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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)

MAJOR TRANSACTION

Financial Adviser to China Haidian Holdings Limited

25 June 2013

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

"AC"	Mr. Antonio Calce
"Acquisition"	the proposed acquisition by the Company from the Vendors of the Sale Shares, the grant of the Pre-Closing Loan, the refinancing of the Shareholders' Loans and the Bank Loan, and the acquisition of the Pavilion subject to the terms and conditions of the Acquisition Agreement
"Acquisition Agreement"	the conditional share purchase agreement dated 23 April 2013 entered into among the Company and the Vendors in relation to the Acquisition
"associates"	has the meaning ascribed thereto in the Listing Rules
"Bank Loan"	an outstanding bank loan payable by the Target Company in the principal amount of CHF26,000,000 (equivalent to approximately HK$215,800,000) as at the date of the Acquisition Agreement, which may be increased to CHF30,000,000 (equivalent to approximately HK$249,000,000) before Closing
"Board"	the board of Directors
"Business Day(s)"	any day(s) other than Saturday or Sunday on which banks are open for business in Zurich and Hong Kong
"CHF"	Swiss Franc, the lawful currency of Switzerland, and the exchange rate for CHF into HK$ for the purpose of this circular is CHF1 = HK$8.3
"Closing"	completion of the Acquisition Agreement pursuant to the terms and conditions thereof
"Closing Date"	the day on which Closing occurs
"Closing Loan A"	the loan to be granted by the Company to the Target Company pursuant to the Closing Loan A Agreement in the amount of CHF31,000,000 (equivalent to approximately HK$257,300,000)

"Closing Loan A Agreement"	the agreed form of the loan agreement to be entered into between the Company and the Target Company at Closing in relation to the grant of the Closing Loan A by the Company to the Target Company
"Closing Loan B"	the loan to be granted by the Company to the Target Company pursuant to the Closing Loan B Agreement
"Closing Loan B Agreement"	the agreed form of the loan agreement to be entered into between the Company and the Target Company at Closing in relation to the grant of the Closing Loan B by the Company to the Target Company in the amount of CHF16,000,000 (equivalent to approximately HK$132,800,000)
"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
"Company's Control Person(s)"	the controlling Shareholder or his family or parties controlled by him or his family
"connected person"	has the meaning ascribed thereto in the Listing Rules and the word "connected" shall be construed accordingly
"Consideration"	consideration for the Sale Shares payable by the Company pursuant to the Acquisition Agreement
"Consideration Shares"	not more than 450,000,000 new Shares to be allotted and issued by the Company to the Vendors to satisfy the Consideration pursuant to the Acquisition Agreement and to grant the Shares Loan pursuant to the Shares Loan Agreement
"controlling Shareholder"	has the meaning ascribed thereto in the Listing Rules
"Director(s)"	the director(s) of the Company
"Enlarged Group"	the Group and the Target Group
"Fair Future Consideration Shares"	as defined in the section headed "Effects of the Acquisition on the shareholding structure" in the "Letter from the Board" of this circular

"General Mandate"	the general mandate granted to the Directors by the Shareholders at the annual general meeting of the Company held on 28 May 2012 which may be utilised up to 848,496,984 Shares
"Group"	the Company and its subsidiaries
"Group Material Adverse Change"	any event, change or circumstance which has occurred or is reasonably expected to occur, which is reasonably expected to have a material adverse effect on the assets, liabilities, results of operations, trading, financial position, or the business of the Group as a whole and was not, and could in good faith not be, reasonably anticipated by the Vendors at the date of the Acquisition Agreement, excluding any change resulting from (i) any conditions or occurrences affecting the economy in general or the watch industry specifically or the finance, securities or capital markets; (ii) the transactions contemplated by the Acquisition Agreement or their announcement; (iii) currency exchange rate developments; or (iv) changes in laws, regulations or governmental policies
"HK$"	Hong Kong dollar(s), the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"IFRS"	the International Financial Reporting Standards

"Indebtedness" the consolidated bank debt and other third party indebtedness for financing purposes on the Closing Date (including, for the avoidance of doubt, accrued interest until the Closing) including (i) any applicable value added tax relating to the purchase by the Target Company of the Pavilion, which is not recoverable by the Target Company; (ii) any termination penalties arising in connection with the early repayment of the Bank Loan in accordance with the Acquisition Agreement; and (iii) the outstanding amounts under the Shareholders' Loans including accrued interest thereon, but, for the avoidance of doubt, excluding (a) payables arising from ordinary trading and service activities of the Target Group on the Closing Date such as trade accounts payable as at Closing Date, accrued expenses, deferred income, provisions and other payables; (b) any liability related to pension funds required by International Accounting Standard (IAS) 19 excluding any pension obligation recognised in the Target Company Financial Statements and the Target Group Financial Statements or according to laws or accounting principles other than Swiss law and Swiss accounting principles; (c) any obligations of the Target Group as lessee under leases that have been recorded as capital leases; (d) any intercompany indebtedness between the Target Group; and (e) the outstanding amount under the Pre-Closing Loan and accrued interest thereon

"Issue Price" approximately CHF0.0964 (equivalent to HK$0.8) per Consideration Share

"Latest Practicable Date" 21 June 2013, being the latest practicable date for the purpose of ascertaining certain information contained in this circular

"Listing Rules" the Rules Governing the Listing of Securities on the Stock Exchange

"Long Stop Date" the date which is three months after the date of the Acquisition Agreement

"MW" Mr. Michael Wunderman (as trustee of the Michael Wunderman Trust dated 2 October 1998)

"MW Loan"	an outstanding shareholder loan granted by MW to the Target Company in the principal amount of US$5,450,525.55 (equivalent to approximately CHF5.1 million or HK$42.2 million) as at the date of the Acquisition Agreement
"Outstanding Shareholder Loan Amount"	as defined in the sub-section headed "Refinancing of the Shareholders' Loans and the Bank Loan" under the section headed "The Acquisition Agreement" in the "Letter from the Board" of this circular
"Pavilion"	the pavilion owned by WIP which is used in the trade and business of the Target Group
"Pavilion Purchase Agreement"	the agreed form of the sale and purchase agreement to be entered into between the Target Company and WIP at Closing for the sale by WIP and purchase by the Target Company of the Pavilion at the Pavilion Purchase Price
"Pavilion Purchase Price"	the purchase price in the amount of CHF6,000,000 (equivalent to approximately HK$49,800,000) payable by the Target Company to WIP pursuant to the Pavilion Purchase Agreement
"PRC"	the People's Republic of China
"Pre-Closing Loan"	the loan with principal amount of CHF5,000,000 (equivalent to approximately HK$41,500,000) to be provided by the Company to the Target Company pursuant to the Pre-Closing Loan Agreement
"Pre-Closing Loan Agreement"	the agreement dated 23 April 2013 entered into between the Company and the Target Group in relation of the provision of the Pre-Closing Loan
"Promissory Notes"	three promissory notes, namely (i) one promissory note in the principal amount of CHF10,000,000 (equivalent to approximately HK$83,000,000); and (ii) two promissory notes in the principal amount of CHF3,000,000 (equivalent to approximately HK$24,900,000) each, to be issued by the Company to the Target Company (or the Target Company's assignees) at the Closing Date pursuant to the Closing Loan B Agreement

"Sale Shares"	3,000 shares of the Target Company, being 100% equity interest in the Target Company
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share Pledge Agreement"	the agreement dated 23 April 2013 entered into between the Company and SPAG pursuant to which SPAG agreed to pledge 500 of its shares in the Target Company to the Company in respect of the Pre-Closing Loan
"Shareholder(s)"	holder(s) of the Share(s)
"Shareholders' Loans"	collectively the SPAG Loans and the MW Loan
"Share(s)"	ordinary share(s) of HK$0.10 each in the issued share capital of the Company
"Shares Loan"	the loan to be granted by the Company to the Target Company pursuant to the Shares Loan Agreement disbursed by way of such part of the Consideration Shares in lieu of cash
"Shares Loan Agreement"	the agreed form of the loan agreement to be entered into between the Company and the Target Company at Closing in relation to the grant of the Shares Loan by the Company to the Target Company
"SPAG"	Severin Participations AG, a stock corporation incorporated in Switzerland
"SPAG Loan A"	an outstanding loan granted to the Target Company by SPAG pursuant to a loan agreement dated 31 December 2011 entered into between the Target Company and SPAG, with principal amount of CHF11,000,000 (equivalent to approximately HK$91,300,000) as at the date of the Acquisition Agreement
"SPAG Loan B"	an outstanding loan granted to the Target Company by SPAG pursuant to a loan agreement dated 30 June 2012 entered into between the Target Company and SPAG, with principal amount of CHF5,000,000 (equivalent to approximately HK$41,500,000) as at the date of the Acquisition Agreement

"SPAG Loans"	collectively the SPAG Loan A and the SPAG Loan B
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	Montres Corum Sàrl, a limited liability company incorporated in Switzerland and owned as to 90%, 5% and 5% by SPAG, MW and AC respectively
"Target Company Financial Statements"	the audited statutory financial statements of the Target Company for the years ended 30 June 2011 and 2012
"Target Group"	the Target Company and its subsidiaries
"Target Group Financial Statements"	the audited consolidated financial statements of the Target Group for the years ended 30 June 2011 and 2012
"Target Group Material Adverse Change"	any event, change or circumstance which has occurred or is reasonably expected to occur, which is reasonably expected to have a material adverse effect on the assets, liabilities, results of operations, trading, financial position, or the business of the Target Group as a whole and was not, and could in good faith not be reasonably anticipated by the Company as at the date of the Acquisition Agreement, excluding any change resulting from (i) any conditions or occurrences affecting the economy in general or the watch industry specifically or the finance, securities or capital markets, (ii) the transactions contemplated by the Acquisition Agreement or their announcement, (iii) currency exchange rate developments, or (iv) changes in laws, regulations or governmental policies
"US$"	United States dollars, the lawful currency of the United States of America, and the exchange rates for US$ into CHF and US$ into HK$ for the purpose of this circular are US$1 = CHF0.94 and US$1 = HK$7.75 respectively
"Vendors"	collectively SPAG, MW and AC
"WIP"	Wunderman Investment Partnership LLP, a limited liability partnership formed in the United States of America and an affiliate (as defined under the USA Family Attribution Rules) of SPAG
"%"	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:
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South Church Street
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International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

25 June 2013

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

INTRODUCTION

Reference is made to the announcement of the Company dated 23 April 2013 in respect of the Acquisition.

On 23 April 2013, the Company and the Vendors entered into the Acquisition Agreement pursuant to which, among other things, the Vendors have conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares, representing the entire issued share capital of the Target Company. The Target Group is principally engaged in the development, manufacture and sale of Swiss luxury timepieces under the brand name of "Corum".

The Consideration shall be CHF86,000,000 (equivalent to approximately HK$713,800,000) minus (i) the Indebtedness; and (ii) the Pavilion Purchase Price, which shall be satisfied by the allotment and issue of maximum 450,000,000 Consideration Shares at the issue price of approximately CHF0.0964 (equivalent to HK$0.8) per Consideration Share, and any remaining amount of the Consideration by cash at Closing.

The aggregate amount of the Consideration and the refinancing of the Shareholders' Loans and the Bank Loan (subject to adjustment) will be settled by cash payment of not more than CHF47,000,000 (equivalent to approximately HK$390,100,000) and the allotment and issue of not more than 450,000,000 Consideration Shares at the Issue Price. Furthermore, the Company has granted the Pre-Closing Loan of CHF5,000,000 (equivalent to approximately HK$41,500,000) to the Target Company pursuant to the Pre-Closing Loan Agreement.

The purpose of this circular is to provide you with, among others, details of the Acquisition, the financial information of the Target Group and the financial information of the Group.

THE ACQUISITION AGREEMENT

Date

23 April 2013

Parties

(i) The Company as the purchaser; and

(ii) SPAG, MW and AC as the vendors.

SPAG is an investment holding company. The sole ultimate beneficial owner of SPAG is the Severin Wunderman Family Foundation, the residual beneficiary of the Severin Wunderman Trust, an irrevocable trust governed by the laws of the US State of Nevada.

The Directors confirm that to the best of their knowledge, information and belief, having made all reasonable enquiries, each of the Vendors and the ultimate beneficial owner of SPAG are third parties independent of the Company and its connected persons. The Vendors were introduced to the Company by a financial adviser in Switzerland. The Directors confirm that there was no prior business or other relationship between the Vendors (and their ultimate beneficial owners) and the Company (and its connected persons).

Pursuant to the Acquisition Agreement, the Company may, without requiring the consent of the Vendors, until seven Business Days before Closing and after consultation with the Vendors, nominate a direct or an indirect subsidiary of the Company as acquiring entity of the Sale Shares and transfer the respective rights under the Acquisition Agreement to such entity, provided that (i) no adverse tax or other consequences for the

Vendors shall result therefrom; and (ii) the Company shall remain liable for the performance of its obligations hereunder and the compliance with the terms of the Acquisition Agreement by itself and such acquiring entity.

Interests to be acquired

Pursuant to the Acquisition Agreement, the Vendors have conditionally agreed to sell and the Company has conditionally agreed to acquire the Sale Shares, representing the entire issued share capital of the Target Company, free from all encumbrances and claims with effect from Closing. As at the date of the Acquisition Agreement, 90%, 5% and 5% of the Sale Shares were owned by SPAG, MW and AC respectively.

Consideration

The Consideration shall be CHF86,000,000 (equivalent to approximately HK$713,800,000) minus (i) the Indebtedness; and (ii) the Pavilion Purchase Price, which shall be satisfied by the allotment and issue of maximum 450,000,000 Consideration Shares credited as fully paid to the Vendors (or their nominee(s)) at the Issue Price, and any remaining amount of the Consideration by cash at Closing without any deduction, set-off or right to withhold. In case the Consideration divided by the Issue Price exceeds 450,000,000 Consideration Shares, such excess as well as any fractions of Consideration Shares shall be paid in cash.

The amount of Indebtedness as at the Closing Date and the Consideration shall be determined by the Target Company after consultation with the Company and the Vendors. Such determination shall be decisive for purposes of Closing. Following Closing, if either the Vendors or the Company shows that the actual Indebtedness as at the Closing Date should differ from the Indebtedness so determined, the Consideration shall be adjusted and a corresponding adjustment payment (in cash) shall be made. In case the Vendors are required to make such an adjustment payment to the Company, they shall (irrespective of the lock-up and market sale restrictions on the Consideration Shares pursuant to the Acquisition Agreement as disclosed in the sub-section headed "Lock-up and market sale restrictions" under the section headed "The Consideration Shares" below) have the right to sell any Consideration Shares to finance such adjustment payment. The Company will announce the amount of Indebtedness as at the Closing Date, the amount of cash consideration paid and the number of Consideration Shares issued at Closing.

The Consideration was arrived at after arm's length negotiations between the Company and the Vendors having taken into account the following factors, amongst others: (i) the unaudited net asset value of the Target Group of approximately CHF18.4 million (equivalent to approximately HK$152.7 million) as at 31 December 2012 prepared in accordance with the Swiss Code of Obligations; (ii) the components of the net assets of the Target Group, such as property, intangible assets and inventories; (iii) the outstanding principal amount of the Indebtedness of approximately CHF47.5 million (equivalent to approximately HK$394.3 million) as at the date of the Acquisition Agreement; (iv) the Pavilion Purchase Price of CHF6,000,000 (equivalent to approximately HK$49,800,000); (v) the Target Group's technical capability of developing and manufacturing its own high quality timepieces and movements; (vi) the Target Group's renowned Swiss elite luxury watch brand, Corum; and (vii) the future prospects of the Target Group.

Based on the accountants' report of the Target Group prepared under IFRS set out in Appendix II to this circular, the audited net asset value of the Target Group was approximately CHF7.2 million (equivalent to approximately HK$59.8 million) as at 31 December 2012. The difference between such audited amount and the unaudited amount of approximately CHF18.4 million (equivalent to approximately HK$152.7 million) prepared in accordance with the Swiss Code of Obligations as discussed above was mainly due to the differences in accounting standards between the Swiss Code of Obligations and the IFRS in the treatment of employee benefits, goodwill and deferred taxation.

As stated in note 3 to the unaudited pro forma financial information of the Enlarged Group contained in the Appendix III to this circular, the fair value of the net assets of the Target Group as at 31 December 2012 was approximately HK$287.5 million. The fair value of the Consideration was approximately HK$289.2 million. Accordingly, the premium of the fair value of the Consideration over the fair value of the net assets of the Target Group amounted to approximately HK$1.7 million. The Company has engaged an independent valuer to perform a purchase price allocation valuation for the purpose of the unaudited pro forma financial information of the Enlarged Group.

Conditions precedent

Closing shall be conditional upon the fulfillment or waiver (as the case may be) of the following conditions:

Conditions to obligations of the Company and the Vendors

(i) the Company having obtained the approval of the Shareholders at a general meeting or by way of a written Shareholders' approval in lieu of holding a general meeting in accordance with the Listing Rules approving the Acquisition Agreement and the transactions contemplated thereunder;

(ii) the Listing Committee of the Stock Exchange having approved the listing of, and granted permission to deal in, the Consideration Shares on the Stock Exchange;

(iii) there having been no judgment, order, injunction or decree of any court, administrative or governmental body or arbitration tribunal which prohibits the consummation of the transactions contemplated under the Acquisition Agreement;

Conditions to obligations of the Company

(iv) the Vendors having performed in all material respects all of their obligations to be performed under the Acquisition Agreement on or prior to Closing;

(v) no Target Group Material Adverse Change having occurred;

(vi) there not having been any misrepresentation or breach of warranty of the Vendors under the Acquisition Agreement resulting in a damage of CHF8,500,000 (equivalent to approximately HK$70,550,000) or more;

(vii) the consolidated financial statements of the Target Group for the years ended 30 June 2010, 2011 and 2012 and for the six months ended 31 December 2012 prepared in accordance with IFRS having been prepared and audited and an audit opinion from the auditors performing such audit having been received;

Conditions to obligations of the Vendors

(viii) the Company having performed in all material respects all of its obligations to be performed under the Acquisition Agreement on or prior to Closing;

(ix) the Shares having remained listed and freely tradable on the Stock Exchange from the date of the Acquisition Agreement until the Closing Date; and

(x) no Group Material Adverse Change having occurred.

The Company and the Vendors may, to the extent permissible under applicable law or the Listing Rules, jointly waive in writing in whole or in part the conditions (i), (ii) and (iii) above. The Company may, to the extent legally permissible, waive in writing in whole or in part the conditions (iv), (v), (vi) and (vii) above. The Vendors may, to the extent legally permissible, waive in writing in whole or in part the conditions (viii), (ix) and (x) above. At present, the Company does not have any intention to waive or has not agreed to waive any of the above conditions. As at the Latest Practicable Date, conditions (i) and (vii) above have been fulfilled.

If any of the above conditions precedent to Closing has not been satisfied or waived (as the case may be) pursuant to the Acquisition Agreement on or before the Long Stop Date, the Company or the Vendors may terminate the Acquisition Agreement by giving notice to the respective other party or parties to the Acquisition Agreement provided that the right to terminate the Acquisition Agreement shall not be available to any party thereto whose breach of or failure to perform any obligation under the Acquisition Agreement is attributable to, or has resulted in, the failure of such condition to be satisfied or of the Closing to occur on or prior to such date.

The Vendors may terminate the Acquisition Agreement if all of the conditions (i) to (vii) have been satisfied (other than those conditions that by their nature are to be satisfied by actions taken at Closing), and the Company fails to consummate the transactions contemplated by the Acquisition Agreement at Closing and such failure continues after a reasonable grace period. The Company may terminate the Acquisition Agreement if all of the conditions (i) to (iii) and (viii) to (x) have been satisfied (other than those conditions that by their nature are to be satisfied by actions taken at Closing), and the Vendors (or any of them) fail to consummate the transactions contemplated by the Acquisition Agreement at Closing and such failure continues after a reasonable grace period. If the Acquisition Agreement is so terminated, the other party shall pay to the terminating party a contractual penalty in the amount of CHF17,000,000 (equivalent to approximately HK$141,100,000). The amount of penalty represents about 50% of the Consideration. The extent of penalty is so fixed by the parties to avoid default of the Acquisition Agreement. Given that both parties to the Acquisition Agreement are subject to the same amount of penalty, the Directors consider such arrangement and the amount to be fair and reasonable.

Completion

Closing shall take place within five Business Days after all conditions precedent to Closing have been satisfied or waived (as the case may be), or such other date as the Company and the Vendors may agree in writing.

Upon Closing, the members of the Target Group will become subsidiaries of the Company.

Pre-Closing Loan Agreement

On 23 April 2013, (i) the Company and the Vendors entered into the Pre-Closing Loan Agreement, and (ii) the Company and SPAG entered into the Share Pledge Agreement in respect of the Pre-Closing Loan, concurrently with the entering into of the Acquisition Agreement.

Pursuant to the Pre-Closing Loan Agreement and the Share Pledge Agreement, the Company agreed to grant to the Target Company the Pre-Closing Loan in the principal amount of CHF5,000,000 (equivalent to approximately HK$41,500,000) to be used as working capital of the Target Company. The Pre-Closing Loan will be secured by SPAG pursuant to the Share Pledge Agreement by a pledge of 500 of its shares in the Target Company (representing approximately 16.7% of the total issued share capital of the Target Company) until Closing. The Pre-Closing Loan may be subordinated to the Bank Loan if requested by the relevant bank.

The Pre-Closing Loan shall be available for drawdown within five Business Days after the date of the Acquisition Agreement in the full amount, bear interest at 2.5% per annum and shall be due for repayment (in principal and accrued interest) in full upon termination of the Pre-Closing Loan being notified by the Company to the Target Company which may not be notified with effect as per any date which is before the earlier of (i) one month after the Closing Date; and (ii) the date of receipt of a valid termination of the Acquisition Agreement by either the Company or the Vendors in accordance with the Acquisition Agreement. As at the Latest Practicable Date, the Pre-Closing Loan had been drawndown in full. The Pre-Closing Loan was financed by the Group's internal resources.

Refinancing of the Shareholders' Loans and the Bank Loan

Under the Acquisition Agreement, the Company agreed to refinance certain shareholders' loans and existing bank debt of the Target Company.

The Vendors shall, no later than five Business Days before Closing, notify the Company in writing the amount of principal outstanding and accrued and accruing interest as at the Closing Date under the Shareholders' Loans (the "**Outstanding Shareholder Loan Amount**") and the Bank Loan.

At Closing, immediately after the transfer of the Sale Shares by the Vendors to the Company, the Company shall enter into the Closing Loan A Agreement, the Closing Loan B Agreement and the Shares Loan Agreement with the Target Company to provide intercompany loans to the Target Company for the purposes of repaying the Shareholders' Loans and the Bank Loan and financing the acquisition of the Pavilion by the Target Company in accordance with the terms of the Acquisition Agreement.

Closing Loan A Agreement

Under the Acquisition Agreement, the Company (as lender) agreed to enter into the Closing Loan A Agreement with the Target Company (as borrower) at Closing, pursuant to which the Company shall grant the Closing Loan A in the amount of CHF31,000,000 (equivalent to approximately HK$257,300,000) to the Target Company.

Pursuant to the Closing Loan A Agreement, the Target Company shall use the Closing Loan A to:

(i) acquire at Closing the Pavilion and pay the first instalment of the Pavilion Purchase Price in the amount of CHF3,000,000 (equivalent to approximately HK$24,900,000);

(ii) repay at Closing part of the Bank Loan in the amount of CHF10,000,000 (equivalent to approximately HK$83,000,000); and

(iii) repay at Closing, subject to prior consent of the lender of the Bank Loan, at Closing part of the SPAG Loan A in the amount of CHF8,000,000 (equivalent to approximately HK$66,400,000); and

(iv) the remaining amount for other purposes, including general working capital of the Target Group.

The Closing Loan A shall be subordinated to the Bank Loan if requested by the relevant bank.

It is intended that the payment of the Closing Loan A will be financed by the Group's internal resources and/or the net proceeds from the disposal of part of the Group's available-for-sale financial assets, details of which were disclosed in the Company's announcements dated 22 April 2013 and 17 June 2013 and circular dated 24 May 2013.

Closing Loan B Agreement

Under the Acquisition Agreement, the Company (as lender) agreed to enter into the Closing Loan B Agreement with the Target Company (as borrower) at Closing, pursuant to which the Company shall grant the Closing Loan B in the amount of CHF16,000,000 (equivalent to approximately HK$132,800,000) by way of the issue of the Promissory Notes by the Company to the Target Company.

Pursuant to the Closing Loan B Agreement, the Target Company shall use the Promissory Notes, respectively, to:

(i) repay (and secure such repayment), six months after the Closing Date parts of the Bank Loan in the amount of CHF10,000,000 (equivalent to approximately HK$83,000,000);

(ii) pay (and secure such payment) the second instalment of the Pavilion Purchase Price in the amount of CHF3,000,000 (equivalent to approximately HK$24,900,000); and

(iii) repay (and secure such payment) the remaining outstanding principal amount of the SPAG Loan A in the amount of CHF3,000,000 (equivalent to approximately HK$24,900,000).

Pursuant to the Closing Loan B Agreement, titles to the Promissory Notes will pass by transfer of the Promissory Notes and endorsement of the transferees in the following manners:

(i)	CHF10,000,000 Promissory Note:	to the lender of the Bank Loan as security for the Bank Loan
(ii)	CHF3,000,000 Promissory Note:	to WIP to satisfy, upon maturity and payment, the second installment of the Pavilion Purchase Price
(iii)	CHF3,000,000 Promissory Note:	to SPAG in payment of the remaining outstanding principal amount under the SPAG Loan A

The Company may deem and treat the above transferees of the Promissory Notes as the absolute owner of the Promissory Notes, and shall not be affected by any notice to the contrary.

It is intended that the settlement of the Promissory Notes will be financed by the Group's internal resources and/or the net proceeds from the disposal of part of the Group's available-for-sale financial assets, details of which were disclosed in the Company's announcements dated 22 April 2013 and 17 June 2013 and circular dated 24 May 2013. The net proceeds from the disposal of the Group's available-for-sale financial assets amounted to approximately HK$500 million. Therefore, the Directors consider the Group has sufficient resources for the payment of the Closing Loan A and the settlement of the Promissory Notes.

The Group had cash and cash equivalents of approximately HK$228.6 million as at 31 December 2012. Taking into account the completion of the Acquisition and the financial resources available to the Enlarged Group, including the internally generated funds and the available banking facilities, the Directors are of the opinion that the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this circular.

Terms of the Promissory Notes

The Promissory Notes shall be made payable by the Company to the Target Company (or the Target Company's assignee) or to a third party designated by the Target Company as payee under the Promissory Notes six months after the Closing Date and bear interest at 3.5% per annum payable by the Company.

Under the Closing Loan Agreement B, the Company (as issuer) shall unconditionally promise to pay to the Target Company (or the Target Company's assignee), on the maturity date of the Promissory Notes, the amount of Promissory Notes, together with any accrued and unpaid interest due at the time of such payment. All payments made thereunder shall first be applied to interest due and owing and then to unpaid principal. Upon receipt of the final payment, including all interest due and payable, the Target Company (or the Target Company's assignee) shall surrender the original of the Promissory Notes to the Company.

Interest to be paid under the Promissory Notes shall be computed on the basis of a 365 days year and the actual number of days elapsed and shall be due and payable on the maturity date of the Promissory Notes or, as the case may be, pro rata on the date of prepayment of the Promissory Notes.

Prepayment of the Promissory Notes may be made at any time without penalty in full but not in part.

Shares Loan Agreement

Under the Acquisition Agreement, the Company (as lender) agreed to enter into the Shares Loan Agreement with the Target Company (as borrower) at Closing, pursuant to which the Company shall grant to the Target Company the Shares Loan in the amount by which the Outstanding Shareholder Loan Amount exceeds the cash repayments of Shareholders' Loans agreed to be made from the proceeds of the Closing Loan A and the Promissory Notes as discussed above.

The amount of Shares Loan shall be disbursed by way of such part of the Consideration Shares in lieu of cash to be issued and allotted by the Company at the Issue Price. Fractions of such part of the Consideration Shares shall be paid in cash. The maximum number of the Consideration Shares to be allotted and issued by the Company pursuant to the Acquisition Agreement and the Shares Loan Agreement shall be not more than 450,000,000 Shares.

The Target Company shall use the Shares Loan to repay by way of such part of the Consideration Shares in lieu of cash at Closing the remaining parts of the Shareholders' Loans not paid by the proceeds of the Closing Loan A and the Promissory Notes.

On the Closing Date, the Company shall deliver such part of the Consideration Shares, on behalf of the Target Company, directly to the creditors of the Shareholders' Loans.

Pavilion Purchase Agreement

Pursuant to the Acquisition Agreement, the Company agreed to procure the Target Company at Closing, immediately after the transfer of the Sale Shares, to enter into the Pavilion Purchase Agreement with WIP for the sale by WIP and purchase by the Target Company of the Pavilion at the Pavilion Purchase Price of CHF6,000,000 (equivalent to approximately HK$49,800,000), and the Vendors agreed to procure that WIP will enter into the Pavilion Purchase Agreement.

The Pavilion Purchase Price shall be payable in the following manner:

(i) CHF3,000,000 (equivalent to approximately HK$24,900,000) (financed by the proceeds of the Closing Loan A as mentioned above) plus the applicable value added tax of 8% on the total Pavilion Purchase Price of CHF480,000 (equivalent to approximately HK$3,984,000) at Closing; and

(ii) the remaining CHF3,000,000 (equivalent to approximately HK$24,900,000) payable within six months after Closing and shall be assumed by the Company and secured by one of the Promissory Notes in the amount of CHF3,000,000 (equivalent to approximately HK$24,900,000) agreed to be issued by the Company to the Target Company and payment under such Promissory Note on behalf of the Target Company to WIP shall satisfy the obligation to pay such second installment.

Under the relevant Swiss tax laws, the applicable value added tax in relation the Pavilion Purchase Price is expected to be refundable to the Target Company. Pursuant to the Acquisition Agreement, any of such value added tax not recoverable by the Target Company shall be included as Indebtedness and deducted from the Consideration.

WIP is an affiliate (as defined under the USA Family Attribution Rules) of SPAG. The Directors confirm that to the best of their knowledge, information and belief, having made all reasonable enquiries, WIP and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons.

The Pavilion Purchase Price was arrived at after arm's length negotiations between the Company and the Vendors, after taking into account the construction cost of the Pavilion incurred by WIP. The Pavilion is the sales office of Corum watches at the Swiss Baselworld Fair.

THE CONSIDERATION SHARES

As at the Latest Practicable Date, the authorised share capital of the Company was HK$600,000,000 divided into 6,000,000,000 Shares of a par value of HK$0.10 each, among which 4,320,950,206 Shares have been issued and fully paid up.

The maximum number of Consideration Shares to be issued is 450,000,000 Shares, representing approximately 10.41% of the existing issued share capital of the Company and approximately 9.43% of the issued share capital of the Company as enlarged by the allotment and issue of the Consideration Shares.

Based on the closing price of HK$0.83 per Share as quoted on the Stock Exchange on 23 April 2013 (being the last trading day prior to the date of the Acquisition Agreement), the maximum 450,000,000 Consideration Shares have a total market value of approximately HK$373.5 million.

The Consideration Shares, when allotted and issued, shall rank pari passu in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares including the right to all dividends and other distributions resolved or paid or payable as from the Closing Date on.

An application has been made by the Company to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange.

The Consideration Shares will be allotted and issued under the General Mandate. Prior to the date of the Acquisition Agreement, the Company had issued or agreed to issue 78,465,286 Shares under the General Mandate. At the annual general meeting of the Company held on 15 May 2013, a new general mandate was granted to the Directors to issue up to 864,190,041 Shares.

The allotment and issue of the Consideration Shares will not result in a change of control of the Company.

The Issue Price

The Issue Price of approximately CHF0.0964 (equivalent to HK$0.8) per Consideration Share was determined after arm's length negotiations between the Company and the Vendors having taken into account the recent Share prices.

The Issue Price:

(i) represents a discount of approximately 3.6% to the closing price of HK$0.83 per Share quoted on the Stock Exchange on 23 April 2013, being the last trading day prior to the date of the Acquisition Agreement;

(ii) represents a discount of approximately 1.2% to the average closing price of approximately HK$0.81 per Share quoted on the Stock Exchange for the last five trading days up to and including 23 April 2013;

(iii) equals the average closing price of approximately HK$0.80 per Share quoted on the Stock Exchange for the last ten trading days up to and including 23 April 2013;

(iv) represents a premium of approximately 14.3% over the closing price of HK$0.70 per Share quoted on the Stock Exchange as at the Latest Practicable Date; and

(v) represents a discount of approximately 9.1% to the audited consolidated net asset value per Share attributable to the owners of the Company of approximately HK$0.88 as at 31 December 2012.

Lock-up and market sale restrictions

Pursuant to the terms of the Acquisition Agreement and the exceptions thereunder, the Consideration Shares shall be subject to the following lock-up and market sale restrictions:

(i) 129,687,500 Consideration Shares shall be subject to lock-up during the period of six months commencing from the Closing Date. For the following 10 months after the expiry of such lock-up period, such Consideration Shares shall not be sold or otherwise disposed of on the market or by way of block trade or share placement without the consent of the Company in excess of 10% of such total amount of Consideration Shares in any one month period and not more than 50% of such Consideration Shares per calendar year; and

(ii) 274,937,500 Consideration Shares shall be subject to lock-up during the period of twelve months commencing from the Closing Date. For the following 20 months after the expiry of such lock-up period, such Consideration Shares shall not be sold or otherwise disposed of on the market or by way of block trade or share placement without the consent of the Company in excess of 5% of such total amount of Consideration Shares in any one month period and not more than 20% of such Consideration Shares per calendar year from 2013 to 2017.

The Company's consent to a sale or disposal of the Consideration Shares in higher volumes than permitted under the Acquisition 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.

Release from the market sale restrictions

The Vendors are released from the above lock-up and market sale restrictions in the following circumstances:

(i) if a third party acquires control over the Company by acquiring or holding, directly or indirectly (a) more than 33.33% of the voting rights in the Company and (b) more voting rights in the Company than the current controlling Shareholder at such time holds;

(ii) if the Company announces a transaction (or if the Company undergoes a series of transactions) which will fundamentally change the business of the Group as currently conducted; and

(iii) if the Company's Control Person sells or otherwise disposes of any Shares on the Stock Exchange (or any other stock exchange on which the Shares are traded), each Vendor shall have the right to sell or otherwise dispose of (in addition to the above market sale restrictions) up to a proportionate number of the Shares (and each Vendor shall to such extent be released from the

lock-up and market sale restrictions under the Acquisition Agreement), such number to correspond to the proportion of the Shares sold or disposed of by the respective selling Company's Control Person(s) to the aggregate number of Shares held directly or indirectly by all Company's Control Persons. The Company shall (promptly upon becoming aware thereof) notify the Vendors in writing of any such market sale or disposal by a Company's Control Person and inform the Vendors of the aggregate number of Shares held directly or indirectly by the Company's Control Persons prior to such sale or disposal.

INFORMATION OF THE TARGET GROUP

Overview

The Target Company was incorporated under the Swiss laws in 1994. The Target Group is principally engaged in the development, manufacture and sale of Swiss luxury timepieces through its global distribution network with its history dating back to its origin in 1924. The Target Group owns a renowned Swiss elite luxury watch brand, Corum, together with a proprietary portfolio of innovative and technical movements. The Target Group's technical craftsmanship and non-traditional designs are especially well reflected in its original and unique in-line baguette shaped movements, which are housed in four-sided transparent cases to highlight the innovative mechanisms. The Target Group sells its watches through an exclusive global distribution network of eight premier branded boutiques and approximately 600 high-end, independent specialty retailers in over 90 countries.

Financial information

The following table sets out the audited consolidated financial information of the Target Group prepared in accordance with IFRS for the eighteen months ended 30 June 2010, each of the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

	Eighteen months ended 30 June 2010[(Note)]		**Year ended 30 June 2011**		**2012**		**Six months ended 31 December 2012**	
	CHF'000	*Equivalent to HK$'000*	*CHF'000*	*Equivalent to HK$'000*	*CHF'000*	*Equivalent to HK$'000*	*CHF'000*	*Equivalent to HK$'000*
Revenue	69,902	580,187	65,145	540,704	78,048	647,798	50,684	420,677
Net loss before taxation	(36,965)	(306,810)	(10,003)	(83,025)	(12,729)	(105,651)	(959)	(7,960)
Net loss after taxation	(38,680)	(321,044)	(10,555)	(87,607)	(13,305)	(110,432)	(951)	(7,893)

Note: The financial year end date of the Target Company has been changed from 31 December to 30 June in 2009. The financial statements of the Target Group therefore covered a period of eighteen months ended 30 June 2010.

As at 31 December 2012, the audited consolidated net asset value of the Target Group was approximately CHF7.2 million (equivalent to approximately HK$59.8 million).

The Target Group's financial information for the eighteen months ended 30 June 2010, the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 are set out in Appendix II to this circular. Such financial information is prepared under IFRS. The Directors confirm that there is no principal difference between IFRS and Hong Kong Financial Reporting Standards, the accounting standards currently adopted by the Group, which may have a material impact on the financial information of the Target Group prepared under IFRS.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the manufacture and distribution of watches and timepieces, property investment, and the distribution of yachts.

Corum is an international Swiss watch brand with a long history. The Target Group is a designer, manufacturer and marketer of elite Swiss luxury timepieces. The Acquisition provides an opportunity for the Group to acquire a renowned Swiss elite luxury watch brand. With the Target Group's exceptional design and mechanical movement that are complementary to the existing products and markets of the Group, the Target Group is strategically important for the sustainable development of the Group. Compared with the existing products of the Group, the average selling price of the Target Group's watches is relatively higher, its markets are global in nature and its channels of distribution are through international distributors. Therefore, the addition of the Corum brand will expand the Group's product portfolio and broaden its revenue source. Furthermore, the Target Group's expertise in the design of sophisticated movements and luxury watches will enhance the Group's technology know-how and capability in those aspects. The ability of the Target Group to develop and manufacture its unique movements enables the Group to enter into the high-end luxury watch segment.

The Group is committed to build a portfolio of watch companies engaged in different products and markets. Following the establishment of the Codex brand in 2009 and acquisition of the Eterna brand in 2011, the Group acquires the Corum brand for its focus on manufacturing and distributing top-end products and serving top-end markets. The Corum brand is complementary to Codex and Eterna brands, both of which focus on the mid-range products and markets. The Corum brand is also complementary to Rossini and EBOHR brands, both of which focus on products for the mass markets in Mainland China.

Corum watches are distributed through the Target Group's exclusive distribution network of premier branded boutiques and speciality retailers all over the world. Leveraging on the Group's existing expertise and resources of extensive channels of distribution in Mainland China, the Target Group is expected to be able to quickly build its own channels of distribution in Mainland China and benefit from the enormous potential of the PRC's imported watch market.

The Directors have noted and considered the historical loss-making position and financial liabilities of the Target Group and the note on going concern stated in the accountants' report of the Target Group set forth in Appendix II to this circular. The Target Group historically made losses mainly due to the global economic recession which adversely affected the Swiss watch industry and the increase in costs for restructuring of its brand building strategy and its global retail distribution network. It is expected that the financial performance of the Target Group will improve in the future as the market recognition of the high brand value of Corum increases following the investments of the Target Group on product development, marketing and advertising strategies and restructuring of its brand building strategy during the past few years. The expected expansion of presence in the PRC market after the acquisition by the Company will also help the Target Group capture the enormous potential of the PRC's imported watch market. Accordingly, despite the historical loss-making position and financial liabilities of the Target Group, the Directors are confident about the prospects of the Target Group after the Acquisition. The Directors consider the Enlarged Group will have sufficient resources to finance its operation.

In light of the foregoing, in particular the strategic value of the Target Group on the development of the Group's watch business and the prospects of the Target Group, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition Agreement are fair and reasonable and the Acquisition is in the interests of the Company and the Shareholders as a whole.

FINANCIAL EFFECT OF THE ACQUISITION ON THE GROUP

Upon Closing, the Target Company will become a wholly-owned subsidiary of the Company and the results of the Target Group will be consolidated into the financial statements of the Group.

As at 31 December 2012, the Group's audited total assets and total liabilities were approximately HK$5,261.1 million and HK$1,305.0 million respectively. Based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group set out in Appendix III to this circular, the total assets and total liabilities of the Enlarged Group would have been increased to approximately HK$6,070.4 million and HK$1,825.1 million respectively assuming that Closing had taken place on 31 December 2012. Based on the unaudited pro forma consolidated statement of financial position of the Enlarged Group, the net asset value (net of non-controlling interests) of the Enlarged Group would have been increased from approximately HK$3,789.0 million to approximately HK$4,078.2 million upon Closing.

The Target Group recorded net loss after taxation of approximately CHF13.3 million (equivalent to approximately HK$110.4 million) for the year ended 30 June 2012 and approximately CHF0.95 million (equivalent to approximately HK$7.9 million) for the six months ended 31 December 2012. Upon Closing, the results of the Target Group will be accordingly reflected in the accounts of the Group.

The Directors do not expect material variation to the aggregate of the remuneration payable to and benefits in kind receivable by the directors of the Target Company in consequence of the Acquisition.

EFFECTS OF THE ACQUISITION ON THE SHAREHOLDING STRUCTURE

For illustration purpose, the following table sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately after the issue of the maximum 450,000,000 Consideration Shares:

	As at the Latest Practicable Date		**Immediately after the issue of the maximum number of Consideration Shares** *(Note 6)*		**Immediately after the issue of the Fair Future Consideration Shares, the maximum number of Consideration Shares and the outstanding share options of the Company** *(Notes 4, 5 and 6)*	
	Number of Shares	*%*	*Number of Shares*	*%*	*Number of Shares*	*%*
Full Day Limited *(Note 1)*	1,750,000,000	40.50	1,750,000,000	36.68	1,750,000,000	35.22
Sincere View International Limited *(Note 1)*	1,081,703,515	25.03	1,081,703,515	22.67	1,081,703,515	21.77
Hon Kwok Lung *(Note 1)*	3,500,000	0.08	3,500,000	0.07	3,500,000	0.07
Lam Suk Ying *(Note 1)*	1,374,000	0.03	1,374,000	0.03	1,374,000	0.03
Shang Jianguang *(Note 2)*	8,000,000	0.19	8,000,000	0.17	8,000,000	0.16
Shi Tao *(Note 2)*	5,000,000	0.12	5,000,000	0.10	5,000,000	0.10
Lam Toi Man *(Note 2)*	3,500,000	0.08	3,500,000	0.07	3,500,000	0.07
Fung Tze Wa *(Note 3)*	2,100,000	0.05	2,100,000	0.04	3,500,000	0.07
Li Qiang *(Note 3)*	–	–	–	–	3,500,000	0.07
Public Shareholders:						
Vendors (or their nominee(s))	–	–	450,000,000	9.43	450,000,000	9.06
Other public Shareholders	1,465,772,691	33.92	1,465,772,691	30.72	1,658,407,691	33.38
Total	4,320,950,206	100.00	4,770,950,206	100.00	4,968,485,206	100.00

Notes:

1. Full Day Limited is wholly-owned by Mr. Hon Kwok Lung. 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. Mr. Hon Kwok Lung is the Chairman of the Company.

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

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

4. The Company has conditionally agreed to allot 56,000,000 Shares for acquisition of 25% interest in Fair Future Industrial Limited as consideration, of which 38,000,000 Shares have been issued and allotted. The remaining 18,000,000 Shares ("**Fair Future Consideration Shares**") will be issued on 31 January 2014. Please refer to the announcement of the Company dated 15 December 2011 for details.

5. As at the Latest Practicable Date, the Company had 19,535,000 share options outstanding granted pursuant to its share option scheme adopted on 30 May 2008 and 160,000,000 share options outstanding granted pursuant to the subscription agreement dated 8 August 2011 entered into between the Company and Potent Growth Limited.

6. Assuming that the shareholding structure of the Company has not changed after the Latest Practicable Date and immediately before the issue of the maximum 450,000,000 Consideration Shares.

INTENTIONS REGARDING BOARD COMPOSITION

There will not be any change in the board composition of the Company upon Closing. The Company intends to appoint the majority of the directors to the board of the Target Company after completion of the Acquisition.

LISTING RULES IMPLICATIONS

As the applicable percentage ratios of the Acquisition calculated in accordance with Rule 14.07 of the Listing Rules exceed 25% but less than 100%, the Acquisition constitutes a major transaction for the Company under the Listing Rules. The Acquisition Agreement and the transactions contemplated thereunder are subject to the approval of the Shareholders. As the Vendors are third parties independent of the Company and its connected persons and no Shareholder has any material interest in the Acquisition which is different from other Shareholders, no Shareholder is required to abstain from voting in respect of the approval of the Acquisition Agreement and the transactions contemplated thereunder if the Company were to convene a general meeting for approving the Acquisition Agreement and the transactions contemplated thereunder. On 3 May 2013, the Company has obtained a written approval of the Acquisition Agreement and the transactions contemplated thereunder from Mr. Hon Kwok Lung, the controlling Shareholder, and companies controlled by him (namely Sincere View International Limited and Full Day Limited), which held 2,717,875,515 Shares in aggregate, representing approximately 62.90% of the issued share capital of the Company as at 3 May 2013, pursuant to Rule 14.44 of the Listing Rules. As such, pursuant to Rule 14.44 of the Listing Rules, the aforesaid shareholders' written approval in relation to the Acquisition Agreement and the transaction contemplated thereunder is accepted in lieu of holding a general meeting. Mr. Hon Kwok Lung and companies controlled by him held 2,835,203,515 Shares, representing approximately 65.61% of the issued share capital of the Company as at the Latest Practicable Date.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By order of the Board
Hon Kwok Lung
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2010, 2011 and 2012 are disclosed in the following documents which have been published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.chinahaidian.com):

- annual report of the Company for the year ended 31 December 2010 published on 14 April 2011;
- annual report of the Company for the year ended 31 December 2011 published on 27 April 2012; and
- annual report of the Company for the year ended 31 December 2012 published on 11 April 2013.

2. INDEBTEDNESS STATEMENT

As at the close of business on 30 April 2013, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Enlarged Group had outstanding borrowings of approximately HK$993,116,000.

	As at 30 April 2013		
	The Group	The Target Group	The Enlarged Group
	HK$'000	*HK$'000*	*HK$'000*
Bank overdraft	8,978	–	8,978
Bank loans	549,329	198,414	747,743
Amounts due to related parties	159	236,236	236,395
Total	558,466	434,650	993,116

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

The bank loans of the Target Group were secured by legal charges over certain of the Target Group's properties and trade receivables. Amounts due to related parties of the Target Group were secured by corporate guarantee from SPAG, one of the Vendors.

The indebtedness of the Target Group as at 30 April 2013 presented in the table above did not include the Pre-closing loan of CHF5,000,000 granted by the Group to the Target Group on the assumption that such amount will be eliminated on the Enlarged Group basis.

Save as aforesaid and apart from intra-group liabilities, the Group and the Target Group, which collectively comprise the Enlarged Group, did not, as at the close of business on 30 April 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 statement of indebtedness, foreign currency amounts have been translated into HK$ at the appropriate exchange rates prevailing as at the close of business on 30 April 2013.

The Directors are not aware of any material change in respect of the indebtedness or other contingent liabilities of the Group and the Target Group, which collectively comprise the Enlarged Group since 30 April 2013 up to the Latest Practicable Date.

3. WORKING CAPITAL

Taking into account the completion of the Acquisition and the financial resources available to the Group and the Target Group, which collectively comprise the Enlarged Group, including the internally generated funds and the available banking facilities, the Directors are of the opinion that the Group and the Target Group, which collectively comprise the Enlarged Group has sufficient working capital for its present requirements, that is for at least the next twelve months from the date of this circular.

4. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors confirmed that there was no material adverse change in the financial or trading position of the Group since 31 December 2012, the date to which the latest published audited financial statements of the Group were made up.

5. FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

Notwithstanding that the global economic and political uncertainties persisted in 2012, the Group achieved growth in its revenue and profit for the year ended 31 December 2012 as compared to those for the year ended 31 December 2011. Despite that the global economic and political uncertainties are expected to continue to raise challenges and cast shadows over the next year, the Group believes that the PRC is more likely to weather any further deterioration better than the western countries and is likely to continue acting as a major global growth engine. Moreover, the Group's strong brands with relatively long history, product development expertise, distribution control, and relatively large operation size are expected to enable the Group to enjoy the consumption boom in the PRC driven by an expanding middle class. The Group will therefore continue to develop proprietary brands and non-proprietary brands, and expand its distribution network in different provinces in the PRC to capture the untapped market.

I. ACCOUNTANTS' REPORT ON THE TARGET GROUP FOR THE EIGHTEEN MONTHS ENDED 30 JUNE 2010, THE TWO YEARS ENDED 30 JUNE 2011 AND 2012 AND THE SIX MONTHS ENDED 31 DECEMBER 2012

The following is the text of a report received from the Company's reporting accountants, KPMG SA, for the purpose of incorporation in this circular.

KPMG SA
Rue du Théâtre 1
CH-1005
Lausanne

The Directors
China Haidian Holdings Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the Financial Information relating to Montres Corum Sàrl (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") comprising the consolidated statements of financial position of the Group and the statements of financial position of the Company as at 30 June 2010, 2011 and 2012 and 31 December 2012 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group, for the eighteen months ended 30 June 2010, each of the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the circular of China Haidian Holdings Limited ("China Haidian") dated 25 June 2013 (the "Circular") in connection with the proposed acquisition of the Company.

The Company was incorporated in La Chaux-de-Fonds on 8 September 1994 as an exempted company with limited liability under Swiss Code of Obligations. The Company's registered office is located at La Chaux-de-Fonds, Switzerland.

As at the date of this report, no audited financial statements have been prepared for Corum USA LLC, Corum Deutschland GmbH, Corum Italia SRL, Servicio de Importacion SA and Corum Russia, as they are not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All companies now comprising the Group have adopted 30 June as their financial year end date. Details of the companies comprising the Group that are subject to audit during the Relevant Periods are set out in note 31 of Section B. The statutory financial statements of these companies were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated.

The managing officers of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The Underlying Financial Statements for the eighteen months ended 30 June 2010, each of the years ended 30 June 2011 and 2012 and the six months ended 31 December 2012 were audited by us in accordance with International Standards on Auditing ("ISAs") issued by the International Auditing and Assurance Standards Board (the "IAASB").

The Financial Information has been prepared by the managing officers of the Company for inclusion in the Circular in connection with the proposed acquisition of the Company based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MANAGING OFFICERS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The managing officers of the Company are responsible for the preparation of the Financial Information that gives a true and fair view in accordance with IFRSs issued by the IASB, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules, and for such internal control as the managing officers of the Company determine is necessary to enable the preparation of the Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the Hong Kong Institute of Certified Public Accountants. We have not audited any financial statements of the Company, its subsidiaries or the Group in respect of any period subsequent to 31 December 2012.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group and the Company as at 30 June 2010, 2011 and 2012 and 31 December 2012 and the Group's consolidated results and cash flows for the Relevant Periods then ended.

Without qualifying our opinion, we draw your attention to the note 30 of the Financial Information.

CORRESPONDING FINANCIAL INFORMATION

For the purpose of this report, we have also reviewed the unaudited corresponding interim financial information of the Group comprising the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the six months period ended 31 December 2011, together with the notes thereon (the "Corresponding Financial Information"), for which the managing officers are responsible, in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the IAASB.

The managing officers of the Company are responsible for the preparation of the Corresponding Financial Information in accordance with the same basis adopted in respect of the Financial Information. Our responsibility is to express a conclusion on the Corresponding Financial Information based on our review.

A review consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the Corresponding Financial Information.

Based on our review, for the purpose of this report, nothing has come to our attention that causes us to believe that the Corresponding Financial Information is not prepared, in all material respects, in accordance with the same basis adopted in respect of the Financial Information.

A. CONSOLIDATED FINANCIAL INFORMATION

1. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Eighteen months ended 30 June 2010	Year ended 30 June 2011	Year ended 30 June 2012	Six months ended 31 December 2011	Six months ended 31 December 2012
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000* (unaudited)	*CHF'000*
Revenue	*4*	69,902	65,145	78,048	53,396	50,684
Cost of sales		(47,819)	(37,672)	(50,981)	(32,832)	(32,541)
Gross profit		22,083	27,473	27,067	20,564	18,143
Selling and distribution expenses		(6,694)	(5,195)	(5,391)	(2,687)	(2,546)
Advertising and communication expenses		(18,605)	(16,181)	(20,647)	(9,780)	(8,232)
Development expenses		(1,913)	(2,738)	(2,767)	(1,286)	(1,491)
General and administration expenses		(13,890)	(10,592)	(9,914)	(4,616)	(4,679)
Other expenses	*5*	(15,182)	(830)	(646)	(470)	(1,083)
Results from operating activities		(34,201)	(8,063)	(12,298)	1,725	112
Finance income		40	–	556	469	–
Finance costs		(2,804)	(1,940)	(987)	(447)	(1,071)
Net finance (costs)/income	*6 (a)*	(2,764)	(1,940)	(431)	22	(1,071)
(Loss)/profit before income tax	*6*	(36,965)	(10,003)	(12,729)	1,747	(959)
Income tax	*7 (a)*	(1,715)	(552)	(576)	–	8
Net (loss)/profit for the period attributable to owners of the Company		(38,680)	(10,555)	(13,305)	1,747	(951)

Historical data shows that the Group's business is seasonal with significant higher sales in the second six months period of the calendar year. Major orders are received following the watch fair taking place in spring. Watches are then produced and most of them delivered in the second half of the year. The Christmas business is reinforcing the seasonality of sales.

	Note	Eighteen months ended 30 June 2010 CHF'000	Year ended 30 June 2011 CHF'000	Year ended 30 June 2012 CHF'000	Six months ended 31 December 2011 CHF'000 (unaudited)	Six months ended 31 December 2012 CHF'000
Other comprehensive income						
Items that are not reclassified subsequently to profit or loss						
Defined benefit plan actuarial (losses)/gains	*19*	(121)	214	(1,789)	(895)	352
Income tax on defined benefit plan actuarial (losses)/gains		–	–	–	–	–
		(121)	214	(1,789)	(895)	352
Items that may be reclassified subsequently to profit or loss						
Foreign currency translation differences		466	(383)	(98)	(30)	65
Income tax on foreign currency translation differences		–	–	–	–	–
		466	(383)	(98)	(30)	65
Other comprehensive income for the period, net of tax		345	(169)	(1,887)	(925)	417
Total comprehensive income for the period attributable to owners of the Company		(38,335)	(10,724)	(15,192)	822	(534)
(Loss)/earnings per share						
Basic (loss)/earnings per share (CHF)	*8*	(20.72)	(5.28)	(4.84)	0.70	(0.32)
Diluted (loss)/earnings per share (CHF)	*8*	(20.72)	(5.28)	(4.84)	0.70	(0.32)

The accompanying notes form part of the Financial Information.

2. CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note		At 30 June		At 31 December
		2010	**2011**	**2012**	**2012**
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
ASSETS					
Property, plant and equipment	*9*	10,527	10,158	10,188	11,107
Goodwill	*10*	–	–	–	–
Other intangible assets	*11*	3,315	2,620	3,549	3,452
Financial long-term assets		89	70	60	54
Deferred tax assets	*7*	–	–	–	–
NON-CURRENT ASSETS		13,931	12,848	13,797	14,613
Inventories	*13*	42,374	37,894	42,961	33,901
Trade receivables	*14*	14,219	12,093	15,799	25,272
Other receivables	*14*	2,646	2,749	3,988	3,740
Cash and cash equivalents	*15*	4,717	3,237	1,913	6,013
CURRENT ASSETS		63,956	55,973	64,661	68,926
CURRENT LIABILITIES					
Loans and borrowings	*16*	41,287	40,399	39,732	45,021
Trade payables	*17*	5,922	6,711	11,258	11,805
Other payables	*17*	1,326	2,719	3,247	3,434
Provisions	*20*	2,941	2,925	1,792	1,836
Accrued expenses	*18*	6,504	6,561	5,371	4,890
CURRENT LIABILITIES		57,980	59,315	61,400	66,986
NET CURRENT ASSETS/(LIABILITIES)		5,976	(3,342)	3,261	1,940

	Note	At 30 June 2010	At 30 June 2011	At 30 June 2012	At 31 December 2012
		CHF'000	CHF'000	CHF'000	CHF'000
TOTAL ASSETS LESS CURRENT LIABILITIES		19,907	9,506	17,058	16,553
Employee benefits	*19*	3,218	3,528	5,813	5,854
Provisions	*20*	1,317	778	661	657
Deferred tax liabilities	*7 (c)*	1,715	2,267	2,843	2,835
NON-CURRENT LIABILITIES		6,250	6,573	9,317	9,346
TOTAL NET ASSETS		13,657	2,933	7,741	7,207
CAPITAL AND RESERVES	*21*				
Share capital		2,000	2,000	3,000	3,000
Share premium		36,613	36,613	55,613	55,613
Translation reserve		466	83	(15)	50
Accumulated losses		(25,422)	(35,763)	(50,857)	(51,456)
TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY		13,657	2,933	7,741	7,207

The accompanying notes form part of the Financial Information.

3. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	At 30 June 2010	At 30 June 2011	At 30 June 2012	At 31 December 2012
		CHF'000	CHF'000	CHF'000	CHF'000
ASSETS					
Property, plant and equipment	9	10,427	10,062	9,882	10,768
Other intangible assets	11	3,242	2,585	3,520	3,420
Investments in subsidiaries	12	5,439	6,139	2,264	2,264
Other financial long-term assets	12	5,760	7,196	10,924	14,264
Deferred tax assets	7	–	–	–	–
NON-CURRENT ASSETS		24,868	25,982	26,590	30,716
Inventories	13	38,385	33,706	37,594	29,318
Trade receivables	14	12,132	9,349	12,273	16,909
Other receivables	14	2,091	2,338	3,380	2,687
Cash and cash equivalents	15	2,155	1,591	664	4,631
CURRENT ASSETS		54,763	46,984	53,911	53,545
CURRENT LIABILITIES					
Loans and borrowings	16	41,237	40,340	39,706	44,978
Trade payables	17	5,489	6,425	11,385	10,480
Other payables	17	1,387	2,530	2,572	3,201
Provisions	20	2,592	2,698	1,503	1,698
Accrued expenses	18	5,594	5,647	4,928	4,315
CURRENT LIABILITIES		56,299	57,640	60,094	64,672
NET CURRENT LIABILITIES		(1,536)	(10,656)	(6,183)	(11,127)

	Note	At 30 June 2010	At 30 June 2011	At 30 June 2012	At 31 December 2012
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
TOTAL ASSETS LESS CURRENT LIABILITIES		23,332	15,326	20,407	19,589
Employee benefits	*19*	3,218	3,528	5,813	5,854
Provisions	*20*	1,317	778	661	657
Deferred tax liabilities	*7 (c)*	–	–	–	–
NON-CURRENT LIABILITIES		4,535	4,306	6,474	6,511
TOTAL NET ASSETS		18,797	11,020	13,933	13,078
CAPITAL AND RESERVES	*21*				
Share capital		2,000	2,000	3,000	3,000
Share premium		36,613	36,613	55,613	55,613
Accumulated losses		(19,816)	(27,593)	(44,680)	(45,535)
TOTAL EQUITY		18,797	11,020	13,933	13,078

The accompanying notes form part of the Financial Information.

4. CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the eighteen months ended 30 June 2010

	Attributable to owners of the Company				
	Share capital	Share premium	Translation reserve	Accumulated losses	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
Balance at 1 January 2009	1,200	18,162	–	13,379	32,741
Total comprehensive income for the period					
Loss for the period	–	–	–	(38,680)	(38,680)
Total other comprehensive income	–	–	466	(121)	345
Total comprehensive income for the period	–	–	466	(38,801)	(38,335)
Transactions with owners of the Company					
Conversion of the convertible loans	800	18,451	–	–	19,251
Total contributions by owners of the Company	800	18,451	–	–	19,251
Balance at 30 June 2010	2,000	36,613	466	(25,422)	13,657

For the year ended 30 June 2011

	Attributable to owners of the Company				
	Share capital	Share premium	Translation reserve	Accumulated losses	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
Balance at 1 July 2010	2,000	36,613	466	(25,422)	13,657
Total comprehensive income for the period					
Loss for the period	–	–	–	(10,555)	(10,555)
Total other comprehensive income	–	–	(383)	214	(169)
Total comprehensive income for the period	–	–	(383)	(10,341)	(10,724)
Balance at 30 June 2011	2,000	36,613	83	(35,763)	2,933

For the year ended 30 June 2012

	Attributable to owners of the Company				
	Share capital	Share premium	Translation reserve	Accumulated losses	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
Balance at 1 July 2011	2,000	36,613	83	(35,763)	2,933
Total comprehensive income for the period					
Loss for the period	–	–	–	(13,305)	(13,305)
Total other comprehensive income	–	–	(98)	(1,789)	(1,887)
Total comprehensive income for the period	–	–	(98)	(15,094)	(15,192)
Transactions with owners of the Company					
Issue of shares	1,000	19,000	–	–	20,000
Total contributions by owners of the Company	1,000	19,000	–	–	20,000
Balance at 30 June 2012	3,000	55,613	(15)	(50,857)	7,741

For the six months ended 31 December 2012

	Attributable to owners of the Company				
	Share capital	Share premium	Translation reserve	Accumulated losses	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
Balance at 1 July 2012	3,000	55,613	(15)	(50,857)	7,741
Total comprehensive income for the period					
Loss for the period	–	–	–	(951)	(951)
Total other comprehensive income	–	–	65	352	417
Total comprehensive income for the period	–	–	65	(599)	(534)
Balance at 31 December 2012	3,000	55,613	50	(51,456)	7,207

For the six months ended 31 December 2011 (unaudited)

	Attributable to owners of the Company				
	Share capital	**Share premium**	**Translation reserve**	**Accumulated losses**	**Total**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
Balance at 1 July 2011	2,000	36,613	83	(35,763)	2,933
Total comprehensive income for the period					
Profit for the period	–	–	–	1,747	1,747
Total other comprehensive income	–	–	(30)	(895)	(925)
Total comprehensive income for the period	–	–	(30)	852	822
Transactions with owners of the Company					
Issue of shares	1,000	19,000	–	–	20,000
Total contributions by owners of the Company	1,000	19,000	–	–	20,000
Balance at 31 December 2011	3,000	55,613	53	(34,911)	23,755

The accompanying notes form part of the Financial Information.

5. CONSOLIDATED CASH FLOW STATEMENTS

	Note	Eighteen months ended 30 June 2010	Year ended 30 June 2011	Year ended 30 June 2012	Six months ended 31 December 2011	Six months ended 31 December 2012
		CHF'000	CHF'000	CHF'000	CHF'000 (unaudited)	CHF'000
Cash flows from operating activities						
(Loss)/profit before income tax for the period		(36,965)	(10,003)	(12,729)	1,747	(959)
Adjustments for:						
Net finance costs/(income)	6 (a)	2,764	1,940	431	(22)	1,071
Depreciation of property, plant and equipment	9	1,150	832	514	263	298
Amortization of intangible assets	11	770	708	924	465	517
Impairment of property, plant and equipment	9	17	–	–	–	–
Impairment of goodwill and intangible assets	10/11	12,680	378	–	–	–
Bad debt allowance expense	14	362	35	(48)	5	–
Inventory write-downs	13	2,585	(1,424)	(539)	(735)	87
Other non-cash adjustments		(1,077)	(759)	(1,368)	(532)	51
		(17,714)	(8,293)	(12,815)	1,191	1,065
Changes in:						
– inventories		(596)	4,521	(3,886)	6,542	8,795
– trade receivables, other receivables and prepayments		17,491	(2,850)	(5,445)	(23,675)	(9,440)
– trade payables, other payables, accrued expenses and other current liabilities		(7,008)	2,031	4,714	10,779	874
– provisions		(310)	(508)	(1,256)	(736)	40
– employee benefits		905	310	2,285	1,143	41
Cash (used in)/generated from operations		(7,232)	(4,789)	(16,403)	(4,756)	1,375
Interest received		40	–	–	6	–
Net cash (used in)/generated from operating activities		(7,192)	(4,789)	(16,403)	(4,750)	1,375

	Note	Eighteen months ended 30 June 2010	Year ended 30 June 2011	Year ended 30 June 2012	Six months ended 31 December 2011	Six months ended 31 December 2012
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
					(unaudited)	
Cash flow from investing activities						
Acquisition of property, plant and equipment		(584)	(488)	(541)	(200)	(1,221)
Acquisition of intangible assets		(585)	(401)	(1,851)	(834)	(419)
Proceeds from sale of fixed assets		7	–	–	–	7
Acquisition of financial long-term assets		(57)	(5)	(3)	(2)	–
Acquisition of subsidiary, net of cash acquired		(2,577)	–	–	–	–
Net cash used in investing activities		(3,796)	(894)	(2,395)	(1,036)	(1,633)
Cash flow from financing activities						
Proceeds from issuance of share capital	*21*	–	–	3,000	3,000	–
Interest paid		(402)	(305)	(1,585)	(901)	(1,152)
Proceeds from loans and borrowings	*16*	61,434	12,500	28,000	2,425	5,517
Repayments of loans and borrowings	*16*	(50,444)	(7,650)	(12,025)	–	–
Net cash generated from financing activities		10,588	4,545	17,390	4,524	4,365
Net (decrease)/increase in cash and cash equivalents		(400)	(1,138)	(1,408)	(1,262)	4,107
Cash and cash equivalents at the beginning of the period	*15*	5,236	4,717	3,237	3,237	1,913
Effect of exchange rate fluctuations on cash held		(119)	(342)	84	132	(7)
Cash and cash equivalents at the end of the period	*15*	4,717	3,237	1,913	2,107	6,013

Significant non-cash transactions

Convertible debt with a carrying amount of CHF19.3 million was converted into equity on 31 March 2009. Loans and borrowings with a carrying value of CHF17 million were converted into equity on 28 September 2011. Further information is provided in note 31.

During the year ended 30 June 2011, CHF4.2 million accounts receivables were offset against the loan from the majority shareholder, Severin Participations AG.

The accompanying notes form part of the Financial Information.

B. NOTES TO CONSOLIDATED FINANCIAL INFORMATION

1. REPORTING ENTITY

The Company is a company domiciled in Switzerland. The address of the Company's registered office is rue du Petit-Château 1, 2300 La Chaux-de-Fonds. The Financial Information comprises the Company and its subsidiaries (individually referred to as "Group entities"). The Group is principally engaged in the development, manufacturing and sale of watches through its global distribution network.

The Company has 30 June as its financial year end date. The Financial Information covers the eighteen months ended 30 June 2010, each of the years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 2012.

2. BASIS OF PREPARATION

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with International Financial Reporting Standards (IFRSs). Further details of the significant accounting policies adopted are set out in the remainder of this section B.

The Financial Information also complies with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

(b) Basis of measurement

The measurement basis used in the preparation of the Financial Information is the historical cost basis.

(c) Functional and presentation currency

The Financial Information is presented in Swiss Francs ("CHF"), which is the Company's functional currency. All financial information presented in CHF has been rounded to the nearest thousand, except when otherwise indicated.

(d) Going concern

The Financial Information has been prepared assuming the Group will continue as a going concern notwithstanding the losses incurred during the Relevant Periods and the net current liabilities of the Company at 31 December 2012. The managing officers of the company are of the opinion that despite uncertainties inherent to forecasts and underlying assumptions, it is appropriate to prepare the Financial Information on a going concern basis for the reasons explained under note 30.

(e) Use of estimates and judgments

The preparation of Financial Information in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may 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.

Judgements made by management in the application of IFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in note 27.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

The IASB has issued a number of new and revised standards and interpretations which are not yet effective. They have not been applied early in this Financial Information. The revised and new accounting standards and interpretations issued but not yet effective for the Relevant Periods are set out in note 28.

(a) Basis of consolidation

(i) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, the Group takes into consideration potential voting rights that currently are exercisable.

The Group measures goodwill at the acquisition date as:

– the fair value of the consideration transferred; plus

– the recognised amount of any non-controlling interests in the acquiree; less

– the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial information of subsidiaries is included in the Financial Information from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

In the Company's statements of financial position, investments in subsidiaries are stated at cost less impairment losses (note 3(g)).

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised profits and losses arising from intra-group transactions, are eliminated in full in preparing the Financial Information.

(b) Foreign currency transactions

(i) Foreign currency transactions

Items included in the Financial Information of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the entity ("functional currency"). Transactions in foreign

currencies are translated to the respective functional currencies of group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognised in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill, are translated to CHF at exchange rates at the reporting date. The income and expenses of foreign operations are translated to CHF at exchange rates at the dates of the transactions.

Foreign currency differences arising on translation are recognised in other comprehensive income and accumulated separately in equity in the translation reserve. When a foreign operation is disposed of the relevant amount of the currency translation reserve is reclassified to the profit or loss as part of the gain or loss on disposal.

(c) Financial instruments

(i) Non-derivative financial assets

The Group initially recognises loans and receivables on the date that they are originated.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group classifies all its non-derivative financial assets as loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

The Group's loans and receivables comprise cash and cash equivalents, trade receivables and other receivables (excluding advance payments). The ones of the Company further include receivables and loans from subsidiaries.

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date.

(ii) Impairment of loans and receivables

Loans and receivables are impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Objective evidence that loans and receivables are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the Group, economic conditions that correlate with defaults or the disappearance of an active market for a security.

The Group considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(iii) Non-derivative financial liabilities

The Group initially recognises all financial liabilities on the trade date, which is the date the Group becomes a party to the contractual provisions of the instrument. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, trade and other payables (excluding advance payments) and accrued expenses.

(iv) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

(v) Compound financial instruments

Compound financial instruments issued by the Group comprise convertible debt that can be converted to share capital at the option of the holder when the number of shares to be issued is fixed.

The liability component of a compound financial instrument is recognised initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortised cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest and gains and losses related to the financial liability are recognised in profit or loss. On conversion, the financial liability is reclassified to equity; no gain or loss is recognised on conversion.

(d) Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (note 3(g)).

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate item (major components) of property, plant and equipment.

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group. Ongoing repairs and maintenance are expensed as incurred.

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Buildings	50 years
Machinery, tools and equipment	2–10 years
Motor vehicles	5 years

Freehold land is not depreciated.

The gain or loss on disposal of an item of property, plant and equipment is determined by comparing the proceeds from disposal with the carrying amount of the property, plant and equipment, and is recognised net within other income/other expenses in profit or loss.

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(e) Intangible assets

(i) Goodwill

Goodwill is measured at cost less accumulated impairment losses (note 3(g)). Goodwill is tested annually for impairment. The Group tests its goodwill for impairment at year-end. However, if there is an indication that goodwill would be impaired at any other point in time, an impairment test is performed.

(ii) Research and development

The Group does not have research activities.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in profit or loss as incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and any accumulated impairment loss (note 3(g)). Amortisation is calculated using the straight-line basis over the estimated useful life of 1–5 years.

(iii) Other intangible assets

Other intangible assets purchased from third parties or acquired in a business combination are separately recognised as intangible assets, and are measured at cost less accumulated amortisation and any accumulated impairment losses (note 3(g)). Intangible assets acquired in a business combination are recognised separately from goodwill if they are subject to contractual or legal rights or are separately transferable and their fair value can be reliably estimated.

Amortisation is calculated using the straight-line basis over the estimated useful life as follows:

Trademarks	10 years
Patents	3 years
Software	2 years

(f) Inventories

Inventories are carried at the lower of cost and net realisable value.

The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs, and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Cost is primarily based on standard costs adjusted to actual costs when necessary. In case of raw materials (mainly gold) cost is based on the first-in first-out principle.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(g) Impairment on non-financial assets

The carrying amounts of the Group's intangible assets and property, plant and equipment as well as the Company's investments in subsidiaries are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment. An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit ("CGU") exceeds its estimated recoverable amount.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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 assessments of the time value of money and the risks specific to the asset or CGU. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGUs), and then to reduce the carrying amounts of the other assets in the CGU (group of CGUs) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation.

(h) Employee benefits

(i) Short-term employee benefits

Salaries, wages, annual bonuses and staff welfare are accrued in the year/period in which the associated services are rendered by employees of the Group.

(ii) Post-employment benefit plans

Most employees are covered by state plans and / or pension plans operated by Group entities. These pension plans are qualified as defined contribution plans or as defined benefit plans.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged to equity in other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in profit and loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

Where the calculation results in a benefit to the Group, the recognised asset is limited to the net total of any past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(i) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(j) Revenue recognition

Revenue from the sale of goods in the course of ordinary business is measured at the fair value of the consideration received or receivable, net of sale taxes, rebates and trade discounts. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

The timing of the transfer of risks and rewards depends on the individual terms of the sales agreements and transfer usually occurs on receipt by the customer.

(k) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. The Group does not have any contracts that would qualify as finance leases.

(l) Finance income and finance costs

Finance income comprises interest income on cash at bank. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance costs mainly comprise interest expense on loans and borrowings.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in net gain or net loss position.

(m) Income tax

Income tax for the year/period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year/period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised for deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(n) Related parties

For the purposes of this Financial Information, a related party is a person or entity that is related to the Group:

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

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

(2) has significant influence over the Group; or

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

(ii) An entity is related to the Group if any of the following conditions applies:

(1) 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).

(2) 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).

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

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

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

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

(7) A person identified in (i) (1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(o) Segment reporting

A segment is a distinguishable component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' operating results are reviewed regularly by the Group's Chief Operating Decision Maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

The Management board is determined to be the CODM of the Group. The Management board assesses the performance and allocates the resources of the Group as a whole, as all of the Group's activities are considered to be primarily dependent on the performance of manufacturing of watches. Financial Information is only available for the Group as a whole. Therefore, management considers there is only one operating segment under the requirements of IFRS 8, Operating Segments.

4. OPERATING SEGMENTS

(a) Geographical information

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

Revenue

	Eighteen months ended 30 June	Year ended 30 June		Six months ended 31 December	
	2010	2011	2012	2011	2012
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000* (unaudited)	*CHF'000*
Switzerland	1,670	1,053	2,627	1,071	2,276
Asia	23,536	23,266	28,962	23,157	9,700
Europe	18,827	12,403	14,524	9,257	8,836
Middle East	12,392	6,590	12,405	7,869	12,613
Americas	6,850	14,307	12,155	8,118	11,426
Rest of the world	6,627	7,526	7,375	3,924	5,833
Consolidated revenue	69,902	65,145	78,048	53,396	50,684

Non-current assets (excluding financial instruments)

	At 30 June			At 31 December
	2010	2011	2012	2012
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Switzerland	13,669	12,647	13,402	14,188
Other countries	262	201	395	425
	13,931	12,848	13,797	14,613

(b) Information by products

The Group only develops, manufactures and sells watches. A further split of products is not possible, as the information is not available and not used by management.

(c) Major customers

Revenues from transactions with single customers amounting to 10% or more of the Group's total revenues for each single customer are presented in the table below:

	Eighteen months ended 30 June	Year ended 30 June		Six months ended 31 December	
	2010	**2011**	**2012**	**2011**	**2012**
				(unaudited)	
Numbers of customers with revenues equal to 10% or more of total consolidated revenues	2	3	3	4	2
Total revenues with these customers (CHF'000)	15,496	27,972	30,457	29,229	16,286

5. OTHER EXPENSES

The major component of others expenses is impairment of goodwill and intangible assets.

6. (LOSS)/PROFIT BEFORE INCOME TAX

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

(a) Net finance costs/(income)

	Eighteen months ended 30 June	Year ended 30 June		Six months ended 31 December	
	2010	**2011**	**2012**	**2011**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
				(unaudited)	
Interest income	(40)	–	–	(6)	–
Interest expense	1,570	1,090	971	417	640
Net foreign exchange loss/(gain)	1,219	838	(556)	(463)	426
Other finance costs	15	12	16	30	5
Net finance costs/(income)	2,764	1,940	431	(22)	1,071

(b) Personnel costs

	Note	Eighteen months ended 30 June 2010	Year ended 30 June 2011	2012	Six months ended 31 December 2011	2012
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000* (unaudited)	*CHF'000*
Wages and salaries		18,004	13,463	15,305	7,378	7,227
Social security costs		1,842	1,291	1,530	763	773
Contributions to defined contribution plans		77	44	37	18	19
Expense for defined benefit plans	*19*	2,348	1,650	1,742	872	1,020
Termination benefits		1,000	139	–	–	–
		23,271	16,587	18,614	9,031	9,039

(c) Other items

	Note	Eighteen months ended 30 June 2010	Year ended 30 June 2011	2012	Six months ended 31 December 2011	2012
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000* (unaudited)	*CHF'000*
Auditor's remuneration for audit services		170	154	140	–	–
Depreciation of property, plant and equipment	*9*	1,150	832	514	263	298
Amortisation of intangible assets	*11*	770	708	924	465	517
Impairment losses on property, plant and equipment	*9*	17	–	–	–	–
Impairment losses on trade receivables	*14*	377	68	42	23	5
Impairment losses on intangible assets	*11*	10	378	–	–	–
Impairment losses on goodwill	*10*	12,670	–	–	–	–
Operating lease charge		434	319	377	241	173
Development costs		1,913	2,738	2,767	1,286	1,491
Increase in provisions		3,193	2,710	1,840	2,122	1,857
Cost of inventories	*13*	36,600	35,222	44,058	32,588	30,061

7. INCOME TAX

(a) Tax recognised in profit or loss represents:

	Eighteen months ended 30 June	Year ended 30 June		Six months ended 31 December	
	2010	2011	2012	2011	2012
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000* (unaudited)	*CHF'000*
Current taxes	–	–	–	–	–
Deferred taxes	(1,715)	(552)	(576)	–	8
Total income tax (expense)/credit	(1,715)	(552)	(576)	–	8

(b) Reconciliation between income tax expense/credit and accounting profit or loss before taxation at applicable tax rates:

	Eighteen months ended 30 June	Year ended 30 June		Six months ended 31 December	
	2010	2011	2012	2011	2012
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000* (unaudited)	*CHF'000*
(Loss)/profit before income tax	(36,965)	(10,003)	(12,729)	1,747	(959)
Notional tax credit/(expense) on loss/profit before income tax, calculated at the rates applicable in the countries concerned	10,349	2,419	3,122	(227)	112
Tax losses not recognised as deferred tax assets	(6,513)	(3,151)	(3,331)	(381)	(391)
Temporary deductible differences not recognised as deferred tax assets	(5,028)	1,465	(485)	389	376
Others	(523)	(1,285)	118	219	(89)
Actual income tax (expense)/credit	(1,715)	(552)	(576)	–	8

The changes in applicable tax rates are mainly due to the profit or loss mix between Group entities and the decrease over time of the tax rate in force in the Canton of Neuchâtel, where the Company is incorporated.

(c) Deferred tax assets and liabilities

The deferred tax assets and liabilities of the Group are attributable to the following:

Deferred taxes arising from	Land	Buildings	Employee benefits	Invest-ments	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
At 30 June 2010					
Tax assets before set off	52	–	176	–	228
Tax liabilities before set off	–	(228)	–	(1,715)	(1,943)
Net tax asset/(liability)	52	(228)	176	(1,715)	(1,715)
At 30 June 2011					
Tax assets before set off	52	–	198	–	250
Tax liabilities before set off	–	(250)	–	(2,267)	(2,517)
Net tax asset/(liability)	52	(250)	198	(2,267)	(2,267)
At 30 June 2012					
Tax assets before set off	49	–	207	–	256
Tax liabilities before set off	–	(256)	–	(2,843)	(3,099)
Net tax asset/(liability)	49	(256)	207	(2,843)	(2,843)
At 30 December 2012					
Tax assets before set off	49	–	217	–	266
Tax liabilities before set off	–	(266)	–	(2,835)	(3,101)
Net tax asset/(liability)	49	(266)	217	(2,835)	(2,835)

The deferred tax assets and liabilities of the Company are attributable to the following:

Deferred taxes arising from	Land	Buildings	Employee benefits	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
At 30 June 2010				
Tax assets before set off	52	–	176	228
Tax liabilities before set off	–	(228)	–	(228)
Net tax asset/(liability)	52	(228)	176	–
At 30 June 2011				
Tax assets before set off	52	–	198	250
Tax liabilities before set off	–	(250)	–	(250)
Net tax asset/(liability)	52	(250)	198	–

Deferred taxes arising from	**Land**	**Buildings**	**Employee benefits**	**Total**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
At 30 June 2012				
Tax assets before set off	49	–	207	256
Tax liabilities before set off	–	(256)	–	(256)
Net tax asset/(liability)	49	(256)	207	–
At 30 December 2012				
Tax assets before set off	49	–	217	266
Tax liabilities before set off	–	(266)	–	(266)
Net tax asset/(liability)	49	(266)	217	–

(d) Unrecognised tax assets

Deferred tax assets have not been recognised in the Financial Information in respect of the following items:

		At 30 June		**At 31 December**
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Unused tax losses	44,085	61,416	78,321	78,470
Deductible temporary differences	15,047	10,411	13,009	12,259
	59,132	71,827	91,330	90,729

The unused tax losses will expire as described in the table below:

		At 30 June		**At 31 December**
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Between 1 and 5 years	–	–	31,774	31,774
More than 5 years	33,409	48,045	31,356	31,261
Losses not subject to expiry	10,676	13,371	15,191	15,435
	44,085	61,416	78,321	78,470

8. LOSS/EARNINGS PER SHARE

(a) Basic loss/earnings per share

The calculation of basic loss/earnings per share is based on the loss/profit attributable to owners of the Company for the eighteen months ended 30 June 2010, the years ended 30 June 2011 and 2012 and the six months ended 31 December 2011 and 31 December 2012, and the weighted average number of shares in issue during each period, calculated as follows:

	Eighteen months ended 30 June	Year ended 30 June		Six months ended 31 December	
	2010	**2011**	**2012**	**2011**	**2012**
				(unaudited)	
Issued ordinary shares at beginning of the period	1,200	2,000	2,000	2,000	3,000
Effect of conversion of debt on 31 March 2009	667	–	–	–	–
Effect of share issue on 28 September 2011	–	–	750	500	–
Weighted average number of ordinary shares at the end of the period	1,867	2,000	2,750	2,500	3,000

(b) Diluted loss per share

The diluted loss per share is the same as the basic loss per share for each period to be presented as there were no dilutive potential ordinary shares outstanding at the end of each single period.

9. PROPERTY, PLANT AND EQUIPMENT

(a) The Group

	Note	**Land**	**Buildings**	**Machinery, tools and equipment**	**Motor vehicles**	**Total**
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
Cost						
At 1 January 2009		1,300	8,000	5,453	444	15,197
Additions		–	4	470	110	584
Disposals		–	–	(55)	(64)	(119)
Acquisitions through business combinations	22	–	–	18	–	18
Foreign exchange translation differences		–	–	(28)	(4)	(32)
At 30 June 2010 and 1 July 2010		1,300	8,004	5,858	486	15,648
Additions		–	–	488	–	488
Disposals		–	–	–	(114)	(114)
Foreign exchange translation differences		–	–	(60)	(4)	(64)
At 30 June 2011 and 1 July 2011		1,300	8,004	6,286	368	15,958
Additions		–	10	531	–	541
Disposals		–	–	(17)	(55)	(72)
Foreign exchange translation differences		–	–	32	–	32
At 30 June 2012 and 1 July 2012		1,300	8,014	6,832	313	16,459
Additions		–	80	1,141	–	1,221
Disposals		–	–	–	(46)	(46)
Foreign exchange translation differences		–	–	(13)	–	(13)
At 31 December 2012		1,300	8,094	7,960	267	17,621

	Note	**Land**	**Buildings**	**Machinery, tools and equipment**	**Motor vehicles**	**Total**
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
Accumulated depreciation and impairment loss						
At 1 January 2009		–	–	3,804	239	4,043
Depreciation for the period		–	240	852	58	1,150
Impairment loss	*10*	–	–	11	6	17
Disposals		–	–	(31)	(31)	(62)
Foreign exchange translation differences		–	–	(27)	–	(27)
At 30 June 2010 and 1 July 2010		–	240	4,609	272	5,121
Depreciation for the period		–	160	631	41	832
Disposals		–	–	–	(89)	(89)
Foreign exchange translation differences		–	–	(63)	(1)	(64)
At 30 June 2011 and 1 July 2011		–	400	5,177	223	5,800
Depreciation for the period		–	161	313	40	514
Disposals		–	–	(17)	(55)	(72)
Foreign exchange translation differences		–	–	29	–	29
At 30 June 2012 and 1 July 2012		–	561	5,502	208	6,271
Depreciation for the period		–	82	198	18	298
Disposals		–	–	–	(46)	(46)
Foreign exchange translation differences		–	–	(9)	–	(9)
At 31 December 2012		–	643	5,691	180	6,514
Net book value						
At 30 June 2010		1,300	7,764	1,249	214	10,527
At 30 June 2011		1,300	7,604	1,109	145	10,158
At 30 June 2012		1,300	7,453	1,330	105	10,188
At 31 December 2012		1,300	7,451	2,269	87	11,107

(b) The Company

	Land	Buildings	Machinery, tools and equipment	Motor vehicles	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
Cost					
At 1 January 2009	1,300	8,000	4,919	380	14,599
Additions	–	4	430	61	495
At 30 June 2010 and 1 July 2010	1,300	8,004	5,349	441	15,094
Additions	–	–	455	–	455
Disposals	–	–	–	(114)	(114)
At 30 June 2011 and 1 July 2011	1,300	8,004	5,804	327	15,435
Additions	–	10	281	–	291
Disposals	–	–	–	(55)	(55)
At 30 June 2012 and 1 July 2012	1,300	8,014	6,085	272	15,671
Additions	–	80	1,059	–	1,139
Disposals	–	–	–	(46)	(46)
At 31 December 2012	1,300	8,094	7,144	226	16,764
Accumulated depreciation					
At 1 January 2009	–	–	3,376	219	3,595
Depreciation for the period	–	240	809	23	1,072
At 30 June 2010 and 1 July 2010	–	240	4,185	242	4,667
Depreciation for the period	–	160	566	41	767
Disposals	–	–	–	(61)	(61)
At 30 June 2011 and 1 July 2011	–	400	4,751	222	5,373
Depreciation for the period	–	161	273	37	471
Disposals	–	–	–	(55)	(55)
At 30 June 2012 and 1 July 2012	–	561	5,024	204	5,789
Depreciation for the period	–	82	155	16	253
Disposals	–	–	–	(46)	(46)
At 31 December 2012	–	643	5,179	174	5,996
Net book value					
At 30 June 2010	1,300	7,764	1,164	199	10,427
At 30 June 2011	1,300	7,604	1,053	105	10,062
At 30 June 2012	1,300	7,453	1,061	68	9,882
At 31 December 2012	1,300	7,451	1,965	52	10,768

(c) Security

As at 30 June 2010, 2011 and 2012 and 31 December 2012, land and buildings were pledged to secure bank loans as disclosed in note 16.

(d) Buildings of the Group and the Company are situated on freehold land outside Hong Kong.

10. GOODWILL

The Group

			At 30 June		At 31 December
	Note	**2010**	**2011**	**2012**	**2012**
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Cost at the beginning of the period		–	12,716	9,794	11,195
Additions	22	12,123	–	–	–
Foreign exchange translation differences		593	(2,922)	1,401	(491)
Cost at the end of the period		12,716	9,794	11,195	10,704
Accumulated impairment losses at the beginning of the period		–	(12,716)	(9,794)	(11,195)
Impairment loss		(12,670)	–	–	–
Foreign exchange translation differences		(46)	2,922	(1,401)	491
Accumulated impairment losses at the end of the period		(12,716)	(9,794)	(11,195)	(10,704)
Carrying amount		–	–	–	–

Impairment tests for cash-generating units containing goodwill

Goodwill arose from the acquisition of Corum USA LLC, see note 22. Goodwill is tested at the level of the cash-generating unit (CGU), which is Corum USA LLC.

The recoverable amount of the cash-generating unit (CGU) was determined based on value-in-use calculations as of the end of each period. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated terminal value growth rate.

The carrying amount of the CGU was determined to be higher than its recoverable amount and an impairment loss of USD11.7 (CHF12.7) million was recognised as of 30 June 2010. The impairment loss was first allocated to goodwill which was fully impaired as a result. In a second step, the impairment loss was allocated to the property, plant and equipment of Corum USA LLC amounting to USD16 (CHF17) thousand and to other intangible assets of Corum USA LLC amounting to USD10 (CHF10) thousand. All other net assets included in the CGU were already measured at their own recoverable amount; therefore no further impairment losses were recorded. The impairment loss of USD11.7 (CHF12.7) million was included in 'other expenses'.

Key assumptions used in the calculation of value in use were discount rate, terminal value growth rate and cash flows from operating activities. These assumptions were as follows:

Assumed rates (in %)	At 30 June 2010
Discount rate	15.4%
Terminal value growth rate	4.0%

The cash flows from operating activities were reflecting management forecast for the five-year period starting in July 2010. These forecasts were based on the sales forecasts in volumes and price increases of 3% p.a. applicable to sales and all other costs except for advertising and communication expenses which were separately budgeted.

11. OTHER INTANGIBLE ASSETS

(a) The Group

	Note	**Patents and trademarks**	**Software**	**Development costs**	**Total**
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Cost					
At 1 January 2009		2,312	1,077	2,441	5,830
Additions		509	76	–	585
Acquisitions through business combinations	22	–	33	–	33
Foreign exchange translation differences		–	(9)	–	(9)
At 30 June 2010 and 1 July 2010		2,821	1,177	2,441	6,439
Additions		212	125	64	401
Foreign exchange translation differences		–	(20)	–	(20)
At 30 June 2011 and 1 July 2011		3,033	1,282	2,505	6,820
Additions		405	543	903	1,851
Foreign exchange translation differences		–	5	–	5
At 30 June 2012 and 1 July 2012		3,438	1,830	3,408	8,676
Additions		97	45	277	419
Foreign exchange translation differences		–	(1)	–	(1)
At 31 December 2012		3,535	1,874	3,685	9,094

	Note	**Patents and trademarks** *CHF'000*	**Software** *CHF'000*	**Development costs** *CHF'000*	**Total** *CHF'000*
Accumulated amortisation and impairment losses					
At 1 January 2009		1,345	952	54	2,351
Amortisation for the period		413	213	144	770
Impairment loss	*10*	–	10	–	10
Foreign exchange translation differences		–	(7)	–	(7)
At 30 June 2010 and 1 July 2010		1,758	1,168	198	3,124
Amortisation for the period		296	123	289	708
Impairment loss		–	–	378	378
Foreign exchange translation differences		–	(10)	–	(10)
At 30 June 2011 and 1 July 2011		2,054	1,281	865	4,200
Amortisation for the period		283	295	346	924
Foreign exchange translation differences		–	3	–	3
At 30 June 2012 and 1 July 2012		2,337	1,579	1,211	5,127
Amortisation for the period		154	156	207	517
Foreign exchange translation differences		–	(2)	–	(2)
At 31 December 2012		2,491	1,733	1,418	5,642
Net book value					
At 30 June 2010		1,063	9	2,243	3,315
At 30 June 2011		979	1	1,640	2,620
At 30 June 2012		1,101	251	2,197	3,549
At 31 December 2012		1,044	141	2,267	3,452

Trademarks represent the costs capitalised to protect the Corum brand, symbols and the name of the product lines of the watches manufactured and sold by the Group.

(b) The Company

	Patents and trademarks	Software	Development costs	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Cost				
At 1 January 2009	2,312	1,005	2,441	5,758
Additions	509	39	–	548
At 30 June 2010 and 1 July 2010	2,821	1,044	2,441	6,306
Additions	212	105	64	381
At 30 June 2011 and 1 July 2011	3,033	1,149	2,505	6,687
Additions	405	535	903	1,843
At 30 June 2012 and 1 July 2012	3,438	1,684	3,408	8,530
Additions	97	40	277	414
At 31 December 2012	3,535	1,724	3,685	8,944
Accumulated amortisation and impairment losses				
At 1 January 2009	1,345	901	54	2,300
Amortisation for the period	413	142	209	764
At 30 June 2010 and 1 July 2010	1,758	1,043	263	3,064
Amortisation for the period	296	77	287	660
Impairment loss	–	–	378	378
At 30 June 2011 and 1 July 2011	2,054	1,120	928	4,102
Amortisation for the period	283	279	346	908
At 30 June 2012 and 1 July 2012	2,337	1,399	1,274	5,010
Amortisation for the period	154	153	207	514
At 31 December 2012	2,491	1,552	1,481	5,524
Net book value				
At 30 June 2010	1,063	1	2,178	3,242
At 30 June 2011	979	29	1,577	2,585
At 30 June 2012	1,101	285	2,134	3,520
At 31 December 2012	1,044	172	2,204	3,420

(c) Impairment of capitalised development costs for movements

An impairment of CHF378 thousand was booked in the period ended 30 June 2011 in relation to development costs for movements. This impairment was booked to "other expenses". The projects in which the corresponding watch movements were meant to be used were put on hold. They have not resumed since then. Total costs of CHF678 thousand were capitalised in relation to the movements tested for impairments. The remaining CHF300 thousand were transferred to other projects where the movements were to be used.

(d) Amortisation charge

The amortisation charge for capitalised development costs for each period is included in cost of sales in the statement of comprehensive income. The amortisation charge for patents, trademarks and software is included in general and administration expenses.

12. INVESTMENTS IN AND LOANS TO SUBSIDIARIES

Investments of the Company

The Company holds 100% of the ordinary shares of its subsidiaries, as follows:

Name of the company	Date of acquisition or incorporation	Country of incorporation and operation	Principal activity
Montres Corum (UK) Ltd.	5 November 2007	United Kingdom	Distribution and repair of watches
Corum Italia SRL	5 November 2007	Italy	Distribution and repair of watches
Montres Corum Europe SA	5 November 2007	Switzerland	Distribution and repair of watches
Servicio de Importacion SA	5 November 2007	Spain	Distribution and repair of watches
Corum Deutschland GmbH	5 November 2007	Germany	Distribution and repair of watches
Corum USA LLC	30 September 2009	USA	Distribution and repair of watches
Corum Russia	11 December 2012	Russia	Distribution and repair of watches

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Unlisted shares, at cost	19,567	20,161	20,837	20,897
Less impairment losses	(14,128)	(14,022)	(18,573)	(18,633)
	5,439	6,139	2,264	2,264

Impairment losses on investments in subsidiaries

Recurring losses at subsidiaries indicated a possible impairment of the corresponding investments, which are carried at cost in the Company's statement of financial position. Investments in subsidiaries are tested for impairment at the level of the cash-generating unit (CGU), which is each individual subsidiary.

The recoverable amount of the cash-generating unit (CGU) was determined based on value-in-use calculations as of the end of each period. These calculations are consistent with the one described above for the purpose of testing goodwill. They use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated terminal value growth rate.

The carrying amount of the investment in Corum USA LLC was determined to be higher than its recoverable amount and an impairment loss of CHF11 million was recognised as of 30 June 2010. At the same date, an impairment loss of approximately CHF3 million was recognised in relation to Servicio de Importacion SA, reflecting the worsening situation in the Spanish market.

The impairment losses booked as of 30 June 2012 were related to the Spanish, Italian and US subsidiaries and were reflecting a further deterioration of forecasts in those markets.

Key assumptions used in the calculation of value in use were discount rate, terminal value growth rate and cash flows from operating activities. These assumptions were as follows:

		At 30 June	
Assumed rates (in %)	**2010**	**2011**	**2012**
Terminal value growth rate for all subsidiaries	4.0%	4.0%	4.0%
Discount rate: Corum USA LLC	15.4%	18.5%	14.2%
Discount rate: Servicio de Importacion SA	14.3%	17.3%	14.7%
Discount rate: Corum Italia SRL	14.9%	17.8%	15.3%

The cash flows from operating activities were reflecting management forecast for the five-year period starting at closing date. These forecasts were based on the sales forecasts in volumes and price increases of 3% p.a. applicable to sales and all other costs except for advertising and communication expenses which were separately budgeted.

Intercompany loans

The Company is financing the operations of its selling subsidiaries. Intercompany loans are included within "Other financial long-term assets" in the statements of financial position of the Company. As described in the note 14, trade receivables from subsidiaries are automatically transformed into loans after 60 days. These loans do not have fixed maturities, but are presented as long-term financial assets based on the expected repayment dates. They are denominated in the local currency of the subsidiary, are unsecured and bear interest at 3.5% p.a.

Intercompany loans do not qualify as part of the net investment in a subsidiary and are therefore tested for impairment as described in note 3 (c) (ii).

		At 30 June		**At 31 December**
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Intercompany loans	9,088	10,647	18,262	20,597
Less impairment losses	(3,351)	(3,470)	(7,357)	(6,352)
	5,737	7,177	10,905	14,245

Impairment losses on intercompany loans

The reimbursement capacity of subsidiaries of the Company has been altered by the recurring losses they have incurred. As a result intercompany loans have been tested for impairment at each closing date and the expected recoverable discounted cash flows have been computed.

The impairment loss of CHF3.9 million booked as of 30 June 2012 was mainly due to a charge booked in relation to the outstanding intercompany loan to Corum USA LLC. The reversal booked as of 31 December 2012 was also linked to the intercompany loan to Corum USA and to a lesser extent to the intercompany loan to Montres Corum Europe SA. The discounted cash flows that the Company expected to recover from both subsidiaries as of 31 December 2012 have improved compared to the ones expected as of 30 June 2012, mainly due to improved operating cash flow forecasts.

13. INVENTORIES

(a) The Group

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Raw materials	1,928	4,423	5,583	1,891
Work in progress and semi-finished goods	22,053	20,125	21,680	16,802
Finished goods	16,613	11,521	13,916	13,093
Spare parts for customer service	1,780	1,825	1,782	2,115
	42,374	37,894	42,961	33,901

The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

		Eighteen months ended 30 June	Year ended 30 June		Six months ended 31 December	
	Note	**2010**	**2011**	**2012**	**2011**	**2012**
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000* (unaudited)	*CHF'000*
Cost of inventories sold	6	36,600	35,222	44,058	32,588	30,061
Write down of inventories		3,019	415	27	405	227
Reversal of write-down of inventories		(434)	(1,839)	(566)	(1,140)	(140)

(b) The Company

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Raw materials	1,928	4,423	5,583	1,891
Work in progress and semi-finished goods	22,053	20,125	21,680	16,802
Finished goods	12,862	7,479	8,736	8,849
Spare parts for customer service	1,542	1,679	1,595	1,776
	38,385	33,706	37,594	29,318

14. TRADE AND OTHER RECEIVABLES

(a) The Group

	At 30 June			At 31 December
	2010	2011	2012	2012
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Trade receivables				
Gross value	14,837	12,576	16,239	25,716
Allowances for doubtful accounts	(618)	(483)	(440)	(444)
	14,219	12,093	15,799	25,272
Other receivables				
Payment in advance to suppliers	914	735	1,615	1,489
Value added tax receivable	772	1,390	1,226	1,220
Other	960	624	1,147	1,031
	2,646	2,749	3,988	3,740
Total trade and other receivables	16,865	14,842	19,787	29,012

All trade and other receivables are expected to be recovered or recognised as expense within one year.

Aging analysis

As of the end of each reporting period, the aging analysis of trade receivables, based on the invoice date, is as follows:

	At 30 June			At 31 December
	2010	2011	2012	2012
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Within 1 month	8,338	8,561	9,964	13,954
Over 1 month	4,859	3,207	5,096	10,467
Over 3 months	1,022	325	739	851
	14,219	12,093	15,799	25,272

Trade receivables are typically due within 30-90 days from the date of billing. Further details on the Group's credit policy are set out in note 23(b).

Allowance for doubtful debts

The movement in the allowance for doubtful accounts on trade receivables during each period, including only specific loss components, is as follows:

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
At the beginning of the period	(408)	(618)	(483)	(440)
Impairment loss recognised	(377)	(68)	(42)	(5)
Impairment loss reversed	15	33	90	–
Amounts written off	111	103	–	–
Foreign exchange translation differences	41	67	(5)	1
At the end of the period	(618)	(483)	(440)	(444)

Analysis of trade receivables that are not impaired

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Neither past due nor impaired	8,462	6,745	8,993	17,102
Less than 1 month past due	3,828	3,290	4,104	5,028
1 to 3 months past due	943	822	448	639
Over 3 months past due	–	–	642	832
	13,233	10,857	14,187	23,601

Receivables that are neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that are past due but not impaired relate to a limited number of customers, mainly of the foreign subsidiaries. Management is in regular contact with these customers and closely monitoring the recovery of the outstanding amounts. Based on their interactions with these customers and past experience management believes that no impairment allowance is necessary with respect to these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(b) The Company

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Trade receivables				
From third parties	9,407	7,293	8,872	13,064
From subsidiaries	2,769	2,061	3,440	3,884
Allowances for doubtful accounts	(44)	(5)	(39)	(39)
	12,132	9,349	12,273	16,909
Other receivables				
Payment in advance to suppliers	914	735	1,615	1,489
Value added tax receivable	772	1,390	1,226	1,220
Other	405	213	539	(22)
	2,091	2,338	3,380	2,687
Total trade and other receivables	**14,223**	**11,687**	**15,653**	**19,596**

The Company holds trade receivables from subsidiaries. These receivables are denominated in the local currency of the subsidiary, are unsecured and interest-free. In case the trade receivables are not paid by subsidiaries within 60 days, they are automatically transformed into intercompany loans (note 12).

As at 30 June 2012 and 31 December 2012, all trade receivables of the Company were pledged to secure bank loans as disclosed in note 16.

Allowance for doubtful debts

The movement in the allowance for doubtful accounts on trade receivables during each period, including only specific loss components, is as follows:

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
At the beginning of the period	(83)	(44)	(5)	(39)
Impairment loss recognised	(72)	(13)	(34)	–
Impairment loss reversed	–	33	–	–
Amounts written off	111	19	–	–
Foreign exchange translation differences	–	–	–	–
At the end of the period	(44)	(5)	(39)	(39)

15. CASH AND CASH EQUIVALENTS

(a) The Group

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Bank balances	4,607	3,209	1,869	5,971
Other cash and cash equivalents	110	28	44	42
	4,717	3,237	1,913	6,013

(b) The Company

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Bank balances	2,148	1,591	656	4,629
Other cash and cash equivalents	7	–	8	2
	2,155	1,591	664	4,631

16. LOANS AND BORROWINGS

(a) The Group

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Secured bank loans (i)	7,700	7,551	18,526	24,043
Convertible debt (ii)	–	–	–	–
Loans from majority shareholder (iii)	27,247	28,049	16,000	16,000
Loan from non-controlling shareholder (iv)	6,340	4,799	5,206	4,978
Total loans and borrowings	41,287	40,399	39,732	45,021

All loans and borrowings are carried at amortised cost. They are all expected to be settled within one year.

(i) *Secured bank loans*

In October 2007 the Company entered into a loan facility agreement with a major Swiss bank, with an initial credit line of CHF18.5 million. This loan facility agreement was replaced by a new one on 15 July 2011, with a credit line of CHF15.0 million, tied to the condition that the equity of the Company increased by CHF20.0 million. All amounts due under the loan facility were drawn as fixed short-term advances and the last one was repaid on 30 January 2012. The interest rate payable was due at CHF-LIBOR for + 1% throughout the period.

On 21 December 2011 the Company entered into a loan facility agreement with another Swiss bank, with an initial credit line of CHF20.0 million. Interest is payable at CHF-LIBOR plus a spread between 1.4% and 2.1%. All amounts were drawn as fixed short-term advances.

The Group has the following undrawn banking facilities: CHF6.0 million as of 30 June 2010, CHF6.0 million as of 30 June 2011, CHF1.5 million as of 30 June 2012 and CHF1.0 million as of 31 December 2012.

The bank loans of the Company have been secured by:

– pledging of the land and buildings owned by the Company throughout all periods presented, and

– pledging of the trade receivables of the Company starting from 21 December 2011.

The Spanish subsidiary was granted short-term advances by a local bank, secured by its receivables. The involved amounts are not material for the Group.

(ii) *Convertible debt*

As of 1 January 2009, convertible debt with a nominal amount of CHF20.0 million was outstanding. CHF17.5 million were due to the majority shareholder, Severin Participations AG (SPAG), and CHF2.5 million to the non-controlling shareholder, Michael Wunderman, by virtue of agreements signed on 31 March 2008. Interest rate was payable at 3% p.a. The initial fixed term of the convertible debt was 4 February 2014. The conversion option for 40% of the outstanding nominal registered capital of the Company after conversion was exercisable by both holders for their pro rata number of shares at the earlier of 4 February 2009, the date of the death of Severin Wunderman or the date of the sale of SPAG's shareholdings in the Company to an unrelated third party.

The conversion of the full amount of the outstanding convertible debt was authorised by an extraordinary shareholders meeting on 31 March 2009 and led to an increase of 40% of the share capital of the Company after conversion, as described in the note 21.

(iii) *Loans from majority shareholder*

The majority shareholder, Severin Participations AG (SPAG), has granted several unsecured loans to the Company to finance the operations of the Group. CHF2.9 million were outstanding at 1 January 2009. During the year 2009, several loans denominated in US dollars were additionally granted by SPAG to the Company, without underlying agreements. Interest was paid at 3.5% p.a. As of 1 January 2010 these loans amounting to USD23.4 million (CHF24.3 million) were converted into Swiss Francs and consolidated together with the original CHF2.9 million via a loan agreement. This agreement had an initial fixed term ending on 31 December 2010, with automatic renewal for successive terms of one year each. Interest was payable at 2.25% p.a., equal to the minimum rate prescribed by the Swiss Federal Tax Authority for 2010 and 2011.

In September 2011, a portion of the loan amounting to CHF16.0 million was contributed by SPAG to the Company as equity. The loan agreement was amended and new terms and conditions defined for the outstanding amount of CHF11.0 million effective from 1 January 2012. This new agreement had an initial fixed term ending on 31 December 2012, continuing thereafter for an indefinite term. Interest is payable at 2.5% p.a., equal to the minimum rate prescribed by the Swiss Federal Tax Authority for 2012 + 1%.

A further loan of CHF5.0 million was granted by SPAG to the Company on 30 June 2012. The corresponding loan agreement had an initial fixed term ending on 30 June 2013, continuing thereafter for an indefinite term. Interest is payable at 2.5% p.a., equal to the minimum rate prescribed by the Swiss Federal Tax Authority for 2012 + 1%.

(iv) Loan from non-controlling shareholder

This loan is evidenced by a promissory note originally amounting to USD5.9 million, which was a portion of the consideration paid by the Company to Michael Wunderman at the time the former bought the subsidiary Corum USA LLC from the latter, see note 22. It bears interest at 6% p.a., plus additional 2% in case of default. The loan is guaranteed by Severin Participations AG. The term of the promissory note is 1 October 2014. However it also contains a clause stipulating that it becomes immediately payable upon the sale of Corum USA LLC or the Company to a third party. The loan has been disclosed as a short-term liability at the end of each period presented, based on management's intention to sell the Group and their expectation that such a transaction would happen in the 12-month-period from closing date.

(b) The Company

All above mentioned disclosures equally apply to the Company, except for the non-material Spanish secured bank loans.

17. TRADE AND OTHER PAYABLES

(a) The Group

	At 30 June			**At 31 December**
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Trade payables	5,922	6,711	11,258	11,805
Amounts due to immediate holding company	636	1,434	827	–
Amounts due to other related parties	415	366	–	–
Payment in advance received	275	466	1,233	2,733
Other payables	–	453	1,187	701
	7,248	9,430	14,505	15,239

All trade and other payables are expected to be settled within one year or are repayable on demand.

Aging analysis

As of the end of each reporting period, the aging analysis of trade payables, based on the invoice date, is as follows:

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Within 1 month	3,746	3,680	4,298	2,991
Over 1 month to 3 months	2,105	2,275	5,585	7,313
Over 3 months	71	756	1,375	1,501
	5,922	6,711	11,258	11,805

(b) The Company

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Trade payables	5,489	6,425	11,385	10,480
Amounts due to immediate holding company	636	1,434	827	–
Amounts due to other related parties	415	366	–	–
Payment in advance received	275	466	1,233	2,733
Other payables	61	264	512	468
	6,876	8,955	13,957	13,681

18. ACCRUED EXPENSES

(a) The Group

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Accrued expenses				
Accrued goods and services	2,761	2,968	2,035	980
Advertising	812	1,230	989	1,652
Employee benefits	1,990	1,162	1,405	1,156
Interest	279	294	288	376
Other	662	907	654	726
	6,504	6,561	5,371	4,890

(b) The Company

		At 30 June		At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Accrued expenses				
Accrued goods and services	2,761	2,571	2,035	962
Advertising	812	1,230	989	1,652
Employee benefits	1,502	1,162	1,225	922
Interest	279	294	288	376
Other	240	390	391	403
	5,594	5,647	4,928	4,315

19. EMPLOYEE BENEFITS

(a) Defined benefit plans

The Group makes contributions to a defined benefit plan for all employees of the Company. This plan provides benefits upon retirement, disability and death. The plan is administered by a trust, with its assets held separately from those of the Group. The majority of the trustees are independent.

Given that the only defined benefit plan of the Group is operated by the Company, the following disclosures apply both to the Group and to the Company.

The plan is funded by contributions from the Group. The latest independent actuarial valuations of the plans were at 31 December 2012 and were prepared by qualified staff of Banque Cantonale Vaudoise (BCV), which is a member of the Swiss Association of Actuaries, using the projected unit credit method. The actuarial valuations indicate that the Group's obligations under these defined benefit retirement plans are covered by the plan assets held by the trustees at the following percentages:

		At 30 June		At 31 December
	2010	**2011**	**2012**	**2012**
Plan assets in % of defined benefit obligation	81%	82%	74%	75%

(i) The amounts recognised in the statements of financial position are as follows:

		At 30 June		At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Fair value of plan assets	13,710	15,761	16,490	17,625
Present value of obligations	16,928	19,289	22,303	23,480
Total employee benefits liability	3,218	3,528	5,813	5,854

The Group expects to pay CHF1.3 million in contributions to defined benefit retirement plans in the annual period ending on 31 December 2013.

(ii) Plan assets consist of the following:

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Equity securities	2,920	3,767	3,875	4,583
Bonds	8,130	8,353	8,971	9,095
Property	1,988	2,616	2,820	2,327
Other assets	672	1,025	824	1,620
	13,710	15,761	16,490	17,625

(iii) Movements in the present value of the defined benefit obligations:

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
At the beginning of the period	13,277	16,928	19,289	22,303
Current service cost	2,193	1,563	1,647	978
Employee contributions	1,042	750	831	417
Interest cost	424	415	473	442
Benefits (paid)/received	(882)	411	(2,081)	(226)
Actuarial losses/(gains)	874	(778)	2,144	(434)
At the end of the period	16,928	19,289	22,303	23,480

(iv) Movements in plan assets:

	At 30 June			At 31 December
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
At the beginning of the period	10,965	13,710	15,761	16,490
Expected return on plan assets	269	328	378	400
Employee contributions	1,042	750	831	417
Employer contributions	1,562	1,126	1,247	626
Benefits (paid)/received	(882)	411	(2,081)	(226)
Actuarial gains/(losses)	754	(564)	354	(82)
At the end of the period	13,710	15,761	16,490	17,625

(v) Expense recognised in profit or loss is as follows:

	Eighteen months ended 30 June	Year ended 30 June		Six months ended 31 December	
	2010	**2011**	**2012**	**2011**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
				(unaudited)	
Current service cost	2,193	1,563	1,647	824	978
Interest cost	424	415	473	237	442
Expected return on plan assets	(269)	(328)	(378)	(189)	(400)
	2,348	1,650	1,742	872	1,020

The expense is recognised in the following line items of the statement of comprehensive income:

	Eighteen months ended 30 June	Year ended 30 June		Six months ended 31 December	
	2010	**2011**	**2012**	**2011**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
				(unaudited)	
Cost of sales	682	464	572	286	312
Selling and distribution expenses	357	291	312	156	158
Advertising and communication expenses	326	237	231	115	131
Development expenses	194	139	130	65	128
General and administration expenses	789	519	497	250	291
	2,348	1,650	1,742	872	1,020

(vi) Actuarial gains and losses recognised in other comprehensive income are as follows:

	Eighteen months ended 30 June	Year ended 30 June		Six months ended 31 December	
	2010	**2011**	**2012**	**2011**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
				(unaudited)	
Amount accumulated in retained earnings at the beginning of the period	0	(121)	93	93	(1,696)
(Loss)/gain recognised during the period	(121)	214	(1,789)	(895)	352
Amount accumulated in retained earnings at the end of the period	(121)	93	(1,696)	(802)	(1,344)

The actual return on plan assets (taking into account all changes in the fair value of the plan assets excluding contributions paid and received) is as follows:

	Eighteen months ended 30 June	**Year ended 30 June**		**Six months ended 31 December**	
	2010	**2011**	**2012**	**2011**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
				(unaudited)	
Actual return	1,023	(236)	732	366	318

(vii) The principal actuarial assumptions used are as follows:

	At 1 January	**At 30 June**			**At 31 December**
	2009	**2010**	**2011**	**2012**	**2012**
	%	%	%	%	%
Discount rate	3.30	2.50	2.50	2.00	1.75
Expected rate of return on plan assets	2.45	2.45	2.45	2.45	2.45
Future salary increase	2.00	2.00	2.00	2.00	2.00
Future pension increases	0.00	0.00	0.00	0.00	0.00

The expected long-term rate of return on plan assets is based on the portfolio as a whole and is calculated by the finance professional in charge of the management of the assets of the pension plan, based on market expectations.

Assumptions regarding future mortality, disability and turnover are based on the Swiss tables LPP2010 TG as of 30 June 2012 and 31 December 2012 and LPP2005 as of 1 January 2009, 30 June 2010 and 30 June 2011.

(viii) The experience adjustments are as follows:

	At 30 June			**At 31 December**
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Experience adjustments arising on plan liabilities	968	778	333	838
Experience adjustments arising on plan assets	754	(564)	354	(82)

(b) Defined contribution plans

The Group operates a 401(k) plan for its US employees, providing benefits upon retirement, disability, death or termination of employment. The plan is a defined contribution retirement plan administered by independent trustees. Under the plan, US employees are allowed to contribute up to USD16.5 thousand or 20% of their compensation, whichever is smaller, plus up to USD5.5 thousand additional for employees age 50 and over. During the Relevant Periods the Group did not make any contributions to the plan.

In all other countries where the Group operates, it pays contributions to state funds based on statutory requirements. No further contributions are made by the Group.

20. PROVISIONS

(a) The Group

	Warranties	Returns	Legal	Other provisions	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
Balance at 1 July 2012	225	849	478	901	2,453
Provisions made during the period	98	1,047	–	712	1,857
Provisions used during the period	(105)	(849)	–	(824)	(1,778)
Provisions reversed during the period	–	–	–	(38)	(38)
Foreign exchange translation differences	–	–	–	(1)	(1)
Balance at 31 December 2012	218	1,047	478	750	2,493
Non-current	109	–	478	70	657
Current	109	1,047	–	680	1,836
	218	1,047	478	750	2,493

(b) The Company

	Warranties	Returns	Legal	Other provisions	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
Balance at 1 July 2012	225	849	478	612	2,164
Provisions made during the period	98	1,047	–	580	1,725
Provisions used during the period	(105)	(849)	–	(556)	(1,510)
Provisions reversed during the period	–	–	–	(24)	(24)
Balance at 31 December 2012	218	1,047	478	612	2,355
Non-current	109	–	478	70	657
Current	109	1,047	–	542	1,698
	218	1,047	478	612	2,355

(c) Provision for warranties

The Group usually grants a two-year-warranty for the repair or replacement of products that do not work according to customers' expectations. The provision booked at the end of each period for estimated expected warranty costs is based on the Group's recent repair and replacement experience.

(d) Provision for returns

The impact of expected sales returns are deducted from sales and cost of sales and the corresponding margin recorded as provision. Such estimates are based on analyses of existing contractual or constructive obligations, historical trends and the Group's experience.

(e) Legal provision

Legal provisions are related to claims arising from trade, e.g. following the resignation of distribution agreements with agents.

21. CAPITAL AND RESERVES

(a) Movement in components of equity within the Company

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the period are set out below:

For the eighteen months ended 30 June 2010	Share capital	Share premium	Accumulated losses	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Balance at 1 January 2009	1,200	18,162	20,794	40,156
Total comprehensive income for the period				
Loss for the period	–	–	(40,489)	(40,489)
Total other comprehensive income	–	–	(121)	(121)
Total comprehensive income for the period	–	–	(40,610)	(40,610)
Transactions with owners of the Company				
Conversion of the convertible loans	800	18,451	–	19,251
Total contributions by owners of the Company	800	18,451	–	19,251
Balance at 30 June 2010	2,000	36,613	(19,816)	18,797

For the year ended 30 June 2011	Share capital	Share premium	Accumulated losses	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Balance at 1 July 2010	2,000	36,613	(19,816)	18,797
Total comprehensive income for the period				
Loss for the period	–	–	(7,991)	(7,991)
Total other comprehensive income	–	–	214	214
Total comprehensive income for the period	–	–	(7,777)	(7,777)
Balance at 30 June 2011	2,000	36,613	(27,593)	11,020

For the year ended 30 June 2012	Share capital	Share premium	Accumulated losses	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Balance at 1 July 2011	2,000	36,613	(27,593)	11,020
Total comprehensive income for the period				
Loss for the period	–	–	(15,298)	(15,298)
Total other comprehensive income	–	–	(1,789)	(1,789)
Total comprehensive income for the period	–	–	(17,087)	(17,087)
Transactions with owners of the Company				
Issue of shares	1,000	19,000	–	20,000
Total contributions by owners of the Company	1,000	19,000	–	20,000
Balance at 30 June 2012	3,000	55,613	(44,680)	13,933

For the six months ended 31 December 2012	Share capital	Share premium	Accumulated losses	Total
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Balance at 1 July 2012	3,000	55,613	(44,680)	13,933
Total comprehensive income for the period				
Loss for the period	–	–	(1,207)	(1,207)
Total other comprehensive income	–	–	352	352
Total comprehensive income for the period	–	–	(855)	(855)
Balance at 31 December 2012	3,000	55,613	(45,535)	13,078

For the six months ended 31 December 2011 *(unaudited)*	Share capital *CHF'000*	Share premium *CHF'000*	Accumulated losses *CHF'000*	Total *CHF'000*
Balance at 1 July 2011	2,000	36,613	(27,593)	11,020
Total comprehensive income for the period				
Profit for the period	–	–	3,709	3,709
Total other comprehensive income	–	–	(895)	(895)
Total comprehensive income for the period	–	–	2,814	2,814
Transactions with owners of the Company				
Issue of shares	1,000	19,000	–	20,000
Total contributions by owners of the Company	1,000	19,000	–	20,000
Balance at 31 December 2011	3,000	55,613	(24,779)	33,834

(b) Share capital

Issued and authorised share capital, which were equal at each reporting date:

Number of shares	*Note*	2010	At 30 June 2011	2012	At 31 December 2012
Issued ordinary shares at beginning of the period		1,200	2,000	2,000	3,000
Effect of conversion of debt on 31 March 2009		800	–	–	–
Effect of share issue on 28 September 2011		–	–	1,000	–
Issued ordinary shares at the end of the period		2,000	2,000	3,000	3,000

All issued shares are fully paid up. The nominal value of each share is CHF1,000.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

On 31 March 2009 an extraordinary shareholders' meeting authorised the conversion of the outstanding convertible debt with a nominal amount of CHF20.0 million and a carrying amount of CHF19.3 million. 800 shares were issued, leading to an increase of share capital by CHF800 thousand. The difference of CHF18.5 million between the nominal value of the shares and the carrying amount of the debt converted was recorded as share premium, see 21 (c). 700 shares were issued to the majority shareholder, Severin Participations AG, and 100 shares were issued to Michael Wunderman, non-controlling shareholder.

On 30 June 2011, an extraordinary shareholders' meeting decided that the share capital of the Company was to be increased by 1,000 shares. This decision was implemented by the management board on 28 September 2011 and led to an increase of share capital by CHF1.0 million and an increase of share premium by CHF19.0 million, with each new share being issued against a contribution of CHF20 thousand. The amount of CHF16.0 million contributed by the majority shareholder, Severin Participations AG, was paid up by partially setting off the claim resulting from the loan agreement effective as of 1 January 2010, see note 16. The amount of CHF1.0 million contributed by the non-controlling shareholder, Michael Wunderman, was paid up by partially setting off the claim resulting from the promissory note issued by the Company when it bought Corum USA LLC from him, see note 16. The amount of CHF3.0 million contributed by the Chief Executive Officer of the Company, Antonio Calce, was paid in cash.

(c) Share premium

The excess amount of the sum contributed or converted over the nominal value of the shares issued was recorded as share premium.

The equity component of the convertible debt, equal to CHF887 thousand, was also recorded as share premium.

(d) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the Financial Information of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 3(b).

(e) Distributability of reserves

At 31 December 2012, the aggregate amount of reserves available for distribution to owners of the Company, as calculated under the provisions of Swiss law based on the financial statements of the Company prepared in accordance with the Swiss Code of Obligations, was nil.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an appropriate capital base aiming at fostering investor, creditor and market confidence.

Capital is defined by management as the sum of equity and loans from shareholders. Management focuses on improving the capital base, but they have not defined quantitative targets.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

22. BUSINESS COMBINATION

(a) Acquisition of subsidiary and its contribution to Group's results

On 29 September 2009, the Company acquired 15% of Corum USA LLC from the non-controlling shareholders of Corum USA LLC, for a consideration of USD2.4 million (CHF2.5 million).

On 12 November 2009, the Company acquired the remaining 85% of Corum USA LLC from the majority shareholder of Corum USA LLC, Michael Wunderman, for a consideration of USD9.4 million (CHF9.7 million).

For acquisition accounting purposes, both share purchases are considered to be a single transaction, following the same objective, i.e. obtaining control of Corum USA LLC.

Corum USA LLC is an entity distributing Corum watches in North America and the Caribbean. Its acquisition allowed the Company to obtain control of the distribution of Corum watches in these markets.

The consideration of USD2.4 million (CHF2.5 million) to the non-controlling shareholders was paid in cash. To transfer the consideration of USD9.4 million (CHF9.7 million) to Michael Wunderman the Company signed two promissory notes: note A amounting to USD3.4 million and note B amounting to USD5.9 million. The membership interest purchase agreement signed by the Company and Michael Wunderman also provided that a non-competition clause was to be paid by the former to the latter over three years for a total of USD1.0 (CHF1.0) million. Management's assessment of the payments is that they were to be considered as further consideration paid to Michael Wunderman in the context of the acquisition of his interests in Corum USA LLC.

In the eight-month-period to 30 June 2010, Corum USA LLC contributed revenue of CHF4.3 million and loss of CHF14.5 million to the Group's results. If the acquisition had occurred on 1 January 2009, management estimates that consolidated revenue would have been CHF71.6 million, and consolidated loss for the period would have been CHF44.4 million.

(b) Identifiable assets acquired and liabilities assumed

	Note	*CHF'000*
Property, plant and equipment	*9*	18
Intangible assets	*11*	33
Financial long-term assets		28
Inventories		1,387
Trade receivables		1,931
Other receivables		3,877
Cash and cash equivalents		930
Trade payables		(2,563)
Other payables		(3,433)
Provisions		(461)
Accrued expenses		(680)
		1,067

The trade receivables comprise gross contractual amounts due of CHF1.9 million, of which none was expected to be uncollectible at the acquisition date. By virtue of the membership interest purchase agreement, the uncollected accounts receivable as of 30 September 2010 were to be deducted from the principal amount of Promissory note B, limited to USD1.0 million. The only corresponding reduction took place in February 2010, for a total amount of USD82 (CHF88) thousand.

(c) Goodwill

Goodwill was recognised as a result of the acquisition as follows:

	Note	*CHF'000*
Total consideration transferred		13,190
Fair value of identifiable net assets		(1,067)
	10	12,123

The goodwill is mainly attributable to the access to the US market: the Company has secured the US distribution rights via the acquisition. The goodwill recognised is deductible for tax purposes.

(d) Acquisition-related costs

The acquisition-related costs incurred by the Group were not significant as nearly all external legal fees and due diligence costs were borne by entities belonging to the Severin Group, which is a Group related to the direct controlling party of the Company, Severin Participations AG.

23. FINANCIAL RISK MANAGEMENT

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Categories of financial instruments

The Group holds the following financial instruments:

	Note		**At 30 June**		**At 31 December**
		2010	**2011**	**2012**	**2012**
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Loans and receivables					
Cash and cash equivalents		4,717	3,237	1,913	6,013
Trade receivables		14,219	12,093	15,799	25,272
Other receivables		1,732	2,014	2,373	2,251
Financial long-term assets		89	70	60	54
Total Financial assets		20,757	17,414	20,145	33,590
Other financial liabilities					
Loans and Borrowings		41,287	40,399	39,732	45,021
Trade payables		5,922	6,711	11,258	11,805
Other payables		1,051	2,253	2,014	501
Accrued expenses		6,504	6,561	5,371	4,890
Total Financial liabilities		54,764	55,924	58,375	62,217

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and to a lesser extent from cash and cash equivalents.

The carrying amount of financial assets included in the table above represents the maximum credit exposure.

Historically the Group did not have significant losses on trade receivables. Therefore management has not implemented a formalised credit policy. Open trade receivables are monitored on an ongoing basis to ensure collection in due time. Quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 14.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of each presented period, the five largest customers represented the following percentage of total trade receivables: 41.5% at 30 June 2010, 46.8% at 30 June 2011, 32.5% at 30 June 2012 and 46.9% at 31 December 2012.

Cash and cash equivalents are mainly current bank accounts with major Swiss, American, British, Italian and Spanish banks. The counterparty risk of these banks was considered by management to be low.

At 30 June 2010, 2011 and 2012 and December 2012, no guarantees were outstanding.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group's approach to managing liquidity is to ensure, as far as possible, that the Group, as a whole maintains sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions.

A summary of the available undrawn credit facilities at each closing date is available in note 16. In case of liquidity shortfall, the Group may draw further amounts under the loan agreement facilities described in note 16 or obtain further loans or equity from its majority shareholder.

The Group's accounts payable are due within 30 to 90 days. All loans and borrowings are due within one year. The interest payments on loans and borrowings due within one year are as follows: CHF2.1 million as of 30 June 2010, CHF1.0 million as of 30 June 2011, CHF985 thousand as of 30 June 2012 and CHF1.1 million as of 31 December 2012.

(d) Interest rate risk

The Group's interest rate risk arises primarily from loans and borrowings, given that financial assets, including cash and cash equivalents, do not bear material interests. The interest rates and terms of payment of proceeds of the bank loans of the Group are disclosed in note 16. Interest rate risk is not actively managed by the management of the Group.

The promissory note due to the non-controlling shareholder bears fixed interest and does not expose the Group to fair value interest rate risk as it is carried at amortised cost. A change in interest rates at the end of the reporting period would not affect profit or loss. This conclusion also applied to the loan from the majority shareholder until 1 January 2010.

The secured bank loans are based on the CHF-LIBOR for the corresponding period and therefore expose the Group to cash flow interest rate risk. The same applies to the loan from the majority shareholder since January 2010, as its interest is based on the minimum rate prescribed by the Swiss Federal Tax Authority, which is defined at the beginning of each calendar year to reflect changes in interest level in the market.

It is estimated that a general increase of 50 basis points in interest rates, with all other variables held constant, would impact the Group's loss in the following way:

				At
		At 30 June		**31 December**
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Increase in period loss before tax	175	178	173	200

A decrease of 50 basis points would have the following effect:

				At
		At 30 June		**31 December**
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Decrease in period loss before tax	148	148	99	104

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of the reporting period.

(e) Currency risk

The Group's exposure to currency risk is limited. As a result, this risk is not actively managed by the management of the Group.

The Company is the only manufacturing entity within the Group. Its costs are mostly denominated in Swiss Francs. It sells goods to the foreign selling entities in their local currency. These entities sell to third parties and incur costs in their own currencies, i.e. they have no transactional exposures that would lead to volatility in their profit or loss due to foreign exchange movements.

The foreign currency denominated financial statements of the Group's foreign selling subsidiaries are retranslated into Swiss Francs at each closing date, impacting the translation reserve in equity, as described above. This translation exposure is not managed.

The only entity of the Group exposed to transactional foreign currency risk is the Company. The currencies giving rise to this risk are primarily Euros, United States Dollars and British pounds. The net exposure to US Dollars is relatively low, as the impact on the accounts receivable from the clients of the Company paying in US Dollars is more or less offset by the impact of the loan due to the non-controlling shareholder, which is denominated in US Dollars. All other significant positions denominated in foreign currencies in the statement of financial position of the Company are either trade receivables from or loans to subsidiaries having either the Euro or the British Pound as functional currency. These positions are not hedged and are offsetting each other to a significant extent.

Foreign exchange movements affecting the exchange rates CHF/USD, CHF/EUR or CHF/GBP would have no material effect on profit or loss of the Group.

(f) Fair value of financial instruments

The Group does not carry any financial instruments at fair value.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2010, 2011 and 2012 and 31 December 2012, since nearly all of them mature in less than one year and bear interest at variable rates.

24. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at 31 December 2012 amounted to CHF5.4 million and mainly comprised the commitment related to the acquisition of distribution rights for Russia and the commitment related to the acquisition of a booth for the Basel fair.

There were no significant outstanding capital commitments as of 30 June 2012, 2011 and 2012.

(b) Operating lease commitments

At the end of each reporting period, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

		At 30 June		**At 31 December**
	2010	**2011**	**2012**	**2012**
	CHF'000	*CHF'000*	*CHF'000*	*CHF'000*
Within one year	281	186	298	302
Between one and five years	418	322	716	607
More than five years	43	3	–	–
	742	511	1,014	909

The Group leases some equipment and office space under operating leases. None of the leases includes contingent rentals. The total operating leasing charges booked in each period are disclosed in note 6 (c). The leases typically run for a period between 1 to 5 years.

25. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

Throughout the periods presented the immediate parent of the Group was Severin Participations AG, which is incorporated in Switzerland. This entity does not produce financial statements available for public use.

Throughout the periods presented the ultimate controlling party of the Group was the Severin Wunderman Family Foundation, the residual beneficiary of the Severin Wunderman Trust, an irrevocable trust governed by the laws of the US State of Nevada. This entity does not produce financial statements available for public use.

26. MATERIAL RELATED PARTY TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group is as follows:

	Note	Eighteen months ended 30 June	Year ended 30 June		Six months ended 31 December	
		2010	**2011**	**2012**	**2011**	**2012**
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000*	*CHF'000*
					(unaudited)	
Short-term employee benefits		1,940	1,357	1,448	688	751
Post-employment benefits		575	310	625	250	250
Termination benefits		168	121	135	62	73
		2,683	1,788	2,208	1,000	1,074

Their total remuneration is included in "personnel costs" (see note 6(b)).

Short-term employee benefits include salaries, bonuses and allowances.

In November 2009 the employment agreement with a Vice-President was terminated. He had a contract with a fixed duration of 2 years and was entitled to a bonus during this time. A corresponding provision for termination benefits of CHF1.0 million was booked as of 30 June 2011.

One of the managing officers of the Group, Richard Jr. Tomlin, has not been remunerated by the Company, but by several entities belonging to the Severin Group, which is a Group related to the direct controlling party of the Company, Severin Participations AG. To remunerate his services, management fees of CHF162 thousand, CHF95 thousand, CHF112 thousand and CHF193 thousand were paid to these entities by the Company for the periods ended 30 June 2010, 30 June 2011, 30 June 2012 and 31 December 2012 respectively. These amounts are not included in the above table. Michael Wunderman, managing officer until February 2010 and non-controlling shareholder of the Company, did not receive any remuneration from the Company for his services. Serge Weinberg, managing officer since 2009, has not been remunerated by the Company for his services.

(b) Remuneration of managing officers

Directors of a Swiss Sàrl are the managing officers. The latter did not get any remuneration from the Group, as disclosed above.

(c) Individuals with highest emoluments

Of the five individuals with the highest emoluments, none of them falls into the category of Company officers whose emoluments are to be disclosed in the above table on an individual basis. The aggregate of the emoluments in respect of the five individuals with highest emoluments are as follows:

	Note	Eighteen months ended 30 June	Year ended 30 June		Six months ended 31 December	
		2010	2011	2012	2011	2012
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000* (unaudited)	*CHF'000*
Salaries, allowances and benefits in kind		2,860	2,065	1,954	1,035	1,041
Bonuses		775	379	828	250	250
Post-employment benefits		273	168	164	87	89
		3,908	2,612	2,946	1,372	1,380

The emoluments of the five individuals with the highest emoluments are within the following bands:

	Eighteen months ended 30 June	Year ended 30 June		Six months ended 31 December	
	2010	2011	2012	2011	2012
Hong Kong Dollar	*Number of individuals*	*Number of individuals*	*Number of individuals*	*Number of individuals*	*Number of individuals*
1,000,001–1,500,000	–	–	–	2	3
1,500,001–2,000,000	–	–	–	2	1
2,500,001–3,000,000	1	1	2	–	–
3,000,001–3,500,000	–	–	1	–	–
3,500,001–4,000,000	1	1	–	–	–
4,000,001–4,500,000	–	2	1	–	–
5,000,001–5,500,000	–	–	–	1	–
5,500,001–6,000,000	2	–	–	–	–
6,000,001–6,500,000	–	–	–	–	1
9,000,001–9,500,000	–	1	–	–	–
9,500,001–10,000,000	1	–	–	–	–
11,000,001–11,500,000	–	–	1	–	–

(d) Loans to key management personnel or officers of the Company

During the periods presented in this financial information, no loans were granted to key management personnel or officers of the Group or the Company.

(e) Loans from shareholders of the Company

Details about loans from shareholders are provided in note 16. Details of new loans and loans repaid during the period are disclosed in the cash flow statement.

(f) Transactions with shareholders of the Company

Equity transactions with shareholders, including the Chief Executive Officer, are described in note 21.

The purchase of the Corum USA LLC subsidiary from a non-controlling shareholder is described in note 22. The promissory note A amounting to USD3.4 million, which was issued to Michael Wunderman as a portion of the consideration, was indirectly transferred to the majority shareholder of the Company, Severin Participations AG (SPAG), via an intermediate controlling party of the Group, Severin Investment Company. As a result, the amount due under promissory note A was included in the USD23.4 million due to SPAG, which were converted into Swiss Francs and consolidated via the loan agreement effective as of 1 January 2010, as described in note 16.

The Company has paid management fees of CHF40 thousand for the year ended 30 June 2011 and CHF38 thousand for the six months ended 31 December 2011 to Severin Management Company, belonging to a Group related to the direct controlling party of the Company, Severin Participations AG, as a remuneration of personnel expenses for non-managerial staff working for the Company.

The Company and its US subsidiary, Corum USA LLC, have sold watches to an intermediate controlling party of the Group, Severin Investment Company (SIC), for the following amounts:

		Eighteen months ended 30 June	**Year ended 30 June**		**Six months ended 31 December**	
	Note	**2010**	**2011**	**2012**	**2011**	**2012**
		CHF'000	*CHF'000*	*CHF'000*	*CHF'000* (unaudited)	*CHF'000*
Watches sales		–	6,986	883	832	1,849

The watches sold to SIC were donated to charity. They have been sold with low margins, reflecting the fact that virtually all of them are either slow-moving or discontinued. These margins are in line with the margins that the Group earns when selling similar products through discounters.

(g) Financial guarantees provided by shareholders

The financial guarantee provided by Severin Participations AG is disclosed in note 16.

27. ACCOUNTING JUDGEMENTS AND ESTIMATES

(a) Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

(i) Business Combination

When the Group acquired control of Corum USA LLC, the consideration transferred had to be allocated to the identifiable assets acquired and the liabilities assumed, with any residual recorded as goodwill. This process involved management making an assessment of the fair value of these items. Management judgement was particularly involved in the recognition and measurement of intangible assets that were not recognised in the statement of financial position of Corum USA LLC at acquisition date, e.g. customer lists. After a thorough analysis of the available information, management concluded that no additional intangible assets should be recognised in the opening statement of financial position of Corum USA LLC.

(ii) Capitalised development costs

Development costs are capitalised in accordance with the criteria described in the accounting policy note 3 (e) (ii). While applying these criteria, management assesses whether the Group has sufficient and appropriate resources and the ability to bring the products using a particular design or movement to market and whether the products will bring economic benefits to the Company. In making this assessment, management takes into account the available resources and makes a judgement about the chances of success of the products.

(b) Sources of estimation uncertainty

The key assumptions about the future and key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities and profit or loss are described below.

(i) Goodwill impairment and impairment of investments in subsidiaries

The carrying amounts of goodwill and investments in subsidiaries are disclosed in notes 10 and 12. Goodwill is annually reviewed for impairment. Investments in subsidiaries in the accounts of the Company are reviewed for impairment if a triggering event is identified at the closing date. To assess whether any impairment exists, estimates are made of the future cash flows expected to result from the investments. Actual outcomes could vary significantly from such estimates of discounted future cash flows. Factors such as changes in the markets in which the subsidiaries operate resulting in lower than anticipated cash flows could result in impairment. Changes in the discount rates used could also lead to impairment that may have a significant impact on the amounts disclosed in this Financial information.

(ii) Defined benefit obligation

The carrying amount of the defined benefit obligation is disclosed in the note 19. Many of the Group's employees participate in a post-employment defined benefit plan. The calculation of the recognised liability is based upon statistical and actuarial calculations. In particular the present value of the defined benefit obligation is impacted by assumptions on discount rates used to arrive at the present value of future pension liabilities, and assumptions on future increases in salaries and benefits. Furthermore, the Group's independent actuary uses statistically based assumptions covering areas such as future withdrawals of participants from the plan and estimates of life expectancy. The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates, longer or shorter life spans of participants, and other changes in the factors being assessed. These differences could significantly impact the liability recognised in the statement of financial position in future periods as well as the corresponding impact on the statement of comprehensive income.

(iii) Inventory allowance

The allowance on slow-moving and obsolete inventory is based on management's best estimate of the net realisable value of this inventory, based on historical experience, their sales forecast, the length of time elapsed since watches have been taken out of the official catalogue and additional factors. This assessment is highly subjective and is based on the assumption that historical fact patterns explain future developments. Management believes that the total inventory allowance is adequate, based upon information available at the closing date. As this allowance is based on management estimates, it may be subject to change as better information becomes available. Such changes that arise could impact the allowance recognised in the balance sheet and the write downs or reversal of write downs impacting profit or loss in future periods.

(iv) Sales returns

As explained in note 20, the Group makes provisions for sales returns. Management believes that the total provisions for returns are adequate, based upon information available at the closing date. As these deductions are based on management estimates, they may be subject to change as better information becomes available. Such changes that arise could impact the provisions recognised in the statement of financial position in future periods and consequently the level of sales recognised in the income statement in future periods.

(v) Warranty provisions

As explained in note 20, the Group makes provisions under the warranties it gives on sale of its watches taking into account the Group's recent repair experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent repair experience is not indicative of future claims that it will receive with respect to past sales. Any increase or decrease in the provision would affect profit or loss in future years.

(vi) Legal provisions

As explained in note 20, the Group makes provisions for claims arising from trade. Management believes that the total provisions for legal proceedings are adequate based upon currently available information. However, given the inherent difficulties in estimating liabilities in this area, it cannot be guaranteed that the actual inflows may not be significantly higher or lower than the amount provided for.

(vii) Income taxes

A deferred tax asset is only recognised for deductible temporary differences and unused tax losses to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Management has based its assessment on profitability forecasts for all Group entities for the foreseeable future and taken into consideration the fact that the Group entities were still loss-making in the six-month period ended 31 December 2012. Actual profits and tax losses utilisations can be significantly higher or lower than these forecasts, resulting in additional tax income or expense.

28. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIOD

Up to the date of issue of this Financial Information, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in the Financial Information.

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application.

So far it has concluded the following (with reference to the table below):

* No significant impact on the Group's results of operations and statement of financial position is expected.

** The removal of the accounting policy choice for recognition of actuarial gains and losses in amended IAS 19 is not expected to have any impact on the Group, as it has already been immediately recognising them in other comprehensive income.

Amended IAS 19 also introduces a new approach to calculating and presenting the net interest income or expense on the net defined benefit liability (asset). This is now calculated based on the same rate used to discount the defined benefit obligation. The new calculation is generally expected to reduce net profit. Additional disclosures will also be required.

*** The impact of IFRS 9 has not yet been fully analyzed.

		Effective for annual periods beginning on or after	Planned application by the Group
Amendments to IFRS 1, *Government loans*	*	1 January 2013	Reporting year 2013/14
IFRS 10, *Consolidated Financial Statements*	*	1 January 2013	Reporting year 2013/14
IFRS 11, *Joint Arrangements*	*	1 January 2013	Reporting year 2013/14
IFRS 12, *Disclosure of Interests in Other Entities*	*	1 January 2013	Reporting year 2013/14
Amendments to IFRS 10, IFRS 11 and IFRS 12, *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition guidance*	*	1 January 2013	Reporting year 2013/14
IFRS 13, *Fair value measurement*	*	1 January 2013	Reporting year 2013/14
Revised IAS 19, *Employee benefits*	**	1 January 2013	Reporting year 2013/14
Revised IAS 27, *Separate financial statements*	*	1 January 2013	Reporting year 2013/14
Revised IAS 28, *Investments in Associates and Joint Ventures*	*	1 January 2013	Reporting year 2013/14
Annual Improvements to IFRSs – 2009-2011 Cycle	*	1 January 2013	Reporting year 2013/14
Amendments to IFRS 7, *Financial instruments: Disclosures*	*	1 January 2013	Reporting year 2013/14
Amendments to IAS 32, *Financial instruments: Presentation*	*	1 January 2014	Reporting year 2014/15
IFRS 9, *Financial instruments*	***	1 January 2015	Reporting year 2015/16

29. SUBSEQUENT EVENTS

On 23 April 2013 the Management Board of the Company and the majority shareholder of China Haidian signed a share purchase agreement, providing that all the shares of the Company would be purchased by China Haidian for a consideration of CHF86.0 million subject to adjustments.

30. GOING CONCERN

Over the past seven years, the Group has invested significant time and resources to re-transform its business model from a volume and fashion oriented strategy to a luxury high-end watchmaking one.

The continuous development activities and improvement of products – watches equipped with specific movements, either company developed and owned or co-developed with specialized suppliers – have successfully re-established the Group as an elite, independent and global Haute Horlogerie designer, manufacturer and marketer of Swiss Luxury timepieces that are highly unique in both aesthetic design and technical function.

The Group's management has also crafted a comprehensive multi-dimensional marketing strategy to promote the Group's product and brand with a highly focused, carefully controlled, and skillfully articulated message to its customers, agents, distributors, retailers and the media.

The distribution strategy also needed to be adjusted to better support the Group's Haute Horlogerie position. The retail network has been entirely reviewed and upgraded to reflect the exclusivity, quality and high-end positioning of the Group's collection. This strategy involved the launch of boutiques, corners and shop-in-shops, as well as the continued formation of subsidiaries in key geographic markets. Time and resources have been devoted to carefully and gradually commence the development of an integrated distribution network, which will allow the Group to more directly reach its customers, create a unified buying experience and thus establish a platform for continued growth.

These investments have led to substantial operating expenses. Because of the global economic recession which started in 2008, sales have been lower than expected. Thus the Group shows significant losses in the Financial Information, which has been prepared on a going concern basis.

Management is convinced that based on its consolidated income and cash flow forecasts the Group will continue to be able to meet its liabilities when they fall due for the next twelve months from the date of this report. A large portion of the budget is already covered by the orders received during the Basel Fair which took place in April 2013 and should enable the Group to fulfill its objectives for the year.

In preparing those forecasts, management has taken into account the agreement signed with China Haidian on 23 April 2013, which provides that a significant portion of the consideration to be paid by China Haidian will be devoted to restore the Group's financial position and repay its outstanding financial debt. A loan of CHF5 million has been provided by China Haidian to the Group in April 2013.

31. STATUTORY FINANCIAL STATEMENTS

The statutory financial statements of the Company and its subsidiaries during the Relevant Periods were audited by the following auditors:

Name of the subsidiary	Financial period	Statutory auditors
The Company	Eighteen months ended 30 June 2010 and each of the years ended 30 June 2011 and 2012	KPMG SA
Montres Corum Europe SA	Eighteen months ended 30 June 2010 and each of the years ended 30 June 2011 and 2012	KPMG SA
Montres Corum (UK) Ltd.	Eighteen months ended 30 June 2010 and each of the years ended 30 June 2011 and 2012	Waller & Byford

C. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company and its subsidiaries in respect of any period subsequent to 31 December 2012.

Yours faithfully,

KPMG AG
Switzerland

Hélène Béguin
Licensed audit expert

Stéphane Gard
Licensed audit expert

II. OVERVIEW AND STRATEGIES OF THE TARGET GROUP

The House of Corum

The Target Group is an elite, independent and global *Haute Horlogerie* (luxury watchmaker) designer, manufacturer and marketer of Swiss luxury timepieces that are highly unique in both aesthetic design and technical function. Founded in 1924 in the legendary watch valley of La Chaux-de-Fonds, Switzerland, the Target Group is a leading creator of watch designs focused on innovation to further enhance the technical prowess, heritage, legitimacy and identity of its timeless classics.

The Target Group offers two very distinct, complementary and coherent watch collections of equal importance, with the *Bridges* and *Admiral's Cup* lines, augmented by its *Artisan & Jewelry* line. This award-winning and differentiated portfolio is highly unique compared to most Swiss luxury companies, which rely primarily on a single watch collection, allowing the Target Group to offer an exclusive range of products to a diverse and distinctive customer base, with 63% of watch sales retailing at prices above CHF25,000 (equivalent to approximately HK$207,500).

To further elevate its status as a *Maître Horloger* (master watchmaker) and to compete in the most exclusive segment of the Swiss luxury watch market, the Target Group has internally built a powerful and targeted movement development strategy and expertise centered on innovative and technical *Patrimony* movements. Its technical craftsmanship and non-traditional designs are especially well reflected in its truly original and unique in-line baguette shaped *Bridges* movements, which are housed in four-sided transparent cases to highlight the innovative mechanisms.

The Target Group sells its watches through an exclusive global distribution network of nine premier branded boutiques located in many prominent metropolitan locations, and through 601 high-end, independent specialty retailers in 95 countries.

Beginning in 2005, the Target Group initiated an in-depth strategic transformation centered on an entirely new approach to product development and design. Its strategic focus and investments have been to internally develop *Patrimony* movements and to reposition and expand its two core product collections, *Bridges* and *Admiral's Cup,* by incorporating significant innovation, creativity and technical craftsmanship and content into these iconic and historic collections. In addition, the Target Group has reestablished its luxury positioning in the Swiss watch segment and enhanced its global brand awareness through distribution integration and targeted marketing campaigns aligned with its exclusive positioning.

Powerful movement development strategy

The Target Group crafts each of its watch designs around a specific movement. The Target Group has focused its efforts on further developing its proprietary *Patrimony* movements, which is a critical driver of differentiation and premiumisation demonstrating a brand's creativity, knowledge and technical precision. Over the past seven years, the Target Group has successfully re-established and further elevated its movement development and production integration platform by creating seven *Patrimony* (proprietary) and 17 *Exclusive* (co-developed) movements, and plans to introduce 16 new *Patrimony* movements by 2016. The Target Group is strongly committed to further enhance and accelerate the development and industrialisation of its *Patrimony* movement portfolio, with *Patrimony*-based watches projected to increase from 53% of total export net sales in 2012 to 89% in 2017.

Iconic product portfolio

The development of the Target Group's iconic product portfolio has been driven by the guiding principal of always seeking "innovation with legitimacy" in full respect of the brand's heritage. With strategic vision, craftsmanship, ingenuity and creativity, the Target Group has developed an iconic product portfolio that spans multiple functions, designs, distinct but complementary customer universes and different price points, in complete alignment with Corum's "DNA".

The Corum brand identity is centered on its two most historic and iconic collections, *Bridges* and *Admiral's Cup*. These coherent, sustainable and scalable collections are unique in authentic content and provide strong foundations for future movement design development and continued growth. The exceptional *Bridges* collection is especially unique in its design, concept and quality and is considered by watch experts and connoisseurs to be in a category of its own with no similar products on the market. The Target Group also offers spectacular special editions and timeless classics in the *Artisan & Jewelry* collection to further balance its product portfolio.

In line with industry standards, the Target Group is primarily focused on men's watches (accounted for approximately 80% of sales) and also offers variations of its core collections to women (accounted for approximately 20% of sales). The Target Group has created a highly unique, authentic, differentiated and defendable niche position between the high-end exclusive watch maisons and the luxury volume watch producers. Currently, the Target Group has limited its production to approximately 10,500 units per annum, which further demonstrates the authentic exclusiveness of the brand.

Exclusive global distribution network

Corum watches are sold directly in the Target Group's nine boutiques located in prominent locations in Hong Kong, Geneva, Shanghai, Beijing, Taipei, Macau, Xiamen, Casablanca and Miami. The Target Group also sells through its six regional subsidiaries and 27 third-party agents, who in turn sell Corum watches to 601 high-end, independent specialty retailers, including 25 shop-in-shops and 39 corners.

As the Swiss luxury watch industry continues to transform from a third-party agent-based manufacturer/export business model to a more fully integrated distribution model, the Target Group is focused on further building its multi-channel platform across retail and wholesale channels to best serve its customers in 95 countries. In order to reinforce its highly selective and unified brand platform, and further improve gross and operating margins, the Target Group plans to continue replacing selected third-party agents with Target Company-owned subsidiaries in key markets, as well as further limit its point-of-sales the most prestigious outlets worldwide.

The Target Group has established a broad and balanced geographic platform with a strong presence in Europe and the United States, and in key high-growth markets including the PRC, Singapore, Russia, the United Arab Emirates and select Latin American markets.

Scalable and growing manufacturing and production platform

The Target Group manufactures and assembles 100% of its watches internally and leverages its strong relationships across a variety of Swiss watch component manufacturers/suppliers to source high-quality components and materials, with very limited dependency on Manufacture Horlogère Suisse SA (a large movement manufacturer) (less than 7% of total movement purchase costs). In doing so, the Target Group has built a dynamic, flexible and scalable operational platform by creating and controlling the design, development, production, assembly and quality control of all its movements and products. The Target Group continues to integrate its production capabilities, reinforce its highly regarded movement and product development teams, and industrialise its operations, with plans to begin building a state-of-the-art manufacturing and production facility in 2015. Its strategic objective is to internally produce all *Patrimony* movements for the *Bridges* and *Admiral's Cup* collections by 2017. The capital expenditure requirement for building the manufacturing and production facility is estimated to be approximately CHF4.0 million (equivalent to approximately HK$33.2 million). The Directors consider that the Enlarged Group will have sufficient funds from internal resources and/or debt/equity financing to finance such capital expenditure requirement. In the event that the Enlarged Group does not have sufficient funds to finance the capital expenditure requirement, it will postpone the expansion plan. The Directors consider the postponement of such expansion plan will not have a material adverse impact on the operation of the Target Group.

Experienced, proven management and artisan team

Led by Mr. Antonio Calce, Chief Executive Officer and former General Manager of Panerai Switzerland, the senior management team of the Target Group has successfully developed and implemented a dynamic strategy consistent with legacy Corum brand "DNA", and which is aligned with the highest codes and standards of the Swiss luxury watch industry. On average, members of the senior management team of the Target Group have over 20 years of industry experience, resulting in deep knowledge of both local and international markets and extensive relationships with agents, distribution partners, retailers and component suppliers. In particular, management's relationships across the entire Swiss industrial component supplier network are a critical asset in its ability to source key components in an ever increasingly constricted market. The Target Group employs about 150 individuals including 47 in watchmaking and 15 in research and development.

Strategic investment and successful transformation

For a brief period between 2000 and 2004, the Target Group pursued a fashion-oriented, volume driven model reflective of its new owner's success at Gucci timepieces. In 2005, the Target Group initiated a strategy to return to its original legacy as a design-driven innovator, and global *Haute Horlogerie* manufacturer and marketer of unique Swiss luxury timepieces. Accomplishing this strategy required a total transformation of the Target Group's entire "value-chain" including movement and product development, core collections, communications, distribution, production and a skilled management and artisan team needed to execute the new vision.

Over the past seven years, the Target Group has made a series of significant investments to support this strategy with the following key initiatives completed to date:

Research and development – Investments in research and development to re-establish and further elevate the development of highly technical and completely unique *Patrimony* movements, in addition to many *Exclusive* (co-developed) movements.

Collection portfolio – Creation or redesign of an entirely new, coherent and balanced product portfolio, along with the elimination of all former models.

Communications and marketing – Reposition and expansion of the Corum brand identity, legitimacy and awareness through significant targeted marketing campaigns, brand support and promotion.

Distribution – Rebuilding and refinement of its global distribution network including the reduction and improvement of the quality of its independent retailers, and the development of boutiques and international subsidiaries.

Production – Development of a dynamic, flexible and scalable manufacturing and production platform controlling all facets of the design, development and assembly, while ensuring the availability of high-quality components and materials from outside suppliers.

Employees – Recruitment of about 20 highly experienced professionals across the organisation to support the strategy, with key hires including a new Chief Executive Officer, augmented by research and development, product and movement development teams.

A significant portion of these investments were made during the recent global recession, which had a material impact on the Swiss luxury watch industry and in particular, on niche independent brands like Corum. Instead of seeking short-term solutions to maximise revenues and profits, the Target Group continued to invest and implement its long-term transformative strategy.

While these various strategic investments and initiatives have had an impact on the Target Group's recent profitability, each has been necessary to reset and fortify the foundation of the new *House of Corum*, which is now uniquely positioned to further expand its brand and market reach globally and enhance profitability.

Operational platform poised for accelerated growth and improved profitability

The Target Group has developed a five-year strategic plan (2013 to 2017) which capitalises upon the significant investments made, improved brand identity, new product portfolio and innovative functionalities. The management of the Target Group believes that the Target Group has significant opportunities for strong growth, with the potential to increase net sales, while selectively increasing unit sales by 60% to 18,000 units over this period. Key initiatives include the expansion of its *Patrimony* portfolio and related price increases across its collections, integration of key geographic territories, opening of additional boutiques and subsidiaries in key markets, and expanded production industrialisation to build product content and brand value.

Operational flow

Set out below is a flow chart of the production operation of the Target Group:

Intangible assets

The intangible assets of the Target Group comprise goodwill, patents and trademarks, software and development costs. The goodwill arose from the acquisition of Corum USA LLC. Patents and trademarks are mainly the movement patents and the product design copyrights.

Sales return policy

No customer has an absolute right to return products to the Target Group under its general sales terms and conditions. Each return is negotiated on a case-by-case basis, taking into consideration all of the facts and circumstances relative to the individual agent or retailer and the prevailing market conditions. It is the sole discretion of the Target Group to decide if it wishes to accept the return or not. On occasions, a special company sale may be made which includes special return provisions for the individual sale.

Seasonal factors

The Target Group's annual business cycle has three separate and distinct periods which consist of a low cycle (January to April), mid-level cycle (May to August) and a peak cycle (September to December). This is consistent with the Swiss luxury watch industry for low volume exclusive niche brands.

Major costs components and operating expenses

The major costs and operating expenses of the Target Group are cost of sales (which mainly include raw materials and labour costs) and marketing and advertising expenses.

III. MANAGEMENT DISCUSSION AND ANALYSIS ON THE TARGET GROUP

Set out below is the management discussion and analysis of the Target Group for the eighteen months ended 30 June 2010, the two years ended 30 June 2011 and 2012 and the six months ended 31 December 2012.

For the eighteen months ended 30 June 2010

Business and financial review

For the eighteen months ended 30 June 2010, turnover of the Target Group was approximately CHF69.9 million as the global recession impacted the sales of luxury goods worldwide. Sales to Asian market, European market, Middle East and the United States accounted for approximately 33.7%, 29.3%, 17.7% and 9.8% of total sales volume respectively. Distribution rights for the United States were acquired mid-year, and as a result only a partial year's results were included for the United States, resulting in a low percentage of the total volume.

Gross profit margin of the Target Group for the eighteen months ended 30 June 2010 was approximately 31.6%, which was relatively low compared to the Target Group's historical performance because of significant returns and related increases to inventory reserves as the Target Group took back older products. For the year ended 30 June 2011, gross profit margin of the Target Group improved to approximately 42.2% partly due to the reversal of inventory reserves related to the sale of discontinued products. Gross profit margin of the Target Group declined to approximately 34.7% and 35.8% for the year ended 30 June 2012 and the six months

ended 31 December 2012 respectively due to the product strategy with high-end movements and the substantial usage of gold cases. It is expected that the gross profit margin of the Target Group will improve as the market recognises the high brand value of Corum and its products brought by the significant investments in product development, and marketing and advertising strategies. The Target Group will also continue to integrate its wholesale distribution network, which is expected to result in further improvement in gross profit margin of the Target Group.

For the eighteen months ended 30 June 2010, the Target Group recorded net loss after taxation of approximately CHF38.7 million (equivalent to approximately HK$321.0 million). The loss was mainly attributable to the global economic recession which adversely affected the Swiss watch industry, in particular the luxury segment. In addition, the significant increase in costs were incurred by the Target Group during the period as it was in the midst of a complete restructuring of its brand strategy and its global retail distribution network. For each of the years ended 30 June 2011 and 2012, the Target Group recorded net loss after taxation of approximately CHF10.1 million (equivalent to approximately HK$87.6 million) and CHF13.3 million (equivalent to approximately HK$110.4 million) respectively, primarily as a result of the significant investments made during the period in advertising and marketing to rebuild the brand image, identity and awareness of Corum which were expected to contribute future financial benefits to the Target Group.

Liquidity and financial resources

Current asset and liability balances were generally stable from 31 December 2008 to 30 June 2010 with the exception of trade receivables, which declined to approximately CHF14.2 million as at 30 June 2010 from approximately CHF20.2 million as at 31 December 2008. This was primarily attributable to the Target Group's business cycle, where major shipments occur in the second half of the calendar year and are collected prior to June of the following year.

A shareholder's loan was converted to share capital during the eighteen months ended 30 June 2010, resulting in an increase in equity by approximately CHF19.3 million. The Target Group's equity was reduced by the net loss during the period under review of approximately CHF38.7 million, which was partially offset by the conversion of convertible loans of approximately CHF19.3 million. The Target Group's debt-to-equity ratio as at 30 June 2010 was approximately 2.7. Excluding the shareholders' loans, the debt-to-equity ratio would be approximately 0.2.

Exposure to foreign exchange fluctuations and treasury policy

The Target Group had limited foreign currency exposures arising from the transactions, assets and liabilities that are denominated in a currency other than the respective functional currencies of the entities comprising the Target Group. Accordingly, no financial instrument for hedging of foreign currency risk was used by the Target Group during the eighteen months ended 30 June 2010.

Contingent liabilities

As at 30 June 2010, the Target Group had no material contingent liabilities.

Charges on the Target Group's assets

As at 30 June 2010, the bank loans of the Target Group were secured by a pledge on the land and buildings.

Material acquisition and disposal

The Target Group acquired 100% interest of Corum USA LLC for a total consideration of USD11.8 million during the eighteen months ended 30 June 2010 and there were no material disposals during the same period.

Employees and remuneration policy

As at 30 June 2010, the Target Group's staff consisted of approximately 100 employees in Switzerland and approximately 30 employees outside Switzerland. Employees received salaries and employee benefits that vary by position and country.

For the year ended 30 June 2011

Business and financial review

Turnover of the Target Group for the year ended 30 June 2011 was approximately CHF65.1 million, which was only approximately 6.8% less than that of the eighteen months ended 30 June 2010 as the global economy began to recover. Sales to Asian market, European market, Middle East and the United States accounted for approximately 35.7%, 20.7%, 10.1% and 22.0% of total sales volume. Full year's sales from the United States and Latin America were recorded for the year under review.

Gross profit of the Target Group improved approximately 24.4% to approximately CHF27.5 million for the year ended 30 June 2011 compared to the eighteen months ended 30 June 2010. The gross profit margin improved to approximately 42.2% for the year ended 30 June 2011 from approximately 31.6% for the eighteen months ended 30 June 2010, partly due to the reversal of inventory reserves related to the sale of discontinued products.

Operating costs as a percentage of sales declined to approximately 54.5%, with advertising and communication expenses declining slightly to approximately 24.8% of sales. The reduced operating costs relative to sales and higher gross profit margin reduced the net loss for the year to approximately CHF10.6 million.

Liquidity and financial resources

Net inventory declined by approximately CHF4.5 million during the year ended 30 June 2011 due to higher turnover, including the sale of slow-moving inventory. Total equity declined by the CHF10.6 million net loss. As a result, the debt-to-equity ratio increased to approximately 12.7 as at 30 June 2011. Excluding the shareholders' loans, the debt-to-equity ratio would be approximately 1.5.

Exposure to foreign exchange fluctuations and treasury policy

The Target Group had limited foreign currency exposures arising from the transactions, assets and liabilities that are denominated in a currency other than the respective functional currencies of the entities comprising the Target Group. Accordingly, no financial instrument for hedging of foreign currency risk was used by the Target Group during the year ended 30 June 2011.

Contingent liabilities

As at 30 June 2011, the Target Group had no material contingent liabilities.

Charges on the Target Group's assets

As at 30 June 2011, the bank loans of the Target Group were secured by a pledge on the land and buildings.

Material acquisition and disposal

The Target Group had no material acquisition and disposal during the year ended 30 June 2011.

Employees and remuneration policy

As at 30 June 2011, the Target Group's staff consisted of approximately 110 employees in Switzerland and approximately 30 employees outside Switzerland. Employees received salaries and employee benefits that vary by position and country.

For the year ended 30 June 2012

Business and financial review

Turnover of the Target Group increased by approximately 19.8% over the prior year to approximately CHF78.0 million on strong improvement in Asian market (37.1% of total sales) and European market (22.0% of total sales), which offset a 15% decline in the sales in United States (15.6% of total sales). Sales to the Middle East improved by approximately 88.2% to account for approximately 15.9% of total sales. Higher sales to customers with lower gross profit margins contributed to the decline in the overall gross margin to approximately 34.7%. As a result, gross profit declined by approximately CHF0.4 million from the previous year.

Operating costs as a percentage of sales declined to approximately 50.4%. However, advertising and communication expenses as a percentage of sales rose to approximately 26.5%, representing an increase of approximately 27.6% over the prior year as a result of the Target Group's strategic investment to increase brand identity and awareness. Net finance costs declined by approximately CHF1.5 million mainly due to the conversion of borrowings to equity of CHF20 million.

The reduction in net finance costs only partially offset the increase in advertising and communication expenses, resulting in a net loss that increased to approximately CHF13.3 million.

Liquidity and financial resources

Inventory increased by approximately CHF5.1 million and trade receivables increased by approximately CHF3.7 million during the year under review. This was partly financed by increased trade payables of approximately CHF4.5 million. As a result of the CHF20 million raised from the issue of shares during the year under review, the debt-to-equity ratio as at 30 June 2012 decreased to approximately 4.9. Excluding the shareholders' loans, the debt-to-equity ratio would be approximately 2.1.

Exposure to foreign exchange fluctuations and treasury policy

The Target Group had limited foreign currency exposures arising from the transactions, assets and liabilities that are denominated in a currency other than the respective functional currencies of the entities comprising the Target Group. Accordingly, no financial instrument for hedging of foreign currency risk was used by the Target Group during the year ended 30 June 2012.

Contingent liabilities

As at 30 June 2012, the Target Group had no material contingent liabilities.

Charges on the Target Group's assets

As at 30 June 2012, the bank loans of the Target Group were secured by a pledge on the land and buildings and the trade receivables of the Target Company.

Material acquisition and disposal

The Target Group had no material acquisition and disposal during the year ended 30 June 2012.

Employees and remuneration policy

As at 30 June 2012, the Target Group's staff consisted of approximately 120 employees in Switzerland and approximately 30 employees outside Switzerland. Employees received salaries and employee benefits that vary by position and country.

For the six months ended 31 December 2012

Business and financial review

Turnover of the Target Group for the six months ended 31 December 2012 was approximately CHF50.7 million, representing a decline of approximately 5.1% from the same period in the prior year. Sales to Asian market (19.1% of total sales) declined by approximately 58.1%, which was partially offset by sales to Middle East (24.9% of total sales) increasing by 60.3%. Sales to customers with lower gross profit margins increased, which brought the overall gross profit margin down to approximately 35.8% compared to approximately 38.5% for the same period in the previous year.

Operating costs as a percentage of sales was approximately 35.6% compared to 35.3% in the same period in the previous year, although the amount of increase was only approximately CHF0.1 million. Advertising and communication expenses reduced by approximately 15.8% from the same period in the previous year and represented approximately 16.2% of turnover.

The lower turnover and gross profit margin were primarily responsible for the net loss of approximately CHF1.0 million for the six months ended 31 December 2012 compared to a net income of approximately CHF1.7 million in the comparative period in the prior year.

Liquidity and financial resources

Inventories declined by approximately CHF9.1 million and trade receivables increased by approximately CHF9.5 million. Both of these changes primarily reflected the difference in the annual business cycle between June and December where significant shipments occur in the second half of the calendar year. The increase in cash of CHF4.1 million was financed by loan increases of approximately CHF5.3 million. The Target Group's debt-to-equity ratio was approximately 5.4 as at 31 December 2012. Excluding the shareholders' loans, the debt-to-equity ratio would be approximately 2.5.

Exposure to foreign exchange fluctuations and treasury policy

The Target Group had limited foreign currency exposures arising from the transactions, assets and liabilities that are denominated in a currency other than the respective functional currencies of the entities comprising the Target Group. Accordingly, no financial instrument for hedging of foreign currency risk was used by the Target Group during the six months ended 31 December 2012.

Contingent liabilities

As at 31 December 2012, the Target Group had no material contingent liabilities.

Charges on the Target Group's assets

As at 31 December 2012, the bank loans of the Target Group have been secured by a pledge on the land and buildings and the trade receivables of the Target Company.

Material acquisition and disposal

The Target Group had no material acquisition and disposal during the six months ended 31 December 2012.

Employees and remuneration policy

As at 31 December 2012, the Target Group's staff consisted of approximately 115 employees in Switzerland and approximately 30 employees outside Switzerland. Employees received salaries and employee benefits that vary by position and country. The Target Company has recently obtained the renewal of its certification by Equal Salary as an employer with fair compensation practice for both men and women.

Outlook

With its unique niche positioning in the high end watch industry for over 60 years, the Corum brand is recognised worldwide as a major contemporary and creative Swiss watchmaker. Through the repositioning initiated in 2005 emphasising the rich DNA and history of the brand, Corum has reinforced its unique luxury statement.

The focused re-engineering of its collection around the two key iconic pillars — *Bridge* and *Admiral's Cup* — has allowed the Corum brand to develop the watchmaking content of its product with dedicated and proprietary movements and complications and thus to grow its customer base in the high end segment.

A comprehensive marketing strategy has been developed in conjunction with the Target Group's subsidiaries and agents under guidance from its Swiss headquarters, in order to ensure proper sales support. With regard to distribution, significant adjustments have been made at the retailer level to align the typology of points of sales with the profiles needed to efficiently promote the Corum products and convey its brand image to consumers.

With these achievements and the benefits of the acquisition by the Company, Corum has great opportunities ahead. In the coming years, the Corum brand will continue to gain market share and with the development of the new subsidiaries in Russia, India and Japan, the Target Group is intending to increase both sales and gross margins.

The Target Group received orders at the Baselworld Fair in April 2013 which represented approximately 73% sales orders of the total year's budget. This is higher than the historical amount of approximately 66% of total sales of the year.

1. THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

The unaudited pro forma consolidated statement of financial position (the "Unaudited Pro Forma Financial Information") of the Enlarged Group has been prepared by the Directors in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect as if the proposed Acquisition had been completed on 31 December 2012.

The Unaudited Pro Forma Financial Information has been prepared based on the audited consolidated statement of financial position of the Group as at 31 December 2012 as extracted from the published annual report of the Group for the year ended 31 December 2012 dated 26 March 2013, and the audited consolidated statement of financial position of the Target Group as at 31 December 2012 as extracted from the accountants' report of the Target Group set out in Appendix II to this circular, after making pro forma adjustments relating to the Acquisition that are (i) directly attributable to the Acquisition; and (ii) factually supportable.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates, uncertainties and currently available information. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position of the Group that would have been attained had the Acquisition been completed on 31 December 2012. The Unaudited Pro Forma Financial Information does not purport to predict the future financial position of the Enlarged Group.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE ENLARGED GROUP

	The Group as at 31 December 2012	The Target Group as at 31 December 2012	Notes	Pro forma adjustments	Pro forma the Enlarged Group as at 31 December 2012
	HK$'000	HK$'000 (note 1)		HK$'000	HK$'000
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	320,780	94,187	3.1	23,312	489,159
			5, 7.1, 8.1	50,880	
Investment properties	100,912	–			100,912
Prepaid land lease payments	39,357	–			39,357
Goodwill	621,382	–	3.5	1,708	623,090
Interests in associates	58,065	–			58,065
Available-for-sale financial assets	1,409,176	–			1,409,176
Intangible assets	149,049	29,273	3.2	81,052	259,374
Prepayment and deposits	7,809	458			8,267
Deferred tax assets	1,311	–	3.4	–	1,311
	2,707,841	123,918			2,988,711
Current assets					
Inventories	1,587,657	287,480	3.3	122,019	1,997,156
Trade receivables	347,366	214,307			561,673
Due from group companies	–	–	6	42,400	–
			7.4	84,800	
			9	(127,200)	–
Prepaid land lease payments	834	–			834
Prepayments, deposits and other receivables	250,652	31,715			282,367
Financial assets at fair value through profit or loss	106,929	–			106,929
Short-term investments	31,234	–			31,234
Cash and cash equivalents	228,624	50,990	6	(42,400)	101,534
			6	42,400	
			7	(262,880)	
			7.4	84,800	
	2,553,296	584,492			3,081,727

	The Group as at 31 December 2012 HK$'000	The Target Group as at 31 December 2012 HK$'000 (note 1)	Notes	Pro forma adjustments HK$'000	Pro forma the Enlarged Group as at 31 December 2012 HK$'000
Current liabilities					
Trade payables	307,006	100,106			407,112
Other payables and accruals	352,903	70,588	8.1	25,440	448,931
Dividend payables	82,253	–			82,253
Tax payables	44,059	–			44,059
Provision	–	15,569			15,569
Borrowings	478,512	381,778	7.2	(84,800)	707,650
			7.3	(67,840)	
Derivative financial instruments	40,126	–			40,126
Due to related companies	159	–			159
Due to group companies	–	–	6	42,400	–
			7.4	84,800	
			9	(127,200)	
	1,305,018	568,041			1,745,859
Net current assets	1,248,278	16,451			1,335,868
Total assets less current liabilities	3,956,119	140,369			4,324,579
Non- current liabilities					
Employee benefit	–	49,642			49,642
Provision	–	5,571			5,571
Deferred tax liabilities	–	24,041	3.4	–	24,041
	–	79,254			79,254
Net assets	3,956,119	61,115			4,245,325
EQUITY					
Equity attributable to equity holders of the Company					
Share capital	426,806	25,440	2	37,078	463,884
			10	(25,440)	
Reserves	3,362,215	35,675	2	252,128	3,614,343
			10	(35,675)	
	3,789,021	61,115			4,078,227
Non-controlling interests	167,098	–			167,098
Total equity	3,956,119	61,115			4,245,325

NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

1. The consolidated statement of financial position of the Target Group as at 31 December 2012 was extracted from the accountants' report on the Target Group as set out in Appendix II, which was originally denominated CHF. For the purpose of the Unaudited Pro Forma Financial Information, the consolidated statement of financial position of the Target Group as at 31 December 2012 was translated into HK$ at the rate of CHF1: HK$8.48, which is the prevailing exchange rate at 31 December 2012.

2. Pursuant to the Acquisition Agreement, the Consideration for the Acquisition shall be CHF86,000,000 minus (i) Indebtedness (being the consolidated bank debts and other indebtedness for financing purpose) on the Closing Date, and (ii) the Pavilion Purchase Price (being the purchase price of CHF6,000,000 for the acquisition of the 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.

   For the purpose of preparation of the Unaudited Pro Forma Financial Information, as if the proposed Acquisition had been completed on 31 December 2012, the Consideration is determined as follows:

	HK$'000
Gross amount per Acquisition Agreement (being CHF86,000,000 at the rate of CHF1: HK$8.48)	729,280
Less: Indebtedness as at 31 December 2012 (being CHF45,021,000 at the rate of CHF1: HK$8.48)	(381,778)
Pavilion Purchase Price (being CHF6,000,000 at the rate of CHF1: HK$8.48)	(50,880)
Consideration	296,622

   Pursuant to the Acquisition Agreement, the Issue Price of the Consideration Share is HK$0.8 per Share. Thus, for the purpose of the Unaudited Pro Forma Financial Information, as if the proposed Acquisition had been completed on 31 December 2012, the number of Consideration Shares to be issued to the Vendors is 370,777,500 (being Consideration of HK$296,622,000 divided by HK$0.8 per Share). As the number of Consideration Shares is not more than 450,000,000, the entire Consideration will be settled by Shares.

   In accordance with Hong Kong Financial Reporting Standard 3 – Business Combination ("HKFRS 3"), the consideration transferred in a business combination is measured at fair value. For the purpose of preparation of the Unaudited Pro Forma Financial Information, as if the proposed Acquisition had been completed on 31 December 2012, the fair value of the Consideration Shares is approximately HK$289,206,000, which is measured with reference to the quoted Share price of HK$0.78 per Share as of 31 December 2012.

   For the purpose of preparation of the Unaudited Pro Forma Financial Information, the nominal value of the Consideration Shares of approximately HK$37,078,000 (being 370,777,500 Consideration Shares at HK$0.1 each) is credited in share capital and the excess of the fair value of Shares issued over the nominal value of the ordinary shares of HK$252,128,000 have been included in share premium account.

   Fair value of the Consideration Shares shall be reassessed on the Closing Date with reference to the quoted share price of the Company on that date and is therefore subject to change upon completion of the Acquisition.

3. The Acquisition is considered as a business combination under HKFRS 3 and is accounted for using the acquisition method. In applying the acquisition method, the identifiable assets and liabilities of the Target Group will be recorded on the consolidated statement of financial position of the Group at their fair value at the Closing Date.

The pro forma adjustment is to reflect the effect of the Acquisition on the unaudited pro forma consolidated statement of financial position of the Group as if the Acquisition had taken place on 31 December 2012.

Details of net identifiable assets and liabilities to be acquired are as follows:

	HK$'000
Fair value of the Consideration *(note 2)*	289,206
Less: Fair value of net identifiable assets of the Target Group to be acquired	(287,498)
Goodwill *(note 3.5)*	1,708

The identifiable assets and liabilities of the Target Group arising from the Acquisition as if the Acquisition had taken place on 31 December 2012 are as follows:

	Fair value as at 31 December 2012	**The Target Group's carrying amount as at 31 December 2012**
	HK$'000	*HK$'000*
Property, plant and equipment *(note 3.1)*	117,499	94,187
Intangible assets *(note 3.2)*	110,325	29,273
Deferred tax assets *(note 3.4)*	52,068	–
Inventories *(note 3.3)*	409,499	287,480
Trade and bill receivables	214,307	214,307
Prepayments, deposits and other receivables	32,173	32,173
Cash and cash equivalents	50,990	50,990
Trade payables	(100,106)	(100,106)
Other payables and accruals	(70,588)	(70,588)
Provision	(21,140)	(21,140)
Employee benefits	(49,642)	(49,642)
Deferred tax liabilities *(note 3.4)*	(76,109)	(24,041)
Borrowings	(381,778)	(381,778)
Net assets acquired	287,498	61,115

3.1 The fair value of the property, plant and equipment of the Target Group as at 31 December 2012 are determined based on the valuation carried out by Asset Appraisal Limited. Pursuant to the valuations performed by Asset Appraisal Limited, the fair value of the property, plant and equipment of the Target Group as at 31 December 2012, which mainly comprised land and buildings, machinery, tools and equipments, is approximately HK$117,499,000 (being CHF13,856,000 at CHF1:HK$8.48). Accordingly, a pro forma adjustment of HK$23,312,000 has been made to adjust the property, plant and equipment of the Target Group to their fair value as of 31 December 2012.

Fair value of the property, plant and equipment of the Target Group shall be reassessed on the Closing Date with reference to the valuation to be carried out by an independent valuer on that date and is therefore subject to change upon completion of the Acquisition.

3.2 The fair value of the intangible assets of the Target Group as at 31 December 2012 are determined based on the valuation carried out by Asset Appraisal Limited. Pursuant to the valuations performed by Asset Appraisal Limited, the fair value of the intangible assets of the Target Group as at 31 December 2012, which mainly comprised of patents and trademarks and development cost of movements, is approximately HK$110,325,000 (being CHF13,010,000 at CHF1: HK$8.48). Accordingly, a pro forma adjustment of HK$81,052,000 has been made to adjust the intangible assets of the Target Group to their fair value as of 31 December 2012.

Fair value of the intangible assets of the Target Group shall be reassessed on the Closing Date with reference to the valuation to be carried out by an independent valuer on that date and is therefore subject to change upon completion of the Acquisition.

3.3 The fair value of the inventories of the Target Group as at 31 December 2012 are determined based on the valuation carried out by Asset Appraisal Limited. Pursuant to the valuations performed by Asset Appraisal Limited, the fair value of the inventories of the Target Group as at 31 December 2012, which mainly comprised of work in progress, semi-finished goods and finished goods, is approximately HK$409,499,000 (being CHF48,290,000 at CHF1: HK$8.48). Accordingly, a pro forma adjustment of HK$122,019,000 has been made to adjust the inventories of the Target Group to their fair value as of 31 December 2012.

Fair value of the inventories of the Target Group shall be reassessed on the Closing Date with reference to the valuation to be carried out by an independent valuer on that date and is therefore subject to change upon completion of the Acquisition.

3.4 As mentioned in notes 3.1, 3.2 and 3.3, the fair value of the property, plant and equipment, the intangible assets and the inventories of the Target Group as at 31 December 2012 have been revalued to approximately HK$117,499,000, HK$110,325,000 and HK$409,499,000 respectively and there were surpluses in the fair value over the carrying amounts amounted to HK$23,312,000, HK$81,052,000 and HK$122,019,000 respectively. In this regard, a temporary difference arises as the fair value of the property, plant and equipment, the intangible assets and the inventories increased but the tax base remains at its original carrying amount. Thus, the deferred tax liabilities of the Target Group were increased by HK$52,068,000 in respect of the temporary difference at the income tax rate of 23% prevailing in Switzerland.

The Group also assessed the impact of tax losses available for offset of future taxable income. As at 31 December 2012, the Target Group has unused tax losses of CHF78,470,000 (equivalent to HK$665,426,000, being CHF78,470,000 at CHF1: HK$8.48). However, in view of the uncertainty that whether all these tax losses can be utilised to offset future taxable profits, the Group recognises deferred tax assets of HK$52,068,000 to the extent of deferred tax liabilities that have been recognised in respect of revaluation of certain of the Target Group's assets.

As the aforementioned deferred tax assets and liabilities to be recognised is related to the same legal entity under the Target Group and also the same tax authority, these deferred tax assets and liabilities have been offset for the presentation in the Unaudited Pro Forma Financial Information.

3.5 In accordance with the calculations for the purpose of the Unaudited Pro Forma Financial Information, goodwill of HK$1,708,000 arose from the Acquisition. As a result of the reassessment of the fair value of the Consideration and the fair value of the identifiable assets and liabilities at the Closing Date, the amount of goodwill (or the excess of interest in the net fair value of the net identifiable assets over the fair value of the total cost of the Acquisition) will be different from the estimation based on the assumptions stated above. Accordingly, the actual deficit/excess of interest in the net fair value of the identifiable assets and liabilities of the Target Group over the fair value of the total cost of acquisition at the Closing Date may be different from that presented above.

4. No adjustment had been made to reflect the estimated legal and professional fees and other direct costs of the Acquisition. The Directors consider such costs are not material and will not have significant impact on the Unaudited Pro Forma Financial Information.

5. Under the Acquisition Agreement, the Company agreed to procure the Target Company at Closing to enter into the Pavilion Purchase Agreement with WIP for the acquisition of the Pavilion at the Pavilion Purchase Price of CHF6,000,000 (equivalent to approximately HK$50,880,000, being CHF6,000,000 at CHF1: HK$8.48).

6. On 23 April 2013, (i) the Company and the Vendors entered into the Pre-Closing Loan Agreement, and (ii) the Company and SPAG entered into the Share Pledge Agreement in respect of the Pre-Closing Loan, concurrently with the entering into of the Acquisition Agreement. Pursuant to the Pre-Closing Loan Agreement and the Share Pledge Agreement, the Company agreed to grant to the Target Company the Pre-Closing Loan in the principal amount of CHF5,000,000 (equivalent to approximately HK$42,400,000, at CHF1: HK$8.48). The Pre-Closing Loan will be secured by a pledge of 500 of shares in the Target Company (representing approximately 16.7% of the total issued share capital of the Target Company) until Closing.

   Pursuant to the Pre-Closing Loan Agreement, the Pre-Closing Loan of approximately HK$42,400,000 will be used as working capital of the Target Group. For the purpose of preparation of the Unaudited Pro Forma Financial Information, the Directors assume that the amount will be included in the bank balance of the Target Group. Upon completion of the Acquisition, the Target Group will become subsidiaries of the Group and will be consolidated into the financial statements of the Group. As if the Acquisition had taken place on 31 December 2012, the Pre-Closing Loan of approximately HK$42,400,000 will be eliminated between the current accounts of the Group and the Target Group and therefore has no effect to the financial position of the Enlarged Group.

7. Under the Acquisition Agreement, the Company agreed to enter into the Closing Loan A Agreement with the Target Company at Closing, pursuant to which the Company shall grant the Closing Loan A in the amount of CHF31,000,000 (equivalent to approximately HK$262,880,000, at CHF1: HK$8.48) to the Target Company. Pursuant to the Closing Loan A Agreement, the Target Group shall use the Closing Loan A to:

   (i) pay the first installment of the Pavilion Purchase Price in the amount of CHF3,000,000 (equivalent to approximately HK$25,440,000, at CHF1: HK$8.48);

   (ii) repay part of the bank loans of the Target Group in the amount of CHF10,000,000 (equivalent to approximately HK$84,800,000, at CHF1: HK$8.48);

   (iii) repay part of the shareholders loan of the Target Group in the amount of CHF8,000,000 (equivalent to approximately HK$67,840,000, at CHF1: HK$8.48); and

   (iv) the remaining balance of CHF10,000,000 (equivalent to approximately HK$84,800,000, at CHF1: HK$8.48) for other purposes (i.e. general working capital).

7.1 The adjustment was made to reflect part of the Closing Loan A of CHF3,000,000 (equivalent to approximately HK$25,440,000, at CHF1: HK$8.48) was utilised to pay the first installment of the Pavilion Purchase Price.

7.2 The adjustment was made to reflect part of the Closing Loan A of CHF10,000,000 (equivalent to approximately HK$84,800,000, at CHF1: HK$8.48) was utilised to repay part of the bank loans of the Target Group.

7.3 The adjustment was made to reflect part of the Closing Loan A of CHF8,000,000 (equivalent to approximately HK$67,840,000, at CHF1: HK$8.48) was utilised to repay part of the shareholders loan of the Target Group.

7.4 The adjustment was made to reflect part of the Closing Loan A of CHF10,000,000 (equivalent to approximately HK$84,800,000, at CHF1: HK$8.48) was utilised as general working capital of the Target Group and the Directors assume that the amount to be included as bank balance of the Target Group. As if the Acquisition had taken place on 31 December 2012, this balance will be eliminated between the current accounts between the Group and the Target Group and therefore has no effect to the financial position of the Enlarged Group.

8. Under the Acquisition Agreement, the Company also agreed to enter into the Closing Loan B Agreement with the Target Company at Closing, pursuant to which the Company shall grant the Closing Loan B in the amount of CHF16,000,000 (equivalent to approximately HK$135,680,000, at CHF1: HK$8.48) to the Target Company by way of issuance of Promissory Notes by the Company to the Target Company. Pursuant to the Closing Loan B Agreement, the Target Group shall use the promissory notes to:

   (i) pay the second installment of the Pavilion Purchase Price in the amount of CHF3,000,000 (equivalent to approximately HK$25,440,000, at CHF1: HK$8.48);

   (ii) repay part of the bank loans of the Target Group in the amount of CHF10,000,000 (equivalent to approximately HK$84,800,000, at CHF1: HK$8.48); and

   (iii) repay part of the shareholders loan of the Target Group in the amount of CHF3,000,000 (equivalent to approximately HK$25,440,000, at CHF1: HK$8.48).

   Pursuant to the Closing Loan B Agreement, the Promissory Notes shall be made payable by the Company to the Target Company (or the Target Company's assignee) or to a third party designated by the Target Company as payee under the Promissory Notes six months after the Closing Date and bear interest at 3.5% per annum payable by the Company. As Promissory Notes shall be made payable by the Company six months after the Closing Date, for the purpose of the preparation of the Unaudited Pro Forma Financial Information, the Directors assume the Promissory Notes given by the Group to the Target Group is not settled as at 31 December 2012. Therefore, the repayment of part of the bank loans and shareholders loan by the Promissory Notes of CHF10,000,000 and CHF3,000,000 respectively are not adjusted in the Unaudited Pro Forma Financial Information. Upon completion of the Acquisition, the Target Group will be become subsidiaries of the Group and will be consolidated into the financial statements of the Group. As if the Acquisition had taken place on 31 December 2012, the Promissory Notes given by the Group to the Target Group of CHF16,000,000 (equivalent to approximately HK$135,680,000, at CHF1: HK$8.48) will be eliminated between the current accounts of the Group and the Target Group and therefore has no effect to the financial position of the Enlarged Group.

8.1 The adjustment was made to reflect the second installment of the Pavilion Purchase Price of CHF3,000,000 (equivalent to approximately HK$25,440,000, at CHF1: HK$8.48) payable to WIP.

9. The adjustment was made to eliminate the current accounts between the Group and the Target Group on consolidation as if the Acquisition had been completed on 31 December 2012.

10. The adjustment was made to eliminate the share capital and pre-acquisition reserves of the Target Group on consolidation as if the Acquisition had been completed on 31 December 2012.

2. REPORT FROM THE REPORTING ACCOUNTANT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of an accountants' report received from BDO Limited, Certified Public Accountants, Hong Kong, for inclusion in this circular, in respect of the unaudited pro forma financial information of the Group as set out in this Appendix III.

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25 June 2013

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Units 1902-04, Level 19
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

Dear Sirs,

We report on the Unaudited Pro Forma Financial Information of China Haidian Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") and Montres Corum Sàrl and its subsidiaries (collectively referred to as the "Target Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed acquisition of the entire equity interests of Target Group by the Group might have affected the financial information presented, for the inclusion in Appendix III of the Company's circular dated 25 June 2013 (the "Circular"). The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the section headed "Unaudited Pro Forma Financial Information of the Group" Appendix III to the Circular.

Respective responsibilities of directors of the Company and Reporting Accountant

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the unaudited evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Enlarged Group as at 31 December 2012 or any future date.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully
BDO Limited
Certified Public Accountants
Lo Ngai Hang
Practising Certificate Number P04743
Hong Kong

1. RESPONSIBILITY STATEMENT

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 Company. 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. INTERESTS OF THE DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY

As at the Latest Practicable Date, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and 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 for Securities Transactions by Directors of Listed Companies, were as follows:

Long positions in Shares

Name of Director	Nature of interest	Number of Shares held	Percentage of shareholding
Hon Kwok Lung	Corporate *(Note)*	2,831,703,515	65.53%
	Beneficial owner	3,500,000	0.08%
	Interest of spouse	1,374,000	0.03%
Shang Jianguang	Beneficial owner	8,000,000	0.19%
Shi Tao	Beneficial owner	5,000,000	0.12%
Lam Toi Man	Beneficial owner	3,500,000	0.08%
Fung Tze Wa	Beneficial owner	2,100,000	0.05%

Note: 1,750,000,000 Shares were held by Full Day Limited, which is wholly-owned by Mr. Hon Kwok Lung. 1,081,703,515 Shares were held by Sincere View International Limited, which is owned as to 80% by Mr. Hon Kwok Lung and 20% by his wife, Ms. Lam Suk Ying. Mr. Hon Kwok Lung is the sole director of Full Day Limited. Mr. Hon Kwok Lung and Ms. Lam Suk Ying are the directors of Sincere View International Limited.

Long positions in share options of the Company

Name of Director	Date of grant	Number of share options outstanding as at the Latest Practicable Date	Exercisable period	Exercise price per Share *HK$*
Fung Tze Wa	9/12/2008	1,400,000	9/12/2009 – 7/1/2019	0.325
Li Qiang	9/12/2008	3,500,000	9/12/2009 – 7/1/2019	0.325

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, an executive Director.

Save as disclosed 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 for Securities Transactions by Directors of Listed Companies.

3. COMPETING BUSINESS

None of the Directors and their respective associates has any interests in a business, which competes or is likely to compete with the business of the Group.

4. LITIGATION

The Target Company is engaged in a lawsuit involving Al Dorar Establishment ("Al Dorar") before the Saudi Arabian Board of Grievances in respect of the termination of Al Dorar's distributorship of the Target Company's products in 1999. The arguments of such dispute currently center on the issue whether the Target Company should be ordered to repurchase Al Dorar's remaining inventory of unsold watches. Both the size and composition of the inventory and its value are disputed. The amount in dispute is approximately US$3,000,000.

Although the initial claim was for US$3,000,000, according to the legal counsel conducting legal due diligence for the Group, the overseas distributor is not entitled to damages of US$3,000,000, but is instead limited to a possible eventual return of inventory under the applicable law. In the worst scenario, the Target Group may need to pay US$3,000,000 but would in such event recover ownership of the inventory. The Directors take the view that as the Target Group should be capable of realising such inventory at a price not significantly different from US$3,000,000, thus the contingent loss from the litigation is immaterial and the impact on the Enlarged Group is minimal.

Save as the above, as at the Latest Practicable Date, so far as the Directors were aware, no member of the Enlarged Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance was known to the Directors to be pending or threatened by or against any member of the Enlarged Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had any service contract with any member of the Enlarged Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. DIRECTORS' INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, none of the Directors had, or has had any direct or indirect interest in any assets which have been acquired, disposed of by or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group since 31 December 2012, the date to which the latest published audited consolidated financial statements of the Company were made up.

There was no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director was materially interested and which was significant in relation to the business of the Enlarged Group.

7. MATERIAL CONTRACTS

The following contracts, not being contracts entered into in the ordinary course of business of the Enlarged Group, were entered into by the Enlarged Group within the two years immediately preceding the Latest Practicable Date and are or may be material:

(a) a sale and purchase agreement dated 29 June 2011 entered into between International Volant Limited, a wholly-owned subsidiary of the Company, and F.A. Porsche Beteiligungen GmbH, pursuant to which F.A. Porsche Beteiligungen GmbH agreed to sell the entire issued share capital of Eterna AG Uhrenfabrik and assign the loans of Eterna AG Uhrenfabrik to International Volant Limited for a consideration of CHF22,911,001 (equivalent to approximately HK$190.2 million);

(b) a subscription agreement dated 8 August 2011 entered into between the Company and Potent Growth Limited, pursuant to which the Company agreed to issue and Potent Growth Limited agreed to subscribe for 10,000,000 Shares at the issue price of HK$0.99 per Share. Pursuant to the subscription agreement, the Company also agreed to grant to Potent Growth Limited an option to subscribe for up to 210,000,000 Shares at the issue price of HK$1.21 per Share;

(c) a sale and purchase agreement dated 15 December 2011 entered into between Sure Best Management Limited, a wholly-owned subsidiary of the Company, and Mr. Chan Heung Wai, Debby, pursuant to which Mr. Chan Heung Wai, Debby agreed to sell 25% of the issued share capital of Fair Future Industrial Limited to Sure Best Management Limited for a consideration of HK$56,000,000;

(d) a framework agreement dated 29 December 2011 entered into among Actor Investments Limited, a wholly-owned subsidiary of the Company, Ms. Wang Renfeng, Mr. Wang Zhijun and Mr. Yang Feng in respect of the establishment of a joint venture company;

(e) a joint venture agreement dated 29 December 2011 entered into between Actor Investments Limited and 北京坤泰恒時商貿有限公司 (Beijing Kuntai Hengshi Trading Company Limited*) in relation to the formation of a joint venture company and adopting the articles of association of the joint venture company;

(f) 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;

* *For identification purpose only*

(g) 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 a joint venture company and adopting the articles of association of the joint venture company;

(h) a sale and purchase agreement dated 22 April 2013 entered into between Starlex Limited, a wholly-owned subsidiary of the Company, and Fujian Fengrong Investment Company Limited, pursuant to which Starlex Limited conditionally agreed to sell and Fujian Fengrong Investment Company Limited conditionally agreed to acquire not less than 55,000,000 and not more than 58,000,000 shares of Citychamp Dartong Company Limited;

(i) the Acquisition Agreement;

(j) the Pre-Closing Loan Agreement; and

(k) the Share Pledge Agreement.

8. EXPERTS AND CONSENTS

(a) The following are the qualifications of the experts who have given opinions, which are contained or referred to in this circular:

Name	Qualification
KPMG SA	Swiss licensed audit firm under state oversight
BDO Limited	Certified Public Accountants, Hong Kong

(b) As at the Latest Practicable Date, KPMG SA and BDO Limited did not have any direct or indirect 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.

(c) KPMG SA and BDO Limited have given and have not withdrawn their written consents to the issue of this circular with the inclusion of their letters and references to their names in the form and context in which they respectively appears.

(d) KPMG SA and BDO Limited do not have any interest, direct or indirect, in any assets which have been acquired or disposed of by or leased to any member of the Enlarged Group, or which are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group since 31 December 2012, the date to which the latest published audited financial statements of the Company were made up.

9. GENERAL

(a) The company secretary and qualified accountant 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.

(b) The registered office of the Company is at P.O. Box 309, Ugland House, South Church Street, Grand Cayman, Cayman Islands and the principal place of business of the Company in Hong Kong is at Units 1902–04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

(c) The share registrar and transfer office of the Company is Tricor Secretaries Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

(d) The English text of this circular shall prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company at Units 1902–04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong during normal office hours on any weekday, except Saturdays, Sundays and public holidays, from the date of this circular up to and including 9 July 2013:

(a) the memorandum and articles of association of the Company;

(b) the material contracts referred to in the section headed "Material contracts" in this appendix;

(c) the audited financial statements of the Company for the two years ended 31 December 2011 and 2012;

(d) the accountants' report on the Target Group, the text of which is set out in Appendix II to this circular;

(e) the accountants' report on the unaudited pro forma statement of financial position of the Enlarged Group as set out in Appendix III to this circular;

(f) the written consents referred to in the section headed "Experts and consents" in this appendix; and

(g) all the circulars of the Company issued pursuant to the requirements set out in Chapter 14 and/or 14A of the Listing Rules which have been issued since the date of the latest published audited accounts of the Company, being 31 December 2012.