CHINA HAIDIAN HOLDINGS LIMITED
中國海澱集團有限公司

Stock Code 股份代號：256

INTERIM REPORT 2012 中期報告

Corporate Information

Board of Directors

Executive Directors

HON Kwok Lung *(Chairman)*
SHANG Jianguang *(Chief Executive Officer)*
SHI Tao
LAM Toi Man
BI Bo
SIT Lai Hei

Independent Non-executive Directors

FUNG Tze Wa
KWONG Chun Wai, Michael
LI Qiang

Audit Committee Members

FUNG Tse Wa
KWONG Chun Wai, Michael
LI Qiang

Remuneration Committee Members

FUNG Tse Wa
KWONG Chun Wai, Michael
LI Qiang
HON Kwok Lung
SHANG Jianguang

Nomination Committee Members

HON Kwok Lung
FUNG Tse Wa
KWONG Chun Wai, Michael
LI Qiang
SHANG Jianguang

Qualified Accountant & Company Secretary

FONG Chi Wah

Auditor

BDO Limited

Principal Bankers

Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
Hang Seng Bank
Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China Ltd.
Standard Chartered Bank (Hong Kong) Limited

Share Registrar in Hong Kong

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Registered Office

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

Principal Office

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

Websites

http://www.irasia.com/listco/hk/chinahaidian
http://www.chinahaidian.com

Management Discussion and Analysis

Operating Results

For the six months ended 30 June 2012, the Group recorded an unaudited revenue of approximately HK$959,089,000 (for the six months ended 30 June 2011: HK$575,911,000 from continuing operations), representing an increase of HK$383,178,000 compared with the corresponding period last year. Net profit attributable to owners of the Company for the period was approximately HK$100,148,000, representing a decrease of HK$55,098,000 compared with the corresponding period last year. Having set apart the financial impact of the net surplus on revaluation of investment properties, the Group should have an increase of net profit attributable to owners of HK$11,618,000 compared with the same period last year. Revenue from watches and timepieces segment was HK$951,834,000, representing an increase of HK$384,960,000 or 68% for the same period last year. Net profit after tax from watches and timepieces segment was HK$123,662,000, representing an increase of HK$19,177,000 or 18% from HK$104,485,000 for the same period last year.

Business Review

Zhuhai Rossini Watch Industry Ltd. ("Rossini") and EBOHR Luxuries International Company Limited ("EBOHR") are becoming more dominant leaders in the domestic watch-making industry. Capitalizing on the increasingly comprehensive distribution network and wide range of quality products, both Rossini and EBOHR generated increasingly strong recurring income from the established watch market for the general public and develop additional income from selectively targeted market segments. Rossini and EBOHR are major growth drivers that collectively account for 69% of the Group's revenue during the period.

After laying strong foundation for growth through a series of strategic acquisitions and establishments in overseas, Mainland China and Hong Kong in 2011 and early 2012, namely, Eterna, Juxin, Hengjia, Haina, Dayou, Five Sheep and Fair Future, the Group has put into tremendous efforts in developing those affiliated companies during the first half of 2012. The management and operation of Eterna was strengthened and the sale revenue of Eterna improved. Most of the distribution companies expanded distribution networks and increased revenue. It enhanced the leading positions of the Group in cities such as Chongqing and Shenyang. At the same time, all production companies extended product lines, widened the customer base and increased revenue. Collectively, through different subsidiaries and affiliated companies in Mainland China and overseas, the Group achieved a relatively greater and wider revenue base than the same period last year.

The Chairman of the Group was ranked as one of the twenty five leading Chinese in the global fashion industry on 11 August 2012 by Forbes China.

BUSINESS REVIEW (CONTINUED)

(1) Watches and timepieces – proprietary brands

Eterna AG Uhrenfabrik

Eterna AG Uhrenfabrik ("Eterna") manufactures and distributes Eterna watches. Eterna is also licensed to manufacture Porsche Design watches. Eterna watches are distributed through independent points of sales and agencies while the Porsche Design watches are distributed through points of sales and own/franchised shops all over the world.

Eterna is able to manufacture its own mechanical movement, comprising manual, automatic, with and without date, and chronograph functionalities. It is the objective of Eterna to establish itself as fully integrated watch manufacturer and produce key components as well as completed movements. Following the success of modular caliber 38 series in 2011, Eterna has successfully achieved the qualification of the new modular caliber 39 series in 2012. Modular mechanical movement can be easily modified to include additional features, such as date, tourbillon and chronograph functionalities, with relatively simple process and at relatively competitive cost. It is the long term plan of Eterna to produce the full range of mechanical movement parts it needs to be fully independent.

To be always on top of expertise, Eterna has built a new modern training centre for watchmakers and will start with education courses for partners all over the world. Besides, Eterna has strengthen the after sale service, quality control, new product development and mechanical movement departments.

Eterna has made important steps on the global distribution. There are discussions of distribution agreements with potential partners. As of 30 June 2012, there were 251 distribution outlets for Eterna watch, of which 227, 7 and 17 were in Europe, America and Middle East respectively. There were 528 distribution outlets for Porsche Design watch, of which, 398, 67, 27 and 36 were in Europe, America, Asia and Middle East respectively. Eterna has established a few distribution outlets in Hong Kong. Asia, especially Mainland China, would be the area of focus for the network development. It is expected to open significant number of distribution outlets in Mainland China in the near future to cater for the increasing demand for Swiss-made timepieces due to wealth effect.

Eterna focuses on three product segments, namely: mechanical watches with Eterna movement, mechanical watches with purchased movement and quartz watches. New products from those three segments have been developed and presented to the markets. With such product coverage, Eterna would be able to attract a wide range of customers.

BUSINESS REVIEW (CONTINUED)

(1) Watches and timepieces – proprietary brands (Continued)

Eterna AG Uhrenfabrik (Continued)

Marketing campaigns with a new approach will be launched in the second half of 2012 in selected countries in Europe, Hong Kong and Mainland China.

Eterna had laid a strong foundation in the first half of 2012 and satisfactory orders during the Basel Fair 2012. It contributed revenue and net loss after tax of approximately HK$21,437,000 and HK$56,246,000 respectively. At the period end, there was significant portion of orders yet to be fulfilled. Such outstanding orders would be gradually fulfilled in the second half 2012 and hence the result for the second half 2012 would be improved.

Leveraging on the success of 39 series, advertising activities and strategic business focus on the Greater China Region, Eterna is striving to achieve profitability and thus creating value for shareholders in the near future.

Zhuhai Rossini Watch Industry Ltd.

Rossini, a 91% subsidiary of the Group, achieved impressive result in the first half of 2012. Revenue for the first half of 2012 was HK$366,111,000, an increase of HK$112,998,000, or 45%, from HK$253,113,000 for the same period last year. Net profit after tax for the first half of 2012 was HK$111,793,000 compared with HK$71,126,000 for the same period in 2011, an increase of HK$40,667,000, or 57%.

During the period, Rossini has increased its number of distribution outlets by 200 (99 outlets through department stores and 101 outlets through authorized dealers) from 1,475 to 1,675, mostly in second- and third-tier cities. The total number of distribution outlets as of 30 June 2012 was 1,675 (1,091 through department stores, 581 through authorized dealers and 3 boutiques).

The new production and office facilities starts operation in the mid-August 2012. It not only provides additional production capacity to cater for the increased demand but also raises the quality of production. Furthermore, the watch museum, which demonstrates, among others, 16 special pieces of Chinese historic time measurement machine, would attract tourists from Zhuhai, South China and Mainland China as a whole and would provide customer flow for sale of watches within the souvenir shop insider the facilities.

Internet sales is growing strongly in the period, accounting for HK$9,568,000, 3% of total revenue of Rossini.

BUSINESS REVIEW (CONTINUED)

(1) Watches and timepieces – proprietary brands (Continued)

Zhuhai Rossini Watch Industry Ltd. (Continued)

Rossini invested greater efforts in the training of sale and administrative staff. Rossini identified trainers internally and externally to provide the relevant trainings so as to improve the selling and service expertise and management expertise of the staff.

Rossini has been awarded China's 500 most valuable brands and Asia's 500 most valuable brands of the year 2012 by the World Brand Laboratory. Rossini is the only watch company from Mainland China that obtains the latter award and the value of the brand is the highest among all the local watches brands. Rossini has also been awarded one of China's 100 most influential fashion brands by China Fashion Summit in March 2012.

Rossini continues to benefit from the rapid growth, the strong track record and the leading market position in the watch industry. Rossini continues to offer a business model with products present in all price segments, strong pricing power and continued expansion in the regional footprint.

Moreover, Rossini has developed its spectacles frame brand and established a comprehensive network of over 170 outlets in Mainland China.

EBOHR Luxuries International Company Limited

EBOHR, a wholly-owned subsidiary of the Group, also achieved impressive result in the first half of 2012. Revenue for the first half of 2012 was HK$293,223,000, an increase of HK$104,161,000, or 55%, from HK$189,062,000 for the same period last year. Net profit after tax for the first half of 2012 was HK$61,141,000, compared with HK$30,994,000 for the same period in 2011, an increase of HK$30,147,000, or 97%.

Revenue increased by 55% to HK$293,223,000 while the net profit after tax increased by 97% to HK$61,141,000 indicating a significant improvement in net profit margin.

During the period, there was an increase of 74 distribution outlets (74 outlets through department stores, 1 outlets through authorized dealers and a decrease of 1 boutique). The total number of distribution outlets as of 30 June 2012 was 1,497 (898 outlets through department stores, 597 through authorized dealers and 2 boutiques). Increase in outlets was primarily in second- to third-tier cities. Such expansion would be particularly relevant to the increased demand for EBOHR watch in the years to come.

Business Review (Continued)

(1) Watches and timepieces – proprietary brands (Continued)

EBOHR Luxuries International Company Limited (Continued)

EBOHR has improved its distribution outlets by renovating the outlook and interior layout. The new appearance should enhance the image and revenue of the distribution outlets. To improve profitability, EBOHR continued to expand the gold watch series to capture opportunities arising from the emerging middle class with increasing purchasing power and strong demand for watch with jewelery element.

Internet sales is growing strongly in the period, accounting for HK$19,841,000, 7% of total revenue of EBOHR.

Promotion events organized by the regional sale manager and headquarters proved to be effective. During the period, there were approximately 230 promotion events, with or without the assistance of the selected spokesperson, contributing around 11% of the total revenue.

EBOHR started distribution of EBOHR Complication series, a product line composed of tourbillion watches and watches of sophisticated mechanical movement through selected distribution outlets. Sale of those series was considered satisfactory. Those products would also be distributed through the distribution outlet of Swiss Chronometric in Luzern.

EBOHR has been awarded China's 500 most valuable brands of the year 2012 by the World Brand Laboratory.

Swiss Chronometric S.A.

Swiss Chronometric S.A. ("Swiss Chronometric") is a subsidiary 100% owned by the Group through EBOHR. Both self-owned distribution outlets in Lucerne of Switzerland and Shanghai were in operation. During the period, Swiss Chronometric improved its distribution outlet in Lucerne of Switzerland by renovating the outlook and introducing new equipment and interior layout. At the same time, Swiss Chronometric teamed up with leading travel agencies in order to generate more customers and revenue for the distribution outlets. Besides, Swiss Chronometric organized promotional and presentation activities to attract retailers in Switzerland and other European countries.

Swiss Chronometric also actively develops its distribution outlets in Mainland China. Currently, its watches are distributed in its own distribution outlets and also the distribution outlets of Ruihuang (Chongqing) Watch Co., Ltd. ("Ruihuang"). It is the plan to establish more than 20 distribution outlets in the major cities in Mainland China in the short term.

BUSINESS REVIEW (CONTINUED)

(1) Watches and timepieces – proprietary brands (Continued)

Swiss Chronometric S.A. (Continued)

Revenue for the first half of 2012 was HK$1,360,000 (30 June 2011: HK$1,805,000) and, net loss after tax for the first half of 2012 was HK$14,965,000 (30 June 2011: net loss after tax HK$12,483,000).

(2) Watches and timepieces – non-proprietary brands

Shenzhen Permanence Commerce Co., Ltd.

Shenzhen Permanence Commerce Co., Ltd. ("Permanence"), a 100% owned subsidiary of the Group, primarily focusing on distribution of Citizen and Casio watches, contributed revenue and net profit after tax of HK$35,333,000 (30 June 2011: HK$22,642,000) and HK$3,434,000 (30 June 2011: HK$1,364,000) respectively. Revenue and net profit after tax increased in line with the expanded product range and distribution network. While Citizen and Casio were strong revenue drivers, Permanence also distributed other brands including Ernest Borel, Titoni and Tissot. As of 30 June 2012, there were 65 distribution outlets and 6 single-brand retail boutiques; Permanence also supplied to 55 wholesale customers.

Ruihuang (Chongqing) Watch Co., Ltd.

Ruihuang, a 51% owned subsidiary of the Group, developed leading boutiques for well known Swiss watch brands such as Jaeger-Lecoultre, Longines and Tissot; distributed leading Swiss and Japanese watch brands such as Enicar, Ernest Borel, Rado and Titoni through the leading department stores; and set up maintenance centre for various imported watches in Chongqing. The differentiation strategy with larger stores and more international brand products and promotion activities by leading artists were the key to achieve a satisfactory result. Ruihuang contributed revenue and net profit after tax of approximately HK$129,089,000 (30 June 2011: HK$88,593,000) and HK$6,601,000 (30 June 2011: HK$3,185,000) respectively. It is expected that Jaeger-Lecoultre boutique would be opened in August 2012. As of 30 June 2012, there were 1 multi-brand retail shop, 32 distribution outlets and 23 wholesale customers.

Guangdong Juxin Watch Co., Ltd.

Guangdong Juxin Watch Co., Ltd. ("Juxin"), a 51% owned subsidiary of the Group, was established in January 2011. Juxin distributed leading Swiss and Japanese watch brands such as Casio, Tudor and Tissot through the leading department stores in various cities in Guangdong such as Foshan, Guangzhou, Zhongshan, Shaoguan and Qingyuan. Juxin contributed revenue and net profit after tax of approximately HK$28,523,000 (30 June 2011: HK$16,646,000) and HK$292,000 (30 June 2011: HK$524,000) respectively. The decrease in demand and consolidation of certain distribution outlets led to lower revenue and profitability. As of 30 June 2012, there were 21 multi-brand retail shops, 3 single-brand boutiques, 24 distribution outlets and 8 wholesale customers.

Business Review (Continued)

(2) Watches and timepieces – non-proprietary brands (Continued)

Liaoning Hengjia Horologe Co., Ltd.

Liaoning Hengjia Horologe Co., Ltd. ("Hengjia"), a 51% owned subsidiary of the Group, was established in May 2011. Hengjia distributed leading Swiss and Japanese watch brands. Hengjia operates 2 single-brand boutiques, one for Rado and one for Tissot. The Tissot boutique is the one of the top performers of Tissot in Mainland China. Hengjia also operates six multi-brand retail shops in the leading department stores in Liaoning. Hengjia is actively developing single-brand boutiques and multi-brand retail shops in Liaoning. Hengjia contributed revenue and net profit after tax of approximately HK$39,482,000 and HK$868,000 respectively. As of 30 June 2012, there were 6 multi-brand retail shops, 2 single-brand boutiques and over 10 wholesale customers.

Beijing Haina Tianshi Watch Company Limited

Beijing Haina Tianshi Watch Company Limited ("Haina"), a 51% owned subsidiary of the Group, was established in January 2012. Haina is engaged in the wholesale and retail of watches, has set up branch companies and retail stores in various locations including Tianjin, Beijing, Kunming, Shijiazhuang and Inner Mongolia for the sale of certain well-known international watch brands. Haina contributed revenue and net profit after tax of approximately HK$3,035,000 and HK$26,000 respectively. As of 30 June 2012, there were 76 distribution outlets, 20 single-brand boutiques, 56 multi-brand retail shops and 109 wholesale customers. It is the plan of Haina to establish over 20 distribution outlets in the second half of 2012.

Jilin Dayou Watch Limited

Jilin Dayou Watch Limited ("Dayou"), a 51% owned subsidiary of the Group, was established in March 2012. Dayou operates distribution outlets in Jilin each with floor area ranging from 70 sqm to 450 sqm, selling mainly Swiss watches.

Dayou contributed revenue and net profit after tax of approximately HK$2,869,000 and HK$6,000 respectively. As of 30 June 2012, there were 4 distribution outlets and 1 multi-brand retail shop.

Through the above watch distribution companies, the Group collectively owns over 350 brand image retail shops and distribution outlets, distributing over 25 local and international brands and spanning 35 cities nationwide. These distribution companies not only provide additional distribution network for the Group's watches but also generate revenue from the distribution of other well-known local and foreign brands. Given the good relationships with the outlet providers and well-known foreign brands, the number of distribution outlets and their contributions to the Group are expected to increase rapidly.

Business Review (Continued)

(3) Watches and timepieces – production

Guangzhou Five Sheep Limited

Guangzhou Five Sheep Limited ("Five Sheep"), a 78% owned subsidiary of the Group, was established in November 2011. It is engaged in the manufacture and distribution of mechanical movement and watch. Five Sheep served to provide mechanical movement production facilities and watch manufacturing facilities for the Group. During the period, Five Sheep developed 14 new watches, of which 10 was designed by a leading Swiss watch design firm and 4 was developed by its in-house designers, improved production equipment and developed additional markets for mechanic movement and watch. It was the plan to improve the quality of mechanical movement to the international standard within 3 years. Five Sheep contributed revenue and net profit after tax of approximately HK$32,285,000 and HK$3,636,000 respectively.

Fair Future Industrial Limited

Fair Future Industrial Limited ("Fair Future"), a 25% owned associate of the Group, is engaged in the manufacture of watches and accessories of watches for a well-known Japanese brand on an OEM basis. The Group shared 25% profit from April 2012 to June 2012 after the completion of acquisition in March 2012, contributing HK$4,880,000 net profit after tax to the Group. During the period, the Group has received dividend income of HK$11,250,000 in cash from Fair Future. Such dividend income was recognised as a decrease of the Group's interests in associates.

(4) Investment in Citychamp Dartong Company Limited

During the period, the Group received cash dividend of HK$17,169,000 and 65,246,000 bonus shares from Citychamp Dartong Company Limited ("Citychamp Dartong"). On 15 March 2012, Citychamp Dartong announced its results under PRC GAAP for the year ended 31 December 2011. The earnings per share for the year was RMB1.08, which represented an increase of 54% as compared with last year.

(5) Property investment

The factory complex in Dongguan, the property on Yan He South Road, Luohu District, Shenzhen, three shop units on Xianghua Road, Zhuhai, in Guangdong Province of the PRC, and one apartment in Hong Kong owned by the Group have been leased out, with stable rental returns to the Group for the period under review.

Business Review (Continued)

(6) Motor yacht

Chart Victory Limited ("Chart Victory"), a 100% owned subsidiary of the Group, principally engaged in distribution of yachts in Hong Kong. In order to focus on the watch business, Chart Victory will consider to terminate the yacht distribution business. During the period, Chart Victory incurred net loss after tax of approximately HK$1,523,000 (30 June 2011: net loss after tax HK$2,257,000). Net loss is expected to decrease further following the disposals and/or transfer of the remaining motor yachts in the short term.

Financial Position

(1) Liquidity, financial resources and capital structure

As at 30 June 2012, the Group had non-pledged cash and bank balances of approximately HK$301,356,000 (31 December 2011: HK$351,276,000). Based on the bank loans of HK$146,072,000 (31 December 2011: HK$86,171,000) and shareholders' equity of HK$3,446,577,000 (31 December 2011: HK$3,058,389,000), the Group's gearing ratio (being loans divided by shareholders' equity) was 4% (31 December 2011: 3%).

As at 30 June 2012, all of the Group's bank loans amounting to HK$146,072,000 were repayable within one year.

(2) Charge on assets

Banking facilities of the Company were secured by the Group's investment properties in Tai Hang with carrying amount of approximately HK$19,000,000 as at 30 June 2012 (31 December 2011: HK$19,000,000).

(3) Capital commitments

The Group had no material capital commitments as at 30 June 2012.

Financial Review

(1) Gross profit

Gross profit was HK$531,775,000, an increase of HK$183,050,000 from HK$348,725,000 (including continuing and discontinued operations) for the same period last year. Before making adjustments for intra-group transactions, Rossini contributed gross profit of HK$260,715,000 while EBOHR contributed gross profit of HK$193,532,000. Gross profit margin increased substantially due to the disposal of copper wire business.

(2) Selling and distribution expenses

Total selling and distribution expenses was HK$217,012,000, an increase of HK$78,450,000 from HK$138,562,000 (including continuing and discontinued operations) for the same period last year. Such increase was in line with the increase in revenue. Rossini contributed selling and distribution expenses of HK$88,303,000, while EBOHR contributed selling and distribution expenses of HK$83,913,000.

(3) Administrative expenses

Total administrative expenses was HK$170,873,000, an increase of HK$80,091,000 from HK$90,782,000 (including continuing and discontinued operations) for the same period last year. Such increase was in line with the increase in revenue of Rossini and EBOHR. Eterna incurred part of administrative expenses, for example, advertising expenses and research and development expenses, to lay a strong foundation for future growth. Rossini, EBOHR, Eterna contributed administrative expenses of HK$28,262,000, HK$31,999,000 and HK$47,027,000 respectively.

(4) Inventory

Inventory was HK$1,233,536,000, an increase of HK$277,263,000 from HK$956,273,000 in last year. Rossini, EBOHR, Eterna and Ruihuang contributed inventory of HK$259,089,000, HK$392,142,000, HK$148,475,000 and HK$109,450,000 respectively. Such increases were in line with the relevant actual and projected increases in revenue.

(5) Amortisation of intangible assets

Total amortisation of intangible assets in respect of supplier and distribution networks was HK$3,755,000 (30 June 2011: HK$2,609,000).

Outlook

The global economic and political uncertainties persisted in the first half of 2012. The unclear economic and geopolitical backdrop will continue to raise challenges and cast shadows over the remainder of 2012. The markets remain skeptical about the fiscal policies adopted by world leaders for the recovery of the global economy. In Mainland China, following on the meeting at the State Council meeting on 23 May 2012, the Central government would put "maintaining growth" at a more important level. It is expected that the Government would consider to take more stimulus measures to revive domestic growth with an objective to boost domestic consumption and stabilize external demand. Notwithstanding the global and political uncertainties, Mainland China 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. The Group will remain focused on executing the various initiatives under the strategic plan of developing both proprietary brands and non-proprietary brands would continue the impressive organic growth through product, distribution and market development. Following the development momentum of Rossini and EBOHR, the Group is gradually entering into a path of sustainable growth.

In spite of great challenges, we believe there are opportunities ahead. With the strong brands with relatively long history, product development expertise, distribution control, and relatively large size, the Group is well positioned to enjoy the consumption boom in Mainland China driven by an expanding middle class. These positive factors serve to reinforce the Group's leading market position in Mainland China. Expansion of network of distribution in different provinces remains one of the most appealing strategy of the Group. The Group is positive about the outlook for the second half of 2012 given the product market coverage. We have great confidence in the future of our watch business coupled with the rising popularity of and demand for watches, both domestic and imported, in the Mainland China. Meanwhile, we are alert to the challenges that could persist or emerge, including competition in the market and rise in wages and other overhead expenses by imposing stringent cost controls so as to stay competitive and maintain profitability.

Our strategic plan for 2012 remains unchanged. While we consider developing proprietary brands as our top priority, we will develop the distribution of non-proprietary brands, covering more products and expanding distribution outlets. We may execute mergers, acquisitions and alliances with leading players in mechanical movement manufacturers, brands and distributors, both local and overseas, to expedite our growth initiatives. The Group will keep on identifying and evaluating opportunities and undertakes mergers, acquisitions and alliances deals that are in the best interests of the shareholders. Any merger, acquisition or alliance would need to present strategically compelling benefits consistent with our objective of strengthening our leadership position in Mainland China.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2012, the Group had approximately 3,000 full-time staff in Mainland China, Hong Kong and overseas. The remuneration packages offered to the employees were determined and reviewed on an arm's length basis with reference to the market condition and individual performance. The Group also provides other benefits to its employees, including year-end double pay, medical insurance and retirement benefits, and incentive bonus are offered with reference to the Group's operating results and employees' individual performance. All employees of the Group in Hong Kong have joined the provident fund schemes.

FOREIGN EXCHANGE RISK

Majority of the Group's sales and purchases are mainly denominated in RMB. Since the Group's bank borrowings are also mainly denominated in RMB and the Group has retained surplus funds in those currencies, such foreign exchange exposure is immaterial and could be effectively monitored. Certain portions of the Group's sales and purchases and loans are denominated in Swiss Franc. They are immaterial and could be effectively monitored.

DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

The Board has recommended the payment of an interim dividend of HK 1 cent per share for the six months ended 30 June 2012 (six months ended 30 June 2011: HK1 cent). The interim dividend is expected to be paid in Hong Kong dollars on or before 31 December 2012 to those members registered in the Company's register of members as at 31 October 2012.

The Register of members will be closed from 29 October 2012 to 31 October 2012, both days inclusive. In order to be eligible for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Tricor Secretaries Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 pm on 26 October 2012.

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares

As at 30 June 2012, the interests or short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(a) Ordinary shares of HK$0.10 each of the Company

As at 30 June 2012, certain directors of the Company held long positions in the shares of the Company as follows:

Name of directors	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Hon Kwok Lung	Corporate interests	2,658,075,515 (Note)	62.30%
	Personal interests	3,500,000	0.08%
	Family interests	1,374,000	0.03%
		2,662,949,515	62.41%
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%
Kwong Chun Wai, Michael	Beneficial owner	1,039,000	0.02%

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (CONTINUED)

(a) Ordinary shares of HK$0.10 each of the Company (Continued)

Note:

908,075,515 shares of the Company are held by Sincere View International Limited ("Sincere View"), which is owned as to 80% and 20% by Mr. Hon Kwok Lung and his spouse, Ms. Lam Suk Ying, respectively. 1,750,000,000 shares were held by Full Day Limited ("Full Day"), which is wholly-owned by Mr. Hon Kwok Lung.

Mr. Hon Kwok Lung and Ms. Lam Suk Ying are deemed to have an interest in the same parcel of shares of 2,658,075,515 held by Sincere View and Full Day.

(b) Share options of the Company

Certain directors of the Company personally hold options to subscribe for ordinary shares of the Company. Details of such options are disclosed under the paragraph "Share Option Scheme" below. These share options were granted pursuant to the terms of the share option scheme adopted by the Company on 30 May 2008.

(c) Long position in Rossini (Note1)

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 ("Fujian Fengrong"). 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, 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 of the Company.

Save as disclosed above, as at 30 June 2012, no person had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Share Option Scheme

The following table discloses movements in the Company's share options for the six months ended 30 June 2012:

	Number of share options		
Name and category of participants	At 1 January 2012	Movement during the period	At 30 June 2012
Executive directors			
Hon Kwok Lung	1,225,000	(1,225,000)	–
Shang Jianguang	2,800,000	(2,800,000)	–
Shi Tao	1,750,000	(1,750,000)	–
Lam Toi Man	1,225,000	(1,225,000)	–
Independent non-executive directors			
Fung Tze Wa	1,400,000	–	1,400,000
Kwong Chun Wai, Michael	1,225,000	–	1,225,000
Li Qiang	3,500,000	–	3,500,000
Sub-total	13,125,000	(7,000,000)	6,125,000
Other eligible employees			
In aggregate	24,235,000	(16,760,000)	7,475,000
Other eligible persons			
In aggregate	33,515,000	(25,630,000)	7,885,000
Total	70,875,000	(49,390,000)	21,485,000

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2012, the following persons hold interests of 5% or more of the issued share capital of the Company, as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long Position:

Name of shareholders	Capacity and nature of interest	Notes	Number of ordinary shares held	Percentage of the Company's issued share capital
Full Day	Directly beneficially owned		1,750,000,000	41.02%
Sincere View	Directly beneficially owned		908,075,515	21.28%
Hon Kwok Lung	Corporate interests	(1)	2,658,075,515	62.30%
	Family interests		1,374,000	0.03%
	Personal interests		3,500,000	0.08%
			2,662,949,515	62.41%
Lam Suk Ying	Interest of spouse	(1)	2,661,575,515	62.38%
	Beneficial owner		1,374,000	0.03%
			2,662,949,515	62.41%
Keywise Capital Mangement (HK) Limited	Investment manager		462,178,000	10.83%
Zhang Qing	Corporate interests	(2)	80,000,000	1.88%

Substantial Shareholders' Interests in Shares and Underlying Shares (Continued)

Notes:

(1) As Mr. Hon Kwok Lung owns 100% and 80% of Full Day and Sincere View respectively, he is deemed to be interested in the total of 2,658,075,515 shares held by Full Day and Sincere View under Part XV of the SFO. Mr. Hon Kwok Lung is a director of both Full Day and Sincere View. Ms. Lam Suk Ying, being Mr. Hon Kwok Lung's spouse, is also deemed to be interested in the total of 2,661,575,515 shares held by Mr. Hon Kwok Lung (2,658,075,515 shares held by Full Day and Sincere View, 3,500,000 shares held by Mr. Hon Kwok Lung).

(2) Mr. Zhang Qing owns 80,000,000 shares of the Company and 160,000,000 optional subscription shares ("Optional Subscription Share") based on the DI form filed by Mr. Zhang Qing on 2 September 2011. Assuming that the Optional Subscription Shares are exercised in full, Mr. Zhang Qing's holding will represent, approximately 5.63% of the issued share capital of the Company as at 30 June 2012 and approximately 5.42% of the issued share capital of the Company as enlarged by the allotment and issue of the Optional Subscription Shares.

Save as disclosed above, as at 30 June 2012, no other person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Code of Corporate Governance Practices

During the period from 1 January 2012 to 31 March 2012 and from 1 April 2012 to 30 June 2012, the Company has complied respectively with all the code provisions of the "Code on Corporate Governance Practices" and "Corporate Governance Code", as set out in Appendix 14 to the "Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited" (the "Listing Rules"), except with the details disclosed below:

Code E.1.2

Code E.1.2 stipulates that the Chairman of the board of directors should attend the annual general meeting of the Company. The Chairman of the Board was unable to attend the annual general meeting of the Company held on 28 May 2012 due to his business trip outside Hong Kong.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2012.

AUDIT COMMITTEE

The audit committee (the "AC") comprises the three independent non-executive directors, Mr. Fung Tze Wa (the Chairman of the Committee), Dr. Kwong Chun Wai, Michael and Mr. Li Qiang. The AC reviewed the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 June 2012. The audit committee also reviewed and commented internal audit reports of subsidiaries and associates and adequacy of resources, qualifications, experience and training of staff engaged in the accounting and financial report function. In order to confirm to the new provisions of the Code effecting on 1 April 2012, the board has adopted a new terms of reference of the AC on 26 March 2012, which have been included on the Stock Exchange's website and the Company's website.

REMUNERATION COMMITTEE

The remuneration committee (the "RC") currently comprises three independent non-executive directors, Mr. Fung Tze Wa (the Chairman of the Committee), Dr. Kwong Chun Wai, Michael and Mr. Li Qiang, Executive Director and Chairman of the Board, Mr. Hon Kwok Lung and Executive Director and Chief Executive Officer, Mr. Shang Jianguang.

The majority of the RC members are independent non-executive directors. The RC make recommendations to the board on the Company's policy and structure for all directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The RC also make recommendations to the board on the remuneration packages of individual executive directors and senior management. The RC ensures that no director or any of his/her associates is involved in deciding his/her own remuneration. In order to confirm to the new provisions of the Code effecting on 1 April 2012, the board has adopted a new terms of reference of the RC on 26 March 2012, which have been included on the Stock Exchange's website and the Company's website.

Nomination Committee

On 26 March 2012, the Company established a nomination committee (the "NC") with terms of reference in compliance with the new provisions of the Code effecting on 1 April 2012. The NC comprises the three independent non-executive directors, Mr. Fung Tze Wa, Dr. Kwong Chun Wai, Michael and Mr. Li Qiang, Mr. Hon Kwok Lung and Mr. Shang Jianguang. Mr. Hon Kwok Lung has been appointed as the chairman of the NC. The terms of reference of the NC have been included on the Stock Exchange's website and the Company's website.

The majority of the NC members are independent non-executive directors. The principal duties of the NC are to review the structure, size and composition of the board, identify and nominate individuals suitably qualified to become board members and make recommendations to the board on the appointment or re-appointment of directors and succession planning for directors. The NC is also responsible for assess the independence of independent non-executive directors.

Purchase, Sale or Redemption of Shares

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period under review.

Appreciation

I would like to express my deep appreciation to my fellow Board members for their guidance, constructive contributions and support. I would like to also thank the directors of our subsidiaries and associated companies for their strong governance, and their guidance in establishing our Group's strategic direction.

On behalf of the Board, I would like to express my heartfelt gratitude to our business partners, customers and shareholders for their loyalty and support.

Hon Kwok Lung
Chairman

Hong Kong, 20 August 2012

Condensed Consolidated Statement of Comprehensive Income

For the Six Months Ended 30 June 2012

		Six months ended 30 June	
		2012	2011
	Notes	**HK$'000**	HK$'000
		(Unaudited)	(Unaudited)
Continuing operations:			
Revenue	5	**959,089**	575,911
Cost of sales		**(427,314)**	(242,991)
Gross profit		**531,775**	332,920
Other income		**15,345**	8,038
Selling and distribution expenses		**(217,012)**	(136,657)
Administrative expenses		**(170,873)**	(86,388)
Net surplus on revaluation of investment properties		**–**	66,716
(Loss)/Gain on fair value changes in financial assets at fair value through profit or loss, net		**(6,708)**	5,820
Dividend income from available-for-sale financial assets	15	**17,169**	6,551
Finance costs	6	**(4,378)**	(1,747)
Share of profits of associates	14	**4,880**	1,670
Profit before income tax	7	**170,198**	196,923
Income tax expense	8	**(50,407)**	(30,998)
Profit after income tax from continuing operations		**119,791**	165,925
Discontinued operations:			
Loss for the period from discontinued operations	9	**–**	(1,460)
Profit for the period		**119,791**	164,465

Condensed Consolidated Statement of Comprehensive Income (Continued)

For the Six Months Ended 30 June 2012

	Notes	Six months ended 30 June **2012** **HK$'000** **(Unaudited)**	2011 HK$'000 (Unaudited)
Other comprehensive income			
– Exchange gain on translation of financial statements of foreign operations		**14,788**	24,490
– Changes in fair value of available-for-sale financial assets	15	**388,825**	105,429
Other comprehensive income for the period		**403,613**	129,919
Total comprehensive income for the period		**523,404**	294,384
Profit for the period attributable to:			
Owners of the Company		**100,148**	155,246
Non-controlling interests		**19,643**	9,219
		119,791	164,465
Total comprehensive income for the period attributable to:			
Owners of the Company		**502,840**	284,119
Non-controlling interests		**20,564**	10,265
		523,404	294,384

Condensed Consolidated Statement of Comprehensive Income (Continued)

For the Six Months Ended 30 June 2012

	Notes	Six months ended 30 June	
		2012	2011
		HK$'000	HK$'000
		(Unaudited)	(Unaudited)
Earnings/(loss) per share attributable to owners of the Company during the period	11		
From continuing and discontinued operations			
– Basic		**HK cents 2.39**	HK cents 3.76
– Diluted		**HK cents 2.34**	HK cents 3.68
From continuing operations			
– Basic		**HK cents 2.39**	HK cents 3.80
– Diluted		**HK cents 2.34**	HK cents 3.71
From discontinued operations			
– Basic		**N/A**	HK cent (0.04)
– Diluted		**N/A**	N/A

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	**30 June 2012 HK$'000 (Unaudited)**	31 December 2011 HK$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	**297,265**	228,939
Investment properties	13	**93,387**	93,387
Prepaid land lease payments		**28,252**	28,235
Goodwill		**621,382**	621,382
Interests in associates	14	**49,446**	164
Available-for-sale financial assets	15	**1,196,522**	807,696
Intangible assets		**118,791**	55,944
Prepayments and deposits		**6,526**	5,290
Deferred tax assets		**1,311**	1,295
		2,412,882	1,842,332
Current assets			
Inventories	16	**1,233,536**	956,273
Trade and bill receivables	17	**303,273**	244,284
Prepaid land lease payments		**736**	730
Prepayments, deposits and other receivables		**180,720**	175,527
Financial assets at fair value through profit or loss		**100,317**	107,803
Cash and cash equivalents		**301,356**	351,276
		2,119,938	1,835,893

Condensed Consolidated Statement of Financial Position (Continued)

As at 30 June 2012

	Notes	**30 June 2012 HK$'000 (Unaudited)**	31 December 2011 HK$'000 (Audited)
Current liabilities			
Trade and bill payables	18	**241,546**	194,448
Other payables and accruals		**286,134**	221,214
Dividend payables		**192,000**	252
Tax payables		**38,729**	41,044
Derivative financial instruments	19	**44,974**	–
Borrowings	20	**146,072**	86,171
Due to related companies		**159**	157
		949,614	543,286
Net current assets		**1,170,324**	1,292,607
Net assets		**3,583,206**	3,134,939
EQUITY			
Equity attributable to owners of the Company			
Share capital		**426,666**	413,975
Proposed dividends		**42,667**	186,289
Reserves		**2,977,244**	2,458,125
		3,446,577	3,058,389
Non-controlling interests		**136,629**	76,550
Total equity		**3,583,206**	3,134,939

Condensed Consolidated Statement of Changes in Equity

For the Six Months Ended 30 June 2012

	Equity attributable to owners of the Company				
	Share capital HK$'000 (Unaudited)	Share premium account* HK$'000 (Unaudited)	Share option reserve* HK$'000 (Unaudited)	Other reserve* HK$'000 (Unaudited)	Goodwill arising on consolidation* HK$'000 (Unaudited)
At 1 January 2011	409,007	844,561	16,421	15,160	(15,300)
Transactions with owners					
Proceeds from shares issued under share option scheme	5,591	12,580	–	–	–
Exercise of share options	–	8,479	(8,479)	–	–
Recognition of equity-settled share based compensation	–	–	1,488	–	–
Capital contribution from non-controlling interests	–	–	–	–	–
Acquisition of additional interests in a subsidiary	–	–	–	–	–
Approval of final 2010 dividend (note 10.2)	–	–	–	–	–
Additional final 2010 dividend (note 10.2)	–	(1,891)	–	–	–
Total transactions with owners	5,591	19,168	(6,991)	–	–
Comprehensive income					
Profit for the period	–	–	–	–	–
Other comprehensive income					
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–
Changes in fair value of available-for-sale financial assets	–	–	–	–	–
Total comprehensive income	–	–	–	–	–
Proposed interim 2011 dividend (note 10.1)	–	(41,460)	–	–	–
At 30 June 2011	414,598	822,269	9,430	15,160	(15,300)

Condensed Consolidated Statement of Changes in Equity (Continued)

For the Six Months Ended 30 June 2012

	Equity attributable to owners of the Company							
	Statutory reserves* HK$'000 (Unaudited)	Exchange reserve* HK$'000 (Unaudited)	Investment revaluation reserves* HK$'000 (Unaudited)	Retained profits* HK$'000 (Unaudited)	Proposed dividends HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	Non-controlling interests HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
	27,214	52,240	429,306	1,363,020	143,153	3,284,782	29,105	3,313,887
	–	–	–	–	–	18,171	–	18,171
	–	–	–	–	–	–	–	–
	–	–	–	–	–	1,488	–	1,488
	–	–	–	–	–	–	16,849	16,849
	–	–	–	–	–	–	(2,445)	(2,445)
	–	–	–	–	(143,153)	(143,153)	–	(143,153)
	–	–	–	–	–	(1,891)	–	(1,891)
	–	–	–	–	(143,153)	(125,385)	14,404	(110,981)
	–	–	–	155,246	–	155,246	9,219	164,465
	–	23,444	–	–	–	23,444	1,046	24,490
	–	–	105,429	–	–	105,429	–	105,429
	–	23,444	105,429	155,246	–	284,119	10,265	294,384
	–	–	–	–	41,460	–	–	–
	27,214	75,684	534,735	1,518,266	41,460	3,443,516	53,774	3,497,290

Condensed Consolidated Statement of Changes in Equity (Continued)

For the Six Months Ended 30 June 2012

	Equity attributable to owners of the Company				
	Share capital HK$'000 (Unaudited)	Share premium account* HK$'000 (Unaudited)	Share option reserve* HK$'000 (Unaudited)	Other reserve* HK$'000 (Unaudited)	Shares to be issued reserve* HK$'000 (Unaudited)
At 1 January 2012	413,975	792,405	10,748	22,692	–
Transactions with owners					
Issuance of shares for acquisitions of intangible assets and an associate	7,752	35,503	–	–	–
Shares to be issued for acquisition of an associate#	–	–	–	–	18,049
Capital contribution from non-controlling interests	–	–	–	–	–
Proceeds from shares issued under share option scheme	4,939	11,105	–	–	–
Exercise of share options	–	7,490	(7,490)	–	–
Dividend paid to non-controlling interests	–	–	–	–	–
Approval of final 2011 dividend (note 10.2)	–	–	–	–	–
Additional final 2011 dividend (note 10.2)	–	(5,711)	–	–	–
Total transactions with owners	12,691	48,387	(7,490)	–	18,049
Comprehensive income					
Profit for the period	–	–	–	–	–
Other comprehensive income					
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–
Changes in fair value of available-for-sale financial assets	–	–	–	–	–
Total comprehensive income	–	–	–	–	–
Proposed interim 2012 dividend (note 10.1)	–	(42,667)	–	–	–
At 30 June 2012	**426,666**	**798,125**	**3,258**	**22,692**	**18,049**

* These reserve accounts comprise the consolidated reserves of HK$2,977,244,000 (31 December 2011: HK$2,458,125,000) in the condensed consolidated statement of financial position.

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

Condensed Consolidated Statement of Changes in Equity (Continued)

For the Six Months Ended 30 June 2012

Equity attributable to owners of the Company								
Goodwill arising on consolidation* HK$'000 (Unaudited)	Statutory reserves* HK$'000 (Unaudited)	Exchange reserve* HK$'000 (Unaudited)	Investment revaluation reserves* HK$'000 (Unaudited)	Retained profits* HK$'000 (Unaudited)	Proposed dividends HK$'000 (Unaudited)	Total HK$'000 (Unaudited)	Non-controlling interests HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
(15,300)	26,268	47,662	123,905	1,449,745	186,289	3,058,389	76,550	3,134,939
–	–	–	–	–	–	43,255	–	43,255
–	–	–	–	–	–	18,049	–	18,049
–	–	–	–	–	–	–	50,422	50,422
–	–	–	–	–	–	16,044	–	16,044
–	–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	(10,907)	(10,907)
–	–	–	–	–	(186,289)	(186,289)	–	(186,289)
–	–	–	–	–	–	(5,711)	–	(5,711)
–	–	–	–	–	(186,289)	(114,652)	39,515	(75,137)
–	–	–	–	100,148	–	100,148	19,643	119,791
–	–	13,867	–	–	–	13,867	921	14,788
–	–	–	388,825	–	–	388,825	–	388,825
–	–	13,867	388,825	100,148	–	502,840	20,564	523,404
–	–	–	–	–	42,667	–	–	–
(15,300)	**26,268**	**61,529**	**512,730**	**1,549,893**	**42,667**	**3,446,577**	**136,629**	**3,583,206**

Condensed Consolidated Statement of Cash Flow

For the Six Months Ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities of continuing and discontinued operations	**(113,186)**	(214,097)
Net cash outflow from investing activities of continuing and discontinued operations	**(92,113)**	(193,249)
Net cash inflow/(outflow) from financing activities of continuing and discontinued operations	**139,880**	(63,856)
Net decrease in cash and cash equivalents	**(65,419)**	(471,202)
Cash and cash equivalents at beginning of period	**351,276**	872,642
Effect of foreign exchange rate changes, net	**15,499**	21,207
Cash and cash equivalents at end of period	**301,356**	422,647

Notes to the Unaudited Interim Financial Information

For the Six Months Ended 30 June 2012

1. Basis of Preparation

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

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

The Unaudited Interim Financial Information for the six months ended 30 June 2012 was approved for issue by the board of directors on 20 August 2012.

2. Summary of Significant Accounting Policies

The Unaudited Interim Financial Information has been prepared in accordance with the accounting policies and method of comparatives used in the annual financial statements of the Company for the year ended 31 December 2011 (the "2011 Annual Financial Statements"), except for the adoption of the new or revised Hong Kong Financial Reporting Standards ("HKFRSs"), which include individual HKFRSs, HKASs and Interpretations. The adoption of these new or revised HKFRSs has had no material impact on the Group's financial statements. The Group has not early adopted any new HKFRSs that have been issued but are not yet effective. The Unaudited Interim Financial Information should be read in conjunction with the 2011 Annual Financial Statements.

3. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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

Estimated impairment of goodwill

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

Provision against slow-moving inventories

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

Estimated impairment of trade and other receivables

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

Fair value of derivative financial instruments

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

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

4. Segment Information

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

(a) manufacture and distribution of watches and timepieces;

(b) property investment; and

(c) distribution of yacht.

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

Inter-segment sales are charged at prevailing market prices.

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

4. Segment Information (Continued)

	Six months ended 30 June 2012			
	Watches and timepieces HK$'000 (Unaudited)	Property investment HK$'000 (Unaudited)	Yacht HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Segment revenue and income:				
Sales to external customers	951,834	7,255	–	959,089
Other income	8,842	6,095	25	14,962
Total	960,676	13,350	25	974,051
Segment results	187,983	4,318	(1,523)	190,778
Unallocated corporate income and expenses, net				(21,082)
				169,696
Share of profit of an associate				4,880
Finance costs				(4,378)
Profit before income tax				170,198
Income tax expense				(50,407)
Profit for the period from continuing operations				119,791

Notes to the Unaudited Interim Financial Information (Continued)
For the Six Months Ended 30 June 2012

4. Segment Information (Continued)

	Six months ended 30 June 2011			
	Watches and timepieces HK$'000 (Unaudited)	Property investment HK$'000 (Unaudited)	Yacht HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Segment revenue and income:				
Sales to external customers	566,874	4,890	4,147	575,911
Other income	1,669	4,677	–	6,346
Total	568,543	9,567	4,147	582,257
Segment results	145,726	68,740	(1,752)	212,714
Unallocated corporate income and expenses, net				(14,226)
				198,488
Share of profit of associates				1,670
Finance costs				(1,747)
Equity-settled share-based compensation				(1,488)
Profit before income tax				196,923
Income tax expense				(30,998)
Profit for the period from continuing operations				165,925
Loss for the period from discontinued operations (note 9)				(1,460)
Profit for the period				164,465

Management determines the Group is domiciled in Hong Kong, which is the location of the Group's principal office. Over 90% of the Group's revenues from external customers and non-current assets (other than financial instruments and deferred tax assets) are attributable to a single geographical region, which is the People's Republic of China ("PRC").

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

5. Revenue

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

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Sale of goods	**951,834**	571,021
Gross rental income	**7,255**	4,890
	959,089	575,911

6. Finance Costs

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Interests on bank and other loans wholly repayable within five years	**4,378**	1,747

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

7. Profit Before Income Tax

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

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Depreciation	**14,421**	8,555
Amortisation of prepaid land lease payments	**365**	356

8. Income Tax Expense

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (Six months ended 30 June 2011: Nil).

The subsidiaries established in the PRC are subject to income taxes ranging between 15% and 25% (Six months ended 30 June 2011: between 13% and 25%). Overseas tax is calculated at the rates applicable in the respective jurisdictions.

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

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

9. Discontinued Operations

In June 2011, the Group has completed the disposal of its 49% equity interest in a jointly controlled entity, Fuzhou Dartong Machinery and Electronic Company Limited ("Fuzhou Dartong") which was principally engaged in the manufacture and distribution of enamelled copper wires (referred as "Discontinued Enamelled Copper Wire Business" hereinafter).

Details of the results for the six months ended 30 June 2011 from the Discontinued Enamelled Copper Wire Business are as follows:

	Six months ended 30 June 2011 HK$'000 (Unaudited)
Revenue	505,043
Cost of sales	(489,238)
Gross profit	15,805
Other income	568
Selling and distribution expenses	(1,905)
Administrative expenses	(4,394)
Finance costs – interest on bank and other loans wholly repayable within five years	(5,439)
Profit before income tax	4,635
Loss on disposal of Fuzhou Dartong	(5,216)
Income tax expense	(879)
Loss for the period	(1,460)

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

10. Dividends

10.1 Dividends attributable to the interim period were as follows:

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interim dividend of HK1 cent per share (Six months ended 30 June 2011: HK1 cent)	**42,667**	41,460

The interim dividend declared after the reporting date has not been recognised as a liability at the reporting date, but reflected as an appropriation of share premium.

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

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Final 2011 dividend in respect of the previous financial year, of HK 4.5 cents per share (Six months ended 30 June 2011: Final 2010 dividend of HK3.5 cents per share)	**192,000***	145,044

* The dividend payables for the final 2011 dividend as at 30 June 2012 was HK$192,000,000 as a result of the increase in ordinary shares. During the six months ended 30 June 2012, 49,390,000 ordinary shares were issued due to exercise of share options and 77,527,631 ordinary shares were issued for the acquisitions of intangible assets and an associate before the closure of members' register on 5 July 2012. All of these ordinary shares issued were entitled to the final 2011 dividend.

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

11. Earnings/(Loss) Per Share

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

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to owners of the Company for the purpose of calculating basic and diluted earnings/(loss) per share:		
– Continuing operations	**100,148**	156,706
– Discontinued operations	**–**	(1,460)
Total profit from continuing and discontinued operations	**100,148**	155,246

	Number of shares	
	Six months ended 30 June	
	2012	2011
	'000	'000
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic/(loss) earnings per share	**4,197,783**	4,126,852
Effect of dilutive potential ordinary shares:		
– share options issued by the Company and shares to be issued for acquisition of an associate	**76,363**	95,878
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**4,274,146**	4,222,730

Diluted loss per share from discontinued operations for the six months ended 30 June 2011 was not presented because the impact of the dilutive potential ordinary shares was anti-dilutive.

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

12. Property, Plant and Equipment

During the six months ended 30 June 2012, the Group acquired property, plant and equipment of HK$108,365,000 (Six months ended 30 June 2011: HK$38,400,000). Property, plant and equipment with carrying amount of HK$25,572,000 were disposed of during the six months ended 30 June 2012 (Six months ended 30 June 2011: Nil).

As at 30 June 2012, the Group has not yet obtained the title certificates for certain leasehold buildings in the PRC with an aggregate carrying amount of approximately HK$598,000 (31 December 2011: HK$1,090,000). The Group's legal advisors have confirmed that the Group is the rightful and equitable owner of these leasehold buildings. The Group is now in process of obtaining the title certificates from the relevant government authorities.

13. Investment Properties

As at 30 June 2012, the Group has not obtained the relevant title certificates for investment properties with an aggregate carrying amount of HK$38,800,000 (31 December 2011: HK$38,800,000). The Group's legal advisors have confirmed that the Group is the rightful and equitable owner of these investment properties. The directors are now in process of obtaining the title certificates from the relevant government authorities.

As at 30 June 2012, certain of the Group's investment properties with carrying amount of HK$19,000,000 (31 December 2011: HK$19,000,000) have been pledged to secure banking facilities granted to the Group (note 20).

Notes to the Unaudited Interim Financial Information (Continued)
For the Six Months Ended 30 June 2012

14. Interests in Associates

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
At 1 January	**164**	158
Acquisition of an associate (note)	**55,650**	–
Share of profits of associates	**4,880**	–
Dividend income received from an associate	**(11,250)**	–
Exchange realignment	**2**	6
At 30 June/31 December	**49,446**	164

Note:

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

(i) the fair value of 56,000,000 ordinary shares of the Company issued and to be issued, in which 23,000,000 ordinary shares have been issued up to 30 June 2012 and 15,000,000 and 18,000,000 ordinary shares will be issued to the vendor in January 2013 and January 2014 respectively; and

(ii) the fair value of the financial undertaking provided by the Group to the vendor of Fair Future in relation to issuance of ordinary shares of the Company (note 19(b)).

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

15. Available-for-sale Financial Assets

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Listed equity investment in the PRC, at fair value	**1,196,442**	807,617
Unlisted equity investments, at cost	**3,557**	3,556
Less: Provision for impairment	**(3,477)**	(3,477)
	80	79
	1,196,522	807,696

As at 30 June 2012, the listed equity investment in the PRC represented 14.78% (31 December 2011: 14.78%) equity interest in Citychamp Dartong Company Limited (referred to "Citychamp" and its shares referred to as the "Citychamp Shares").

In April 2012, Citychamp declared a bonus issue of 6 shares together with a cash dividend of RMB1.30 for every 10 Citychamp Shares. A dividend income totalling HK$17,169,000 was received by the Group and recognised in the profit or loss for the six months ended 30 June 2012 (Six months ended 30 June 2011: HK$6,551,000). As at 30 June 2012, the Group held 173,989,058 Citychamp shares (31 December 2011: 108,743,161 Citychamp Shares).

During the period, the increase in fair value of Citychamp Shares of HK$388,825,000 (Six months ended 30 June 2011: HK$105,429,000) has been dealt with in other comprehensive income and the investment revaluation reserve.

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

16. Inventories

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Raw materials	**263,559**	171,929
Work-in-progress	**83,479**	37,693
Finished goods and merchandise	**886,498**	746,651
	1,233,536	956,273

17. Trade and Bill Receivables

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

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
1 to 3 months	**261,016**	219,731
4 to 6 months	**28,163**	20,310
Over 6 months	**14,094**	4,243
	303,273	244,284

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

18. Trade and Bill Payables

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

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
1 to 3 months	**205,277**	154,151
4 to 6 months	**18,558**	17,253
Over 6 months	**17,711**	23,044
	241,546	194,448

19. Derivative Financial Instruments

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Financial undertakings provided by the Group in relation to issuance of ordinary shares for:		
– Acquisition of intangible assets (note a)	**27,710**	–
– Acquisition of an associate (note b)	**17,264**	–
	44,974	–

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

19. Derivative Financial Instruments (Continued)

Notes:

(a) During the period, the Group has completed the acquisition of certain intangible assets, which are suppliers and distributions networks from a joint venture partner in the PRC at a consideration of RMB51,000,000. The purchase consideration was settled as to RMB6,500,000 by cash and as to RMB44,500,000 by issue and allotment of 54,527,631 ordinary shares ("Consideration Shares for Intangible Assets") of the Company. Pursuant to the terms of the acquisition agreement, the Group has provided a financial undertaking to compensate the vendor the shortfall in cash if the average selling price of the Consideration Shares for Intangible Assets disposed of by the vendor from the expiration of the respective lock-up periods is less than HK$1.

(b) During the period, the Group has completed the acquisition of an associate, Fair Future, at a consideration of HK$56,000,000. The purchase consideration was settled by issue and allotment of 56,000,000 ordinary shares ("Consideration Shares for Associate") of the Company. Up to 30 June 2012, 23,000,000 ordinary shares have been issued to the vendor, and 15,000,000 and 18,000,000 ordinary shares will be issued to the vendor in January 2013 and January 2014 respectively. Pursuant to the terms of the acquisition agreement, the Group has provided a financial undertaking to compensate the vendor the shortfall in cash if the average selling price of the Consideration Shares for Associate disposed of by the vendor within the 12-month period from the expiration of the respective lock-up periods is less than HK$1.

The aforementioned financial undertakings meet the definition of derivatives in accordance with HKAS 39. The value of the financial undertakings will change in response to changes in the share price of the Company's shares. There are no initial net investments and they are settled at a future date. In these regards, the financial undertakings will be accounted for as derivative financial instruments, which are designated as financial liabilities at fair value through profit or loss. The fair value gain of the derivative financial instruments during the period amounted to HK$4,038,000 (Six months ended 30 June 2011: Nil), which has been recognised in the profit or loss for the period.

20. Borrowings

As at 30 June 2012, all borrowings were repayable within one year. (31 December 2011: repayable within one year):

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

(i) corporate guarantee provided by intergroup companies for bank borrowings as at 30 June 2012 and 31 December 2011.

(ii) a legal charge over certain of the Group's investment properties with carrying amounts of HK$19,000,000 (31 December 2011: HK$19,000,000) (note 13).

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

21. Contingent Liabilities

As at 30 June 2012, the Group had no material contingent liabilities (31 December 2011: Nil).

22. Capital Commitments

	30 June 2012 HK$'000 (Unaudited)	31 December 2011 HK$'000 (Audited)
Contracted, but not provided for:		
Purchases of property, plant and equipment	**–**	991
Purchases of intangible assets (note a)	**–**	62,730
Acquisition of an associate (note b)	**18,049**	56,000

(a) On 29 December 2011, the Group entered into a framework agreement (the "Framework Agreement") with independent parties (the "Joint Venture Partners") to establish a joint venture company in the PRC, namely Beijing Haina Tianshi Watch Company Limited ("Haina Tianshi"), which is principally engaged in the wholesale and retail of watches and accessories in the PRC. During the period, the establishment of Haina Tianshi was completed. Following the completion, the Group owns 51% of the equity interests in Haina Tainshi and obtained the control over Haina Tianshi through the Group's right to nominate the majority of Haina Tianshi's board of directors. Pursuant to the Framework Agreement, the Group agreed to pay RMB51,000,000 (equivalent to approximately HK$62,730,000) to the Joint Venture Partners as a compensation for the transfers of certain intangible assets, which are suppliers and distributions networks to Haina Tianshi. As mentioned in note 19(a), the acquisition of intangible assets from the Joint Venture Partners has been completed during the six months ended 30 June 2012 and the Group was not subject to such capital commitment as at 30 June 2012.

Notes to the Unaudited Interim Financial Information (Continued)

For the Six Months Ended 30 June 2012

22. Capital Commitments (Continued)

(b) On 15 December 2011, the Group entered into an acquisition agreement (the "Acquisition Agreement") with an independent party (the "Vendor") to acquire 25% of equity interest in Fair Future. Pursuant to the Acquisition Agreement, the considerations for acquisition of the 25% of equity interest in Fair Future of HK$56,000,000 will be settled by the issue and allotment of approximately 56,000,000 ordinary shares of the Company on various dates from January 2012 to January 2014. During the period, the acquisition of Fair Future was completed. As mentioned in note 19(b), up to 30 June 2012, 23,000,000 ordinary shares have been issued to the vendor, and 15,000,000 and 18,000,000 ordinary shares will be issued to the vendor in January 2013 and January 2014 respectively. The fair value of the 33,000,000 ordinary shares in total to be issued at the acquisition date amounted to HK$18,049,000, which has been included in the Group's reserve as at 30 June 2012.

23. Related Party Transactions

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

(i) Sales of goods

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Sales of goods to the joint venturer	–	420,000

For the period ended 30 June 2011, there was sales to the joint venturer of the Group's jointly controlled entity, of which certain directors of the Company are also directors of the joint venturer. The jointly controlled entity was disposed of during the six months ended 30 June 2011 (note 9).

23. RELATED PARTY TRANSACTIONS (CONTINUED)

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

(ii) Rental income

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Rental income received	**60**	60
Sub-lease income received	**171**	432

Rental income was received from a director and was charged at HK$10,000 per month on average (Six months ended 30 June 2011: HK$10,000). Sub-lease income was received from a related company of which certain directors of the Company are also directors of the related company, and this was charged at approximately HK$29,000 (Six months ended 30 June 2011: HK$72,000) per month on average.

(iii) Outstanding balances included in other receivables

	30 June	31 December
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Audited)
Due from related companies	**1,720**	1,545

The amount was due from a related company of which certain directors of the Company are also the directors of the related company.

23. RELATED PARTY TRANSACTIONS (CONTINUED)

23.2 Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2012	2011
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	**8,099**	6,397
Post-employment benefits	**103**	92
Equity-settled share-based compensation	**–**	254
	8,202	6,743

CHINA HAIDIAN HOLDINGS LIMITED
中國海澱集團有限公司
(Incorporated in the Cayman Islands with limited liability 於開曼群島註冊成立之有限公司)

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

香港九龍柯士甸道西 1 號
環球貿易廣場
19 樓 1902-04 室