CHINA HAIDIAN
HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)
Stock Code: 256

ANNUAL REPORT 2012

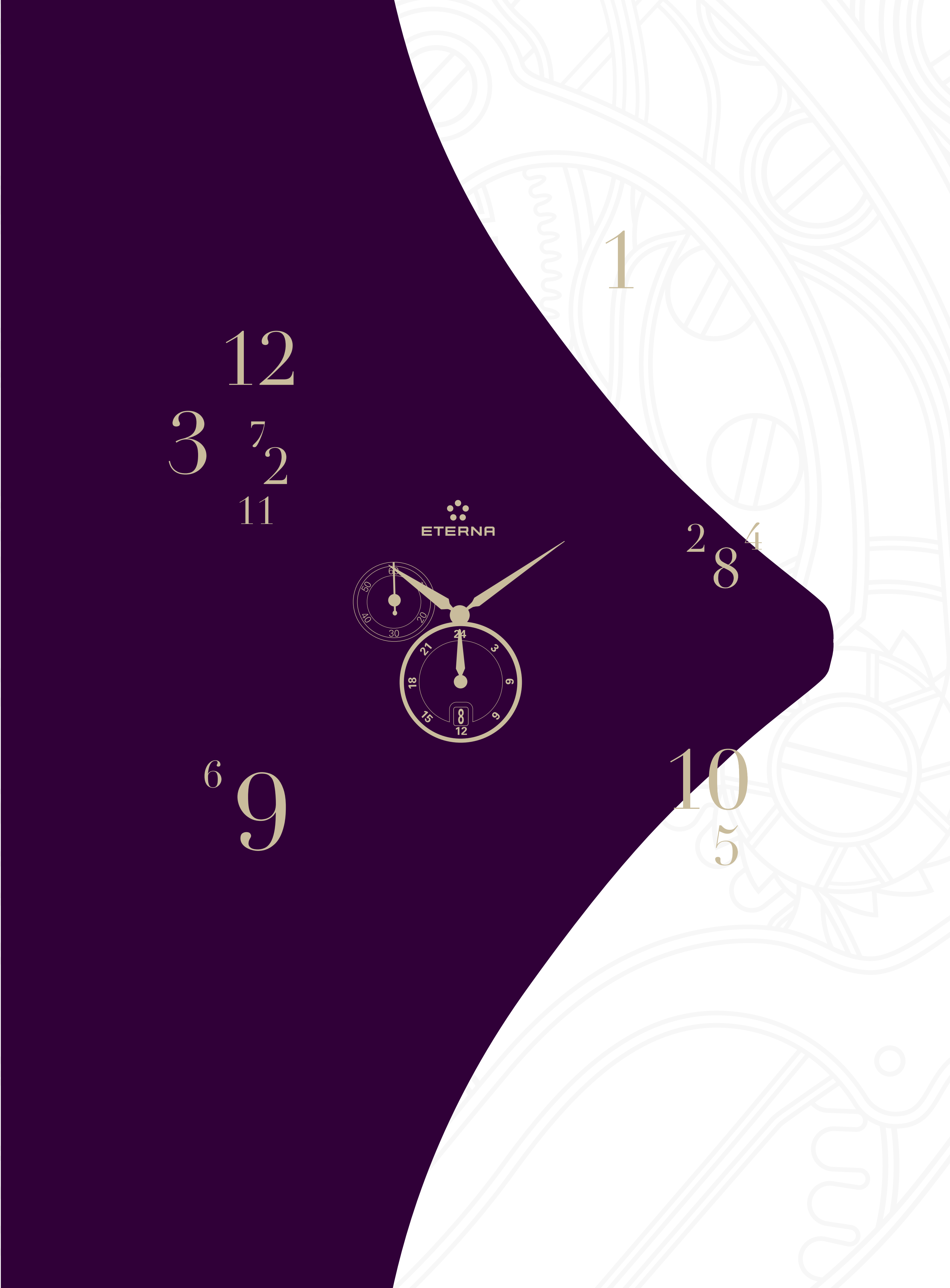
CONTENTS

ETERNA

Established in 1856, Eterna today remains among a handful of watch houses who make and continue to improve the heart of the watch, its mechanical movement. The company intends to stick with its current course, putting its long traditions at the service of progress, both technical and aesthetic. Making the most of its watchmakers' accomplished craftsmanship, it sees each and every one of its watches as an opportunity to demonstrate its vigorous capacity for innovation in the classic art of watchmaking. Eterna, perfection that stands the test of time.

綺年華

綺年華成立於一八五六年，至今仍然是少數銳意打造並力求改進鐘錶的靈魂－機械錶芯的鐘錶製造商。公司將堅持現有方向，持續發展精湛創新技術和美學相結合的傳統。公司成就鐘錶製造商最頂尖的工藝，視其每一隻鐘錶為展示其在傳統製錶藝術領域大膽創新的實力的機會。綺年華之完美可經得起時間的考驗。


ETERNA

CODEX 豪度

Creating a new brand is an extraordinary adventure. As with any story, it begins with an idea, a vision and a plan, but above all a desire to make something that is different. CODEX's story began in Biel in 2009. The brand is distinguished by the recognizable style of its mechanical watches, and by their unique design and irreproachable quality.

建立一個新品牌是一次非凡而難忘的經歷。任何一個故事都以一個概念、遠見及計劃開始，但上述所有追求只為令事情變得不一樣。豪度之故事自二零零九年於比爾開始，其機械錶芯的風格、獨一無二的設計及無瑕的品質使品牌與眾不同。

Master of Complications
精密工藝品大師

EBOHR 依波

With its eminent potentiality, classical fashion style and nobly and elegant temperament, EBOHR becomes one of indisputable leading pioneers in the China watch market. EBOHR emphasizes on the combination of the beauty in soul and shape, dedicating the perfect match of real material and emotion.

依波精品以卓爾不群的實力，經典時尚的品味，高貴優雅的風范，成為中國鐘錶市場無可爭議的領導者之一。依波精品強調精神之美與形體之美的交相輝映，追求真材實料與真情實感的完美融合。


ETERNA

PORSCHE DESIGN

Prosche Design has been developing and producing chronographs for more than thirty years and has continued to push the limits in doing so. Not only enhancing the existing design, Prosche Design continuously dedicates in the art of watchmaking through innovative functions, unusual materials and exquisite design and absolute perfection down to the very last detail.

過去三十多年來，Porsche Design持續研發並製造足以不斷成為典範的腕錶設計。Porsche Design並非只是將舊有款式加以變化，而是持續不斷地追求製錶工藝、全新功能、新穎材質與令人興奮的設計概念，以及每一處絕對完美的細節。

Timeless Charm

永恒的魅力

PORSCHE DESIGN

Prosche Design has been developing and producing chronographs for more than thirty years and has continued to push the limits in doing so. Not only enhancing the existing design, Prosche Design continuously dedicates in the art of watchmaking through innovative functions, unusual materials and exquisite design and absolute perfection down to the very last detail.

ROSSINI 羅西尼

The outstanding performance of ROSSINI exhibits the continuous dedication of Swiss technology and innovation. Every style is a harmonious combination of soul and craftsmanship. Nobly and elegant temperament, slim and smooth line, delicate and exquisite craftsmanship, which endues a elegant and romantic cultural attitude of its owner, as well as a comfortable and caring but honorable experience, recurs the kingliness of Swiss watches.

羅西尼的出類拔萃，表現在精湛的瑞士技術和對創新的不懈追求。它所打造的每一款作品均是心靈與手藝的契合，氣質高貴典雅、線條纖薄流暢、工藝精致考究，賦予佩戴者高雅浪漫的文化品味、舒適體貼的尊貴感受，再現了瑞士鐘錶的王者風範。

CORPORATE HIGHLIGHTS IN 2012

MARCH 2012

Zhuhai Rossini Watch Industry Ltd. ("Rossini") was awarded the Most Influential Brand of China's Twenty-Year Consumption Market by China General Chamber of Commerce and China National Commercial Information Centre in the Glorious Twenty-Year Consumption Market Ceremony.

Rossini was ranked as 1st in overall market share in the watch category in 2011 by China General Chamber of Commerce and China National Commercial Information Centre. It was ranked as 1st in sales volume of its product category for ten consecutive years since 2002.

JUNE 2012

Rossini and EBOHR Luxuries International Limited ("EBOHR") were both awarded China's 500 Most Valuable Brands of the Year 2012 by the World Brand Laboratory. Rossini was ranked 1st in watch category with brand value of RMB3.5 billion, while EBOHR was ranked 3rd with brand value of RMB2.2 billion.

AUGUST 2012

Rossini celebrated its 28th anniversary of establishment. Its headquarters and manufacturing facilities were moved to the Zhuhai National Hi-tech Industrial Development Zone in Guangdong province; the Rossini Watch Museum inside its headquarters and manufacturing facilities was opened.

SEPTEMBER 2012

The Group established and invested HK$13 million in a 51% owned subsidiary, Henan Jinjue Enterprise Co., Ltd. ("Jinjue"). Jinjue is mainly engaged in the distribution of self-owned, domestic and international watch brands in Hebei and Henan provinces in Mainland China.

Gold Vantage Industrial Limited, a subsidiary of the Group, established Qinzhou Pros Watch Industrial Co., Ltd and Qinzhou JinTai Precision Products Co., Ltd in Mainland China, which will become manufacturing facilities of watches and accessories, respectively.

Rossini was awarded Asia's 500 Most Influential Brands in 2012 by the World Brand Laboratory. It is the only domestic watch brand in Mainland China that has received this award for five consecutive years.

NOVEMBER 2012

The Group sponsored "Eterna Cup" 2012 Tour of Fuzhou, a 300km international cycling race held in Fuzhou on 18 November 2012. With the participation of leading world-class athletes, the event generated tremendous publicity in international and local media.

Eterna opened its first shop in the Fuzhou Dongbai Department Store in Mainland China, as a milestone of Eterna's re-launch in the Asia market. Mr. Hon Kwok Lung, Chairman and the Executive Director of the Company, Mr. Patrick Kury, Chief Executive Officer of Eterna and the international superstar, Ms. Zhang Jingchu, celebrated the opening ceremony.

DECEMBER 2012

EBOHR was awarded 2012 Annual Prize for Public Welfare Brand Image in the 2012 (2nd) China Public Welfare Festival & "For Love" 2012 Public Welfare Grand Ceremony.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

1. HON Kwok Lung (Chairman)
2. SHANG Jianguang (Chief Executive Officer)
3. SHI Tao
4. LAM Toi Man
5. BI Bo
6. SIT Lai Hei (re-designated from non-executive director to executive director, with effect from 26 March 2012)

Independent Non-executive Directors

7. FUNG Tze Wa
8. KWONG Chun Wai, Michael
9. LI Qiang

AUDIT COMMITTEE MEMBERS

FUNG Tze Wa
KWONG Chun Wai, Michael
LI Qiang

REMUNERATION COMMITTEE MEMBERS

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

NOMINATION COMMITTEE MEMBERS

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

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

FONG Chi Wah

AUDITOR

BDO Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
China Construction Bank (Asia) Corporation Limited
The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Standard Chartered Bank (Hong Kong) Limited
China Merchants Bank Co., Ltd.

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

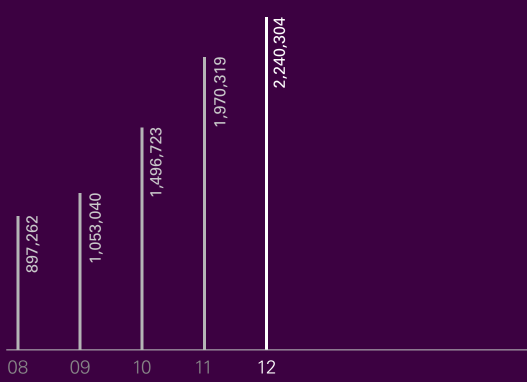
Units 1902-04, Level 19
International Commerce Centre
1 Austin Road West, Kowloon
Hong Kong

WEBSITE

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

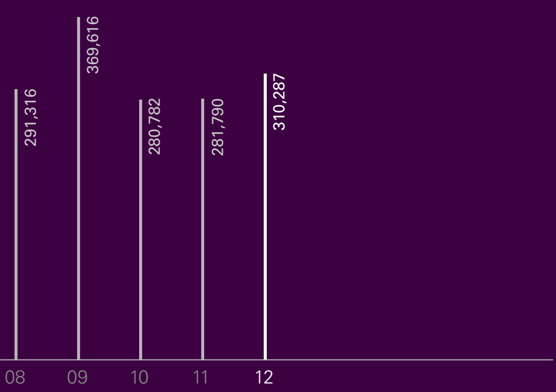
CORPORATE FINANCIAL HIGHLIGHTS

Revenue
HK$'000

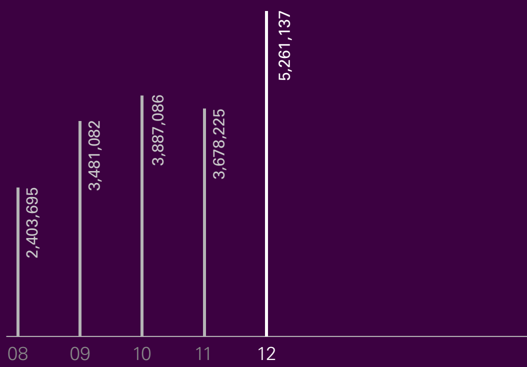


Total Revenue Including Both Continuing and Discontinued Operations

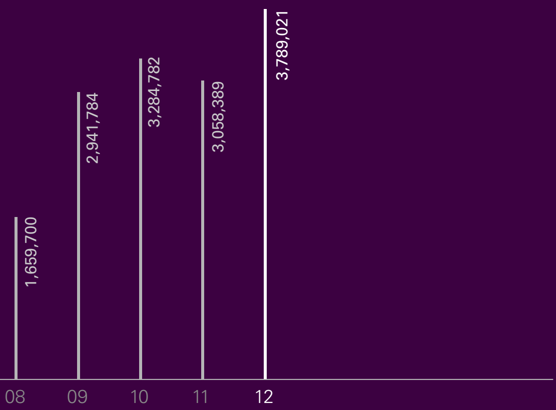
Profit After Tax
HK$'000



Total Assets
HK$'000

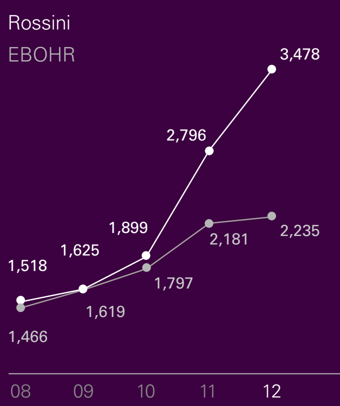


Owners' Equity
HK$'000

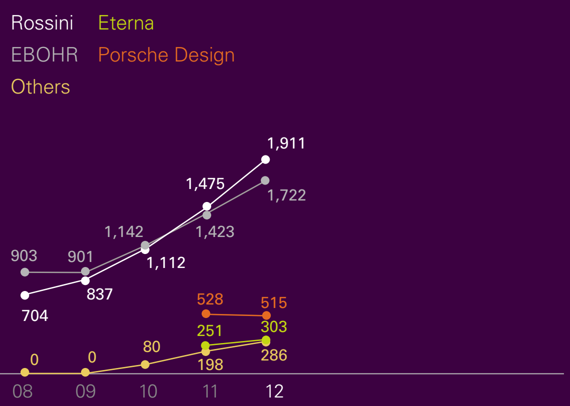


WATCHES AND TIMEPIECES SEGMENT HIGHLIGHTS

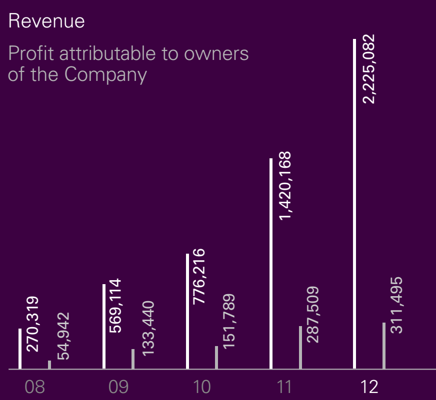
Brand Value
RMB million



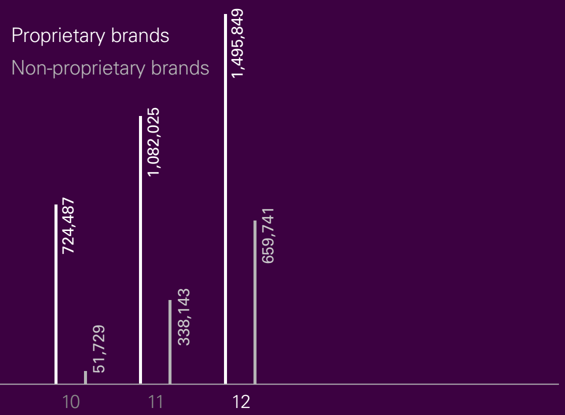
Distribution Outlets



Revenue and Profit
HK$'000



Revenue by Proprietary Brands and Non-proprietary Brands
HK$'000




ETERNA

CHAIRMAN'S STATEMENT

Dear shareholders,

2012 was another important year for China Haidian Holdings Limited (the "Company") and its subsidiaries (collectively, the "Group"). Not only has it witnessed the impressive growth of Zhuhai Rossini Watch Industry Ltd ("Rossini"), EBOHR Luxuries International Limited ("EBOHR") and distribution companies, but also was the year in which significant progress in the implementation of our strategic plan for Eterna was achieved.

Our financial performance and strategic moves reflected the joint efforts of the Board and management in successfully pursuing our mission to be one of the leaders in the watch industry of Mainland China.

FINANCIAL PERFORMANCE

The Group achieved substantial revenue growth in 2012. Revenue for the year amounted to HK$2,240,304,000 representing an increase of 14% over 2011. Our net profit attributable to owners of the Company for the year ended 31 December 2012 was HK$270 million. Net asset value per share was HK$0.93.

ROSSINI AND EBOHR

Rossini and EBOHR are dominant leaders in the domestically-made watch industry. Capitalising on their wide range of quality products and the increasingly comprehensive distribution network all over Mainland China, both Rossini and EBOHR generated increasingly strong recurring income from the established watch market for the general public and developed additional income from selectively targeted market segments.

Whilst the management in Rossini and EBOHR, led by experienced and committed management team, contributed to their impressive distribution network expansion and same store sales growth, the continuous economic growth, the accelerated urbanization and most directly, the increased disposable income and consumption power also contributed to the excellent performance of Rossini and EBOHR in 2012 and for the years to come.

The distribution network expanded at an accelerated pace in 2012. At the end of 2012, Rossini and EBOHR collectively distributed through over 3,500 distribution outlets all over Mainland China.

DISTRIBUTION OF NON-PROPRIETARY BRANDS

The distribution companies collectively contributed revenue of HK$659,741,000 in 2012, representing an increase of HK$321,598,000 or 95% from HK$338,143,000 in 2011; they also contributed net profit after tax of HK$25,268,000 in 2012, representing an increase of HK$11,956,000 or 90% from HK$13,312,000 in 2011.

During the year, the Group attained another milestone by setting up Henan Jinjue Enterprises Co., Ltd. for distribution of watches in Hebei and Henan provinces. The gradual development in distribution of non-proprietary brands provides a platform for significant revenue growth for the Group.

Through these distribution companies, which have around 250 self-owned brand image retail shops and distribution outlets, the Group distributed over 25 international brands in Beijing, Fujian, Guangdong, Sichuan, Jilin, Liaoning, Henan and other leading cities by the end of 2012.

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

These manufacturing and distribution of proprietary brands and distribution of non-proprietary brands are highly complementary to each other.

SIGNIFICANT PROGRESS OF ETERNA

In view of the fact that both Eterna and Porsche Design watches are international brands with a long history and very unique product lines, Eterna is strategically important for the sustainable development of the Group. To meet the demands of Mainland China and other leading overseas markets, the current areas of focus for the Group are: (1) branding and strategic marketing, (2) product development (3) channel development and (4) production of mechanical movement.

With the new products introduced in the Basel World in March 2012, branding and strategic marketing conducted in Mainland China, Hong Kong and overseas and distribution outlets developed during 2012, revenue and outstanding orders increased significantly in 2012.

Having obtained the qualification for self-developed basic modular mechanical movement in 2012, Eterna is expecting to obtain qualification for chrono modular mechanical movement in 2013. The capability to manufacture a variety of chrono mechanical movement with minimum alternations is a very important strategic resource for the Group's sustainable growth in the watch industry in Mainland China. Similar to Rossini and EBOHR, Eterna is a fully integrated watch manufacturer and distributor. We believe in the medium term, the Group's comprehensive distribution network in Mainland China will provide a springboard to Eterna's development in Mainland China.

Over the years, we have gradually built a sophisticated vertically integrated business model that equips the Group with an effective and tight control over the entire value chain, from raw materials and component procurement, design, production and marketing to sales. This model enables us to monitor and control the quality of our products effectively, and to respond quickly to our customers' needs and preferences. In the long term, our sophisticated vertically integrated business model sets us apart from our peers, and enables us to further improve our profitability.

PROSPECTS

There is a long journey ahead before we reach our destination and enjoy the full benefits of our endeavours. Externally, the market uncertainty brought by the global economic and geopolitical backdrop and Europe's sovereign debt problems continues to raise challenges and cast shadow in the near future. On one hand, now is a reasonably good time to make long-term investments for organic growth and mergers and acquisitions. On the other hand, this is a challenging period for us.

The Group will remain focused on executing the various initiatives under the strategic plan of developing both proprietary brands and non-proprietary brands. The Group would continue the impressive organic growth through product, market and distribution development. These multiple strategic moves are expected to drive significant growth in the years to come. Besides, we would focus on improving our corporate governance so as to prepare for the sustainable development of the Group.

With the view that the investments we are making now are crucial to our long-term competitiveness, we are well-prepared to counter any hiccups and compete with existing and new competitors.

In the years ahead, the Group will continue to execute its strategic plan and perform with great agility so as to bring sustainable returns to our shareholders.

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 for their guidance in establishing our Group's strategic direction.

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

Hon Kwok Lung
Chairman

Hong Kong, 26 March 2013

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

For the year ended 31 December 2012, the Group's revenue amounted to HK$2,240,304,000, an increase of HK$269,985,000 over 2011 (including continuing and discontinued operations). Similarly, gross profit increased by HK$373,682,000 to HK$1,217,721,000 while net profit attributable to owners of the Company increased by HK$14,551,000 to HK$270,425,000 over the last year.

Revenue from watches and timepieces segment was HK$2,225,082,000, representing an increase of HK$804,914,000 or 57% over 2011. Similarly, net profit after tax from watches and timepieces segment was HK$311,495,000, representing an increase of HK$23,986,000 or 8% from HK$287,509,000 over the last year.

BUSINESS REVIEW

Zhuhai Rossini Watch Industry Ltd. ("Rossini") and EBOHR Luxuries International Limited ("EBOHR") are becoming more dominant leaders in the domestic watch-making industry. They manage to build significant competitive advantages to discourage new entrance and gain market shares over weaker players. As such, they were major growth drivers that collectively account for 62% of the Group's revenue.

After laying strong foundation for growth through a series of strategic acquisitions in Mainland China and overseas in last two years, the Group has put into tremendous efforts in developing those subsidiaries and affiliated companies during 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. They have enhanced the leading positions of the Group in selected provinces and cities such as Chongqing, Beijing, Guangdong, Liaoning, Jilin, Henan and in Mainland China as a whole. 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 wider revenue base than the last year.

(1) Watches and timepieces – proprietary brands

The Group has built a sophisticated vertically integrated business model that equips the Group with an effective and tight control over the entire value chain, from product design and development, raw materials and component procurement, manufacturing of mechanical movement, assembling, inventory management, distribution, marketing to after-sales services in Mainland China and overseas. Such integrated model enables us to monitor and control the quality of our products effectively and respond quickly to our customers' needs and preferences. It also allows more operational flexibility, better product diversity in terms of styles and functionalities and deeper market penetration. The speed that the Group can adjust the product mix is a great competitive advantage. Besides, this total value chain approach avoids the specific risk encountered by specific segment of the value chain; this sophisticated vertically integrated business model sets us apart from our peers, and enables us to further improve our profitability. In the long term, it is the intention of the Group to own a few more proprietary brands with vertically integrated business models that are able to contribute increasingly strong revenue and profit.

Eterna Group

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

Eterna is also licensed to manufacture and distribute 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 self-owned/franchised shops all over the world.

Eterna Movement is able to manufacture its own mechanical movement, comprising manual, automatic, with and without date, and chronograph functionalities. It is the objective of Eterna Movement to establish itself as a fully integrated watch manufacturer, and produce key components as well as completed movements, both in-house and to the third party brands. The caliber 38 which achieved qualification in 2011 has been exclusively equipped in the new watch model and presented at Basel World 2012. Leveraging on the success of caliber 39 that has also achieved qualification in 2012, Eterna Movement expects to achieve qualification of the modular caliber 39 incorporating chronograph functionalities in 2013. Modular mechanical movement can be easily modified to include additional features, such as date, tourbillion and chronograph functionalities, with relatively simple process and at relatively competitive cost. The ability to produce mechanical movement serves as a key competitive advantage for the Group.

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 so that they can learn Eterna products and their related technicalities. Besides, Eterna has strengthen the after sale service, the quality control, new product development and mechanical movement departments.

Eterna has made important steps on the global distribution in 2012, particularly in countries such as the US, Brazil, Columbia and Mexico. There are discussions of distribution agreements with potential partners. As of 31 December 2012, there were 294 distribution outlets for Eterna watch (251 in 2011), of which 260, 8, 10 and 16 were in Europe, America, Asia and Middle East respectively. There were 512 distribution outlets for Porsche Design watch (528 in 2011), of which, 365, 80, 31 and 36 were in Europe, America, Asia and Middle East respectively.

Eterna (Asia) has established over 7 distribution outlets in Hong Kong and 1 distribution outlet in Fuzhou, Mainland China and 1 distribution outlet in Japan. At the same time, Porsche Design has its first boutique in Hong Kong, its first boutique in Mainland China and its first boutique in Korea. Asia, especially Mainland China and Hong Kong, would be the areas of focus for the network development. It is expected to open significant number of distribution outlets in Mainland China and Hong Kong in the near future to cater for the increasing demand for Swiss-made watches.

Eterna focuses on three product segments, namely: mechanical watches with Eterna movement, mechanical watches with purchased movement and quartz watches. New products from those three segments have been developed and presented to the market during the Basel World 2012. In addition, new marketing campaigns for branding and strategic marketing including sponsorships, joint promotions and exhibitions have been launched in 2012 in Europe, Hong Kong and Mainland China. For Instance, Eterna teamed up with Southampton Football Club in England, sponsored Eterna Cup 2012 Tour of Fuzhou, a 300km international cycling race, launched TV commercials on CCTV, the largest TV network in Mainland China and advertised in leading MTR stations in Hong Kong. As a result, Eterna would be able to attract a wide range of customers, especially in Mainland China.

Eterna Group contributed revenue and net loss after tax of approximately HK$98,285,000 and HK$69,275,000 respectively. The net loss was due to the new product development cost incurred for the Basel World in March 2012, new market development cost and incremental operating cost. Given the increasingly strong revenue being generated from Hong Kong, Mainland China and overseas, Eterna is expected to achieve breakeven within a couple of years.

Zhuhai Rossini Watch Industry Ltd.

Zhuhai Rossini Watch Industry Ltd. ("Rossini"), a 91% subsidiary of the Group, achieved impressive result in 2012. Revenue in 2012 was HK$725,910,000, an increase of HK$177,181,000, or 32%, from HK$548,729,000 in 2011. Net profit after tax that attributable to owners of the Company in 2012 was HK$200,729,000 compared with HK$162,553,000 in 2011, an increase of HK$38,176,000, or 23%.

During the year, Rossini has increased its number of distribution outlets by 439 to 1,911 (1,220 outlets through department stores, 685 outlets through authorised dealers and 6 boutiques). The growth outlook for distribution outlets is promising as Rossini watches are appropriate for the market of Mainland China.

The new production and office facilities started operation in August 2012 which provides functions such as product R&D centre, central laboratory, technical centre, production and marketing management, enterprise management, etc. It not only provides additional production capacity to cater for the increased demand but also raises the quality of production that meets recognized standards such as ISO9001, ISO14001 and OHSAS18001. The facilities are a key competitive advantage, supporting Rossini to sustain its leading position in Mainland China. Furthermore, the watch museum, being an integral part of the facilities, which demonstrates, among others, 16 special pieces of Chinese historic time measurement machine, attracts tourists in excess of 14,000 during the first four months from Mainland China and provides customer flow for sale of watches within the distribution outlet inside the facilities. The distribution outlet inside the facilities, specially equipped to cater for the tourists' sale, is an exceptional channel that sets us apart from our peers, and enables us to generate tremendous recurring revenue at limited operating costs.

Internet sales was growing strongly in the year, accounting for HK$29,161,000, 4% of total revenue. Unique product lines, that are different than those available in the physical distribution outlets, are developed for Internet sales. While the Internet sale is a powerful tool to extend the customer reach targeting the group of younger customers aged 18 to 25, it is considered complementary to the sales from physical distribution outlets and expected to grow significantly. The customer consumption data and feedback from the Internet sale is also useful for generating revenue from physical distribution outlets.

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

With additional human resources and capital expenditure allocated into the design, Rossini's new product lines, namely the sport series and the double tourbillion series, attract not only increasingly strong customer base but also a growing number of national, provincial and city awards for their designs and quality.

Rossini has been awarded China's 500 Most Valuable Brands and Asia's 500 Most Influential Brands of the year 2012 by the World Brand Laboratory. Rossini is the only watch company from Mainland China that obtains the latter award for the last five years and the value of the brand is the highest among all the local watches brands. Rossini has also been awarded one of China's Top 100 Fashion Brands by China Trends Summit in March 2012 and listed as one of the Pilot Sites for Brand Cultivation in China.

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

EBOHR Group

EBOHR Group is composed of EB Brand Limited, EBOHR Luxuries International Limited ("EBOHR"), PAMA Precision Manufacturing Limited and Swiss Chronometric AG.

EBOHR Group achieved impressive result in 2012. Revenue in 2012 was HK$671,654,000, an increase of HK$181,244,000, or 37%, from HK$490,410,000 last year. Net profit after tax in 2012 was HK$167,585,000, compared with HK$101,515,000 in 2011, an increase of HK$66,070,000, or 65%.

During the year, there was an increase of 299 distribution outlets. The total number of distribution outlets as of 31 December 2012 was 1,722 (1,123 outlets through department stores, 597 through authorized dealers and 2 boutiques). Such expansion was particularly relevant to the increased demand for EBOHR watch in Mainland China cities.

Internet sales increased to HK$46,803,000 in 2012 from HK$20,633,000 in 2011 and its proportion of total revenue to 7% in 2012 from 4% in 2011. EBOHR put efforts in developing brand awareness among Internet users by expanding the online presence through popular social media and hence generated increasingly strong Internet sales.

Promotion events organized by the regional sale manager and head quarters proved to be effective. Celebrity endorsement is effective for KANA, a sub-brand of EBOHR, as KANA targets younger customers who are generally more appeal to celebrities.

EBOHR put into significant efforts into watch design, investing into the design team in the Mainland China and utilizing the resources from Switzerland. Creative, attractive and stylish product design is one of the core competencies of EBOHR. The design team is keeping track on customers' tastes and the fast-changing trends in Mainland China. With additional product lines introduced, EBOHR streamlined the existing product lines so that it could focus on the performing product lines and thus more effectively monitored the inventory level. In addition to the product lines for the mass market, EBOHR focused on watches with gold case, exclusive mechanical movement and Nano coating.

EBOHR has been awarded China's 500 Most Valuable Brands of the year 2012 by the World Brand Laboratory.

Swiss Chronometric AG, a subsidiary 100% owned by the Group through EBOHR, manufactures and distributes Codex watches in Switzerland. Self-owned distribution outlets in both Lucerne of Switzerland and Shanghai of Mainland China were in operation. On 24 April 2012, the self-owned flagship boutique was officially opened in Shanghai; it was an event well attended by the relevant industry practitioners and widely reported in the relevant leading media. Coupled with continued brand marketing, Codex is now gaining increasingly strong recognition in Mainland China. Revenue for the distribution outlet in Lucerne increased as it has cooperated with a number of travel agencies to generate stronger tourist demand.

(2) Watches and timepieces – non-proprietary brands

Since the establishment of Shenzhen Permanence Commerce Co., Ltd. ("Permanence"), the Group has been keen to develop more market share in distribution of non-proprietary brands in different provinces and cities such as Guangdong, Chongqing, Beijing, Liaoning, Jilin and Henan. Through the watch distribution companies, the Group collectively owns around 250 brand image retail shops and distribution outlets, distributing over 25 local and international brands and spanning over 15 provinces nationwide. The revenue is expected to continue to increase due to favorable government policies, continuous economic growth, rapid urbanization, increased disposable income and most importantly, increasing demand for luxury goods.

These distribution companies not only provide additional distribution network for the Group's proprietary watches but also generate revenue from the distribution of other well-known local and foreign brands. They particularly cater the rising demand for a wider range of domestic and international watches.

Except for Permanence that is 100% owned, all distribution companies are 51% owned by the Group. These distribution companies are different in the products they distribute and in the cities they focus on. Collectively, they contributed revenue and net profit after tax that attributable to owners of the Company of HK$659,741,000 (2011:

HK$338,143,000) and HK$25,268,000 (2011: HK$13,312,000) respectively. Revenue and net profit after tax increased in line with the expanded product range and distribution network.

(3) Watches and timepieces – production

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

Guangzhou Five Goat Watch Company Limited

Guangzhou Five Goat Watch Company Limited ("Five Goat"), a 78% owned subsidiary of the Group, was established in March 2012. It is engaged in the manufacture and distribution of mechanical movement and watches and it owns two watch brands, namely, Guangzhou and Dixmont. Five Goat has worked to improve production equipment, quality of mechanical movement and additional market for mechanical movement. Moreover, Five Goat puts efforts into development of tourbillion. In the medium term, Five Goat would provide the Group with steady supplies of components at a competitive cost. Besides, Five Goat developed 14 new watches, of which 10 were designed by a leading Swiss watch design firm and 4 were developed by the in-house designers, and developed distribution outlets for watch. Five Goat distributes its proprietary brand watches through 11 distribution outlets in Guangdong, Mainland China. Five Goat contributed revenue, of which 95% from mechanical movement and 5% from watch, and net profit after tax of approximately HK$69,492,000 and HK$7,172,000 respectively in 2012.

Fair Future Industrial Limited

Fair Future Industrial Limited ("Fair Future"), a 25% owned associate of the Group, is engaged in the manufacture of watches and accessories of watches for a well-known Japanese brand on an OEM basis. Creative and stylish design is one of the core competences of Fair Future. With a design team in excess of 30 professionals well exposed to the changing consumer behavior in the world, Fair Future has made product portfolios that are well received by the OEM customers. Coupled with good quality control, Fair Future is well positioned for sustainable development.

The Group shared 25% profit from April 2012 to December 2012 after the completion of acquisition in March 2012, contributing HK$13,499,000 net profit after tax to the Group. During the year, the Group has received dividend income of HK$11,250,000 in cash from Fair Future. Such dividend income was recognized as a decrease in the Group's interests in associates.

(4) Investment in Citychamp Dartong

The Group received cash dividend of HK$17,169,000 and 65,246,000 bonus shares from Citychamp Dartong Company Limited ("Citychamp Dartong") during the year. On 18 March 2013, Citychamp Dartong announced its results under PRC GAAP for the year ended 31 December 2012. The consolidated profit was RMB861,742,000 (2011: RMB824,438,000), in which RMB830,837,000 (2011: RMB795,815,000) was attributable to owners of Citychamp Dartong.

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

As the lock-up period was expired on 22 May 2010, the Citychamp Dartong shares were considered to be marketable securities with a value of HK$1,409,097,000 as at 31 December 2012.

(5) Property investment

The factory complex in Dongguan, the property on Yan He South Road, Luohu District, Shenzhen, three shop units on Xianghua Road, Zhuhai, in Guangdong Province of Mainland China, and one apartment in Hong Kong owned by the Group have been leased out, with stable rental returns to the Group for the year. During the year, these investment properties generated rental income of HK$5,515,000 (2011: HK$5,367,000).

(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 year, Chart Victory incurred net loss after tax of approximately HK$3,556,000 (2011: HK$6,390,000). 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 31 December 2012, the Group had non-pledged cash and bank balances of approximately HK$228,624,000 (2011: HK$351,276,000). Based on the bank borrowings of HK$478,512,000 (2011: HK$86,171,000) and shareholders' equity of HK$3,789,021,000 (2011: HK$3,058,389,000), the Group's gearing ratio (being borrowings divided by shareholders' equity) was 13% (2011: 3%).

As at 31 December 2012, the Group's bank borrowings amounted to HK$478,512,000 and all were repayable within five year.

(2) Charge on assets

Banking facilities of the Company were secured by the Group's certain properties in Hong Kong and Switzerland with carrying amounts totalling approximately HK$69,777,000 as at 31 December 2012.

(3) Capital commitments

As at 31 December 2012, the Group had a capital commitment of HK$37,335,000 (2011: HK$119,721,000) in respect of the purchase of certain intangible assets to a joint venture company in Mainland China, namely Henan Jinjue Enterprise Company Limited.

FINANCIAL REVIEW

(1) Gross profit

Gross profit was HK$1,217,721,000, an increase of 44% from HK$844,039,000 last year. Before making adjustments for intra-group transactions, Rossini contributed gross profit of HK$507,845,000 while EBOHR contributed gross profit of HK$487,233,000.

(2) Selling and distribution expenses

Total selling and distribution expenses was HK$513,278,000, an increase of 48% from HK$345,813,000 last year. Such increase was in line with the increase in revenue. Rossini contributed selling and distribution expenses of HK$198,914,000, while EBOHR contributed selling and distribution expenses of HK$195,192,000.

(3) Administrative expenses

Total administrative expenses was HK$351,448,000, an increase of 47% from HK$238,538,000 last year. Such increase was in line with the increase in revenue of Rossini, EBOHR, Eterna and distribution companies. Eterna incurred part of the administrative expenses, for example, development costs incurred for the Basel World in March 2012, new market development cost and incremental operating cost to lay a strong foundation for future growth. Rossini, EBOHR Group, and Eterna Group contributed administrative expenses of HK$52,971,000, HK$82,586,000 and HK$72,208,000, respectively.

(4) Net profit attributable to owners of the Company

Net profit attributable to owners of the Company was HK$270,425,000, an increase of 6% from HK$255,874,000 last year. Rossini contributed net profit of HK$200,729,000 while EBOHR Group contributed net profit of HK$167,585,000.

(5) Inventory

Inventory was HK$1,587,657,000, an increase of 66% from HK$956,273,000 in last year. Rossini, EBOHR Group and Eterna Group contributed inventory of HK$277,156,000, HK$467,110,000 and HK$292,781,000 respectively. Majority of inventory is composed of finished watch with age shorter than 12 months.

There are two major reasons for the considerable increase in inventory. Firstly, there was a significant increase of number of distribution outlets. Apart from replenishment of existing sales network, additional inventory would also be required for new distribution outlets in the pipeline. Secondly, in order to activate the development of Eterna, relatively more watches have been produced but have not been sold to ultimate customers yet, contributing to higher level of inventory.

As the Group has initiated measures to enhance sales efficiency at distribution outlet level and overall inventory management, it is expected that the level of inventory would be gradually in line with revenue generated in the medium term.

OUTLOOK

The global economic and political uncertainties persisted in 2012. The unclear economic and geopolitical backdrop will continue to raise challenges and cast shadows over the next year. 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 May 23, 2012, the Central People's 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 economic 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.

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 distribution network in different provinces to capture the untapped market remains one of the most appealing strategies of the Group.

Our strategic plan for 2013 remains unchanged. While we consider developing proprietary brands our top priority, we will develop the distribution of non-proprietary brands, covering more products and expanding distribution outlets. The Group would keep on identifying and evaluating opportunities and undertake mergers, acquisitions and alliances deals that are in the best interests of the shareholders.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2012, the Group had approximately 4,000 full-time staff in Hong Kong and Mainland China. The remuneration packages offered to the employees were determined and reviewed on an arm's length basis with reference to the market condition and individual performance. The Group also provides other benefits to its employees, including year-end double pay, medical insurance and retirement benefits, and incentive bonus are offered with reference to the Group's operating results and employees' individual performance. All employees of the Group in Hong Kong have joined the provident fund schemes. Employees of Group's subsidiaries in Mainland China also participate in social insurance scheme administrated and operated by local authorities and contributions are made according to the local laws and regulations.

APPRECIATION

The Group's impressive performance in the past year was the result of the dedicated work by the management and its staff. I would like to express my deep gratitude to our employees, customers, suppliers, bankers, professional consultants, business partners, and shareholders for their support.

Shang Jianguang
Chief Executive Officer

Hong Kong, 26 March 2013

DIRECTORS AND SENIOR MANAGEMENT

HON Kwok Lung
Chairman

SHANG Jianguang
Chief Executive Officer

SHI Tao

EXECUTIVE DIRECTORS

Mr. Hon Kwok Lung, aged 58, is the Chairman of the Board of Directors of Citychamp Dartong Company Ltd. ("Citychamp Dartong"), the shares of which are listed on the Shanghai Stock Exchange in Mainland China. Citychamp Dartong and its subsidiaries are principally engaged in manufacturing and sale of enamelled copper wires and property development in Mainland China. Mr. Hon has extensive business experience in Mainland China. Mr. Hon is a member of the National Committee of the Chinese People's Political Consultative Conference ("CPPCC"); Beijing Municipal Committee of CPPCC; Beijing Haidian District Committee of CPPCC; Fuzhou Committee of CPPCC; All-China Federation of Returned Overseas Chinese; and the Standing Committee of Jilin Federation of Returned Overseas Chinese. He joined the Board in April 2004.

Mr. Shang Jianguang, aged 61 and graduated in Fuzhou University majoring in Chemistry, is a qualified senior engineer in Mainland China. Prior to joining the Group, he assumed senior posts in various large companies, and was General Manager and Director of Min Xin Holdings Limited, a company listed on the main board of the Stock Exchange. He has extensive knowledge and experience in corporate and investment management. He joined the Board in November 2004.

Mr. Shi Tao, aged 49, holds a Bachelor degree in Engineering from Tsinghua University and a Master degree in Engineering from Wuhan University of Technology (formerly known as Wuhan Industrial University). Mr. Shi has years of business experience in Mainland China. He was an Executive Director of New Capital International Investment Limited, a company listed on the main board of the Stock Exchange. He joined the Board in April 2004.

LAM Toi Man

Mr. Lam Toi Man, aged 55, has various years of experience in property development in Mainland China. Mr. Lam was the General Manager of Zhejiang Huashun Real Estate Investment Co., Ltd. and an Executive Director and the General Manager of Hangzhou Yuanhua Mart Construction Co., Ltd.. He joined the Board in April 2004. Mr. Lam is the brother-in-law of Mr. Hon Kwok Lung.

BI Bo

Mr. Bi Bo, aged 34 and graduated from Xi'an Jiaotong University with a Bachelor's degree in Information Engineering in July 2001. He also received the degree of Master of Business Administration from Troy State University in May 2004, and the degree of Master of Science (Finance) from The Johns Hopkins University in May 2006. Prior to joining the Group, he was a senior actuarial assistant (supervisor) in Carefirst Bluecross Blueshield. He qualified as an associate of the Society of Actuaries (ASA) in 2009. He joined the Board in August 2010.

SIT Lai Hei

Ms. Sit Lai Hei, aged 36 and graduated in Fuzhou University taking Marketing as her major, is a qualified assistant engineer in Mainland China. She has been appointed as a Non-executive Director of the Company since November 2004 and has been re-designated as an Executive Director of the Company with effect from 26 March 2012. Ms. Sit is also a Director of Citychamp Dartong, the shares of which are listed on the Shanghai Stock Exchange in Mainland China. Ms. Sit is the daughter-in-law of Mr. Hon Kwok Lung, the Chairman of the Board and controlling shareholder of the Company. In addition, Ms. Sit's husband is a nephew of Mr. Lam Toi Man, an Executive Director of the Company.

FUNG Tze Wa

KWONG Chun Wai, Michael

LI Qiang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fung Tze Wa, aged 56, is a Certified Public Accountant and a Director of an accounting firm in Hong Kong. Mr. Fung has many years of experience in auditing, taxation and company secretarial practice in Hong Kong. He obtained a Master degree in professional accounting from the Hong Kong Polytechnic University in 2000. He is a member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Chartered Association of Certified Accountants, the Taxation Institute of Hong Kong and the Society of Chinese Accountants and Auditors. He has also been appointed as the independent non-executive director of New Capital International Investment Limited ("New Capital") since April 2004, of Jiwa Bio-Pharm Holdings Limited since September 2004 and of JF Household Furnishings Limited since October 2012. He has resigned as independent non-executive director of New Capital with effect from 21 March 2012. These companies' shares are listed on the Stock Exchange. He joined the Board in April 2004.

Dr. Kwong Chun Wai, Michael, aged 48, is a fellow of the International Institute of Management, a member of the Hong Kong Institute of Marketing, a member of the Hong Kong Logistics Association, a certified professional marketer of the Hong Kong Institute of Marketing and a business strategist specialising in the area of marketing and business administration. Dr. Kwong obtained a Bachelor of arts degree with honours in philosophy from the University of Nottingham in the United Kingdom in 1987 and a Doctorate degree in business administration from Newport University in the United States in 2001. Dr. Kwong has also been appointed as an independent non-executive director of New Capital International Investment Limited ("New Capital"), a company whose shares are listed on the Stock Exchange, since November 2006. He has resigned as independent non-executive director of New Capital with effect from 21 March 2012. He joined the Board in April 2004.

Mr. Li Qiang, aged 47, holds a Master of Science degree and a PhD degree in Economics. Since March 2004, he is a senior consultant of Insurance Fund Management Regulatory Department of China Insurance Regulatory Commission. He has over 20 years of experience in Mainland China financial market, including banking, securities and fund management. He joined the Board in November 2004.

FONG Chi Wah

TAO Li

SENIOR MANAGEMENT

Mr. Fong Chi Wah, aged 50, is the Chief Financial Officer and Secretary of the Company. Mr. Fong is an associate member of HKICPA, a fellow member of CPA Australia, a Chartered Financial Analyst and a member of the Hong Kong Institute of Directors. Mr. Fong has over 20 years of extensive experience in various sectors of the financial industry, including direct investment, project and structured finance, and capital markets with focus on Mainland China and Hong Kong. Mr. Fong was a director of Baring Capital (China) Management Limited and held various management positions in ING Bank. He joined the Company in September 2004.

Mr. Tao Li, aged 60, is the Vice President of the Company. He is also a Director and General Manager of several subsidiaries of the Company and in charge of the watch manufacturing and distribution businesses of the Group. Mr. Tao graduated from Beijing Foreign Trade College (currently known as China Foreign Economy and Trade University) in 1978 and is a senior economist in Mainland China. He has over 30 years of experience in business administration, marketing and international trading. He has been working with the Group since 1991.

YIN Weirong

TEGUH Halim

Mr. Yin Weirong, aged 56, is a qualified senior economist. He is the Vice President of the Company, he is also a Director and a Deputy General Manager of various subsidiaries of the Company. Mr. Yin was the Chief Representative of a reputable multinational company in Mainland China and the General Manager of a large PRC international trust and investment corporation responsible for investment in industrial and financial projects. Having acquired over 30 years of experience in corporate management and developing markets in Mainland China and overseas, he joined the Company in April 2007.

Mr. Teguh Halim, aged 31, is the Vice President of the Company. Mr. Halim graduated from Ohio State University majoring in accounting. He is a director of several subsidiaries of the Group engaged in the watch manufacturing and distribution. He joined the Group in October 2008. Mr. Halim is the son-in-law of Mr. Hon Kwok Lung, the Chairman of the Board and controlling shareholder of the Company.

CORPORATE SOCIAL RESPONSIBILITY

As a responsible corporate citizen, the Group is committed to contributing to the society in support of the well-beings of its employees, communities and environment and incorporating this principle into practice while developing the Group's business.

EMPLOYEE TRAINING AND DEVELOPMENT

Considering that the staff is its most valuable asset, the Group highly regards employee's personal development and well-being. As such, we aim to create a quality community and a motivating environment for our employees, and to enhance staff development and staff retention. We strive to motivate our employees with a clear career path which provides them with opportunities for advancement and upgrading their qualifications and skills. We also provide a wide range of training programs to enhance their professionalism. Tailored training programs are provided to our employees, for example, our sales staff is required to attend training programs on customers service and product knowledge; our technicians and craftsmen are provided with on-going technical training to ensure excellence in the product quality; and our management personnel are invited to attend management courses to refine their business management skills. Employees are provided with examination leaves and benefits if they join the relevant courses and trainings approved by the Group. In the near future, the Group shall continuously arrange or offer intensive training to equip its staff with the qualifications and skills and to encourage them to work as a team in order to provide high-quality and consistent services.

EMPLOYEE WORK-LIFE BALANCE

The Group promotes the work-life balance philosophy by encouraging its staff to participate in a wide variety of recreational activities.

To this end, the Group has allocated budget for both capital expenditure and revenue expenditure. In form of capital expenditure, a multi-purpose recreation center is built, various musical instruments are purchased for building up a company orchestra, and a multi-purpose sport field is built next to the office and manufacturing facilities. In form of revenue expenditure, costumes for art performance are purchased and fees for coaches for various music instruments and for various sports are incurred. The Group also sponsors the activities of various recreational clubs within the Group.

The periodic art performances, sport competitions and activities arranged by various recreation clubs certainly improve the communication among employees, strengthen their health, team spirit and work motivation, and release their work stress.

COMMUNITIES

During the year, the Group sponsored various charitable events.

Even since 2008, the Group has launched a long-term philanthropic program, namely "An 18-year Promise", in cooperation with the China Women's Development Foundation of the All-China Women's Federation. The Group is committed to finance the cost of raising 100 children, who are made orphans by the earthquake happened in Wenchuan in 2008, until they are 18 years old. Besides, the volunteers from the Group also visit them around 1 June every year. Up to the end of 2012, the Group has contributed a donation in excess of RMB1 million. In addition, the Group has held a charity fund-raising event called "KANA Charity Eve" annually since 2010 that was participated by numerous celebrities in the fashion industry. All additional funds raised are also channeled to provide living and educational benefits for those orphans. The China Charity Festival recognized such contribution and awarded "Public Welfare Image Prize 2012" to the Group.

The Group shall continue to support various charity activities and encourage its staff to show their care for the communities.

ENVIRONMENTAL PROTECTION

The Group always places great emphasis on sustainable environmental development and incorporates it in every aspects of its business.

The newly established manufacturing facilities in Zhuhai attains ISO14001 Environmental Management System Certificate, demonstrating its effective and efficient environmentally friendly manufacturing process. Selected environmentally friendly manufacturing processes are as follows:

- Using environmental-friendly materials and energy-saving ideas in the design and construction of the facilities;
- Appropriately disposing waste water, waste emission and industrial waste in compliance with the relevant environmental laws and regulations;
- Building a dust-proof clean manufacturing facilities which meets standard as strict and high as that required by the food and catering industry;
- Controlling and minimizing the density of smoke emitted by the dynamotors through Ringelman Smoke Chart;
- Monitoring and reducing volume of the noise generated the dynamotors; and
- Conducting environmental protection checks and reviewing the results for the entire facilities annually.

Environmental friendliness will continue to be one of the Group's sustainable principles throughout the manufacturing process.

The manufacturing facilities also attains OHSAS18001 Occupational Health and Safety Certificate. Strict management systems and policies have been incorporated to keep a qualified health and safety occupational environment.

The Group will continue our efforts to further enhance a green living environment.

CORPORATE GOVERNANCE REPORT 2012

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a standard of corporate governance that is consistent with market practices.

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Government Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2012 except for code provision E.1.2. Code provision E.1.2 stipulates that the Chairman of the board of directors should attend the annual general meeting. The Chairman of the board of directors will endeavor to attend all future annual general meetings of the Company unless unexpected or special circumstances preventing him from doing so. The board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision-making processes are properly regulated.

The followings summarize the Company's key corporate governance practices.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the code of conducts for securities transactions by directors of the Company. All the members of the board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2012.

BOARD OF DIRECTORS

The principal focus of the board is on the overall strategic development and direction of the Group. The board also monitors the financial performance and the internal controls of the Group's business operations. Moreover, the board is responsible for performing the corporate governance duties. The board has established a clear segregation of duties and responsibilities between the board and the management as to which types of decisions are to be taken by the board and which are to be delegated to management. This segregation of duties and responsibilities will be regularly reviewed by the board. With the Chairman as a facilitator in the establishment that promotes discussion among directors, the directors of the board have brought a wide spectrum of valuable business experience, knowledge and professionalism to the board for its efficient and effective delivery of the board functions.

Composition of the Board

The board comprises of six Executive Directors (one of whom is the Chairman and the other of whom is the Chief Executive Officer) and three Independent Non-executive Directors. The Company considers diversity at the board level important to the achievement of strategic objectives and sustainable development. A number of aspects, including but not limited to gender, age, educational background, professional experience, skills, knowledge and length of service, are taken into account.

Profiles of directors are set out in the pages 20 to 24 of the Annual Report.

As at 31 December 2012, the board comprises the following members:

Name of Director	Position	Date of first appointment to the Board	Date of last re-election as Director
HON Kwok Lung	Chairman/Executive Director	08/04/2004	28/05/2010
SHANG Jianguang	Chief Executive Officer/ Executive Director	18/11/2004	27/05/2011
SHI Tao	Executive Director	08/04/2004	27/05/2011
LAM Toi Man	Executive Director	08/04/2004	27/05/2011
BI Bo	Executive Director	24/08/2010	27/05/2011
SIT Lai Hei	Executive Director	18/11/2004	28/05/2010
FUNG Tze Wa	Independent Non-executive Director	08/04/2004	28/05/2012
KWONG Chun Wai, Michael	Independent Non-executive Director	08/04/2004	28/05/2012
LI Qiang	Independent Non-executive Director	18/11/2004	28/05/2012

Save as mentioned below, there is no relationship among members of the board:

(i) Mr. Lam Toi Man (Executive Director) is the brother-in-law of Mr. Hon Kwok Lung (Chairman of the board).

(ii) Ms. Sit Lai Hei (Executive Director) is the daughter-in-law of Mr. Hon Kwok Lung and Ms. Sit's husband is a nephew of Mr. Lam Toi Man.

Independent Non-executive Directors

One of the Independent Non-executive Directors possesses appropriate professional accounting qualifications and financial management expertise.

With a wide range of expertise and a balance of skills, the Independent Non-executive Directors bring independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct through their participating in board meetings and committee work.

The views of the Independent Non-executive Directors carry significant weight in the board's decision-making process. The board considers that each Independent Non-executive Director is independent in character and judgment and that they all meet the specific independent criteria as required by the Listing Rules. The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers such directors to be independent. The Independent Non-executive Directors are explicitly identified in all corporate communications.

Annual General Meeting, Board Meetings and Board Practices

The board meets regularly throughout the year to review the overall strategy, discuss business opportunities and monitor the operation as well as the financial performance of the Group. With the assistance of the Company Secretary, the Chairman and the Chief Executive Officer are primarily responsible for drawing up and approving the agenda for each board meeting in consultation with all directors. Notice of at least 14 days have been given to all directors for all regular board meetings and the directors can include matters for discussion in the agenda if necessary. Agenda and accompanying board papers in respect of regular board meetings are sent out in full to all directors within reasonable time prior to meetings.

Minutes of board meetings and meetings of board committees are kept by duly appointed secretaries of the respective meetings, and all directors have access to board papers and related materials, and are promptly provided with adequate information, which enables the board to make informed decisions on matters placed before it.

During the year ended 31 December 2012, six board meetings and the annual general meeting for the year 2012 (the "AGM 2012") were held, and the individual attendance of each director is set out below:

	Attendance/Meetings Held	
Name of director	**Board Meetings**	**AGM 2012**
HON Kwok Lung	6/6	0/1
SHANG Jianguang	5/6	1/1
SHI Tao	2/6	0/1
LAM Toi Man	2/6	0/1
BI Bo	3/6	1/1
SIT Lai Hei	3/6	0/1
FUNG Tze Wa	2/6	1/1
KWONG Chun Wai, Michael	2/6	1/1
LI Qiang	1/6	1/1

Re-election of Directors

Each of the directors is appointed for a specific term and is subject to the rotation provision of the Company's Articles of Association and shall retire at least once every three years.

Pursuant to the existing Articles of Association of the Company, at every annual general meeting, one-third of the directors for the time being or, if their number is not a multiple of three, then the number nearest to but not less than one-third shall retire from office. Besides, the Company will ensure full compliance with the CG Code provision that every director should be subject to retirement by rotation at least once every three years.

Continuing Professional Development

Pursuant to the revised CG Code which took effect on 1 April 2012, all directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the board remains informed and relevant.

To facilitate the directors to discharge their responsibilities, they are continuously updated from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime, the business and market changes, and the strategic development of the Group.

Tailor-made induction kit is provided to any newly appointed director. Besides, the induction process includes meetings with senior management to enable them to have better understanding of the Group's business and strategy and the key risks and issues. Throughout the year, all directors are provided with information on selected directors' training courses for them to attend. They are requested to provide the Company with their respective training records pursuant to the revised CG Code.

Communication with Directors

All directors are provided with up-to-date consolidated accounts of the Group and financial information on key subsidiaries on monthly basis. They are also provided from time to time the latest changes and development of the Listing Rules, corporate governance practice and other regulatory regime. The management is prepared to provide additional information and explanations if there are areas the directors need to elaborate.

Independent Non-executive Directors are given the opportunity to discuss issues of the Company with the Chairman in the absence of Executive Directors. Besides, they are also given the opportunity to discuss issues of the Company with the management in the absence of Executive Directors.

Insurance for Directors

Appropriate liability insurance, the coverage of which is reviewed annually, has been arranged to indemnify the directors' risk exposure arising out of corporate activities.

DELEGATION BY THE BOARD OF DIRECTORS

Audit Committee

The Audit Committee (the "AC") comprises the three Independent Non-executive Directors, Mr. Fung Tze Wa (Committee Chairman), Dr. Kwong Chun Wai, Michael and Mr. Li Qiang.

The composition and members of the AC complies with the requirements under Rule 3.21 of the Listing Rules. The written terms of reference which describe the authority and duties of the AC were adopted in 1999 and subsequently revised on 23 August 2005. In order to conform to the new provisions of the CG 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.

During the year under review, the AC met with the Company's external auditors, the board and senior management. The AC has met two times to review the financial reporting (including interim and annual results) and other information to shareholders, the accounting system, the system of internal controls, risk management, effectiveness and objectivity of the audit process and perform other duties set out in the terms of reference. Members of the AC visited subsidiaries of the Group and enquired about and commented on the matters related to system of accounting, internal controls and risk management of those subsidiaries. They also reviewed and commented on adequacy of resources, qualifications, experience and training of staff engaged in the accounting and financial reporting function.

The AC reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the financial statements for the year ended 31 December 2012.

During the year, two AC meetings were held and the individual attendance of each member is set out below:

Name of director	**Attendance/ Meetings Held**
FUNG Tze Wa	2/2
KWONG Chun Wai, Michael	2/2
LI Qiang	2/2

Remuneration Committee

The Remuneration Committee (the "RC") comprises the three Independent Non-executive Directors, Mr. Fung Tze Wa (Committee Chairman), Dr. Kwong Chun Wai, Michael and Mr. Li Qiang and two Executive Directors, Mr. Hon Kwok Lung and Mr. Shang Jianguang.

The majority of the RC members are Independent Non-executive Directors. The RC makes 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 makes 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 conform to the new provisions of the CG 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 Exchange's website and the Company's website.

The RC has met once on 26 March 2012 to review the main elements of the Company's remuneration policy for directors and senior management, and to review and approve the specific remuneration packages of all directors and senior management.

During the year, one RC meeting was held. The individual attendance of each member is set out below:

Name of director	**Attendance/ Meetings Held**
FUNG Tze Wa	1/1
KWONG Chun Wai, Michael	1/1
LI Qiang	1/1
HON Kwok Lung	1/1
SHANG Jianguang	1/1

Nomination Committee

On 26 March 2012, the Company established a nomination committee (the "Nomination Committee") with terms of reference in compliance with the new provisions of the CG 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 and two Executive Directors, Mr. Hon Kwok Lung and Mr. Shang Jianguang. Mr. Fung Tze Wa has been appointed as the chairman of the NC.

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 suitable 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 assessing the independence of Independent Non-executive Directors.

CONTINUING TRAINING OF COMPANY SECRETARY

The Company Secretary has participated in a variety of trainings organized by the professional accounting and company secretarial associations during the year.

AUDITOR'S REMUNERATION

For the year ended 31 December 2012, the Company has paid an audit fee of HK$1,900,000 in relation to the audit services for the financial statements for the year ended 31 December 2012. The audit fee was approved by the AC and endorsed by the board.

INTERNAL CONTROLS

The board has overall responsibility for maintaining sound and effective internal control systems of the Company and for reviewing its effectiveness. The board is committed to implementing effective and sound internal control systems to safeguard shareholders' investment and the Group's assets. The board has delegated to management the implementation of the system of internal controls and reviewing of all relevant financial, operational, compliance controls and risk management functions within an established framework and reporting to the board and AC on its material findings.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2012, the directors:

(a) selected suitable accounting policies and applied them consistently;

(b) adopted appropriate Hong Kong Financial Reporting Standards (and Hong Kong Accounting Standards);

(c) made adjustments and estimates that are prudent and reasonable; and

(d) ensured that the financial statements were prepared on the going concern basis.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group.

SHAREHOLDERS' RIGHT

Pursuant to Article 72 of the articles of association of the Company, an extraordinary general meeting shall be convened on the written requisition of any two members of the Company or any one of more members together holding shares carrying not less than one tenth of the voting rights at general meetings of the Company deposited at the registered office specifying the objects of the meeting and signed by the requisitionists.

If the directors do not within twenty-one days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionists themselves may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors, and all reasonable expenses incurred by the requisitionists as result of the failure of the directors shall be reimburse to them by the Company.

Shareholders and other stakeholders may send their enquiries and concerns to the board by addressing them to the Company Secretary. The Company Secretary will forward the enquiries or concerns to the Chief Executive Officer or the Chairman of the Board committees or senior management as appropriate within their area of responsibilities for handling.

Shareholders are welcomed to suggest proposals relating to the operations, strategy and/or management of the Group to be discussed at shareholders' meeting. Proposal shall be sent to the board or the Company Secretary by written requisition. Pursuant to the articles of association of the Company, shareholders who wish to put forward a proposal shall convene an extraordinary general meeting by following the procedures set out above.

INVESTOR RELATIONSHIP AND COMMUNICATION

The Company endeavors to maintain a high level of transparency in communicating with shareholders and the investment community at large. In order to ensure effective, clear and accurate communications with the shareholders and investors, all corporate communications are arranged and handled by the Executive Directors and designated senior executives according to established practices and procedures of the Company.

The Company has announced its annual results and interim results in a timely manner during the year under review, which is within the time limits set out in the Listing Rules. Separate resolutions are proposed at the general meetings on each substantially separate issue, including the re-election of individual directors. In addition, procedures for demanding a poll are included in the circular to shareholders dispatched together with the annual report.

The Company has also maintained websites at www.irasia.com/listco/hk/chinahaidian which enables shareholders, investors and the general public to have access to the information of the Company on a timely basis. Financial information and all shareholder corporate communications of the Company are made available on the Company's website and updated regularly.

Shareholders who wish to raise any queries with the Board may write to the Company Secretary at Units 1902–04, Level 19, International Commerce Centre, 1 Austin Road West, Kowloon, Hong Kong.

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements of the Company and of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 22 to the financial statements. There were no other significant changes to the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 40 to 105.

An interim dividend of HK1 cent per share has been declared for the six months ended 30 June 2012. The directors have resolved not to distribute a final dividend for the year ended 31 December 2012.

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on pages 106 and 107. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Company and of the Group during the year are set out in notes 18 and 19 to the financial statements, respectively. Further details of the Group's principal investment properties are set out on page 108 of the annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 38 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

There were no purchases, sales or redemption of the Company's listed securities by the Company or any of its subsidiaries during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 40 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

In addition to the retained profits of the Company, the share premium account of the Company is also available for distribution to shareholders provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid.

At 31 December 2012, the Company had reserves of HK$931,893,000, being retained profits and share premium account, available for cash distribution and/or distribution in specie.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 10% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 17% of the total purchases.

The percentage of sales attributable to the Group's largest customer was 3%. The percentage of purchases attributable to the Group's largest supplier was 5%.

DIRECTORS

The directors of the Company during the year and up to the date of this report were as follows:

Executive Directors:
Mr. Hon Kwok Lung, *Chairman*
Mr. Shang Jianguang, *Chief Executive Officer*
Mr. Shi Tao
Mr. Lam Toi Man
Mr. Bi Bo
Ms. Sit Lai Hei (re-designated from Non-executive Director to Executive Director with effect from 26 March 2012)

Independent Non-executive Directors:
Mr. Fung Tze Wa
Dr. Kwong Chun Wai, Michael
Mr. Li Qiang

In accordance with Article 116 of the Articles of Association, Mr. Hon Kwok Lung, Mr. Shi Tao and Ms. Sit Lai Hei will retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election.

The Company has received annual confirmation of independence from each of the three Independent Non-executive Directors, Mr. Fung Tze Wa, Dr. Kwong Chun Wai, Michael and Mr. Li Qiang that they have met all the factors concerning their independence as set out in Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and that there are no other factors which may affect their independence. The Company's board of directors (the "Board") considers these Independent Non-executive Directors to be independent.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 20 to 24 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS SERVICE CONTRACTS

Mr. Shang Jianguang, an Executive Director and the Chief Executive Officer of the Company, has a service contract with the Company for a term of three years commencing from 18 November 2011 and is subject to termination by either party by giving not less than three month's written notice.

Mr. Hon Kwok Lung, the Chairman of the Company, Mr. Shi Tao, and Mr. Lam Toi Man, Executive Directors of the Company, have service contracts with the Company for an initial term of two years commencing from 1 July 2004 and is subject to termination by either party by giving not less than two months written notice. These service contracts will each continue for successive terms of one year unless terminated by not less than two months written notice served by either party to the other.

Mr. Bi Bo has entered into a service agreement with the Company for an initial term of 2 years commencing from 24 August 2010 and is subject to termination by either party by giving not less than two months' written notice. The service agreement will continue for successive terms of one year unless terminated by not less than two months' written notice served by either party to the other.

Ms. Sit Lai Hei has entered into a service agreement with the Company for an initial term of 2 years commencing from 26 March 2012 and is subject to termination by either party by giving not less than two months' written notice. The service agreement will continue for successive terms of one year unless terminated by not less than two months' written notice served by either party to the other.

Mr. Fung Tze Wa and Dr. Kwong Chun Wai, Michael, Independent Non-executive Directors of the Company, have service contracts with the Company for an initial term of two years commencing from 3 May 2004. These service contracts will each continue for successive terms of one year unless terminated by not less than one month's written notice served by either party to the other.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS REMUNERATION

The directors' fees can be fixed by the directors of the Company and are subject to shareholders' authorisation at general meetings. Other emoluments are determined by the Board with reference to the duties, responsibilities and performance of the directors and the results of the Group.

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

At 31 December 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") of the Listing Rules, 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)	2,704,155,515	63.36%
	Beneficial owner	4,874,000	0.11%
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	2,264,000	0.05%

Note: 1,750,000,000 shares were held by Full Day Limited ("Full Day"), which is wholly-owned by Mr. Hon Kwok Lung. 954,155,515 shares were held by Sincere View International Limited ("Sincere View"), which is owned as to 80% by Mr. Hon Kwok Lung and 20% by his wife, Ms. Lam Suk Ying.

Long positions in share options of the Company

Name of Director	Date of grant	Number of share options outstanding	Exercisable period	Exercise price per share HK$
Hon Kwok Lung	9/12/2008	–	9/12/2009 – 7/1/2019	0.325
Shang Jianguang	9/12/2008	–	9/12/2009 – 7/1/2019	0.325
Shi Tao	9/12/2008	–	9/12/2009 – 7/1/2019	0.325
Lam Toi Man	9/12/2008	–	9/12/2009 – 7/1/2019	0.325
Fung Tze Wa	9/12/2008	1,400,000	9/12/2009 – 7/1/2019	0.325
Kwong Chun Wai, Michael	9/12/2008	–	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 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 ("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, 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 31 December 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.

DIRECTORS RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2012, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

	Notes	**No. of Shares**	**Percentage of existing issued capital**
Sincere View International Limited		954,155,515	22.36%
Full Day Limited		1,750,000,000	41.00%
Hon Kwok Lung	(1)	2,709,029,515	63.47%
Lam Suk Ying	(1)	2,709,029,515	63.47%
Keywise Capital Management (HK) Limited		340,732,000	7.98%
Zhang Qing	(2)	80,000,000	1.87%

Notes:

(1) Mr. Hon Kwok Lung and Ms. Lam Suk Ying are deemed to have an interest in the same parcel of 2,709,029,515 shares (2,704,155,515 shares held by Sincere View and Full Day and 3,500,000 shares held by Mr. Hon Kwok Lung and 1,374,000 shares are held by Ms. Lam Suk Ying).

(2) Mr. Zhang Qing holds 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 5.62% of the issued share capital of the Company as at 31 December 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 31 December 2012, no 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 shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTION

During the year, there is no connected transaction of the Group under the Listing Rules.

SHARE OPTION SCHEME

Particulars of the share option scheme of the Company are set out in note 39 to the financial statements.

The following table discloses movements in the Company's share options for the year ended 31 December 2012:

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

DIRECTORS INTERESTS IN A COMPETING BUSINESS

During the year, no director is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules, other than those businesses to which the directors were appointed as directors to represent the interest of the Company and/or the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, the Company's shares which are in the hands of the public exceeded 25% of the Company's total issued share capital as at the date of this report.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has applied the principles and complied with the code provisions in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2012, except for the deviations from code provisions E.1.2 of the Code as explained in the Company's interim report for the period ended 30 June 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS

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

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three Independent Non-executive Directors of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial matters including the review of the audited financial statements for the year ended 31 December 2012.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUDITOR

The financial statements for the years ended 31 December 2010, 2011 and 2012 were audited by BDO Limited.

A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO Limited as auditor of the Company.

ON BEHALF OF THE BOARD

Hon Kwok Lung
Chairman

Hong Kong
26 March 2013

INDEPENDENT AUDITOR'S REPORT

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To the shareholders of China Haidian Holdings Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Haidian Holdings Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 40 to 105, which comprise the consolidated and company statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with the terms of our engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Au Yiu Kwan
Practising Certificate Number P05018
Hong Kong

26 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
Continuing operations:			
Revenue	7	**2,240,304**	1,465,276
Cost of sales		**(1,022,583)**	(637,042)
Gross profit		**1,217,721**	828,234
Other income and financial income	8	**29,182**	21,027
Selling and distribution expenses		**(513,278)**	(343,908)
Administrative expenses		**(351,448)**	(234,144)
Gain on fair value changes in financial assets at fair value through profit or loss, net		**2,056**	10,947
Gain on fair value changes in derivative financial instruments	35	**6,187**	–
Excess of fair value of net identifiable assets over the cost of acquisition of subsidiaries	45	**–**	46,904
Net surplus on revaluation of investment properties	19	**7,525**	5,675
Dividend income from available-for-sale financial assets	24(a)	**17,169**	6,551
Share of profit of associates		**13,499**	1,991
Loss on disposals of associates	12.2	**–**	(4,952)
Finance costs	9	**(14,894)**	(4,331)
Profit before income tax	10	**413,719**	333,994
Income tax expense	11	**(103,432)**	(68,240)
Profit after income tax from continuing operations		**310,287**	265,754
Discontinued operations:			
Profit for the year from discontinued operations	12.3	**–**	16,036
Profit for the year		**310,287**	281,790
Other comprehensive income			
– Exchange gain on translation of financial statements of foreign operations		**16,468**	14,570
– Transfer of exchange fluctuation reserve to profit or loss on disposal of a jointly controlled entity		**–**	(17,496)
– Changes in fair value of available-for-sale financial assets	24(a)	**601,480**	(305,401)
Other comprehensive income for the year		**617,948**	(308,327)
Total comprehensive income for the year		**928,235**	(26,537)
Profit for the year attributable to:			
Owners of the Company	13	**270,425**	255,874
Non-controlling interests		**39,862**	25,916
		310,287	281,790
Total comprehensive income for the year attributable to:			
Owners of the Company		**887,501**	(54,105)
Non-controlling interests		**40,734**	27,568
		928,235	(26,537)

	Notes	**2012 HK$'000**	2011 HK$'000
Earnings per share attributable to owners of the Company for the year	15		
From continuing and discontinued operations			
– Basic		**HK6.39 cents**	HK6.19 cents
– Diluted		**HK6.36 cents**	HK6.11 cents
From continuing operations			
– Basic		**HK6.39 cents**	HK5.80 cents
– Diluted		**HK6.36 cents**	HK5.73 cents
From discontinued operations			
– Basic		**N/A**	HK0.39 cent
– Diluted		**N/A**	HK0.38 cent

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	**320,780**	228,939
Investment properties	19	**100,912**	93,387
Prepaid land lease payments	20	**39,357**	28,235
Goodwill	21	**621,382**	621,382
Interests in associates	23	**58,065**	164
Available-for-sale financial assets	24	**1,409,176**	807,696
Intangible assets	25	**149,049**	55,944
Prepayments and deposits	26	**7,809**	5,290
Deferred tax assets	37	**1,311**	1,295
		2,707,841	1,842,332
Current assets			
Inventories	27	**1,587,657**	956,273
Trade receivables	28	**347,366**	244,284
Prepaid land lease payments	20	**834**	730
Prepayments, deposits and other receivables	26	**250,652**	175,527
Financial assets at fair value through profit or loss	29	**106,929**	107,803
Short-term investments	30	**31,234**	–
Cash and cash equivalents	31	**228,624**	351,276
		2,553,296	1,835,893
Current liabilities			
Trade payables	32	**307,006**	194,448
Other payables and accruals	33	**352,903**	221,214
Dividend payables		**82,253**	252
Tax payables		**44,059**	41,044
Borrowings	34	**478,512**	86,171
Derivative financial instruments	35	**40,126**	–
Due to related companies	36	**159**	157
		1,305,018	543,286
Net current assets		**1,248,278**	1,292,607
Total assets less current liabilities/Net assets		**3,956,119**	3,134,939
EQUITY			
Equity attributable to owners of the Company			
Share capital	38	**426,806**	413,975
Proposed dividend	14	**–**	186,289
Reserves	40	**3,362,215**	2,458,125
		3,789,021	3,058,389
Non-controlling interests		**167,098**	76,550
Total equity		**3,956,119**	3,134,939

Hon Kwok Lung
Director

Shang Jianguang
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

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

Hon Kwok Lung
Director

Shang Jianguang
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	**2012 HK$'000**	2011 HK$'000
Cash flows from operating activities of continuing and discontinued operations			
Profit before income tax			
Continuing operations		**413,719**	333,994
Discontinued operations	12.3	**–**	4,635
Total		**413,719**	338,629
Adjustments for:			
Interest income		**(9,222)**	(9,314)
Finance costs		**14,894**	9,770
Excess of fair value of net identifiable assets over the cost of acquisition of subsidiaries	45	**–**	(46,904)
Dividend income from available-for-sale financial assets	24(a)	**(17,169)**	(6,551)
Dividend income from financial assets at fair value through profit or loss	8	**(1,262)**	(716)
Net surplus on revaluation of investment properties	19	**(7,525)**	(5,675)
Depreciation		**43,091**	25,625
Amortisation of prepaid land lease payments		**739**	846
Amortisation of intangible assets	25	**8,576**	1,877
Share of profit of associates		**(13,499)**	(1,991)
Equity-settled share-based compensation		**–**	2,983
Gain on disposals of associates	12.2	**–**	4,952
Gain on derivative financial instruments		**(6,187)**	(625)
Loss on disposal of property, plant and equipment	10	**3,028**	–
Provision for inventories	10	**1,079**	–
Operating profit before working capital changes		**430,262**	312,906
Increase in inventories		**(632,463)**	(357,473)
Increase in trade receivables		**(103,082)**	(174,549)
Increase in prepayments, deposits and other receivables		**(77,644)**	(11,569)
Decrease/(Increase) in financial assets at fair value through profit or loss		**874**	(16,039)
Increase in trade payables		**112,558**	61,062
Increase in other payables and accruals		**131,689**	53,877
Increase in amounts due to related companies		**–**	(26,073)
Cash used in operations		**(137,806)**	(157,858)
Interest received		**9,222**	9,314
Interest paid		**(14,894)**	(9,770)
Income tax paid		**(100,417)**	(113,387)
Net cash used in operating activities		**(243,895)**	(271,701)
Cash flows from investing activities of continuing and discontinued operations			
Dividends received from available-for-sale financial assets		**17,169**	6,551
Dividends received from financial assets at fair value through profit or loss	8	**1,262**	716
Dividends received from an associate	23	**11,250**	–
Purchases of property, plant and equipment		**(134,565)**	(80,347)
Purchases of prepaid land lease payments		**(11,607)**	–
Purchases of intangible assets		**(46,729)**	(10,366)
Net cash outflow from acquisition of subsidiaries	45	**–**	(209,475)
Proceeds from disposals of associates	12.2	**–**	40,768
Net cash inflow from disposals of a jointly controlled entity	12.4	**–**	53,704
Acquisition of non-controlling interests		**–**	(2,445)
Proceeds from disposals of property, plant and equipment		**120**	–
Purchase of short-term investments		**(31,234)**	–
Net cash used in investing activities		**(194,334)**	(200,894)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Equity attributable to owners of the Company													
	Share capital HK$'000	Share premium* HK$'000	Share option reserve* HK$'000	Other reserve* HK$'000	Goodwill arising on consolidation* HK$'000	Statutory reserve* HK$'000	Exchange fluctuation reserve* HK$'000	Investment revaluation reserve* HK$'000	Shares to be issued reserve* HK$'000	Retained profits* HK$'000	Proposed dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2011	409,007	844,561	16,421	15,160	(15,300)	27,214	52,240	429,306	–	1,363,020	143,153	3,284,782	29,105	3,313,887
Transactions with owners														
Placement of shares during the year	1,000	1,368	–	7,532	–	–	–	–	–	–	–	9,900	–	9,900
Repurchases of ordinary shares	(1,736)	(15,517)	–	–	–	–	–	–	–	–	–	(17,253)	–	(17,253)
Proceeds from shares issued under share option scheme	5,704	12,826	–	–	–	–	–	–	–	–	–	18,530	–	18,530
Exercise of share options	–	8,656	(8,656)	–	–	–	–	–	–	–	–	–	–	–
Recognition of equity-settled share-based compensation	–	–	2,983	–	–	–	–	–	–	–	–	2,983	–	2,983
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	31,906	31,906
Acquisition of non-controlling interests													(2,445)	(2,445)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	(9,584)	(9,584)
Payments of final 2010 dividend (note 14.2)	–	(1,891)	–	–	–	–	–	–	–	–	(143,153)	(145,044)	–	(145,044)
Payments of interim 2011 dividend (note 14.1)	–	(41,404)	–	–	–	–	–	–	–	–	–	(41,404)	–	(41,404)
Total transactions with owners	4,968	(35,962)	(5,673)	7,532	–	–	–	–	–	–	(143,153)	(172,288)	19,877	(152,411)
Comprehensive income														
Profit for the year	–	–	–	–	–	–	–	–	–	255,874	–	255,874	25,916	281,790
Other comprehensive income														
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	12,918	–	–	–	–	12,918	1,652	14,570
Transfer to profit or loss on disposal of a jointly controlled entity (note 12.4)	–	–	–	–	–	–	(17,496)	–	–	–	–	(17,496)	–	(17,496)
Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	(305,401)	–	–	–	(305,401)	–	(305,401)
Total comprehensive income	–	–	–	–	–	–	(4,578)	(305,401)	–	255,874	–	(54,105)	27,568	(26,537)
Release of statutory reserve upon disposal of a jointly controlled entity	–	–	–	–	–	(946)	–	–	–	946	–	–	–	–
Proposed final 2011 dividend (note 14.1)	–	(16,194)	–	–	–	–	–	–	–	(170,095)	186,289	–	–	–
Balance at 31 December 2011 and 1 January 2012	413,975	792,405	10,748	22,692	(15,300)	26,268	47,662	123,905	–	1,449,745	186,289	3,058,389	76,550	3,134,939
Transactions with owners														
Issue of shares for acquisitions of intangible assets and an associate	**7,752**	**35,503**	–	–	–	–	–	–	–	–	–	**43,255**	–	**43,255**
Shares to be issued for acquisition of an associate#	–	–	–	–	–	–	–	–	**18,049**	–	–	**18,049**	–	**18,049**
Proceeds from shares issued under share option scheme	**5,079**	**11,429**	–	–	–	–	–	–	–	–	–	**16,508**	–	**16,508**
Exercise of share options	–	**7,702**	**(7,702)**	–	–	–	–	–	–	–	–	–	–	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	**73,211**	**73,211**
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	**(23,397)**	**(23,397)**
Payments of final 2011 dividend (note 14.2)	–	**(5,711)**	–	–	–	–	–	–	–	–	**(186,289)**	**(192,000)**	–	**(192,000)**
Payments of interim 2012 dividend (note 14.1)	–	**(42,681)**	–	–	–	–	–	–	–	–	–	**(42,681)**	–	**(42,681)**
Total transactions with owners	**12,831**	**6,242**	**(7,702)**	–	–	–	–	–	**18,049**	–	**(186,289)**	**(156,869)**	**49,814**	**(107,055)**
Comprehensive income														
Profit for the year	–	–	–	–	–	–	–	–	–	**270,425**	–	**270,425**	**39,862**	**310,287**
Other comprehensive income														
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	**15,596**	–	–	–	–	**15,596**	**872**	**16,468**
Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	**601,480**	–	–	–	**601,480**	–	**601,480**
Total comprehensive income	–	–	–	–	–	–	**15,596**	**601,480**	–	**270,425**	–	**887,501**	**40,734**	**928,235**
Balance at 31 December 2012	**426,806**	**798,647**	**3,046**	**22,692**	**(15,300)**	**26,268**	**63,258**	**725,385**	**18,049**	**1,720,170**	–	**3,789,021**	**167,098**	**3,956,119**

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL INFORMATION

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

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

– Manufacture and distribution of watches and timepieces

– Property investments

– Distribution of yachts

There were no other significant changes in the Group's operations during the year. The Group's principal places of the business are in Hong Kong and the People's Republic of China (the "PRC").

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

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

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

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

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

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

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

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

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

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

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

The amendments to HKAS 1 (Revised) require the Group to separate items presented in other comprehensive income into those that may be reclassified to profit and loss in the future (e.g. revaluations of available-for-sale financial assets) and those that may not (e.g. revaluations of property, plant and equipment). Tax on items of other comprehensive income is allocated and disclosed on the same basis. The amendments will be applied retrospectively.

2. ADOPTION OF HKFRSs (Continued)

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

HKFRS 9 – Financial Instruments

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

HKFRS 10 – Consolidated Financial Statements

HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of "de facto" control where an investor can control an investee while holding less than 50% of the investee's voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor. An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

HKFRS 13 – Fair Value Measurement

HKFRS 13 provides a single source of guidance on how to measure fair value when it is required or permitted by other standards. The standard applies to both financial and non-financial items measured at fair value and introduces a fair value measurement hierarchy. The definitions of the three levels in this measurement hierarchy are generally consistent with HKFRS 7 "Financial Instruments: Disclosures". HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e. an exit price). The standard removes the requirement to use bid and ask prices for financial assets and liabilities quoted in an active market. Rather the price within the bid-ask spread that is most representative of fair value in the circumstances should be used. It also contains extensive disclosure requirements to allow users of the financial statements to assess the methods and inputs used in measuring fair values and the effects of fair value measurements on the financial statements. HKFRS 13 can be adopted early and is applied prospectively.

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

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

3. BASIS OF PREPARATION

3.1 Statement of compliance

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

3. BASIS OF PREPARATION (Continued)

3.2 Basis of measurement

The financial statements have been prepared under historical cost convention except for investment properties and financial instruments classified as available-for-sale and at fair value through profit or loss, and derivative financial instruments, which are stated at fair values. The measurement bases are fully described in the accounting policies below.

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

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

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

3.3 Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Business combination and basis of consolidation

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.1 Business combination and basis of consolidation (Continued)

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

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

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

4.2 Subsidiaries

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

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

4.3 Jointly controlled entities

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

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

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

4.4 Associates

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.4 Associates (Continued)

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

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

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

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

4.5 Goodwill

Goodwill represents the excess of

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

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

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

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

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

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

4.6 Impairment of non-financial assets

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.6 Impairment of non-financial assets (Continued)

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

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

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

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

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

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

4.7 Related parties

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of key management personnel of the Group or the Company's parent.

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

- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (iii) Both entities are joint ventures of the same third party.
- (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.
- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.7 Related parties (Continued)

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

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

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

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

4.8 Property, plant and equipment

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

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

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

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

Buildings	Over the terms of the leases or estimated useful lives, ranging between 20 years and 40 years, whichever is shorter
Leasehold improvements	Over the terms of the leases, or estimated useful life of 5 years, whichever is shorter
Plant and machinery	6% to 20%
Furniture, fixtures and office equipment	6% to $33^1/_3$%
Motor vehicles	9% to 20%

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

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

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

4.9 Investment properties

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.10 Operating leases

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

(i) Operating lease charges as the lessee

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

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

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

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

(iii) Prepaid land lease payments

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

4.11 Intangible assets

(i) Acquired intangible assets

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

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

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

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

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

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

(iii) Impairment

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Financial assets

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

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

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

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

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

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

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

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

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

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

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

(ii) Loans and receivables

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Financial assets (Continued)

(iii) Available-for-sale financial assets

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

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

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

Impairment of financial assets

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

– significant financial difficulty of the debtor;

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

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

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

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

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

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

(i) Financial assets carried at amortised cost

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.12 Financial assets (Continued)

Impairment of financial assets (Continued)

(ii) Available-for-sale financial assets

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

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

(iii) Financial assets carried at cost

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

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

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

4.13 Financial liabilities

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

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

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

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

(i) Borrowings

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.13 Financial liabilities (Continued)

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

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

4.14 Derivative financial instruments

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

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

4.15 Inventories

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

4.16 Cash and cash equivalents

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

4.17 Provisions and contingent liabilities

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

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

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

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

4.18 Income taxes

Income tax comprises current and deferred tax.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.18 Income taxes (Continued)

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

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

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

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

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

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

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

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

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

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

   i. the same taxable entity; or

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

4.19 Revenue recognition

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

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

Processing income is recognised when services are provided.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.20 Employee benefits

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

Defined contribution plans

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

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

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

Defined benefit retirement plans

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

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

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

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

Short-term employee benefits

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.21 Share-based employee compensation

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

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

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

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

4.22 Capitalisation of borrowing costs

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

4.23 Foreign currency

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.24 Segment reporting

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

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

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

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

- expenses related to share-based payments
- share of profit or loss of associates accounted for using equity method
- finance costs
- income tax
- corporate income and expenses which are not directly attributable to the business activities of any operating segment

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

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

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

No asymmetrical allocations have been applied to reportable segments.

4.25 Share capital

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

4.26 Non-current assets held for sale and disposal groups

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

- they are available for immediate sale;
- management is committed to a plan to sell;
- it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn;
- an active programme to locate a buyer has been initiated;
- the asset or disposal group is being marketed at a reasonable price in relation to its fair value; and
- a sale is expected to complete within 12 months from the date of classification.

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

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Estimated impairment of goodwill

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

Provision against slow-moving inventories

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

Depreciation and amortisation

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

Valuation of share options granted

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Estimated impairment of trade and other receivables

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

Impairment of non-financial assets

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

Income taxes

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

Fair value of investment properties

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

Fair value of derivative financial instruments

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

6. SEGMENT INFORMATION

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

(a) manufacture and distribution of watches and timepieces;

(b) property investments; and

(c) distribution of yachts.

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

6. SEGMENT INFORMATION (Continued)

2012

	Watches and timepiece HK$'000	Property investment HK$'000	Yacht HK$'000	Total HK$'000
Segment revenue and income:				
Sales to external customers	2,225,082	15,222	–	2,240,304
Other income and financial income	24,404	2,764	197	27,365
Total	2,249,486	17,986	197	2,267,669
Segment results	456,935	7,735	(3,555)	461,115
Unallocated corporate income and expenses, net				(46,001)
				415,114
Share of profit of associates				13,499
Finance costs				(14,894)
Profit before income tax				413,719
Income tax expense				(103,432)
Profit for the year				310,287
Segment assets	2,780,269	157,344	52,629	2,990,242
Goodwill				621,382
Interests in associates				58,065
Available-for-sale financial assets				1,409,176
Financial assets at fair value through profit or loss				106,929
Short-term investments				31,234
Unallocated corporate assets				44,109
				5,261,137
Segment liabilities	640,806	39,676	–	680,482
Borrowings				478,512
Due to related companies				159
Derivative financial instruments				40,126
Unallocated corporate liabilities				105,739
				1,305,018
Other segment information				
Interest income	6,355	2,740	–	9,095
Depreciation and amortisation of prepaid land lease payments	38,036	4,389	27	42,452
Additions to non-current assets	232,876	12,922	–	245,798
Net surplus on revaluation of investment properties	–	7,525	–	7,525

6. SEGMENT INFORMATION (Continued)

2011

	Watches and timepiece HK$'000	Property investment HK$'000	Yacht HK$'000	Total HK$'000
Segment revenue and income:				
Sales to external customers	1,420,168	15,300	29,808	1,465,276
Other income and financial income	10,135	8,075	1	18,211
Total	1,430,303	23,375	29,809	1,483,487
Segment results	336,182	10,182	(5,401)	340,963
Unallocated corporate income and expenses, net				(43,605)
				297,358
Share of profit of associates				1,991
Loss on disposal of an associate				(4,952)
Excess of fair value of the net identifiable assets over the cost of acquisition of subsidiaries				46,904
Finance costs				(4,331)
Equity-settled share-based compensation				(2,976)
Profit before income tax				333,994
Income tax expense				(68,240)
Profit for the year from continuing operations				265,754
Profit for the year from discontinued operations (note 9.2)				16,036
Profit for the year				281,790
Segment assets	1,798,304	100,379	58,781	1,957,464
Goodwill				621,382
Interests in associates				164
Available-for-sale financial assets				807,696
Financial assets at fair value through profit or loss				107,803
Unallocated corporate assets				183,716
				3,678,225
Segment liabilities	396,357	16,861	319	413,537
Borrowings				86,171
Due to related companies				157
Unallocated corporate liabilities				43,421
				548,286
Other segment information				
Interest income	363	–	1	364
Depreciation and amortisation of prepaid land lease payments	16,514	1,613	46	18,173
Additions to non-current assets	113,190	10,268	–	123,458
Net surplus on revaluation of investment properties	–	5,675	–	5,675

6. SEGMENT INFORMATION (Continued)

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

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

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

The Group has a large number of customers and there is no significant revenue derived from specific external customers for the year ended 31 December 2012. In 2011, revenue from the Group's largest customer amounted to HK$425,102,000 or 22% of the Group's total revenue (including the continuing and discontinued operations).

7. REVENUE

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

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

8. OTHER INCOME AND FINANCIAL INCOME

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

9. FINANCE COSTS

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

10. PROFIT BEFORE INCOME TAX

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

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

Notes:

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

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

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

11. INCOME TAX EXPENSE

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

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

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

11. INCOME TAX EXPENSE (Continued)

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

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

12. DISCONTINUED OPERATIONS

12.1 Discontinued Enamelled Copper Wires Business

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

12.2 Disposal of interest in Jiangsu Dartong

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

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

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

The cash consideration of HK$40,768,000 for the disposal of Jiangsu Dartong was fully received by the Group in 2011.

12. DISCONTINUED OPERATIONS (Continued)

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

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

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

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

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

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

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

14. DIVIDENDS

14.1 Dividend attributable to the year

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

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

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

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

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

15. EARNINGS PER SHARE

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

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

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

16. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

16.1 Employee benefit expense

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

16.2 Defined benefit pension plans

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

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

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

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

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

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

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

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

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

16. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS) (Continued)

16.2 Defined benefit pension plans (Continued)

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

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

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

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

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

(f) Current period information

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

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

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

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

17. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

17.1 Directors' emoluments

2012

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

2011

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

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

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

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

17.2 Five highest paid individuals

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

18. PROPERTY, PLANT AND EQUIPMENT

Group

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

18. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

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

Notes:

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

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

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

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

19. INVESTMENT PROPERTIES – GROUP

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

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

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

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

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

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

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

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

20. PREPAID LAND LEASE PAYMENTS – GROUP

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

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

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

21. GOODWILL – GROUP

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

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

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

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

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

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

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

22. INTERESTS IN SUBSIDIARIES – COMPANY

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

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

22. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

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

Name	Place/ country of incorporation	Particulars of issued ordinary/ paid-up capital	Percentage of issued ordinary/ paid-up capital held Directly	Indirectly	Principal activities and place of operation
Qingapen Limited	Hong Kong	HK$2	100	–	Property investment in the PRC
China Haidian Commercial Network Services Limited	Hong Kong	HK$2	100	–	Property investment in the PRC
Haidian-Creation International Limited	British Virgin Islands	US$1	100	–	Investment holding in Hong Kong
Sure Best Management Limited	Hong Kong	HK$1	100	–	Property investment in Hong Kong
EBOHR Luxuries International Limited	PRC	HK$36,000,000	–	100	Manufacture and distribution of watches and timepieces in the PRC
Seti Timber Industry (Shenzhen) Co., Ltd.	PRC	US$45,525,860	–	100	Investment holding in PRC
Shenzhen Seti Trading Development Company Limited	PRC	RMB500,000	–	100	Investment holding in the PRC
Jia Cheng Investment Limited	British Virgin Islands	US$1	100	–	Investment holding in Hong Kong
Actor Investments Limited	Hong Kong	HK$10,000	–	100	Investment holding in Hong Kong
Zhuhai Rossini Watch Industry Limited	PRC	RMB60,000,000	–	91	Manufacture and distribution of watches and timepieces in the PRC
PAMA Precision Manufacturing Limited	PRC	RMB10,000,000	–	100	Manufacture and distribution of watches and timepieces in the PRC
Shenzhen Permanence Commerce Co., Limited	PRC	RMB23,000,000	–	100	Distribution of watches and timepieces in the PRC
Zhuhai Rossini Glasses Industry Limited	PRC	RMB1,000,000	–	91	Distribution of glasses in the PRC
Swiss Chronometric AG	Switzerland	CHF2,000,000	–	100	Manufacture and distribution of watches and timepieces in Switzerland
Ruihuang (Chongqing) Watch Company Limited	PRC	RMB30,000,000	–	51	Distribution of watches and timepieces in the PRC
Eterna AG Uhrenfabrik	Switzerland	CHF6,000,000	–	100	Manufacture and distribution of watches and timepieces in Switzerland

22. INTERESTS IN SUBSIDIARIES – COMPANY (Continued)

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

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

23. INTERESTS IN ASSOCIATES – GROUP

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

23. INTERESTS IN ASSOCIATES – GROUP (Continued)

Note:

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

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

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

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

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

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

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

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

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

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP (Continued)

Notes:

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

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

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

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

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

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

25. INTANGIBLE ASSETS – GROUP

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

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

27. INVENTORIES – GROUP

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

28. TRADE RECEIVABLES – GROUP

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

The Group's trading terms with its customers are mainly on credit, except for certain customers, where payment in advance is required. The credit period is generally for a period of one to two months (2011: one to two months) for major customers. Each customer has a maximum credit limit. Trade debtors with balances that are more than three months overdue are required to settle all outstanding balances before any further credit is granted. In view of the aforementioned and the fact that the Group's trade receivables relate to a wide range of customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

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

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

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

28. TRADE RECEIVABLES – GROUP (Continued)

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

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

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

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

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

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

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

30. SHORT-TERM INVESTMENTS

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

31. CASH AND CASH EQUIVALENTS

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

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

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

32. TRADE PAYABLES

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

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

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

33. OTHER PAYABLES AND ACCRUALS

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

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

34. BORROWINGS

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

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

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

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

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

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

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

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

35. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

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

35. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP (Continued)

Notes:

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

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

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

36. DUE TO RELATED COMPANIES

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

37. DEFERRED TAX

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

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

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

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

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

37. DEFERRED TAX (Continued)

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

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

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

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

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

38. SHARE CAPITAL

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

Notes:

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

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

38. SHARE CAPITAL (Continued)

Notes: (Continued)

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

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

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

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

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

39. SHARE-BASED COMPENSATION

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

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

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

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

39. SHARE-BASED COMPENSATION (Continued)

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

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

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

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

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

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

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

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

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

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

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

39. SHARE-BASED COMPENSATION (Continued)

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

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

2012

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

2011

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

40. RESERVES

Group

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

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

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

Company

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

40. RESERVES (Continued)

Company (Continued)

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

41. OPERATING LEASE ARRANGEMENTS/COMMITMENTS

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

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

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

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

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

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

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

42. CAPITAL COMMITMENTS

Group

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

Notes :

(a) **2012**

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

2011

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

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

Company

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

43. RELATED PARTY TRANSACTIONS

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

(i) Sales of goods

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

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

(ii) Rental income

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

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

(iii) Outstanding balances included in other receivables:

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

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

43.2 Key management personnel compensation

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

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

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

44. MAJOR NON-CASH TRANSACTIONS

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

45. ACQUISITION OF SUBSIDIARIES

On 29 June 2011, the Group acquired the entire equity interest of the Eterna Group, which is principally engaged in manufacturing and distribution of watches and timepieces in Switzerland and Germany, for a cash consideration of HK$213,920,000. Following the acquisition, the Group owned the entire equity interest in the Eterna Group and obtained the controls over the Eterna Group through the Group's right to nominate all the members of the Eterna Group's board of directors, and Eterna Group becomes wholly owned subsidiaries of the Group.

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

	HK$'000
Cash consideration paid	213,920
Less: Fair value of net assets acquired shown below	(260,824)
Excess of fair value of the net identifiable assets over the cost of acquisition of subsidiaries	46,904

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

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

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

45. ACQUISITION OF SUBSIDIARIES (Continued)

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

Gain recognised in respect of the excess of fair value of the net identifiable assets over the cost of acquisition of subsidiaries of HK$45,904,000 was recognised in profit or loss for the year ended 31 December 2011. The excess of fair value of the net identifiable assets over the cost of acquisition of subsidiaries represented the increase in fair value of intangible assets and inventories. This represents the intrinsic value of the Eterna Group identified by management, which was not recognised in the books of the Eterna Group before the acquisition.

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

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

46. GUARANTEE-COMPANY

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

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

47.1 Summary of financial assets and liabilities by category

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

47.1 Summary of financial assets and liabilities by category (Continued)

Categories of financial assets and liabilities

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

Group

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

Company

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

47.1 Summary of financial assets and liabilities by category (Continued)

Categories of financial assets and liabilities (Continued)

Group

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

Company

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

47.2 Interest rate risk

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

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

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

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

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

47.3 Foreign currency risk

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

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

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

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

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

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

47.4 Credit risk

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

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

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

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

47.5 Liquidity risk

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

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

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

Group

As at 31 December 2012

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

As at 31 December 2011

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

47.5 Liquidity risk (Continued)

Company

As at 31 December 2012

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

As at 31 December 2011

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

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

47.5 Liquidity risk (Continued)

Group

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

Company

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

47.6 Fair value risk

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

47.7 Equity price risk

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

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

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

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

47.8 Fair value measurements recognised in the statement of financial position

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

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

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

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

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

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

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

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

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

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

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

47.8 Fair value measurements recognised in the statement of financial position (Continued)

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

– ***Listed securities***

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

48 CAPITAL MANAGEMENT

The Group's capital management objectives are:

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

(ii) to provide an adequate return to shareholders;

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

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

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

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

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

FIVE YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Continuing operations					
Revenue	**2,240,304**	1,465,276	800,604	574,565	865,304
Cost of sales	**(1,022,583)**	(637,042)	(307,030)	(204,410)	(696,597)
Gross profit	**1,217,721**	828,234	493,574	370,155	168,707
Other income and financial income	**29,182**	21,027	10,492	5,464	26,798
Selling and distribution expenses	**(513,278)**	(343,908)	(205,511)	(153,310)	(78,518)
Administrative expenses	**(351,448)**	(234,144)	(150,211)	(112,576)	(99,009)
Gain/(Loss) on fair value changes in financial assets at fair value through profit or loss, net	**2,056**	10,947	6,669	42,234	(36,968)
Gain on fair value changes in derivative financial instruments	**6,187**	–	–	–	–
Excess of fair value of the net identified assets over the cost of acquisition of subsidiaries	**–**	46,904	–	–	–
Net surplus on revaluation of investment properties	**7,525**	5,675	13,004	5,102	9,348
Dividend income from available-for-sale financial assets	**17,169**	6,551	5,172	8,238	73,624
Share of profit of associates	**13,499**	1,991	6,979	1,877	241
(Loss)/Gain on disposal of an associate	**–**	(4,952)	177,711	–	–
Finance costs	**(14,894)**	(4,331)	(1,811)	(2,669)	(8,637)
Profit before income tax	**413,719**	333,994	356,068	164,515	55,586
Income tax expense	**(103,432)**	(68,240)	(82,349)	(31,380)	(16,082)
Profit after income tax from continuing operations	**310,287**	265,754	273,719	133,135	39,504
Discontinued operations					
Profit from discontinued operations	**–**	16,036	7,063	236,481	251,812
Profit for the year	**310,287**	281,790	280,782	369,616	291,316
Other comprehensive income					
– Exchange gain on translation of financial statements of foreign operations	**16,468**	14,570	28,948	11	2,855
– Transfer of exchange fluctuation reserve to profit or loss on disposal of a jointly controlled entity	**–**	(17,496)	–	–	–
– Changes in fair value of available-for-sale financial assets	**601,480**	(305,401)	(327,623)	1,027,705	(512,573)

	Year ended 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Other comprehensive income for the year	**617,948**	(308,327)	(298,675)	1,027,716	(509,718)
Total comprehensive income for the year	**928,235**	(26,537)	(17,893)	1,397,332	(218,402)
Profit for the year attributable to:					
Owners of the Company	**270,425**	255,874	271,566	362,561	290,213
Non-controlling interests	**39,862**	25,916	9,216	7,055	1,103
	310,287	281,790	280,782	369,616	291,316
Total comprehensive income for the year attributable to:					
Owners of the Company	**887,501**	(54,105)	(27,672)	1,390,275	(219,642)
Non-controlling interests	**40,734**	27,568	9,779	7,057	1,240
	928,235	(26,537)	(17,893)	1,397,332	(218,402)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**5,261,137**	3,678,225	3,887,086	3,481,082	2,403,695
Total liabilities	**(1,305,018)**	(543,286)	(573,199)	(522,816)	(736,048)
Non-controlling interests	**(167,098)**	(76,550)	(29,105)	(16,482)	(7,947)
	3,789,021	3,058,389	3,284,782	2,941,784	1,659,700

SCHEDULE OF PRINCIPAL INVESTMENT PROPERTIES

31 December 2012

Description	Group interest	Use	Tenure
Flat B, 21st Floor, Jolly Villa, No. 8 Tai Hang Road, Hong Kong and Car parking space No. 32 on 3rd Floor of the same building	100%	Residential	Medium term lease
Industrial Complex, including Dormitories in the Sixth Industrial Zone Houjie Town, Dongguan County Guangdong Province The People's Republic of China (the "PRC")	100%	Industrial/ Residential	Medium term lease
2nd Lower Ground Level Jin Hua Building Yan He South Road Luohu District, Shenzhen Guangdong Province The PRC	100%	Commercial	Medium term lease
Shops at Street Nos. 13, 14 and 15 New City Centre Plaza Garden Nos. 459, 461 and 463 Xiang Hua Road Zhuhai City Guangdong Province The PRC	100%	Commercial	Medium term lease

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中國海澱

集團有限公司

(於開曼群島註冊成立之有限公司)

股份代號：256

二零一二年年報