to be settled by issue and allotment of approximately 37,335,000 ordinary shares of the Company. As at 31 December 2012, the 2012 Framework Agreement is not completed and subject to approval by relevant government authority in the PRC. Details of the establishment of Henan Jinjue and acquisition of intangible assets are set out in the Company's announcement dated 10 September 2012. After the reporting date, the 2012 Framework Agreement is subsequently completed and the relevant shares have been issued in March 2013.

2011

On 29 December 2011, the Group entered into a framework agreement (the "2011 Framework Agreement") with independent parties (the "2011 Joint Venture Partners") to establish a joint venture company in the PRC, namely Beijing Haina Tianshi ("Haina Tianshi") Watch Company Limited, which is principally engaged in the wholesale and retail of watches and accessories in the PRC. Pursuant to the 2011 Framework Agreement, the Group agreed to pay RMB51,000,000 (equivalent to approximately HK$62,730,000) to the 2011 Joint Venture Partners as a consideration for the transfers of certain intangible assets, including the supplier and distribution networks to Haina Tianshi. The consideration will be settled as to RMB6,500,000 (equivalent to approximately HK$7,995,000) by cash and as to RMB44,500,000 (equivalent to approximately HK$54,528,000) by issue and allotment of approximately 54,528,000 ordinary shares of the Company. As at 31 December 2011, the 2011 Framework Agreement was not completed and subject to approval by relevant government authority in the PRC. Details of the establishment of Haina Tianshi and acquisition of intangible assets were set out in the Company's announcement dated 29 December 2011. After the reporting date, the 2011 Framework Agreement is subsequently completed and the relevant shares have been issued in April 2012.

(b) On 15 December 2011, the Group entered into an acquisition agreement (the "Acquisition Agreement") with an independent party (the "Vendor") to acquire 25% of equity interest in Fair Future (note 23), a company incorporated in Hong Kong. Fair Future and its subsidiary are principally engaged in the manufacture of watches and accessories of watches. Pursuant to the Acquisition Agreement, the considerations for acquisition of the 25% of equity interest in Fair Future of HK$56,000,000 will be settled by the issue and allotment of approximately 56,000,000 ordinary shares of the Company on various dates from January 2012 to January 2014. As at 31 December 2011, the Acquisition Agreement is not completed and subject to certain conditions precedent. Details of the acquisition of the 25% of equity interest in Fair Future were set out in the Company's announcements dated 15 and 16 December 2011.

Company

At 31 December 2012, the Company did not have any capital commitments (2011: Nil).

43. RELATED PARTY TRANSACTIONS

43.1 Other than those disclosed elsewhere in the financial statements, the following transactions were carried out with related parties:

(i) *Sales of goods*

	2012 *HK$'000*	**2011** *HK$'000*
Sales of goods to joint venturer	–	425,102

Sales to joint venturer of the Group's jointly-controlled entity, of which certain directors of the Company are also directors. The amounts for the year ended 31 December 2011 were presented under discontinued operations as set out in note 12.3.

(ii) *Rental income*

	2012 *HK$'000*	**2011** *HK$'000*
Rental income received	120	120
Sub-lease income received	341	864

This was received from a director and this was charge at HK$10,000 per month on average (2011: HK$10,000). Sub-lease income was received from a company of which certain directors of the Company are also directors of the related company, and this was charged approximately at HK$28,000 (2011: HK$72,000) per month on average.

(iii) *Outstanding balances included in other receivables:*

	2012 *HK$'000*	**2011** *HK$'000*
Due from related companies	1,822	1,545

The certain directors of the Company are also the directors of the related companies.

43.2 **Key management personnel compensation**

Included in staff costs are key management personnel compensation and comprises the following categories:

	2012 *HK$'000*	**2011** *HK$'000*
Short-term employee benefits	14,066	12,110
Post-employment benefits	140	108
Equity-settled share-based compensation	–	506
	14,206	12,724

The key management represents the directors of the Group. Further details of directors' emoluments are included in note 17.1 to the financial statements.

44. MAJOR NON-CASH TRANSACTIONS

During the year, the Group issued 54,527,000 and 23,000,000 to acquire the intangible asset and 25% equity interest of Fair Future which were non-cash transaction (note 35(a) and 35(b)).

45. ACQUISITION OF SUBSIDIARIES

On 29 June 2011, the Group acquired the entire equity interest of 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 the Eterna Group and obtained the controls over the Eterna Group through the Group's right to nominate all the members of the Eterna Group's board of directors, and Eterna Group becomes wholly owned subsidiaries of the Group.

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 shown below	(260,824)
Excess of fair value of the net identifiable assets over the cost of acquisition of subsidiaries	46,904

The fair values of the identifiable assets and liabilities arising from the acquisition of Eterna Group as at date of acquisition and the corresponding carrying amounts immediately prior to the acquisition were as follows:

	Fair value	**Acquirees' carrying amount**
	HK$'000	*HK$'000*
Property, plant and equipment *(note 18)*	94,418	93,418
Intangible assets *(note 26)*	36,700	–
Deferred tax assets *(note 37)*	8,671	–
Inventories	174,808	150,908
Trade receivables	11,579	11,579
Prepayments, deposits and other receivables	5,671	5,671
Cash and cash equivalents	4,445	4,445
Trade payables	(34,799)	(34,799)
Other payables and accruals	(31,998)	(31,998)
Deferred tax liabilities *(note 37)*	(8,671)	–
Shareholder's loan	(533,511)	(533,511)
Net liabilities	(272,687)	(334,287)
Less: Shareholder's loan assigned to the Group	533,511	
Fair value of net assets acquired	260,824	

	HK$'000
Cash and cash equivalents in subsidiaries acquired	4,445
Purchase consideration settled in cash	(213,920)
Net cash outflow	(209,475)

The directors measured the fair value of brand name at the acquisition date of Eterna Group with reference to a valuation performed by Asset Appraisal Limited. The valuation was based on royalty relief method, a commonly applied approach to value brand name. The directors have assessed and opined the useful life of the brand name is indefinite.

Gain recognised in respect of the excess of fair value of the net identifiable assets over the cost of acquisition of subsidiaries of HK$45,904,000 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 represented the increase in fair value of intangible assets and inventories. This represents the intrinsic value of the Eterna Group identified by management, which was not recognised in the books of the Eterna Group before the acquisition.

The Eterna Group contributed revenue of approximately HK$42,687,000 and net loss of approximately HK$18,680,000 to the Group for the year ended 31 December 2011.

Had the business combination taken place on 1 January 2011, revenue from continuing operations and profit of the Group for the year ended 31 December 2011 would have been approximately HK$1,493,770,000 and HK$242,746,000 respectively. The pro-forma information was for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had the acquisition of the Eterna Group been completed on 1 January 2011 nor were they intended to be a projection of future results.

46. GUARANTEE-COMPANY

At December 2012, the Company had contingent liability in relation to guarantees of approximately HK$26,543,000 (2011: Nil) given to the banks in respect of the loans granted to the subsidiaries.

Pursuant to the terms of the guarantees, upon default in loan repayment, the Company is responsible to repay the outstanding loan principals together with any accrued interest and penalty to the banks. In the opinion of the directors, the repayment of loan would not be in default.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial assets and liabilities such as available-for-sale financial assets, trade receivables, other receivables, financial assets at fair value through profit or loss, cash and cash equivalents, trade payables, other payables and amounts due to related companies, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board has reviewed and agreed policies for managing each of these risks and they are summarised below.

47.1 Summary of financial assets and liabilities by category

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. Its treasury department works under the policies approved by the board of directors and identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the board of directors.

Categories of financial assets and liabilities

The carrying amounts presented in the statement of financial position relate to the following categories of financial assets and financial liabilities.

Group

	2012	**2011**
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale financial assets	1,409,176	807,696
Financial assets at fair value through profit or loss	106,629	107,803
Loans and receivables:		
– Trade receivables	347,366	244,284
– Other receivables and deposits	197,078	120,411
– Short-term investments	31,234	–
– Cash and cash equivalents	228,624	351,276
	804,302	715,971
	2,320,107	1,631,470

Company

	2012	**2011**
	HK$'000	*HK$'000*
Financial assets		
Financial assets at fair value through profit or loss	52,590	52,671
Loans and receivables:		
– Other receivables and deposits	7,795	3,453
– Cash and cash equivalents	6,382	89,411
	14,177	92,864
	66,767	145,535

Group

	2012	2011
	HK$'000	*HK$'000*
Financial liabilities		
Derivative financial instruments	40,126	–
Financial liabilities measured at amortised cost		
– Trade payables	307,006	194,448
– Other payables	309,036	194,154
– Dividend payables	82,253	252
– Borrowings	478,512	86,171
– Due to related companies	159	157
	1,176,966	475,182
	1,217,092	475,182

Company

	2012	2011
	HK$'000	*HK$'000*
Financial liabilities		
Financial liabilities measured at amortised cost		
– Other payables	11,622	12,121
– Dividend payables	82,253	251
– Borrowings	166,784	13,000
	260,659	25,372
Financial guarantee issued		
– Maximum amount guarantee	26,543	–

47.2 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group and the Company's interest rate risk arises primarily from borrowings. Borrowings bearing variable rates and fixed rates expose the Group and the Company to cash flow interest rate risk and fair value interest rate risk respectively. The exposure to interest rates for the Group and the Company's short-term bank deposits are considered immaterial.

The Group and the Company's exposure to the risk of changes in market interest rates relates primarily to the Group and the Company's debt obligations with a floating interest rate. The Group and the Company currently had not implemented any procedures to hedge its interest rate risk.

At 31 December 2012, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group and the Company's profit after income tax and retained profits by approximately HK$2,393,000 and HK$833,000 (2011: HK$431,000 and HK$65,000) respectively.

The sensitivity analysis above was determined assuming that the change in interest rates had occurred at the reporting date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date.

The 50 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates over the period until the next annual reporting date. The analysis was performed on the same basis for 2011.

47.3 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong and the PRC with most of the transactions denominated and settled in HK$ and RMB. No foreign currency risk has been identified for those PRC subsidiaries' financial assets and liabilities denominated in RMB, which is the functional currency of the PRC subsidiaries to which these transactions relate. The Group's exposure to foreign currency risk primarily arise from certain financial instruments which are denominated in RMB, which are currencies other than the functional currency of the entities to which it relate. The Group currently does not have a foreign currency hedging policy.

The following table summarises the Group's major financial assets/(liabilities) denominated in currencies other than the functional currencies of the respective group companies as at 31 December 2012 and 2011.

	2012	**2011**
	HK$'000	*HK$'000*
Available-for-sale financial assets	1,409,097	807,617
Cash and cash equivalents	2,094	1,042
Other receivables	6,704	82
Other payables	(26,645)	(14,299)

The following table demonstrates the sensitivity at the reporting date to a reasonably possible change in RMB exchange rate, with all other variables held constant, of the Group's profit for the year and of the Group's investment revaluation reserve (due to changes in the fair value of monetary assets and liabilities).

	2012	**2011**
	HK$'000	*HK$'000*
Effect to the profit for the year:		
5% strengthening in HK$	892	659
5% weakening in HK$	(892)	(659)

	2012	**2011**
	HK$'000	*HK$'000*
Effect on other comprehensive income and to the investment revaluation reserve (due to the change in fair value of the available-for-sale financial assets):		
5% strengthening in HK$	(70,455)	(40,381)
5% weakening in HK$	70,455	40,381

47.4 Credit risk

The Group trades only with recognised and creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

As at 31 December 2012 and 2011, the Group's trade receivables relate to a large number of diversified customers and there is no significant concentration of credit risk.

Since the Group trades only with recognised and creditworthy parties, there is no requirement for collateral.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and financial assets at fair value through profit or loss, arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. Credit risk on cash and cash equivalents is mitigated as cash is deposited in banks of high credit rating.

47.5 Liquidity risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified monthly.

The Group maintains mainly cash to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities.

As at 31 December 2012 and 2011 the Group's financial liabilities have contractual maturities which are summarised below:

Group
As at 31 December 2012

	Carrying amount	**Total contractual undiscounted cash flow**	**Within 1 year or on demand**	**Over 1 year**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities				
Trade payables	307,006	307,006	307,006	–
Other payables	309,036	309,036	309,036	–
Dividend payable	82,253	82,253	82,253	–
Borrowings	478,512	495,226	495,226	–
Due to related companies	159	159	159	–
	1,176,966	1,193,680	1,193,680	–

As at 31 December 2011

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Over 1 year
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities				
Trade payables	194,448	194,448	194,448	–
Other payables	194,154	194,154	194,154	–
Dividend payable	252	252	252	–
Borrowings	86,171	88,761	88,761	–
Due to related companies	157	157	157	–
	475,182	477,772	477,772	–

Company
As at 31 December 2012

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Over 1 year
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities				
Other payables	11,622	11,622	11,622	–
Dividend payable	82,253	82,253	82,253	–
Borrowings	166,784	171,485	171,485	–
	260,659	265,360	265,360	–
Financial guarantee issued – Maximum amount guaranteed	–	26,543	26,543	–

As at 31 December 2011

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Over 1 year
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial liabilities				
Other payables	12,121	12,121	12,121	–
Dividend payable	251	251	251	–
Borrowings	13,000	13,300	13,300	–
	25,372	25,672	25,672	–
Financial guarantee issued – Maximum amount guaranteed	–	–	–	–

The table that follows summarises the maturity analysis of borrowings with a repayment on demand clause based on agreed scheduled repayments set out in the loan agreements. The amounts included interest payments computed using contractual rates. As a result, these amounts were greater than the amount disclosed in the "Within one year and on demand" time band in the maturity analysis above. Taking into account the Group's and the Company's financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

Group

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Over 1 year but within 2 years	Over 2 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2011	13,000	13,300	13,300	–	–
As at 31 December 2012	182,543	187,840	162,760	2,014	23,066

Company

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	Over 1 year but within 2 years	Over 2 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2011	13,000	13,300	13,300	–	–
As at 31 December 2012	156,000	160,701	160,701	–	–

47.6 Fair value risk

The fair value of the Group's current financial assets and liabilities are not materially different from their carrying amounts because of the immediate or short-term maturity. The fair values of non-current financial assets and liabilities were not disclosed because the carrying values were not materially different from their fair values.

47.7 Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as financial assets at fair value through profit or loss and available-for-sale financial assets. Other than unlisted equity investments held for strategic purposes, all of these investments are listed.

Decisions to buy or sell financial assets at fair value through profit or loss are based on daily monitoring of the performance of individual securities and other industry indicators, as well as the Group's liquidity needs. Listed investments held in the available-for-sale financial assets are based on their longer term growth potential and are monitored regularly for performance against expectations.

The following table indicates the approximate change in the Group's profit after income tax and consolidated equity in response to reasonably possible changes in the share prices of the listed investments classified as financial assets at fair value through profit or loss and available-for-sale financial assets to which the Group has significant exposure at the reporting date.

	2012		2011	
	Effect on profit after tax and retained profits	Effect on other comprehensive income and to investment revaluation reserve	Effect on profit after tax and retained profits	Effect on other comprehensive income and to investment revaluation reserve
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at fair value through profit or loss:				
Increase in share prices of the listed investments by 30% (2011: 30%)	32,078	–	32,341	–
Decrease in share prices of the listed investments by 30% (2011: 30%)	(32,078)	–	(32,341)	–
Available-for-sale financial assets at fair value:				
Increase in share price of the listed investment by 30% (2011: 30%)	–	422,729	–	242,285
Decrease in share price of the listed investment by 30% (2011: 30%)	–	(422,729)	–	(242,285)

47.8 Fair value measurements recognised in the statement of financial position

The fair values of the Group's financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- the fair value of derivative instruments is determined by the directors of the Company with reference to the valuation performed by Asset Appraisal Limited, an independent professionally qualified valuer, by using valuation techniques such as Black-Scholes Option Pricing Model and Binomial Option Pricing Model. These valuation techniques maximise the use of observable market data where it is available for all significant inputs and rely as little as possible on entity specific estimates.

The following table provides an analysis of financial assets carried at fair value by level of fair value hierarchy.

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that is not based on observable market data (unobservable inputs).

	2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Available-for-sale financial assets – Listed	1,409,097	–	–	1,409,097
Listed securities designated at fair value through profit or loss	106,929	–	–	106,929
	1,516,026	–	–	1,516,026
Liabilities				
Derivative financial instruments	–	40,126	–	40,126

	2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets				
Available-for-sale financial assets – Listed	807,617	–	–	807,617
Listed securities designated at fair value through profit or loss	107,803	–	–	107,803
	915,420	–	–	915,420
Liabilities				
Derivative financial instruments	–	–	–	–

There have been no significant transfers between Levels 1 and 2 in the reporting period.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting periods.

– *Listed securities*

The listed equity securities are denominated in HK$ and RMB. Fair values have been determined by reference to their quoted bid prices at the reporting dates and have been translated using the spot foreign currency rates at the end of the reporting periods where appropriate.

48. CAPITAL MANAGEMENT

The Group's capital management objectives are:

(i) to ensure the Group's ability to continue as a going concern;

(ii) to provide an adequate return to shareholders;

(iii) to support the Group's sustainable growth; and

(iv) to provide capital for the purpose of potential mergers and acquisitions.

The Group sets the amount of equity capital in proportion to its overall financing structure. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the amount dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debts.

The capital-to-overall financing ratio at reporting date was as follows:

	2012	**2011**
	HK$'000	*HK$'000*
Capital		
Total equity	3,956,119	3,134,939
Overall financing		
Borrowings	478,512	86,171
Due to related companies	159	157
	478,671	86,328
Capital-to-overall financing ratio	8.26	36.31

3. UNAUDITED FINANCIAL STATEMENTS

Set out below is the unaudited condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flows and notes to the financial statements of the Group as extracted from pages 24 to 52 of the interim report of the Group for the six months ended 30 June 2013. References to page number in this section are to the page numbers of such interim report of the Group.

Condensed Consolidated Statement of Comprehensive Income
For the Six Months Ended 30 June 2013

		Six months ended 30 June	
		2013	**2012**
	Notes	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*5*	1,302,942	959,089
Cost of sales		(630,957)	(427,314)
Gross profit		671,985	531,775
Other income and financial income		27,505	11,307
Selling and distribution expenses		(307,875)	(217,012)
Administrative expenses		(215,322)	(170,873)
Loss on fair value changes in financial assets at fair value through profit or loss, net		(16,714)	(6,708)
Dividend income from available-for-sale financial assets	*13.1*	30,965	17,169
Gain on disposal of available-for-sale financial assets	*13.2*	327,763	–
Gain on fair value changes in derivative financial instruments	*19*	1,625	4,038
Finance costs	*6*	(14,660)	(4,378)
Share of profits of associates		6,433	4,880
Profit before income tax	*7*	511,705	170,198
Income tax expense	*8*	(89,860)	(50,407)
Profit for the period		421,845	119,791

		Six months ended 30 June	
		2013	**2012**
	Notes	*HK$'000*	*HK$'000*
		(Unaudited)	(Unaudited)
Other comprehensive income			
Items that may be subsequently reclassified to profit and loss:			
– Exchange gain on translation of financial statements of foreign operations		15,982	14,788
– Transfer of investment revaluation reserve to profit or loss on disposal of available-for-sale financial assets	*13.2*	(244,312)	–
– Changes in fair value of available-for-sale financial assets	*13.1*	217,940	388,825
Other comprehensive income for the period		(10,390)	403,613
Total comprehensive income for the period		411,455	523,404
Profit for the period attributable to:			
Owners of the Company		403,386	100,148
Non-controlling interests		18,459	19,643
		421,845	119,791
Total comprehensive income for the period attributable to:			
Owners of the Company		391,364	502,840
Non-controlling interests		20,091	20,564
		411,455	523,404
Earnings per share attributable to owners of the Company during the period	*10*		
– Basic		HK 9.35 cents	HK 2.39 cents
– Diluted		HK 9.32 cents	HK 2.34 cents

Condensed Consolidated Statement of Financial Position

As at 30 June 2013

	Notes	30 June 2013 HK$'000 (Unaudited)	31 December 2012 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	345,685	320,780
Investment properties	12	100,912	100,912
Prepaid land lease payments		39,605	39,357
Goodwill		621,382	621,382
Interests in associates		64,500	58,065
Available-for-sale financial assets	13	1,152,529	1,409,176
Intangible assets		179,204	149,049
Prepayments and deposits		2,325	7,809
Deferred tax assets		1,328	1,311
		2,507,470	2,707,841
Current assets			
Inventories	14	1,656,667	1,587,657
Trade receivables	15	431,695	347,366
Prepaid land lease payments		840	834
Prepayments, deposits and other receivables		443,505	250,652
Financial assets at fair value through profit or loss		91,622	106,929
Short-term investments	16	53,125	31,234
Cash and cash equivalents		591,967	228,624
		3,269,421	2,553,296

	Notes	30 June 2013 HK$'000 (Unaudited)	31 December 2012 HK$'000 (Audited)
Current liabilities			
Trade payables	17	292,191	307,006
Other payables and accruals		364,556	352,903
Dividend payables		36,772	82,253
Tax payables		50,955	44,059
Borrowings	18	596,880	478,512
Derivative financial instruments	19	59,918	40,126
Due to related companies		161	159
		1,401,433	1,305,018
Net current assets		1,867,988	1,248,278
Total assets less current liabilities/Net assets		4,375,458	3,956,119
EQUITY			
Equity attributable to owners of the Company			
Share capital		432,095	426,806
Reserves		3,764,388	3,362,215
		4,196,483	3,789,021
Non-controlling interests		178,975	167,098
Total equity		4,375,458	3,956,119

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2013

	Equity attributable to owners of the Company													
	Share capital	Share premium account	Share option reserve	Other reserve	Shares to be issued reserve	Goodwill arising on con- solidation	Statutory reserves	Exchange reserve	Investment revaluation reserve	Retained profits	Proposed dividends	Total	Non- controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2012	413,975	792,405	10,748	22,692	–	(15,300)	26,268	47,662	123,905	1,449,745	186,289	3,058,389	76,550	3,134,939
Transactions with owners														
Issuance of shares for acquisition of intangible assets and an associate	7,752	35,503	–	–	–	–	–	–	–	–	–	43,255	–	43,255
Shares to be issued for an acquisition of an associate	–	–	–	–	18,049	–	–	–	–	–	–	18,049	–	18,049
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	50,422	50,422
Proceeds from shares issued under share option scheme	4,939	11,105	–	–	–	–	–	–	–	–	–	16,044	–	16,044
Exercise of share options	–	7,490	(7,490)	–	–	–	–	–	–	–	–	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(10,907)	(10,907)
Approval of final 2011 dividend *(note 9.2)*	–	–	–	–	–	–	–	–	–	–	(186,289)	(186,289)	–	(186,289)
Additional final 2011 dividend *(note 9.2)*	–	(5,711)	–	–	–	–	–	–	–	–	–	(5,711)	–	(5,711)
Total transactions with owners	12,691	48,387	(7,490)	–	18,049	–	–	–	–	–	(186,289)	(114,652)	39,515	(75,137)

	Equity attributable to owners of the Company													
	Share capital HK$'000 (Unaudited)	Share premium account HK$'000 (Unaudited)	Share option reserve HK$'000 (Unaudited)	Other reserve HK$'000 (Unaudited)	Shares to be issued reserve HK$'000 (Unaudited)	Goodwill arising on con-solidation HK$'000 (Unaudited)	Statutory reserves HK$'000 (Unaudited)	Exchange reserve HK$'000 (Unaudited)	Investment revaluation reserve HK$'000 (Unaudited)	Retained profits HK$'000 (Unaudited)	Proposed dividends HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	Non-controlling interests HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
Comprehensive income														
Profit for the period	–	–	–	–	–	–	–	–	–	100,148	–	100,148	19,643	119,791
Other comprehensive income														
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	–	13,867	–	–	–	13,867	921	14,788
Changes in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	–	388,825	–	–	388,825	–	388,825
Total comprehensive income	–	–	–	–	–	–	–	13,867	388,825	100,148	–	502,840	20,564	523,404
Proposed interim 2012 dividend *(note 9.1)*	–	(42,667)	–	–	–	–	–	–	–	–	42,667	–	–	–
At 30 June 2012	426,666	798,125	3,258	22,692	18,049	(15,300)	26,268	61,529	512,730	1,549,893	42,667	3,446,577	136,629	3,583,206

	Equity attributable to owners of the Company												
	Share capital HK$'000 (Unaudited)	Share premium account* HK$'000 (Unaudited)	Share option reserve* HK$'000 (Unaudited)	Other reserve* HK$'000 (Unaudited)	Shares to be issued reserve*# HK$'000 (Unaudited)	Goodwill arising on con-solidation* HK$'000 (Unaudited)	Statutory reserves* HK$'000 (Unaudited)	Exchange reserve* HK$'000 (Unaudited)	Investment revaluation reserve* HK$'000 (Unaudited)	Retained profits* HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	Non-controlling interests HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
At 1 January 2013	426,806	798,647	3,046	22,692	18,049	(15,300)	26,268	63,258	725,385	1,720,170	3,789,021	167,098	3,956,119
Transactions with owners													
Issuance of shares for acquisition of intangible assets and an associate	5,234	18,889	–	–	(8,204)	–	–	–	–	–	15,919	–	15,919
Proceeds from shares issued under share option scheme	55	124	–	–	–	–	–	–	–	–	179	–	179
Exercise of share options	–	83	(83)	–	–	–	–	–	–	–	–	–	–
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(8,214)	(8,214)
Total transactions with owners	5,289	19,096	(83)	–	(8,204)	–	–	–	–	–	16,098	(8,214)	7,884
Comprehensive income													
Profit for the period	–	–	–	–	–	–	–	–	–	403,386	403,386	18,459	421,845
Other comprehensive income													
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	–	14,350	–	–	14,350	1,632	15,982
Transfer of investment revaluation reserve to profit or loss on disposal of available-for-sale financial assets	–	–	–	–	–	–	–	–	(244,312)	–	(244,312)	–	(244,312)
Changes in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	–	217,940	–	217,940	–	217,940
Total comprehensive income	–	–	–	–	–	–	–	14,350	(26,372)	403,386	391,364	20,091	411,455
At 30 June 2013	432,095	817,743	2,963	22,692	9,845	(15,300)	26,268	77,608	699,013	2,123,556	4,196,483	178,975	4,375,458

* These reserve accounts comprise the consolidated reserves of HK$3,764,388,000 (31 December 2012: HK$3,362,215,000) in the condensed consolidated statement of financial position.

\# The shares to be issued reserve as at 30 June 2013 represented the fair value of 18,000,000 units of ordinary shares to be issued for the acquisition of an associate which will be issued to the vendor in January 2014.

Condensed Consolidated Statement of Cash Flows

For the Six Months Ended 30 June 2013

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	(114,519)	(113,186)
Net cash inflow/(outflow) from investing activities	400,698	(92,113)
Net cash inflow from financing activities	72,664	139,880
Net increase/(decrease) in cash and cash equivalents	358,843	(65,419)
Cash and cash equivalents at beginning of period *(note)*	217,840	351,276
Effect of foreign exchange rate changes, net	15,284	15,499
Cash and cash equivalents at end of period *(note)*	591,967	301,356

Note:

Cash and cash equivalents comprised cash and bank balances and bank overdrafts for the purpose of condensed consolidated statements of cash flows.

Notes to the Unaudited Condensed Consolidated Interim Financial Information
For the Six Months Ended 30 June 2013

1. BASIS OF PREPARATION

This unaudited interim financial information ("The Unaudited Interim Financial Information") has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure provisions in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Unaudited Interim Financial Information is 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.

The Unaudited Interim Financial Information for the six months ended 30 June 2013 was approved for issue by the board of directors on 22 August 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Unaudited Interim Financial Information has been prepared in accordance with the accounting policies and method of comparatives used in the annual financial statements of the Company for the year ended 31 December 2012 (the "2012 Annual Financial Statements"), except for the adoption of the new or amended Hong Kong Financial Reporting Standards ("HKFRSs"), which include individual HKFRSs, HKAS and Interpretations ("Int"). The adoption of these new and revised HKFRSs has had no material impact on the Group's financial statements. The Group has not early adopted any new HKFRSs that have been issued but are not yet effective. The Unaudited Interim Financial Information should be read in conjunction with the 2012 Annual Financial Statements.

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

Estimated impairment of goodwill

The Group tests on an annual basis whether goodwill has suffered any impairment. The recoverable amounts of the cash generating units have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates of the future cash flows expected to arise from the cash generating units, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value.

Provision against slow-moving inventories

Provision for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the provision involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charge/write-back in the period in which such estimate has been changed.

Estimated impairment of trade and other receivables

Impairment loss on trade receivables of the Group is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Allowances for impairment are determined by management of the Group based on the repayment history of its debtors and the current market conditions. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. Management reassesses the amount of impairment allowances of receivables, if any, at each reporting date.

Fair value of derivative financial instruments

The directors use their judgement in selecting appropriate valuation techniques to assess the fair value of the derivative financial instruments as disclosed in note 19, which are financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

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 are as follows:

(a) manufacture and distribution of watches and timepieces;

(b) property investment; and

(c) distribution of yacht.

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

Inter-segment sales are charged at prevailing market prices.

	Six months ended 30 June 2013			
	Watches and timepieces	Property investment	Yacht	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue and income:				
Sales to external customers	1,294,828	8,114	–	1,302,942
Other income and financial income	24,614	1,794	–	26,408
Total	1,319,442	9,908	–	1,329,350
Segment results	229,303	1,071	(1,135)	229,239
Unallocated corporate income and expenses, net				(37,070)
Share of profits of associates				6,433
Gain on disposal of available-for-sale financial assets				327,763
Finance costs				(14,660)
Profit before income tax				511,705
Income tax expense				(89,860)
Profit for the period				421,845

	Six months ended 30 June 2012			
	Watches and timepieces	Property investment	Yacht	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue and income:				
Sales to external customers	951,834	7,255	–	959,089
Other income and financial income	9,815	1,084	25	10,924
Total	961,649	8,339	25	970,013
Segment results	187,983	4,318	(1,523)	190,778
Unallocated corporate income and expenses, net				(21,082)
Share of profits of associates				4,880
Finance costs				(4,378)
Profit before income tax				170,198
Income tax expense				(50,407)
Profit for the period				119,791

Management determines the Group is domiciled in Hong Kong, which is the location of the Group's principal office. Over 90% of the Group's revenues from external customers are attributable to a single geographical region, which is the People's Republic of China ("PRC").

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 period is as follows:

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Sale of goods	1,294,828	951,834
Rental income	8,114	7,255
	1,302,942	959,089

6. FINANCE COSTS

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interests on borrowings wholly repayable within five years	14,660	4,378

7. PROFIT BEFORE INCOME TAX

The Group's profit before income tax was arrived at after charging:

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Depreciation	19,720	14,421
Amortisation of prepaid land lease payments	370	365

8. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2012: Nil).

The operation in the PRC is subject to income taxes ranging between 15% and 25% (Six months ended 30 June 2012: between 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 5% to 10% in respect of its PRC sourced income earned, including rental income from properties in PRC and dividend income derived from PRC incorporated company.

9. DIVIDENDS

9.1 Dividends attributable to the interim period were as follows:

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interim dividend	–	42,667

The directors do not recommend the payment of an interim dividend for the period ended 30 June 2013 (Six months ended 30 June 2012: Interim dividend of HK 1 cent per share). For the period ended 30 June 2012, the interim dividend declared after the reporting date had not been recognised as a liability at the reporting date, but reflected as an appropriation of share premium.

9.2 Dividends attributable to the previous financial year and approved during the period were as follows:

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Final dividend in respect of the previous financial year	–	192,000

No final 2012 dividend was recommended (Six months ended 30 June 2012: Final 2011 dividend of HK 4.5 cents per share). The amount of actual final 2011 dividend payable was HK$192,000,000 as a result of the issue of 126,917,000 new ordinary shares during the period ended 30 June 2012, as a consequence of acquisition of an intangible asset and an associate and exercise of share options before the closure of members' register on 3 July 2012. All of these ordinary shares newly issued were entitled to the final 2011 dividend.

10. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company for the purpose of calculating basic and diluted earnings per share:	403,386	100,148

	Number of shares Six months ended 30 June	
	2013	2012
	'000	*'000*
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	4,315,844	4,197,783
Effect of dilutive potential ordinary shares: – share options issued by the Company	11,727	76,363
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	4,327,571	4,274,146

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired property, plant and equipment of HK$40,052,000 (Six months ended 30 June 2012: HK$108,365,000). Property, plant and equipment of HK$900,000 were disposed of during the six months ended 30 June 2013 (Six months ended 30 June 2012: HK$25,572,000).

As at 30 June 2013, the Group has not yet obtained the title certificates for certain leasehold buildings in the PRC with an aggregate carrying amount of approximately HK$846,000 (31 December 2012: HK$927,000). The Group's legal advisors have confirmed that the Group has legally obtained the rights to use the buildings. The directors are now in process of obtaining the title certificates from the relevant government authorities.

As at 30 June 2013, land and buildings in Switzerland with an aggregate carrying amount of HK$35,766,000 (31 December 2012: HK$39,073,000) have been pledged to secure banking facilities granted to the Group (note 18).

12. INVESTMENT PROPERTIES

As at 30 June 2013, the Group has not obtained the relevant title certificates for investment properties with an aggregate carrying amount of HK$39,500,000 (31 December 2012: HK$39,500,000). The Group's legal advisors have confirmed that the Group is the rightful and equitable owner of these investment properties. The directors are now in process of obtaining the title certificates from the relevant government authorities.

As at 30 June 2013, certain of the Group's investment properties with carrying amount of HK$22,150,000 (31 December 2012: HK$22,150,000) have been pledged to secure banking facilities granted to the Group (note 18).

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

13.1 Available-for-sale financial assets

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Listed equity investment in the PRC, at fair value	1,152,448	1,409,097
Unlisted equity investments, at cost	81	79
	1,152,529	1,409,176

As at 30 June 2013, the listed equity investment in the PRC represented 9.81% (31 December 2012: 14.78%) equity interest in Citychamp Dartong Company Limited (referred to "Citychamp" and its shares referred to as the "Citychamp Shares"). As at 30 June 2013, the Group held 115,389,058 Citychamp shares (31 December 2012: 173,989,058 Citychamp shares).

On 17 June 2013, Citychamp declared a cash dividend of RMB2.12 for every 10 Citychamp shares. A dividend income totalling HK$30,965,000 were received and recognised by the Group in the profit or loss for the six months ended 30 June 2013 (Six months ended 30 June 2012: HK$17,169,000).

During the period, the increase in fair value of Citychamp Shares of HK$217,940,000 (Six months ended 30 June 2012: HK$388,825,000) has been dealt with in other comprehensive income and investment revaluation reserve.

13.2 Gain on disposal of available-for-sale financial assets

On 13 June 2013, the Group has completed the disposal of 58,600,000 Citychamp Shares at a cash consideration of HK$558,040,000 (RMB441,487,000 equivalent). Details of the completion of the disposal of Citychamp Shares are set out in the Company's announcement dated 17 June 2013. A gain of HK$327,763,000 was recognised in the profit or loss for the six months ended 30 June 2013 and analysed as follows:

	HK$'000 (Unaudited)
Proceeds from disposal of Citychamp Shares	558,040
Less: Carrying amount of Citychamp Shares at the date of disposal	(474,589)
Add: Release of investment revaluation reserve upon disposal	244,312
Gain on disposal of Citychamp Shares	327,763

14. INVENTORIES

	30 June 2013 *HK$'000* (Unaudited)	**31 December 2012** *HK$'000* (Audited)
Raw materials	254,456	229,656
Work in progress	166,264	48,439
Finished goods and merchandise	1,235,947	1,309,562
	1,656,667	1,587,657

15. 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 two months (31 December 2012: 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.

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

	30 June 2013	**31 December 2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
1 to 3 months	378,690	319,787
4 to 6 months	35,748	24,760
Over 6 months	17,257	2,819
	431,695	347,366

16. SHORT-TERM INVESTMENTS

As at 30 June 2013, the Group had short-term investments of HK$53,125,000 (RMB42,500,000 equivalent) with a major bank in the PRC, of which an amount of HK$15,625,000 (RMB12,500,000 equivalent) is redeemable in August 2013 and an amount of HK$37,500,000 (RMB30,000,000 equivalent) is redeemable in September 2013. The estimated return from these short-term investments ranged from 5.2% to 6% per annum.

As at 31 December 2012, the Group had short-term investments of HK$31,234,000 (RMB25,300,000 equivalent) with a major bank in the PRC, of which an amount of HK$18,518,000 (RMB15,000,000 equivalent) has no maturity and an amount of HK$12,716,000 (RMB10,300,000 equivalent) is redeemable in January 2013. For the balance with no maturity, the Group is entitled to redeem the investments from the banks anytime. The estimated return from these short-term investments ranged from 4.4% to 5.73% per annum.

The accrued and unpaid interest will be received upon redemption of the investment from the bank. The directors of the Company consider that the carrying value of short-term investments approximate to their fair value at end of the reporting period as it is highly liquid and credit risk involved is insignificant.

17. TRADE PAYABLES

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

	30 June 2013	**31 December 2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
1 to 3 months	277,456	289,235
4 to 6 months	9,075	8,353
Over 6 months	5,660	9,418
	292,191	307,006

18. BORROWINGS

	30 June 2013	31 December 2012
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Bank borrowings *(note a)*		
Bank overdrafts	–	10,784
Bank loans	551,880	467,728
	551,880	478,512
Other loans *(note b)*	45,000	–
	596,880	478,512

Notes:

(a) As at 30 June 2013, part of the bank borrowings of HK$23,770,000 (31 December 2012: HK$24,694,000) were repayable over one year and the remaining balances were repayable within one year.

Certain of bank loans contain clause which give the banks the right at their sole discretion to demand immediate repayment at any time irrespective of whether the Group has compiled with the covenants and met the scheduled repayment obligations. The carrying amounts of the borrowings approximate to their fair value. None of the portion of loans due for repayment after one year which contain a repayment on demand clause and that is classified as current liabilities is expected to be settled within one year.

At the reporting date, the Group's bank borrowings were secured by:

(i) corporate guarantee provided by companies within the Group for bank borrowings as at 30 June 2013 and 31 December 2012.

(ii) a legal charge over certain of the Group's investment properties with carrying amounts of HK$22,150,000 (31 December 2012: HK$22,150,000) (note 12).

(iii) a legal charge over certain of the Group's land and buildings with the carrying amounts of HK$35,766,000 (31 December 2012: HK$39,073,000) (note 11).

(b) Other loans were borrowed from a related company in which Mr. Hon Kwok Lung, a director of the Company, is also a director and a beneficial owner. The loans are unsecured, payable within one year and bear interest at 5% per annum.

19. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2013 *HK$'000* (Unaudited)	31 December 2012 *HK$'000* (Audited)
Financial undertakings provided by the Group in relation to issuance of ordinary shares for:		
– Acquisition of intangible assets *(note a)*	46,332	23,452
– Acquisition of an associate *(note b)*	13,586	16,674
	59,918	40,126

Notes:

(a) In January 2013, the Group completed the acquisition of certain intangible assets, including suppliers and distributions networks from joint venture partners in PRC at a consideration of RMB30,600,000. The purchase consideration was settled by issue and allotment of 37,335,286 ordinary shares ("2013 Consideration Shares for Intangible Assets") of the Company. Pursuant to the terms of the acquisition agreement, the Group has provided a financial undertaking to compensate the vendor the shortfall in cash if the average selling price of 2013 Consideration Shares for Intangible Assets disposed of by the vendor after the expiration of the respective lock-up periods is less than HK$1. The fair value of financial undertaking as at 30 June 2013 is HK$21,288,000 (31 December 2012: Nil).

In April 2012, the Group has completed the acquisition of certain intangible assets, including suppliers and distributions networks from a joint venture partner in the PRC at a consideration of RMB51,000,000. The purchase consideration was settled as to RMB6,500,000 by cash and as to RMB44,500,000 by issue and allotment of 54,527,631 ordinary shares ("2012 Consideration Shares for Intangible Assets") of the Company. Pursuant to the terms of the acquisition agreement, the Group has provided a financial undertaking to compensate the vendor the shortfall in cash if the average selling price of 2012 Consideration Shares for Intangible Assets disposed of by the vendor after the expiration of the respective lock-up periods is less than HK$1. The fair value of financial undertaking as at 30 June 2013 is HK$25,044,000 (31 December 2012: HK$23,452,000).

(b) In March 2012, the Group has completed the acquisition of an associate, Fair Future Industrial Limited, at a consideration of HK$56,000,000. The purchase consideration was settled by issue and allotment of 56,000,000 ordinary shares ("Consideration Shares for Associate") of the Company. Up to 30 June 2013, 38,000,000 ordinary shares have been issued to the vendor, 18,000,000 ordinary shares will be issued to the vendor in January 2014. Pursuant to the terms of the acquisition agreement, the Group has provided a financial undertaking to compensate the vendor the shortfall in cash if the average selling price of the Consideration Shares for Associate disposed of by the vendor within the 12-month period from the expiration of the respective lock-up periods is less than HK$1. The fair value of financial undertaking as at 30 June 2013 is HK$13,586,000 (31 December 2012: HK$16,674,000).

The aforementioned financial undertakings meet the definition of derivatives in accordance with HKAS 39. The value of the financial undertakings will change in response to changes in the share price of the Company's shares. There are no initial net investments and they are settled at a future date. In these regards, the financial undertakings will be accounted for as derivative financial instruments, which are designated as financial liabilities at fair value through profit or loss. The fair value gain of the derivative financial instruments during the period amounted to HK$1,625,000 (Six months ended 30 June 2012: HK$4,038,000), which has been recognised in the profit or loss for the period.

20. CONTINGENT LIABILITIES

As at 30 June 2013, the Group had no material contingent liabilities (31 December 2012: Nil).

21. CAPITAL COMMITMENTS

	30 June 2013 HK$'000 (Unaudited)	31 December 2012 HK$'000 (Audited)
Contracted, but not provided for:		
Acquisition of a subsidiary *(note a)*	235,700	–
Purchase of intangible assets *(note b)*	–	37,335
	235,700	37,335

Notes:

(a) On 23 April 2013, the Group entered into an acquisition agreement with independent parties to acquire the entire share capital of Montres Corum Sàrl ("Corum"), a company incorporated in Switzerland. Corum and its subsidiaries are engaged in the development, manufacture and sale of Swiss luxury timepieces under the brand name of "Corum". Pursuant to the Acquisition Agreement, the Consideration for the acquisition of Corum (the "Acquisition") shall be CHF86,000,000 minus (i) Indebtedness (being the consolidated bank debts and other indebtedness for financing purpose) on the completion date of the Acquisition, and (ii) the pavilion purchase price (being the purchase price of CHF6,000,000 for the acquisition of a pavilion), which shall be satisfied by the allotment and issue of not more than 450,000,000 Consideration shares credited as fully paid to the vendors (or their nominee(s)) at the issue price of HK$0.8 and any remaining amount of the consideration by cash at closing without any deduction, set-off or right to withhold. The Acquisition was completed on 9 July 2013 and the consideration was determined to be CHF28,400,000 (equivalent to approximately HK$235,700,000). The consideration was settled by the issue and allotment of 404,625,000 ordinary shares of the Company. Details of the Acquisition are set out in the Company's circular dated 25 June 2013 and an announcement dated 10 July 2013.

(b) On 10 September 2012, the Group entered into a framework agreement (the "Framework Agreement") with independent parties (the "Joint Venture Partners") to establish a joint venture company in the PRC, namely Henan Jinjue Enterprise Company Limited ("Henan Jinjue"), which is principally engaged in the wholesale and retail of watches and accessories in the PRC. Pursuant to the Framework Agreement, the Group agreed to pay RMB30,600,000 (equivalent to approximately HK$37,335,000) to the Joint Venture Partners as a consideration for the transfers of certain intangible assets, including the suppliers and distributions networks to Henan Jinjue. In January 2013, the consideration was settled by the issue and allotment of 37,335,286 ordinary shares of the Company. Details of the establishment of Henan Jinjue and acquisition of intangible assets are set out in the Company's announcement dated 10 September 2012. During the six months ended 30 June 2013, the Framework Agreement was completed and the relevant shares have been issued.

22. RELATED PARTY TRANSACTIONS

22.1 Other than those disclosed elsewhere in the Unaudited Interim Financial Information, the following transactions were carried out with related parties:

(i) *Rental income*

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Rental income received *(note a)*	60	60
Sub-lease income received *(note b)*	171	171

Notes:

(a) This was received from a director and this was charged at HK$10,000 per month on average (Six months ended 30 June 2012: HK$10,000).

(b) Sub-lease income was received from a company of which certain directors of the Company are also directors of the related company, and this was charged at approximately HK$29,000 (Six months ended 30 June 2012: HK$29,000) per month on average.

(ii) *Interest expense*

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Interest expense	376	–

The interest expense was paid to a related company in which Mr. Hon Kwok Lung, a director of the Company, is also a director and a beneficial owner.

(iii) *Outstanding balances included in other receivables*

	30 June	**31 December**
	2013	**2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Due from related companies	1,737	1,822

The amount was due from a company of which certain directors of the Company are also the directors of the related companies. The balance was unsecured, interest-free and repayable on demand.

(iv) *Outstanding balances included in borrowings*

	30 June 2013	**31 December 2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Other loans from a related company	45,000	–

Other loans are borrowed from a related company in which Mr. Hon Kwok Lung, a director of the Company, is also a director and a beneficial owner.

(v) *Disposal of Citychamp Shares*

On 13 June 2013, the Group has disposed of 52,000,000 Citychamp Shares to Fujian Fengrong Investment Company Limited ("Fengrong") at a consideration of approximately RMB392,600,000 (equivalent to HK$495,587,000). Ms. Sit Lai Hei, a director of the Company is also a director and a beneficial owner of Fengrong.

(vi) *Financial guarantee*

On 24 June 2013, the Company executed an agreement with Fengrong in respect of a financial guarantee of RMB300,000,000 provided by Fengrong in favour of a bank for a loan facility granted to the Group of CHF42,000,000. The financial guarantee provided by Fengrong covered a 3-year period from 27 June 2013 to 26 June 2016, and secured by 72,000,000 ordinary shares of Citychamp owned by Fengrong. Fengrong shall pay an annual guarantee fee of RMB4,500,000 to the bank and the Group will fully reimburse Fengrong all the guarantee fees and other direct expenses related to the financial guarantee totalling RMB14,000,000 in three years as they incurred during the guarantee period. The Group has not utilised any of the aforementioned loan facility as of 30 June 2013.

22.2 Compensation of Key Management Personnel of the Group:

	Six months ended 30 June	
	2013	**2012**
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Short-term employee benefits	9,784	8,099
Post-employment benefits	66	103
	9,850	8,202

23. COMPARATIVE

Certain comparatives are reclassified during the period to conform to current period's presentation. In the condensed consolidated statement of comprehensive income, gain on fair value change in derivative financial instruments of HK$1,625,000 (Six months ended 30 June 2012: HK$4,038,000), which previously included in other income and financial income was presented separately.

4. INDEBTEDNESS STATEMENT

As at the close of business on 31 December 2013, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$489,279,000 as detailed below.

	As at 31 December 2013 *HK$'000* (Unaudited)
Bank loans	484,604
Amounts due to related parties	4,675
Total	489,279

The bank loans of the Group were secured by legal charges over certain of the Group's land and building, investment properties and corporate guarantees provided by companies within the Group. The Group's amounts due to related parties are unsecured.

Save as aforesaid and apart from intra-group liabilities, the Group did not, as at the close of business on 31 December 2013, have any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or any finance lease commitments, hire purchase commitments, liabilities under acceptances (other than normal trade bills), acceptance credits or any guarantees or other material contingent liabilities.

For the purpose of this indebtedness statement, foreign currency amounts have been translated into HK$ at the appropriate exchange rates prevailing as at the close of business on 31 December 2013.

The Directors are not aware of any material change in respect of the indebtedness or other contingent liabilities of the Group since 31 December 2013 up to the Latest Practicable Date.

5. MATERIAL CHANGE

The Directors confirm that there is no material change in the financial or trading position or outlook of the Group since 31 December 2012 (being the date to which the latest published audited consolidated financial statements of the Group were made up) up to and including the Latest Practicable Date, save for below:

(a) contribution of net loss after tax from Eterna AG Uhrenfabrik and its subsidiaries 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 the People Republic of China, Hong Kong and overseas. This was also discussed in the interim report of the Company for the six months ended 30 June 2013;

(b) as disclosed in the announcements of the Company dated 23 April 2013 and 10 July 2013 relating to the Acquisition;

(c) as disclosed in the announcements of the Company dated 22 April 2013, 17 June 2013 and 21 November 2013 relating to the Company's disposal of 88,600,000 shares of Citychamp Dartong Company Limited in aggregate; and

(d) as disclosed in the announcement of the Company dated 23 September 2013 relating to the Company's disposal of 51% equity interest in 瑞皇(重慶)鐘錶有限公司 (Ruihuang (Chongqing) Watch Company Limited*).

* *For identification purpose only*

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Buy-back Code for the purpose of giving information with regard to the Group. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. MARKET PRICE

The table below sets out the closing prices of the Shares on the Stock Exchange (i) at the end of each of the calendar months during the 6 months immediately preceding 13 February 2014, being the date of the Announcement up to the Latest Practicable Date; (ii) on 12 February 2014 (being the last trading day immediately preceding the date of the Announcement); and (iii) on the Latest Practicable Date.

Date	**Closing price per Share** *HK$*
30 August 2013	0.81
30 September 2013	0.79
31 October 2013	0.73
29 November 2013	0.74
31 December 2013	0.76
30 January 2014	0.75
12 February 2014	0.80
28 February 2014	0.94
Latest Practicable Date	0.92

The lowest and highest closing market prices of the Shares as quoted on the Stock Exchange during the period commencing 6 months preceding 13 February 2014, being the date of the Announcement and ending on the Latest Practicable Date were HK$0.67 on 19 December 2013 and HK$0.94 on 27 and 28 February 2014, respectively.

3. SHARE CAPITAL AND SHARE OPTIONS

The authorised and issued share capital of the Company as at the Latest Practicable Date are set out below:

Authorised capital:		*HK$*
6,000,000,000	Shares	600,000,000
Issued and fully paid:		
4,746,400,206	Shares as at the Latest Practicable Date	474,640,021
(340,300,000)	Shares to be bought back and cancelled pursuant to the Share Buy-back	(34,030,000)
4,406,100,206	Shares after cancellation of the Buy-back Shares	44,061,021

All the Shares in issue (including the Buy-back Shares) rank pari passu in all respects with each other including as regards to dividends, voting rights and return of capital. The Shares in issue are listed on the Stock Exchange.

As at the Latest Practicable Date, the Company had 16,710,000 outstanding Share Options granted pursuant to the Company's share option scheme adopted on 30 May 2008. The exercise period of such outstanding Share Options is between 9 December 2009 and 7 January 2019. The exercise price of the Share Options is HK$0.325 per Share. Save as disclosed herein, as at the Latest Practicable Date, there were no outstanding options, warrants, or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into new Shares.

There had been no reorganisation of capital of the Company during the two financial years preceding the date of the Announcement.

Save for the Share Buy-back, (i) since 31 December 2012, the date to which the latest audited consolidated accounts of the Company were made up, and up to the Latest Practicable Date, there had not been any Share buy-back; and (ii) during the 12 months preceding the date of the Announcement and up to the Latest Practicable Date, the Company had not bought back any Shares.

Save as disclosed below, (i) since 31 December 2012, the date to which the latest audited consolidated accounts of the Company were made up, and up to the Latest Practicable Date, there had not been any new issue of Shares; and (ii) there had been no other issuance of new Shares during the two years immediately preceding the date of the Announcement:

(a) 3,600,000 Shares were issued on 8 March 2012 pursuant to the exercise of the Share Options;

(b) 15,000,000 Shares were issued on 23 March 2012 at HK$1 per Share pursuant to a sale and purchase agreement dated 15 December 2011 (the "**2011 Agreement**"), details of which were disclosed in the Company's announcement dated 15 December 2011;

(c) 9,875,000 Shares were issued on 12 April 2012 pursuant to the exercise of the Share Options;

(d) 54,527,631 Shares were issued on 27 April 2012 at HK$1 per Share pursuant to a cooperation agreement dated 29 December 2011, details of which were disclosed in the Company's announcement dated 29 December 2011;

(e) 14,700,000 Shares were issued on 9 May 2012 pursuant to the exercise of the Share Options;

(f) 5,540,000 Shares were issued on 8 June 2012 pursuant to the exercise of the Share Options;

(g) 10,640,000 Shares were issued on 22 June 2012 pursuant to the exercise of the Share Options;

(h) 8,000,000 Shares were issued on 29 June 2012 at HK$1 per Share pursuant to the 2011 Agreement;

(i) 1,400,000 Shares were issued on 10 September 2012 pursuant to the exercise of the Share Options;

(j) 37,335,286 Shares were issued on 31 January 2013 at HK$1 per Share pursuant to a cooperation agreement dated 10 September 2012, details of which were disclosed in the Company's announcement dated 10 September 2012;

(k) 175,000 Shares were issued on 8 February 2013 pursuant to the exercise of the Share Options;

(l) 15,000,000 Shares were issued on 12 March 2013 at HK$1 per Share pursuant to the 2011 Agreement;

(m) 375,000 Shares were issued on 9 April 2013 pursuant to the exercise of the Share Options;

(n) 404,625,000 Shares were issued on 9 July 2013 pursuant to the Acquisition;

(o) 1,225,000 Shares were issued on 9 September 2013 pursuant to the exercise of the Share Options;

(p) 200,000 Shares were issued on 8 November 2013 pursuant to the exercise of the Share Options;

(q) 1,400,000 Shares were issued on 9 December 2013 pursuant to the exercise of the Share Options; and

(r) 18,000,000 Shares were issued on 31 January 2014 at HK$1 per Share pursuant to the 2011 Agreement.

4. DIVIDENDS

The frequency and amount of dividends that have been proposed or paid out by the Company to the Shareholders during the two-year period immediately preceding 6 March 2014, being the date of this circular, are as follows:

	2013	**2012**	**2011**
	HK cents	*HK cents*	*HK cents*
Interim dividend per Share for the six months ended 30 June	–	1	1
Final dividend per Share for the year ended 31 December	N/A	–	4.5

The Company's ability to pay dividends to Shareholders depends on a number of factors including the financial position of the Group, investment opportunities available to the Group and the general market conditions. The Company will strike a balance between preserving cash for the Group for its operational and investment needs and distributing dividends to Shareholders. The Company has no plan or intention to alter its present dividend policy.

The Board announced on 4 March 2014 that a meeting of the Board will be held on 22 March 2014 for the purpose of, among other things, considering the recommendation for the payment of final dividend for the year ended 31 December 2013, if any. Further announcement will be made by the Company in relation to the payment of final dividend (if any) after conclusion of such Board meeting.

5. DISCLOSURE OF INTERESTS

Directors' and chief executive's interests and short positions in shares and underlying shares

As at the Latest Practicable Date, the interests or short positions of the Directors and chief executive of the Company in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**"), were as follows:

(a) Long positions in Shares

As at the Latest Practicable Date, certain Directors held long positions in the Shares as follows:

Name of Directors	Capacity and nature of interest	Number of Shares held	Percentage of the Company's issued share capital
Hon Kwok Lung *(Note)*	Corporate interests	2,913,247,515 *(Note)*	61.38%
	Personal interests	3,500,000	0.07%
	Family interests	1,374,000	0.03%
		2,918,121,515	61.48%
Shang Jianguang	Beneficial owner	8,000,000	0.17%
Shi Tao	Beneficial owner	5,000,000	0.11%
Lam Toi Man	Beneficial owner	3,500,000	0.07%
Fung Tze Wa	Beneficial owner	3,500,000	0.07%

Note: 1,163,247,515 Shares are held by Sincere View International Limited, which is owned as to 80% and 20% by Mr. Hon Kwok Lung and his spouse, Ms. Lam Suk Ying, respectively. 1,750,000,000 Shares were held by Full Day, which is wholly-owned by Mr. Hon Kwok Lung.

Mr. Hon Kwok Lung and Ms. Lam Suk Ying are deemed to have an interest in the same parcel of Shares of 2,913,247,515 held by Sincere View International Limited and Full Day.

(b) Long positions in the Share Options

Certain Directors personally hold Share Options. Details of such Share Options are disclosed under the paragraph "Share Options" below. These Share Options were granted pursuant to the terms of the share option scheme adopted by the Company on 30 May 2008.

(c) Long position in 珠海羅西尼錶業有限公司 (Zhuhai Rossini Watch Industry Limited) ("Rossini") *(Note 1)*

Name of Director	Nature of interest	Percentage of shareholding
Sit Lai Hei	Corporate *(Note 2)*	9%

Notes:

1. Rossini is owned as to 91% indirectly by the Company and 9% by Fujian Fengrong Investment Company Limited. Rossini is an associated corporation of the Company within the meaning of Part XV of the SFO.

2. The interest in Rossini was held by Fujian Fengrong Investment Company Limited, which is owned as to approximately 68.5% by Ms. Sit Lai Hei, an executive Director, and 31.5% by Ms. Lu Xiaojun. Both Ms. Sit Lai Hei and Ms. Lu Xiaojun are daughters-in-law of Mr. Hon Kwok Lung, the Chairman of the Company.

Save as disclosed in the paragraphs (a), (b) and (c) under the section headed "5. Disclosure of interests" above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code, or which are required to be disclosed in this circular pursuant to the Takeovers Code.

Substantial Shareholders' interests in Shares

As at the Latest Practicable Date, the following persons (other than the Directors or chief executive of the Company) held 10% or more of the issued share capital of the Company:

Long Position in Shares

Name of Shareholders	Capacity and nature of interest	Number of Shares held	Percentage of the Company's issued share capital
Full Day	Directly beneficially owned	1,750,000,000	36.87%
Sincere View International Limited	Directly beneficially owned	1,163,247,515	24.51%

Save as disclosed above, as at the Latest Practicable Date, no other person, other than the Directors and chief executive of the Company, held 10% or more of the issued share capital of the Company.

Share Options

The following table discloses movements in the Share Options from 1 January 2013 to the Latest Practicable Date:

	Number of Share Options		
Name and category of participants	At 1 January 2013	Movement during the period	At the Latest Practicable Date
Independent non-executive Directors			
Fung Tze Wa	1,400,000	(1,400,000)	–
Li Qiang	3,500,000	–	3,500,000
Sub-total	4,900,000	(1,400,000)	3,500,000
Other eligible employees			
In aggregate	7,300,000	375,000	6,925,000
Other eligible persons			
In aggregate	7,885,000	1,600,000	6,285,000
Total	20,085,000	(3,375,000)	16,710,000

Save for the shareholding interests of Sincere View International Limited, Full Day and Ms. Lam Suk Ying as disclosed in the section headed "5. Disclosure of interests" above, no other persons acting in concert with Directors are interested in any Shares or convertible securities, warrants, options or derivatives issued by the Company.

6. ADDITIONAL DISCLOSURE OF INTERESTS AND DEALINGS

(a) As at the Latest Practicable Date, none of the Directors and their respective concert parties had borrowed or lent Shares or any convertible securities, warrants, options or derivatives issued by the Company.

(b) Save as disclosed below, none of the Directors and their respective concert parties had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the period beginning six months prior to the date of the Announcement and ending on the Latest Practicable Date:

Dealings in Shares by Sincere View International Limited (Note)

Date	**Price per Share** *(approximately HK$)*	**Number of Shares bought**	**Consideration involved** *(HK$)*
23 August 2013	0.80	2,944,000	2,358,840
26 August 2013	0.80	2,968,000	2,382,200
27 August 2013	0.80	1,314,000	1,052,700
28 August 2013	0.80	2,964,000	2,376,700
29 August 2013	0.80	1,840,000	1,473,000
30 August 2013	0.80	636,000	508,760
2 September 2013	0.80	700,000	561,000
16 September 2013	0.79	2,676,000	2,101,400
17 September 2013	0.79	1,416,000	1,124,700
18 September 2013	0.79	940,000	743,600
19 September 2013	0.80	5,256,000	4,225,860
26 September 2013	0.78	984,000	771,680
2 October 2013	0.80	2,594,000	2,087,200
3 October 2013	0.81	1,950,000	1,581,500
7 October 2013	0.83	1,180,000	973,680
11 November 2013	0.73	400,000	292,000
12 November 2013	0.73	1,542,000	1,130,660
13 November 2013	0.73	200,000	146,000
20 November 2013	0.74	2,028,000	1,495,460
21 November 2013	0.75	1,226,000	924,260
22 November 2013	0.76	1,378,000	1,042,280
25 November 2013	0.76	1,000,000	760,000
27 November 2013	0.74	1,062,000	783,260
20 December 2013	0.69	2,166,000	1,494,040
23 December 2013	0.73	3,734,000	2,709,380
24 December 2013	0.74	1,016,000	747,660
27 December 2013	0.73	650,000	474,500
30 December 2013	0.73	1,148,000	840,540
31 December 2013	0.75	2,976,000	2,234,600
3 January 2014	0.76	2,912,000	2,216,340
8 January 2014	0.77	3,220,000	2,476,340
9 January 2014	0.78	3,642,000	2,842,300
10 January 2014	0.78	1,386,000	1,087,920
13 January 2014	0.77	280,000	215,600
13 January 2014	0.76	200,000	152,000
14 January 2014	0.76	1,800,000	1,368,000
14 January 2014	0.75	914,000	685,500
15 January 2014	0.73	1,700,000	1,241,000

Note: Sincere View International Limited is owned as to 80% and 20% by Mr. Hon Kwok Lung, an executive Director, and his spouse, Ms. Lam Suk Ying, respectively.

Dealings in Share Options by Director

Mr. Fung Tze Wah, an independent non-executive Director exercised 1,400,000 Share Options to subscribe for 1,400,000 Shares on 9 December 2013 at the exercise price of HK$0.325 per Share.

7. EXPERT AND CONSENT

Altus Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice and references to its name in the form and context in which it appears.

The following sets out the qualifications of the expert who has given opinion, which is contained or referred to in this circular:

Name	Qualifications
Altus Capital	A licensed corporation to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, Altus Capital did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Altus Capital did not have any direct or indirect interest in any assets which had been, since 31 December 2012, being the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

8. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into any service contracts with the Company or any of its subsidiaries or associated companies which (i) (including both continuous and fixed term contracts) have been entered into or amended within 6 months preceding the date of the Announcement; (ii) are continuous contracts with a notice period of 12 months or more; or (iii) are fixed term contracts with more than 12 months to run irrespective of the notice period.

9. INTERESTS IN THE GROUP'S ASSETS OR CONTRACTS OR ARRANGEMENTS SIGNIFICANT TO THE GROUP

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which had been since 31 December 2012 (being the date to which the latest published audited accounts of the Company were made up) acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which was subsisting as at the Latest Practicable Date and which was significant in relation to the business of the Group.

10. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group was involved in any litigation or claims of material importance and there was no litigation or claims of material importance known to the Directors to be pending or threatened against any member of the Group.

11. MATERIAL CONTRACTS

Save as the following contracts, no contracts (not being contracts entered into in the ordinary course of business) have been entered into by any member of the Group within the two years preceding the date of the Announcement and ending on the Latest Practicable Date and are or maybe material in relation to the business of the Group as a whole:

(a) a framework agreement dated 10 September 2012 entered into among Shenzhen Permanence Commerce Co., Limited, a wholly-owned subsidiary of the Company, Mr. Cai Biaorong and Ms. Jin Xiuwei in respect of the establishment of a joint venture company with total investment and registered capital of RMB100,000,000 (equivalent to approximately HK$128.0 million) and RMB20,000,000 (equivalent to approximately HK$25.6 million) respectively;

(b) a joint venture agreement dated 10 September 2012 entered into between Shenzhen Permanence Commerce Co., Limited and 河南瑞豐錶行有限公司 (Henan Ruifeng Watch Company Limited*) in relation to the formation of the joint venture company mentioned in (a) above and adopting the articles of association of the joint venture company;

(c) the sale and purchase agreement date 22 April 2013 entered into between Starlex Limited, a wholly-owned subsidiary of the Company and Fujian Fengrong Investment Company Limited in respect of the disposal of not less than 55,000,000 and not more than 58,000,000 shares of Citychamp Dartong Company Limited by Starlex Limited at the minimum selling price of RMB6.0 (equivalent to approximately HK$7.68) per sale share;

(d) the sale and purchase agreement dated 23 April 2013 entered into between the Company as purchaser and SPG, Mr. Michael Wunderman (as trustee of the Michael Wunderman Trust dated 2 October 1998) and Mr. Antonio Calce as vendors in respect of the Acquisition;

(e) the memorandum of understanding dated 5 June 2013 entered into between the Company and Ming Fung Jewellery Group Limited in respect of the proposed cooperation between the parties for the joint development of luxury jeweler, timepieces and other luxury consumer goods retail business in the Greater China Region;

(f) the sale and purchase agreement dated 23 September 2013 entered into between Actor Investments Limited, a wholly-owned subsidiary of the Company and 北京石橋投資管理有限公司 (Beijing Shiqiao Investment Management Company Limited*) in respect of the disposal of 51% interest of 瑞皇(重慶)鐘錶有限公司 (Ruihuang (Chongqing) Watch Company Limited*) by Actor Investments Limited at a consideration of RMB25,300,000 (equivalent to approximately HK$32.4 million);

(g) the deed of guarantee entered into between the Company as guarantor in favour of a licensed bank in Hong Kong dated 17 December 2013, pursuant to which the Company agreed to guarantee the performance of Fair Future Industrial Limited, an associated company of the Company, of its repayment obligations of up to HK$120 million in respect of a revolving loan facility; and

(h) the Share Buy-back Agreement.

12. MISCELLANEOUS

(a) The registered office of the Company is situated at P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is located at Units 1902–04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

(c) The business office of Altus Capital is situated at 21 Wing Wo Street, Central, Hong Kong.

(d) The share registrar and share transfer office of the Company in Hong Kong is Tricor Secretaries Limited, situated at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(e) The business office of Quam Capital Limited is situated at 18/F–19/F, China Building, 29 Queen's Road Central, Hong Kong.

(f) The registered address of Sincere View International Limited is situated at Akara Building, 24 De Castro Street, Wickhams Cay I, Road Town, Tortola, British Virgin Islands.

* *For identification purpose only*

(g) The registered address of Full Day is situated at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.

(h) The company secretary of the Company is Mr. Fong Chi Wah, who is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of Certified Practising Accountant (Australia) and a Chartered Financial Analyst.

(i) The English text of this circular and the notice of EGM shall prevail over their respective Chinese text in the case of inconsistency.

13. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection on the website of the SFC (www.sfc.hk) and the website of the Company (www.irasia.com/listco/hk/chinahaidian) from the date of this circular up to and including the date of the EGM:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for the two years ended 31 December 2011 and 2012;

(c) the interim report of the Company for the six months ended 30 June 2013;

(d) the letter from the Board, the text of which is set out on pages 5 to 15 of this circular;

(e) the letter from the Independent Board Committee, the text of which is set out on page 16 of this circular;

(f) the letter from the Independent Financial Adviser, the text of which is set out on pages 17 to 27 of this circular;

(g) the written consent given by Altus Capital as referred to in the paragraph headed "Expert and consent" in this appendix; and

(h) the material contracts referred to in the section headed "Material contracts" in this appendix.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Haidian Holdings Limited (the "**Company**") will be held at Units 1902–04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong, on Monday, 31 March 2014 at 11:00 a.m. (and any adjournment thereof) for the purpose of considering and, if thought fit, passing the following resolution with or without amendments as a special resolution of the Company:

SPECIAL RESOLUTION

"THAT:

(a) the agreement (the "**Share Buy-back Agreement**") dated 13 February 2014 entered into among the Company, Severin Participations GmbH ("**SPG**") and Mr. Richard E. Tomlin Jr as the trustee of Severin Wunderman Family Trust for the benefit of Michael Wunderman (together with SPG, the "**Vendors**"), a copy of which is tabled at the meeting and marked A and initialled by the Chairman of the meeting for identification purposes, pursuant to which the Company conditionally agreed to purchase, and the Vendors conditionally agreed to sell, an aggregate of 340,300,000 ordinary shares of HK$0.1 each in the share capital of the Company on terms contained therein and the transactions contemplated under the Share Buy-back Agreement, be and are hereby approved; and

(b) any one director of the Company, or any two directors of the Company if the affixation of the common seal of the Company is necessary, be and is hereby authorised to execute all documents and to do all such things and take all such other steps which, in his/her opinion, may be necessary or desirable in connection with the matters contemplated in and for completion of the Share Buy-back Agreement."

By order of the board of
China Haidian Holdings Limited
Bi Bo
Executive Director

Hong Kong, 6 March 2014

Registered office:
P.O. Box 309
Ugland House
South Church Street
Grand Cayman
Cayman Islands

Principal place of business:
Units 1902–04
Level 19
International Commerce Centre
1 Austin Road West
Kowloon
Hong Kong

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of such member. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed or a certified copy of such power of authority must be deposited at the Company's branch share registrar in Hong Kong, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting (or adjourned meeting as the case may be).

3. Completion and return of the form of proxy shall not preclude a member of the Company from attending and voting in person at the meeting and, in such event, the instrument appointing a proxy shall be deemed to be revoked.