CHINA HAIDIAN
HOLDINGS LIMITED

ANNUAL REPORT 2013

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

PLAYS THE TRANSPARENCY GAME

Golden Bridge, Corum
An unmistakable contemporary watchmaking icon, the Golden Bridge by Corum takes a new step in the field of innovation by providing an unprecedented variation on the theme of transparency.

CONTENTS

LINEAR TIME EXPRESSED IN THE FEMININE MODE

Ti-Bridge, Corum
Radiating its customary linearity and transparency, the famous Ti-Bridge Lady creates a subtle chemistry between the distinctive tonneau shape of the Bridges collection and an elegantly slender design.

CORPORATE HIGHLIGHTS IN 2013

FEBRUARY 2013

Mr. Hon Kwok Lung, the chairman of the Board of Directors, was elected as a member of the 12th National Committee of the Chinese People's Political Consultative Conference.

Eterna AG Uhrenfabrik associated with Southampton Football Club, a founding member of the Premier League in England, as its Official Timekeeper and latest global brand partner.

MARCH 2013

Zhuhai Rossini Watch Industry Ltd. ("Rossini") was ranked as 1st in overall market share in the watch category in 2012 by China General Chamber of Commerce and China National Commercial Information Centre. It has ranked as 1st in sales volume of its product category for eleven consecutive years since 2002.

MAY 2013

The Eterna Cup Golf Tournament, which was organised by the Subcommittee of Hong Kong, Macao and Taiwan Compatriots of the Beijing Committee of the Chinese People's Political Consultative Conference, was held in Beijing.

JUNE 2013

Rossini and EBOHR Luxuries International Limited ("EBOHR") were both awarded "China's 500 Most Valuable Brands of the Year 2013" by the World Brand Laboratory. Rossini was ranked 1st in PRC watch category with brand value of RMB5.206 billion, which was the first time over RMB5 billion, while EBOHR was ranked 2nd with brand value of RMB3.538 billion.

JULY 2013

The Group acquired 100% equity interests of Montres Corum Sàrl and its subsidiaries (together the "Corum Group") by issuance of 404,625,000 consideration shares. The Corum Group is principally engaged in the development, manufacture and sale of Swiss luxury timepieces. The Swiss Chamber of Commerce honored the Company with the award named "the Most Successful Deal in Switzerland 2013 Special Recognition" for acquiring the Corum Group.

AUGUST 2013

The Annual Report 2012 of China Haidian Holdings Limited was awarded the Silver Winner (Multi & General Industry: Consumer) of the 2013 INTERNATIONAL ARC AWARDS, organised by International Academy of Communications Arts and Sciences/Mercomm, Inc.

SEPTEMBER 2013

Montres Corum Sàrl participated in the 5th edition of the "ONLY WATCH" live auction in Monaco, a world-renowned charitable fundraiser organised by the Monaco Association against Muscular Dystrophy. Together with other 32 one-off timepieces created for ONLY WATCH by the world's finest watchmakers, Corum's Ti-Bridge Power Reserve was on show during the world tour exhibition starting from 30 August and made stopovers in Japan, Singapore, Hong Kong, Mainland China, USA and Switzerland before being presented in Monaco in the presence of Prince Albert II of Monaco and leading watch manufactures CEOs on 25 to 27 September.

Rossini was awarded "Asia's 500 Most Influential Brands in 2013" by the World Brand Laboratory. It is the only domestic watch brand in Mainland China that has received this award for six consecutive years.

NOVEMBER 2013

EBOHR sponsored "EBOHR Cup" 2013 Tour of Fuzhou, an international cycling race held in Fuzhou. With the participation of leading world-class athletes, the event generated tremendous publicity in international and local media.

DECEMBER 2013

Mr. Hon Kwok Lung was awarded a honor of "The Most Fascinating Person in 2013 – Dream Fascination" by Fascination Ranking in China of the Southern People Weekly.

Mr. Hon Kwok Lung was ranked as "Outstanding Chinese" in the "2013 International Chinese Media Award" which was jointly held by Overseas Chinese Media Cooperation Organization and Wen Wei Po.

Rossini was awarded "Government Quality Award of Guangdong Province" and Zhu Xiaodan, the governor of Guangdong province, awarded the prizes to Rossini.

YEAR-ROUND ELEGANCE AND RELIABILITY

Admiral's Cup, Corum
Born in 1960, the Admiral's Cup has been clearly dedicated to the finest possible purpose: celebrating the passion of time.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent Non-executive Directors

FUNG Tze Wa
KWONG Chun Wai, Michael
LI Qiang

AUDIT COMMITTEE MEMBERS

FUNG 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 & COMPANY SECRETARY

FONG Chi Wah

AUDITOR

BDO Limited

PRINCIPAL BANKERS

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

HONG KONG BRANCH SHARE REGISTRAR

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

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

PRINCIPAL OFFICE

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

WEBSITES

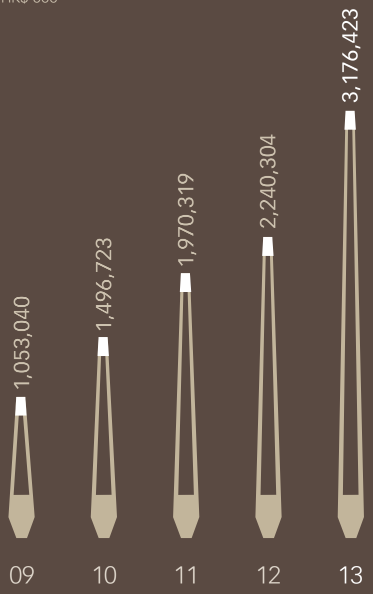
http://www.irasia.com/listco/hk/chinahaidian
http://www.chinahaidian.com

EXCEPTIONAL HOROLOGICAL EXPERTISE

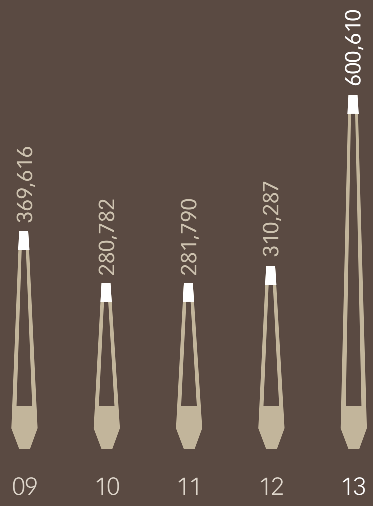
ETERNA
Making the most of its accomplished craftsmanship in watchmaking, in particular mechanical movement, since 1856, Eterna sees each and every one of its watches as an opportunity to demonstrate its vigorous capacity for innovation in the classic art of watchmaking.

FINANCIAL HIGHLIGHTS

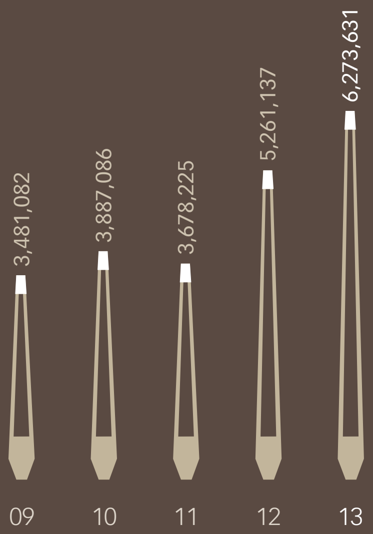
Revenue
HK$'000



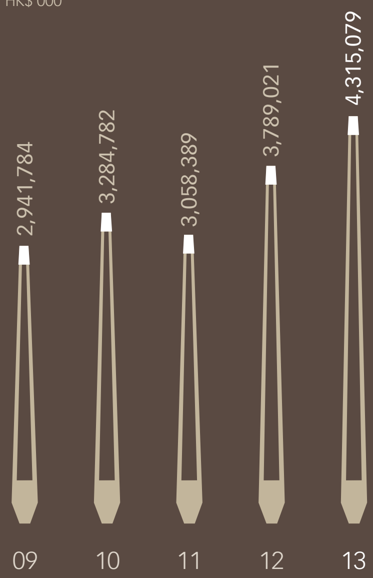
Profit After Tax
HK$'000



Total Assets
HK$'000



Owners' Equity
HK$'000




ROSSINI
羅西尼
45 HOURS RESERVE
ROSSINI
AUTOMATIC
PRECISION
ENGINEERING
ROSSINI
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 an elegant and romantic cultural attitude of its owner, as well as a comfortable and caring but honorable experience, recurs the kingliness of Swiss watches.

CHAIRMAN'S STATEMENT

It is my great pleasure to report that, as at 31 December 2013, the Group's total assets were HK$6,273,631,000, representing a year-on-year increase of HK$1,012,494,000 or 19%; net assets were HK$4,562,044,000, representing an increase of HK$605,925,000 or 15% over 31 December 2012; return on average net assets was 14%, representing a year-on-year increase of 6%. Profit after tax was HK$600,610,000 for 2013, up by 94% over HK$310,287,000 in 2012. Basic earnings per share were HK12.50 cents, increased HK6.11 cents or 96% over 2012.

Looking back to 2013, the year just passed, driven by the developed countries in the America, Europe and Asia, the global economy picked up a mild recovery with a promising outlook. While concerns remain about uncertainties surrounding the slackening growth and production rates in Mainland China, the Central Government's determination to divert its investment driven economy to one of domestic consumption oriented growth and to control financial risks and rein in credit expansion will lead to relatively stable long-term economic growth.

Performance of the global watch market was stable in 2013. Growth momentum was no longer seen in Mainland China and Hong Kong only but has gradually spread to all over the American, European and Asian markets, demonstrating a long term sustainable growth. There were both opportunities and challenges in the Mainland China's market for products with different positions last year.

Products with high recognition are the core of a brand. With its unique "Golden Bridge" series, the Corum Group in Switzerland is listed as one of the most prestigious watch brands in the world. The acquisition of the Corum Group in July 2013, earmarking a new milestone in the Group's global investment journey, will expand the Group's product portfolio and multiply its distribution channels. Corum's expertise in the design and manufacture of sophisticated movements and luxury watches will enhance the Group's technology know-how and capability in those aspects, especially in the high-end luxury watch segment.

Following the completion of the acquisition of the Corum Group, the Group has achieved a new stage of brand diversification, and has expanded to the global market whilst exploring Mainland China market in-depth. The Group will focus on further enhancing the consolidation and management of the existing businesses. By leveraging the synergies among the brands, perfecting the structural adjustment and focusing the resources on strengthening the building of the newly acquired brand, scale and profitability of every single brand will be improved eventually.

We understand that this is a journey ahead before we reach our destination and enjoy the full benefits of our endeavours. It is crucial to our long term competitiveness, as the Group is well-prepared to counter any hiccups and perform with great agility and bring continuous development and sustainable returns to our shareholders.

Over the past ten years, the Group grew from having the only watch brand "EBOHR" to principal business of watches, which now covers different brands and worldwide distribution channels. The Board proposes to adopt "Citychamp Watch & Jewellery Group Limited" as the new name of the Company so as to align with the needs of further business development, and will propose at the annual general meeting for shareholders' approval.

I would like to thank our Board of Directors and the Directors of our subsidiaries and associated companies for their wise counsel and the diligence and care with which they have performed their duties during the past year. I also extend our grateful thanks and appreciation to our business partners, with whom we look forward to further extending our cooperation in the coming year. I would also like to thank our management team and staff for their commitment and outstanding performance. Lastly, on behalf of my entire team, I thank our shareholders and customers for their long-standing loyalty and confidence in the Group.

HON Kwok Lung
Chairman

Hong Kong, 22 March 2014

EBOHR
依波表

ARTISTIC APPEARANCE

EBOHR
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.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Group achieved substantial revenue and profit growth in 2013. For the year ended 31 December 2013, the Group recorded revenue of approximately HK$3,176,423,000 (31 December 2012: HK$2,240,304,000), an increase of HK$936,119,000 or 42% over 2012. Gross profit for the year was approximately HK$1,478,839,000 (31 December 2012: HK$1,217,721,000), an increase of HK$261,118,000 or 21% over 2012. Profit after tax of the Group for the year was approximately HK$600,610,000 (31 December 2012: HK$310,287,000), an increase of HK$290,323,000 or 94% over 2012.

BUSINESS REVIEW

Proprietary brands in Mainland China, namely Rossini and EBOHR, achieved an impressive growth in revenue and net profit after taxes. Their collective revenue grew by 19% from HK$1,397,564,000 to HK$1,669,430,000 while the net profit after taxes grew by 28% from HK$368,314,000 to HK$471,069,000. The favorable results were also attributable to the increase in gross margin due to their superior positioning advantage and strong pricing power.

Proprietary brands in Switzerland, namely, Codex, Eterna and Corum, achieved different milestones in product and market development. In addition to further development of the distribution channels, they have prepared fantastic new products for the Basel World in 2014.

It is the strategy of the Group to focus on the organic growth of the proprietary brands in Mainland China and at the same time, explore the products and markets in overseas. Essentially, the Group applies the increasingly strong recurring income from the well established proprietary brands in Mainland China to invest the proprietary brands in Switzerland and to develop the distribution channels overseas.

(1) Watches and timepieces – proprietary brands

The Group has built a sophisticated vertically integrated business model that equipped the Group with an effective and tight control over the entire value chain, from raw materials and component procurement, product design and development, manufacturing of mechanical movement, assembling, inventory management, distribution to marketing 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 better market penetration. The speed that the Group can adjust the product mix is a great competitive advantage. Such business model sets us apart from our peers, and enables us to further improve our profitability in the medium term.

Zhuhai Rossini Watch Industry Ltd.

Zhuhai Rossini Watch Industry Ltd. ("Rossini"), a 91% subsidiary of the Group, achieved impressive result in 2013. Revenue in 2013 was HK$904,479,000, an increase of HK$178,569,000, or 25%, from HK$725,910,000 for the last year. Profit after tax in 2013 was HK$298,608,000, after share of 91% by the Company, the net profit after tax attributable to owners of the Company was HK$271,733,000 compared with HK$200,729,000 for the last year, an increase of HK$71,004,000, or 35%.

Rossini has outperformed its peers in Mainland China owing to the continuous development of distribution outlets, new products and brand awareness.

During the year, Rossini has increased its number of distribution outlets by 437. The total number of distribution outlets as of 31 December 2013 was 2,348 (1,382 counters in department stores, 960 authorized dealers and 6 boutiques). Rossini's extensive distribution network of outlets, which is one of the largest among the competitors, should drive further revenue and market share in the fragmented watch market of Mainland China. The growth outlook for distribution outlets is promising as Rossini watches offer product diversity in terms of design and style to attract Chinese consumers with different tastes and preferences, through which Rossini watches are able to reach a wide range of consumers across different economic and age groups. Meanwhile, Rossini adjusts certain product lines for the area where the economic growth is faster than the average national growth, to ensure that Rossini could capture the relatively strong market potential in those area and dominate the competition.

To further build up the brand awareness and image, various activities have been attempted. Recently Rossini has partnered with a well-known Chinese artist as its official ambassador. The new ambassador will attend functions and shoot advertisement and television commercial. Continuous new product development was conducted to maintain the brand awareness; new products were based on the market surveys on those target customers to ensure their success.

Internet sales, through the online stores at major E-commerce platform in Mainland China, increased to HK$65,513,000 in 2013 from HK$29,161,000 in 2012 and its respective proportion of total revenue to 7.2% from 4%. 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 to generating revenue from physical distribution outlets.

The watch museum in the headquarters attracted totaling around 40,000 tourists and generating revenue of over HK$6,325,000. Rossini would put stronger efforts in attracting tourists and generating revenue.

Rossini has been awarded China's 500 most valuable brands with brand value at RMB5.2 billion, for the first time exceeding RMB5 billion in the history of Rossini, and Asia's 500 Most Influential Brands of the year 2013 by the World Brand Laboratory. Rossini is the only watch company from Mainland China that obtains the latter award for the last six years and the value of the brand is the highest among all the local watches brands. Rossini has also been awarded the 2013 Guangdong Government Quality Prize, being the only enterprise in the watch industry awarded such prize.

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

EBOHR Group

EBOHR Group is composed of EB Brand Limited, EBOHR Luxuries International Limited ("EBOHR"), Swiss Chronometric AG and Shenzhen EBOHR Luxuries E-Commerce Co., Ltd..

EBOHR Group achieved impressive result in 2013. Revenue for 2013 was HK$764,951,000, an increase of HK$93,297,000, or 14%, from HK$671,654,000 for the last year. Net profit after tax for 2013 was HK$199,336,000, compared favorably with HK$167,585,000 for the last year, an increase of HK$31,751,000, or 19%.

During the year, there was an increase of 373 distribution outlets. The total number of distribution outlets as of 31 December 2013 was 2,095 (1,361 counters in department stores, 733 through authorized dealers and 1 self-owned boutique). Such expansion would be particularly relevant to EBOHR's objective to increase emphasis on entry level product lines and the expected increased demand for such product lines.

EBOHR also revised the remuneration structure for sale staff so that they are motivated to sell more aggressively. The fixture and fittings in the distribution outlets were upgraded to generate more customer flow.

Internet sales, through the online stores at the major E-commerce platforms in Mainland China, was HK$59,077,000 in 2013 accounting for 7.7% of total revenue. 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 sale. More efforts and resources were incurred in the Internet sales with the objective to produce relatively higher proportion of Internet sale out of the total sale.

EBOHR owns three sub-brands, namely EBOHR, KANA and EC. 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 new product lines and different sub-brands 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. Different product lines and sub-brands target different market segments and thus facilitate EBOHR generating additional revenue from those market segments.

EBOHR has been awarded China's 500 most valuable brands of the year 2013 by the World Brand Laboratory. EBOHR also received various provincial and city awards for its product design and quality.

Swiss Chronometric, a subsidiary 100% owned by the Group through EBOHR, manufactures and distributes Codex watches in Switzerland. Coupled with continued brand marketing, Codex is now gaining increasingly strong recognition in Lucerne and Mainland China. The boutiques in Switzerland and Shanghai attracted customers from world travelers. Besides, Codex started producing quartz watch in order to cater for the mass market in Mainland China. Revenue increased but administrative expenses decreased for the period as Swiss Chronometric streamlined the Swiss operation. Loss for the year was HK$6,687,000 compared with HK$26,252,000 for the last year.

Eterna Group

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

2013 was a year of transition for Eterna and Eterna Movement. Eterna was organized with changes in business strategies and the management team. The brand was essentially repositioned and their price levels were adjusted. The scale of Eterna Movement was reduced in order to reduce capital and revenue expenditure. For instance, 5,000 pieces of Calibre 39 would be produced initially.

As of 31 December 2013, there were 235 distribution outlets for Eterna watch (294 at 31 December 2012), of which 207, 8 and 20 were in Europe, America and Middle East respectively.

Eterna (Asia) has established 31 distribution outlets (31 December 2012: 12), including 18 outlets in Hong Kong, 7 in Mainland China and 6 in other areas in Asia. 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 operating entities and distribution outlets in Mainland China and Hong Kong in the near future to cater for the increasing demand for Swiss-made watches. There should be synergy arising from the cooperation of global distribution of Eterna watches and Corum 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 2013. In additions, new marketing campaigns for branding and strategic marketing including sponsorships, joint promotions and exhibitions was launched in 2013 in Europe, Hong Kong and Mainland China. For instance, Eterna sponsors KonTiki movie in Switzerland, teams up with Southampton Football Club in England, sponsors Eterna Cup, a golf tournament in Beijing and a tennis tournament in Gstaad, Switzerland, places advertisement in inflight magazines such as CAAC and local popular newspapers, launches TV commercials on CCTV, the largest TV network in Mainland China and advertises in leading MTR stations in Hong Kong and other carefully selected prime locations. As a result, Eterna would be able to attract a high visibility of the brand logo and brand awareness and a wide range of customers, especially in Mainland China and Hong Kong.

During 2013, Eterna developed new markets such as Brazil, Colombia and Mexico.

Eterna Group contributed revenue and net loss after tax for 2013 of approximately HK$53,272,000 (31 December 2012: HK$98,285,000) and HK$183,228,000 (31 December 2012: HK$69,275,000) respectively. The net loss was due to the new product development cost, new market development cost, incremental operating cost, development cost for mechanical movement, and in particular promotional and advertising cost incurred for the branding and strategic marketing activities conducted in Mainland China, Hong Kong and overseas. 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.

Corum Group

Pursuant to the Sale and Purchase Agreement executed on 23 April 2013, The Group acquired 100% equity interest of the Corum Group by issuance of 404,625,000 Consideration Shares. The acquisition was closed on 9 July 2013.

The Corum Group is principally engaged in the development, manufacture and sale of Swiss luxury timepieces through its global distribution network with its history dating back to its origin in 1924. It owns a renowned Swiss elite luxury watch brand, Corum, together with a proprietary portfolio of innovative and technical movements. Its technical craftsmanship and non-traditional designs are especially well reflected in its original and unique in-line baguette shaped movements, which are housed in four-sided transparent cases to highlight the innovative mechanisms. As of 31 December 2013, it held 10 distribution subsidiaries and sold its watches through an exclusive global distribution network of nine premier branded boutiques and 580 high-end independent specialty retailers in over 90 countries.

With its exceptional design and mechanical movement, the Corum brand focuses on manufacturing and distributing top-end products and serving top-end markets. It is strategically important for the sustainable development of the Group. The Corum brand is complementary to Codex and Eterna brands, both of which focus on the mid-range products and markets. The Corum brand is also complementary to Rossini and EBOHR brands, both of which focus on products for the mass markets in Mainland China. Compared with existing products of the Group, the average selling price of the Corum watches is relatively higher, its market are global in nature and its channels of distribution are through international distributors. Therefore, the addition of the Corum brand will expand the Group's product portfolio and broaden its revenue source. The Courm brand provide the opportunity for distribution companies to not only expand their distribution network, but also extend product lines, widen customer base and most importantly increase revenue.

Furthermore, the Corum's expertise in the design of sophisticated movements and luxury watches will enhance the Group's technology know-how and capability in those aspects. The ability of Corum to develop and manufacture its unique movements enables the Group to enter into the high-end luxury watch segment.

There is clear penetration potential for Corum in Mainland China. Leveraging on the Group's existing expertise and resources of extensive channels of distribution in Mainland China, Corum is expected to be able to quickly build its own channels of distribution in Mainland China and benefit from the enormous potential of the Mainland China's imported watch market.

Corum Group contributed revenue and net loss after tax for 2013 of approximately HK$351,289,000 and HK$61,141,000 respectively. The net loss after tax of Corum Group for 2013 included an adjustment that increased the cost of sales of approximately HK$51,680,000, which represents the effect of inventories remeasured at fair value on 9 July 2013 (being the completion date of acquisition) and subsequently sold during the year. Excluding non-cash accounting adjustments, the loss for the period would be approximately HK$8,311,000.

(2) Watches and timepieces – non-proprietary brands

The Group has invested in seven distribution companies to develop more market share in distribution of non-proprietary brands in different provinces and cities. Through the watch distribution companies, which have around 280 self-owned brand image retail shops and distribution outlets, the Group distributed over 25 international brands in Beijing, Chongqing, Fujian, Guangdong, Henan, Jilin, Liaoning, Shenyang, Sichuan, and other leading cities in Mainland China.

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.

The revenue is expected to continue to increase due to favorable government policies such as continuous import duties reduction, continuous economic growth, rapid urbanization, increased disposable income and most importantly, increasing demand for luxury goods.

Except for Permanence, 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. Collectively, they contributed revenue and net profit after tax attributable to owners of the Company for 2013 of HK$971,265,000 (31 December 2012: HK$659,741,000) and HK$9,194,000 (31 December 2012: HK$25,268,000) respectively. Revenue increased in line with the expanded product range and distribution network. Net profit after tax decreased due to the challenging business environment.

Pursuant to the share transfer agreement signed on 23 September 2013, the Group would sell 51% equity interest in Ruihuang (Chongqing) Watch Co., Ltd. ("Ruihuang") at a consideration of RMB25,300,000. The Group considers that the disposal represents an opportunity for the Group to realise its investment in Ruihuang and to use the proceeds from the disposal for future potential investments. The disposal has not been closed as at 31 December 2013.

The Group has entered into joint venture agreement with the PRC partner of the Henan Jinjue Enterprise Co., Ltd., under which the PRC partner guaranteed the profit after tax for the year ended 31 December 2013 shall be RMB15,600,000. The actual Profit after tax for the year ended 31 December 2013 was RMB5,984,000. The Group has received compensation of RMB3,500,000 as of March 2014.

(3) Watches and timepieces – production

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

Guangzhou Five Goat Watch Company Limited

Guangzhou Five Goat Watch Company Limited ("Five Goat"), a 78% owned subsidiary of the Group, is engaged in the manufacture and distribution of mechanical movement and watch and owns two watch brands, namely, Guangzhou and Dixmont. Five Goat contributed revenue, of which 95% from mechanical movement and 5% from watch, and net profit after tax attributable to owners of the Company of approximately HK$83,632,000 (31 December 2012: HK$69,492,000) and HK$8,043,000 (31 December 2012: HK$7,172,000) respectively in 2013.

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-competence of Fair Future. With a design team of 50 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 and cost control, Fair Future is well positioned for sustainable development.

Fair Future contributed profit in 2013 of HK$12,134,000 (31 December 2012: HK$13,499,000). Share of profit decreased due to the challenging business environment.

There was no issue of compensation for Fair Future as the guaranteed profit for the year ended 31 December 2013 had been duly fulfilled.

(4) Investment in Citychamp Dartong Company Limited ("Citychamp Dartong")

During the year, the Group received cash dividend of HK$30,965,000 from Citychamp Dartong. On 27 February 2014, Citychamp Dartong announced its results under PRC GAAP for the year ended 31 December 2013. Consolidated profit was RMB1,284,801,000 (31 December 2012: RMB861,742,000), in which RMB1,277,775,000 (31 December 2012: RMB830,837,000) was attributable to owners of Citychamp Dartong.

58,600,000 shares and 30,000,000 shares of Citychamp Dartong were disposed on 13 June 2013 and 21 November 2013 respectively. The Group generated a gain on disposal of HK$456,023,000. As at 31 December 2013, there were 85,389,058 shares of Citychanp Dartong with a market value of HK$699,326,000 owned by the Group after the disposal.

Given the recently directives published by 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.

(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 under review. During the year, these investment properties generated rental income of HK$5,953,000 (31 December 2012: HK$5,515,000).

(6) Motor yacht

In order to focus on the watch business, Chart Victory Limited ("Chart Victory") will consider to terminate the motor yacht distribution business. During the year, Chart Victory contracted to sell one motor yacht. Chart Victory incurred net loss after tax of approximately HK$1,618,000 (31 December 2012: HK$3,556,000). As of March 2014, Chart Victory has contracted to sell one more motor yacht.

FINANCIAL POSITION

(1) Liquidity, financial resources and capital structure

As at 31 December 2013, the Group had non-pledged cash and cash equivalents of approximately HK$471,621,000 (31 December 2012: HK$228,624,000). Based on the bank loans of HK$597,790,000 (31 December 2012: HK$478,512,000) and shareholders' equity of HK$4,315,079,000 (31 December 2012: HK$3,789,021,000), the Group's gearing ratio (being loans divided by Shareholders' equity) was 14% (31 December 2012: 13%).

As at 31 December 2013, the Group's bank loans amounting to HK$231,011,000 (39% of all bank loans) were repayable within one year.

(2) Charge on assets

As at 31 December 2013, banking facilities of the Company were secured by the Group's trade receivables of HK$206,834,000, investment properties in Hong Kong of HK$22,200,000 and land and buildings in Switzerland with net book values of HK$144,552,000, totaling HK$373,586,000 (31 December 2012: HK$69,777,000).

(3) Capital commitments

The Group had no material capital commitments as at 31 December 2013.

FINANCIAL REVIEW

(1) Selling and distribution expenses

Total selling and distribution expenses was HK$724,581,000, an increase of 41% from HK$513,278,000 last year. Such increase was in line with the increase in revenue. Rossini, EBOHR, Eterna and Corum contributed selling and distribution expenses of HK$229,352,000, HK$226,551,000, HK$65,579,000 and HK$64,393,000 respectively.

(2) Administrative expenses

Total administrative expenses was HK$542,743,000, an increase of 54% from HK$351,448,000 for the last year. Rossini, EBOHR, Eterna and Corum contributed administrative expenses of HK$69,536,000, HK$71,490,000, HK$103,329,000 and HK$74,542,000 respectively.

(3) Net profit attributable to owners of the Company

Net profit attributable to owners of the Company was HK$565,434,000, an increase of 109% from HK$270,425,000 for the last year. Rossini contributed net profit of HK$271,733,000 while EBOHR contributed net profit of HK$199,336,000. Sale of 88,600,000 shares of Citychamp Dartong contributed a gain on disposal of HK$456,023,000.

(4) Inventory

Inventory was HK$1,987,473,000, an increase of 25% from HK$1,587,657,000 for the same period last year. Such increase is in line with the increase in revenue. Rossini, EBOHR, Eterna and Corum contributed inventory of HK$322,581,000, HK$538,154,000, HK$275,317,000 and HK$398,576,000 respectively.

There are two reasons for the considerable increase in inventory. Firstly, there was a significant increase of number of directly managed 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 and production of new products, especially in the cases of EBOHR and Eterna, relatively more watches are produced but have not been sold to ultimate customers yet, contributing to higher level of inventory. Stocks were increased by around HK$400,000,000 after the acquisition of Corum.

As the Group has initiated measures to enhance sales efficiency at distribution outlet level, improve overall inventory management with more rapid information exchange between the distribution outlet, the regional sale office and the headquarters, and put increasingly strong efforts to clear old inventory, it is expected that the level of inventory would be gradually in line with revenue generated in the medium term.

OUTLOOK

The global economy is on track of mild recovery. The US is the driver for global economic growth and at the same time, Europe and Japan are also on their course of recovery. However, emerging markets with relatively weak trade balance would experience some fluctuations. In Mainland China, slipping economic growth, lower inflationary pressure and decorating money supply growth leave room the Central Government for accommodative monetary policy and pro-growth policy. It is expected that the Central Government will gradually loosen the monetary policy and step up pro-growth policies in 2014. As a result, the economy in Mainland China will post a moderate recovery. Such macro-economic perspectives should have favorable impact on the performance of the Group.

It is expected that the performance of the Eterna and Corum will improve in the future as the market recognition of the high brand value of Eterna and Corum will increase following the investments on product development, marketing and advertising strategies and restructuring of its brand building strategy during the previous years. The expected expansion of presence in the Mainland China market will also help Eterna and Corum capture the enormous potential of the Mainland China's imported watch market.

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, leveraging on our ample financial resources. These multiple strategic moves to achieve a balanced portfolio in a prudent manner are expected to drive significant growth in the years to come. Also, 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 2013, the Group had approximately 3,000 full-time staff in Hong Kong and Mainland China and more than 200 staff in Switzerland. 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

I would like to thank our Board of Directors and the Directors of our subsidiaries and associated companies for their wise counsel and the diligence and care with which they have performed their duties during the past year. I also extend our grateful thanks and appreciation to our business partners, with whom we look forward to further extending our cooperation in the coming year. I would also like to thank our management team and staff for their commitment and outstanding performance. Lastly, on behalf of my entire team, I thank our shareholders and customers for their long-standing loyalty and confidence in the Group.

Shang Jianguang
Chief Executive Officer

Hong Kong, 22 March 2014

CODEX

SWISS MADE

瑞士豪度表

TECHNICAL EXCELLENCE

CODEX
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.

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

HON Kwok Lung

Chairman

Mr. Hon Kwok Lung, aged 59, is the Chairman of the Board of Directors of Citychamp Dartong Company Limited ("Citychamp Dartong"), the shares of which are listed on the Shanghai Stock Exchange in the Mainland China. Citychamp Dartong and its subsidiaries are principally engaged in manufacturing and sale of enamelled copper wires and property development in the Mainland China. Mr. Hon has extensive business experience in the Mainland China. Mr. Hon is a Member of the National Committee of the Chinese People's Political Consultative Conference, an Executive Member of All-China Federation of Returned Overseas Chinese Committee and the Executive Vice President of China Federation of Overseas Chinese Entrepreneurs. He joined the Board in April 2004.

SHANG Jianguang

Chief Executive Officer

Mr. Shang Jianguang, aged 62 and graduated in Fuzhou University majoring in Chemistry, is a qualified senior engineer in the 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.

SHI Tao

Mr. Shi Tao, aged 50, 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 the Mainland China. He was an Executive Director of New Capital International Investment Limited ("New Capital"), 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 56, has various years of experience in property development in the Mainland China. Mr. Lam has been 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 35, received a 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, working on actuarial valuation and risk management of insurance company. He qualifies as an associate of the Society of Actuaries (ASA) in 2009. He also has experience in M&A activities. He joined the Board in August 2010.

SIT Lai Hei

Ms. Sit Lai Hei, aged 37 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 on 26 March 2012. Ms. Sit is also a Director of Citychamp Dartong, the shares of which are listed on the Shanghai Stock Exchange in the PRC. 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, a Executive Director of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

FUNG Tze Wa

Mr. Fung Tze Wa, aged 57, 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 since April 2004, of Jiwa Bio-Pharm Holdings Limited ("Jiwa") since September 2004 and of JF Household Furnishings Limited since October 2012. He has resigned as independent non-executive director of New Capital and Jiwa with effect from 21 March 2012 and 23 September 2013, respectively. These companies' shares are listed on the Stock Exchange. He joined the Board in April 2004.

KWONG Chun Wai, Michael

Dr. Kwong Chun Wai, Michael, aged 49, is a fellow of the International Institute of Management, a member of the Hong Kong Institute of Marketing, 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 (US) in 2001. Dr. Kwong has also been appointed as an independent non-executive director of 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.

LI Qiang

Mr. Li Qiang, aged 48, 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.

SENIOR MANAGEMENT

FONG Chi Wah

Mr. Fong Chi Wah, aged 51, 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.

TAO Li

Mr. Tao Li, aged 61, 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

Mr. Yin Weirong, aged 57, 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.

TEGUH Halim

Mr. Teguh Halim, aged 32, 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 and caring corporate citizen, the Group is not just focused on achieving business goals and financial targets. The Group is also committed to contributing to its different stakeholders in support of the well-beings of its employees and their families, the community and society at large, and environment protection. The Group upholds the principle that good business practices and corporate social responsibility are vital for the sustainability of the success.

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 customer services and product knowledge; our technicians and craftsmen are provided with on-going technical training to ensure excellence in the product quality, which includes sending technicians and craftsmen of our Chinese brands to Switzerland to learn the most exquisite craftsmanship and cutting-edge technologies and designs; 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

We value our staff and wish them to grow with the Group. The Group promotes the work-life balance philosophy by encouraging its staff to participate in a wide variety of sport and 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.

Recreational clubs are established in each major subsidiary to organize and lead regular recreational activities for employees at the expenses of the Group, such as parties, annual dinner gatherings and group travelling. 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. To extend the cares to employees' families, the Group also organize activities which employees' families are invited to take part in.

COMMUNITIES

During the year, the Group sponsored various long-term charitable events.

An 18-year Promise

One of the Group's 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, has stepped into its 5th year since the Wenchuan earthquake happened in 2008. The Group continues its commitment to finance the cost of raising 100 children, who are made orphans by the earthquake until they are 18 years old. Besides, the volunteers from the Group also visit them around the Children's Day every year. In June 2013, the volunteers went to two counties in the Sichuan Province, namely Hanyuan and Jiange, to visit the orphans, and donated stationeries and living necessities to them. Up to the end of 2013, the Group has contributed a donation in excess of RMB1 million under the "An 18-year Promise" program.

KANA Charity Event

To step out further, the Group has held a charity fund-raising event called "KANA Charity Event" 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 4th KANA Charity Event was held in April 2013 and the Group launched a new Internet philanthropic program called "Mini V Love", encouraging the society to deliver love to the orphans in Sichuan by helping them realize their dreams. Under this program, each Internet user enrolled in this philanthropic program could help a child in the program realize a dream on a "one-on-one" basis.

Support the Special Group

One of the Group's haute horlogerie Swiss brand participated the 5th edition of the "ONLY WATCH" live auction, a world-renowned charitable fundraiser in Monaco, by creating an unique luxury watch and dedicating it to Monaco Association against Muscular Dystrophy. The brand also has partnered with Ms. Rebecca de Alba, a Mexican celebrity, to conceive a limited edition of the Admiral's Cup Legend 38 and dedicated it to the Rebecca De Alba Foundation, created by her in 2008 with the aim to help youth and children suffering from cancer.

Education for the Less Privileged Groups

For a brighter future for the next generation, the Group made contributions to educational causes for children, especially those living in impoverished rural area. In December 2013, the Group donated RMB500,000 to the Zhongxin Primary School located in Heyuan, Guangdong Province, and also donated useful resources to the pupils and teachers there such as stationery, living necessities and watches, to improve their learning and living conditions. The Group has guaranteed to provide continuing supports to them in the coming five years. In addition, the Shenzhen Shiyan Public School, which is funded partially by the Group, has achieved certain top rankings among the local privately-managed schools and has developed a widespread reputation in its community.

In addition to the children's education, the Group also cooperates with local colleges by sponsoring, among others, watch assembling and repairing courses in colleges.

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 manufacturing facilities established in Zhuhai maintains 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. With effective trainings and education, employees' awareness of environmental protection has been enhanced.

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

CORPORATE GOVERNANCE REPORT 2013

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 2013 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 2013.

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 23 to 25 of the Annual Report.

As at 31 December 2013, 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	15/05/2013
SHANG Jianguang	Chief Executive Officer/Executive Director	18/11/2004	27/05/2011
SHI Tao	Executive Director	08/04/2004	15/05/2013
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	15/05/2013
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 2013, nine board meetings and the annual general meeting for the year 2013 (the "AGM 2013") were held, and the individual attendance of each director is set out below:

	Attendance/Meetings Held	
Name of director	**Board Meetings**	**AGM 2013**
HON Kwok Lung	8/9	0/1
SHANG Jianguang	9/9	1/1
SHI Tao	2/9	0/1
LAM Toi Man	5/9	0/1
BI Bo	7/9	1/1
SIT Lai Hei	8/9	0/1
FUNG Tze Wa	4/9	1/1
KWONG Chun Wai, Michael	4/9	1/1
LI Qiang	4/9	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 2013.

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 2013 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 "NC") 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 2013, the Company has paid an audit fee of HK$2,100,000 in relation to the audit services for the financial statements for the year ended 31 December 2013. 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 2013, 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 reimbursed 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 2013.

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 2013 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 46 to 125.

The Board has resolved not to recommend to distribute a final dividend for the year ended 31 December 2013 (year ended 31 December 2012: Nil). The buy-back of 340,300,000 shares of the Company will probably be executed in April 2014 and the Board considered that the buy-back is a positive way to increase shareholders' value.

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 126 and 127. 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 128 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

On 13 February 2014, the Company entered into a share buy-back agreement with Severin Participations GmbH and the trustee of Severin Wunderman Family Trust for the benefit of Michael Wunderman as the vendors ("Vendors"), pursuant to which the Company conditionally agreed to purchase and Vendors conditionally agreed to sell 340,300,000 shares of the Company, representing approximately 7.17% of the issued capital of the Company as at 13 February 2014. The agreed repurchase price is HK$0.75 and the aggregate consideration is HK$255,225,000. Following completion of the share buy-back, the number of shares in issue will be reduced by 340,300,000. The buy-back shares are part of the shares issued by the Company to the Vendors for their then equity interests in Montres Corum Sàrl under the acquisition. Details of the transaction are set out in the Company's announcement dated 13 February 2014.

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.

As at 31 December 2013, the Company had reserves of HK$1,287,629,000, 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 5% of the total revenue for the year. Purchases from the Group's five largest suppliers accounted for 27% of the total purchases.

The percentage of sales attributable to the Group's largest customer was 1%. The percentage of purchases attributable to the Group's largest supplier was 8%.

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

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. Shang Jianguang, Mr. Lam Toi Man and Mr. Bi Bo 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 23 to 26 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 2013, 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)	2,897,193,515	61.27%
	Beneficial owner	4,874,000	0.11%
Shang Jianguang	Beneficial owner	8,000,000	0.17%
Shi Tao	Beneficial owner	5,000,000	0.11%
Lam Toi Man	Beneficial owner	3,500,000	0.07%
Fung Tze Wa	Beneficial owner	3,500,000	0.07%

Note: 1,750,000,000 shares were held by Full Day Limited ("Full Day"), which is wholly-owned by Mr. Hon Kwok Lung. 1,147,193,515 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	–	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 2013, 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 2013, 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		1,147,193,515	24.26%
Full Day Limited		1,750,000,000	37.01%
Hon Kwok Lung	(1)	2,902,067,515	61.38%
Lam Suk Ying	(1)	2,902,067,515	61.38%
Richard E. Tomlin Jr	(2)	373,687,500	7.90%
Severin Participations GmbH		269,937,500	5.71%
Keywise Capital Management (HK) Limited		249,546,000	5.28%

Notes:

(1) Mr. Hon Kwok Lung and Ms. Lam Suk Ying are deemed to have an interest in the same parcel of 2,902,067,515 shares (2,897,193,515 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) 269,937,500 shares were held by Severin Participations GmbH, a company wholly-owned by Severin Investment Company, which in turn is wholly-owned by Severin Wunderman Trust. Mr. Richard E. Tomlin Jr is the trustee of the Severin Wunderman Family Foundation, the residual beneficiary of the Severin Wunderman Trust. 31,125,000 shares were held by Tomlin Management Company, which is wholly-owned by Mr. Richard E. Tomlin Jr. 72,625,000 shares were held by Severin Wunderman Family Trust for the benefit of Michael Wunderman dated December 19, 1995 and its trustee is Mr. Richard E. Tomlin Jr.

Save as disclosed above, as at 31 December 2013, 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

On 22 April 2013, Starlex Limited ("Starlex"), a wholly-owned subsidiary of China Haidian Holdings Limited (the "Company"), and Fujian Fengrong Investment Company Limited ("Fujian Fengrong") entered into a share disposal agreement, pursuant to which Starlex conditionally agreed to sell and Fujian Fengrong conditionally agreed to acquire not less than 55,000,000 and not more than 58,000,000 shares of Citychamp Dartong Company Limited ("Citychamp Dartong") through the Shanghai Stock Exchange block trading system ("Share Disposal"). Fujian Fengrong is owned as to approximately 68.5% by Ms. Sit Lai Hei, an Executive Director, and 31.5% by Ms. Lu Xiaojun. Both Ms. Sit and Ms. Lu are daughters-in-law of Mr. Hon Kwok Lung, an executive Director and the controlling shareholder. As such, Fujian Fengrong was a connected person of the Company. On 13 June 2013, the Share Disposal completed and Starlex sold 52,000,000 Citychamp Dartong shares to Fujian Fengrong at a total consideration of RMB392.6 million through the Shanghai Stock Exchange block trading system.

On 17 December 2013, the Company entered into a deed of guarantee as guarantor in favour of the Hang Seng Bank (the "Bank"), pursuant to which the Company agreed to guarantee the performance of Fair Future Industrial Limited ("Fair Future") of its repayment obligations of up to HK$120 million in respect of a revolving loan facility granted by the Bank to Fair Future. Fair Future was owned as to 51% in aggregate by Mr. Chan Heung Wai, Debby and his wife, 25% by Sure Best Management Limited, a wholly-owned subsidiary of the Company and 24% by an independent third party. Mr. Chan was a connected person of the Company by virtue of his 49% interest in Gold Vantage Industrial Limited, a non-wholly owned subsidiary of the Company. Accordingly, Fair Future was also a connected person of the Company.

Save as disclosed above, there was no connected transaction of the Group under the Listing Rules during the year.

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 2013:

	Number of share options		
Name or category of participants	**At 1 January 2013**	**Exercised during the year**	**At 31 December 2013**
Independent Non-executive Directors			
Mr. Fung Tze Wa	1,400,000	(1,400,000)	–
Mr. Li Qiang	3,500,000	–	3,500,000
Sub-total	4,900,000	(1,400,000)	3,500,000
Other eligible employees			
In aggregate	7,300,000	(375,000)	6,925,000
Other eligible persons			
In aggregate	7,885,000	(1,600,000)	6,285,000
Total	20,085,000	(3,375,000)	16,710,000

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 Listing Rules throughout the year ended 31 December 2013, 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 2013.

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 (the "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 2013.

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 Nomination 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

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
22 March 2014

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 46 to 125, which comprise the consolidated and company statements of financial position as at 31 December 2013, 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 preparation 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 about 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 consolidated 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 2013 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

Yu Tsui Fong
Practising Certificate Number P05440
Hong Kong

22 March 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Revenue	7	**3,176,423**	2,240,304
Cost of sales		**(1,697,584)**	(1,022,583)
Gross profit		**1,478,839**	1,217,721
Other income and financial income	8	**74,945**	29,182
Selling and distribution expenses		**(724,581)**	(513,278)
Administrative expenses		**(542,743)**	(351,448)
(Loss)/gain on fair value changes in financial assets at fair value through profit or loss, net		**(11,450)**	2,056
Gain on fair value changes in derivative financial instruments	35	**12,093**	6,187
Net surplus on revaluation of investment properties	19	**8,185**	7,525
Dividend income from available-for-sale financial assets	24(a)	**30,965**	17,169
Gain on disposal of available-for-sale financial assets	24(a)	**456,023**	–
Share of profit of associates		**12,134**	13,499
Finance costs	9	**(36,554)**	(14,894)
Profit before income tax	10	**757,856**	413,719
Income tax expense	11	**(157,246)**	(103,432)
Profit for the year		**600,610**	310,287
Other comprehensive income			
Item that will not be subsequently reclassified to profit or loss			
– Remeasurement of defined benefit obligations		**1,785**	–
Items that may be subsequently reclassified to profit or loss			
– Exchange gain on translation of financial statements of foreign operations		**32,719**	16,468
– Release of investment revaluation reserve upon disposal	24(a)	**(456,023)**	–
– Changes in fair value of available-for-sale financial assets	24(a)	**94,418**	601,480
		(328,886)	617,948
Other comprehensive income for the year		**(327,101)**	617,948
Total comprehensive income for the year		**273,509**	928,235
Profit for the year attributable to:			
Owners of the Company	13	**565,434**	270,425
Non-controlling interests		**35,176**	39,862
		600,610	310,287
Total comprehensive income for the year attributable to:			
Owners of the Company		**233,899**	887,501
Non-controlling interests		**39,610**	40,734
		273,509	928,235
Earnings per share attributable to owners of the Company during the year	15		
– Basic		**HK 12.50 cents**	HK 6.39 cents
– Diluted		**HK 12.47 cents**	HK 6.36 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	**553,193**	320,780
Investment properties	19	**109,097**	100,912
Prepaid land lease payments	20	**38,921**	39,357
Goodwill	21	**670,777**	621,382
Interests in associates	23	**70,203**	58,065
Available-for-sale financial assets	24	**699,408**	1,409,176
Intangible assets	25	**278,263**	149,049
Prepayments and deposits	26	**26,771**	7,809
Deferred tax assets	37	**1,344**	1,311
		2,447,977	2,707,841
Current assets			
Inventories	27	**1,987,473**	1,587,657
Trade receivables	28	**633,269**	347,366
Prepaid land lease payments	20	**935**	834
Prepayments, deposits and other receivables	26	**250,782**	250,652
Financial assets at fair value through profit or loss	29	**214,302**	106,929
Short-term investments	30	**55,696**	31,234
Cash and cash equivalents	31	**471,621**	228,624
		3,614,078	2,553,296
Assets of a disposal group classified as held for sale	12	**211,576**	–
		3,825,654	2,553,296
Current liabilities			
Trade payables	32	**400,456**	307,006
Other payables and accruals	33	**368,546**	352,903
Dividend payables		**453**	82,253
Tax payables		**60,373**	44,059
Borrowings	34	**231,011**	478,512
Derivative financial instruments	35	**49,450**	40,126
Due to associates	36	**92,545**	–
Due to related companies	36	**12,821**	159
		1,215,655	1,305,018
Liabilities of a disposal group classified as held for sale	12	**55,523**	–
		1,271,178	1,305,018
Net current assets		**2,554,476**	1,248,278
Total assets less current liabilities		**5,002,453**	3,956,119
Non-current liabilities			
Other payables	33	**48,937**	–
Borrowings	34	**366,779**	–
Deferred tax liabilities	37	**24,693**	–
		440,409	–
Net assets		**4,562,044**	3,956,119

	Notes	**2013 HK$'000**	2012 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	38	**472,840**	426,806
Reserves	40	**3,842,239**	3,362,215
		4,315,079	3,789,021
Non-controlling interests		**246,965**	167,098
Total equity		**4,562,044**	3,956,119

Hon Kwok Lung
Director

Shang Jianguang
Director

STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	18	**1,681**	2,371
Interests in subsidiaries	22	**2,017,248**	1,595,673
		2,018,929	1,598,044
Current assets			
Prepayments, deposits and other receivables	26	**22,778**	8,070
Financial assets at fair value through profit or loss	29	**47,935**	52,590
Cash and cash equivalents	31	**95,372**	6,382
		166,085	67,042
Current liabilities			
Other payables and accruals	33	**14,613**	13,563
Dividend payables		**453**	82,253
Borrowings	34	**16,000**	166,784
Due to associates	36	**85,000**	–
		116,066	262,600
Net current assets/(liabilities)		**50,019**	(195,558)
Total assets less current liabilities		**2,068,948**	1,402,486
Non-current liabilities			
Borrowings	34	**273,408**	–
Net assets		**1,795,540**	1,402,486
EQUITY			
Share capital	38	**472,840**	426,806
Reserves	40	**1,322,700**	975,680
Total equity		**1,795,540**	1,402,486

Hon Kwok Lung
Director

Shang Jianguang
Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Cash flows from operating activities			
Profit before income tax		**757,856**	413,719
Adjustments for:			
Interest income	8	**(19,937)**	(9,222)
Finance costs	9	**36,554**	14,894
Dividend income from available-for-sale financial assets	24(a)	**(30,965)**	(17,169)
Gain on disposal of available-for-sale financial assets		**(456,023)**	–
Dividend income from financial assets at fair value through profit or loss	8	**(2,114)**	(1,262)
Net surplus on revaluation of investment properties	19	**(8,185)**	(7,525)
Depreciation	10	**65,879**	43,091
Amortisation of prepaid land lease payments	10	**1,015**	739
Amortisation of intangible assets	10	**17,297**	8,576
Share of profit of associates		**(12,134)**	(13,499)
Gain on fair value change in derivative financial instruments		**(12,093)**	(6,187)
Loss on disposal of property, plant and equipment	10	**317**	3,028
Provision for impairment loss on trade receivables	10	**2,380**	–
Provision for inventories	10	**27,630**	1,079
Operating profit before working capital changes		**367,477**	430,262
Increase in inventories		**(132,723)**	(632,463)
Increase in trade receivables		**(171,329)**	(103,082)
Decrease/(Increase) in prepayments, deposits and other receivables		**31,896**	(77,644)
(Increase)/Decrease in financial assets at fair value through profit or loss		**(107,373)**	874
(Decrease)/Increase in trade payables		**(6,547)**	112,558
(Decrease)/Increase in other payables and accruals		**(70,111)**	131,689
Cash used in operations		**(88,710)**	(137,806)
Interest received		**19,937**	9,222
Interest paid		**(36,554)**	(14,894)
Income tax paid		**(140,272)**	(100,417)
Net cash used in operating activities		**(245,599)**	(243,895)
Cash flows from investing activities			
Dividends received from available-for-sale financial assets		**30,965**	17,169
Proceeds from disposal of available-for-sales investments	24(a)	**804,189**	–
Dividends received from financial assets at fair value through profit or loss	8	**2,114**	1,262
Dividends received from an associate		**–**	11,250
Purchases of property, plant and equipment		**(178,241)**	(134,565)
Purchases of prepaid land lease payments		**–**	(11,607)
Purchases of intangible assets		**(3,732)**	(46,729)
Net cash inflow from acquisition of subsidiaries	45	**28,819**	–
Proceeds from disposals of property, plant and equipment		**675**	120
Increase in short-term investments		**(24,462)**	(31,234)
Net cash generated from/(used in) investing activities		**660,327**	(194,334)

	Notes	2013 HK$'000	2012 HK$'000
Cash flows from financing activities			
Dividends paid to owners of the Company		**(81,800)**	(152,680)
Dividends paid to non-controlling interests		**(13,863)**	(23,397)
(Decrease)/Increase in bank borrowings		**(232,110)**	381,557
Decrease in derivative financial instruments		**–**	(2,699)
Proceeds from shares issued under share option scheme		**1,097**	16,508
Capital contribution from non-controlling interests		**54,120**	73,211
Increase in amount due to associates		**92,545**	–
Increase in amount due to related companies		**12,662**	–
Net cash (used in)/generated from financing activities		**(167,349)**	292,500
Net increase/(decrease) in cash and cash equivalents		**247,379**	(145,729)
Cash and cash equivalents at 1 January		**217,840**	351,276
Effect of foreign exchange rate changes, net		**13,494**	12,293
Cash and cash equivalents at 31 December		**478,713**	217,840
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**478,713**	228,624
Bank overdrafts		**–**	(10,784)
		478,713	217,840
Remaining Group		**471,621**	217,840
Disposal Group	12	**7,092**	–
		478,713	217,840

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Equity attributable to owners of the Company														
	Share capital HK$'000	Share premium account* HK$'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 2012	413,975	792,405	10,748	22,692	(15,300)	26,268	47,662	123,905	–	1,449,745	186,289	3,058,389	76,550	3,134,939
Transactions with owners														
Issuance of shares for 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 2011 final dividend (note 14.2)	–	(5,711)	–	–	–	–	–	–	–	–	(186,289)	(192,000)	–	(192,000)
Payments of 2012 interim 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 and 1 January 2013	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
Transactions with owners														
Issuance of shares for acquisitions of intangible assets, subsidiaries and an associate	45,696	253,570	–	–	–	–	–	–	(8,204)	–	–	291,062	–	291,062
Proceeds from shares issued under share option scheme	338	759	–	–	–	–	–	–	–	–	–	1,097	–	1,097
Exercise of share options	–	512	(512)	–	–	–	–	–	–	–	–	–	–	–
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	–	54,120	54,120
Dividends paid to non-controlling interests			–	–	–	–	–	–	–	–	–	–	(13,863)	(13,863)
Total transactions with owners	46,034	254,841	(512)	–	–	–	–	–	(8,204)	–	–	292,159	40,257	332,416
Comprehensive income														
Profit for the year	–	–	–	–	–	–	–	–	–	565,434	–	565,434	35,176	600,610
Other comprehensive income														
Remeasurement of defined benefit obligations	–	–	–	–	–	–	–	–	–	1,785	–	1,785	–	1,785
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	–	–	28,285	–	–	–	–	28,285	4,434	32,719
Release of investment revaluation reserve upon disposal	–	–	–	–	–	–	–	(456,023)	–	–	–	(456,023)	–	(456,023)
Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	94,418	–	–	–	94,418	–	94,418
Total comprehensive income	–	–	–	–	–	–	28,285	(361,605)	–	567,219	–	233,899	39,610	273,509
Balance at 31 December 2013	472,840	1,053,488	2,534	22,692	(15,300)	26,268	91,543	363,780	9,845	2,287,389	–	4,315,079	246,965	4,562,044

* These reserve accounts comprise the consolidated reserves of HK$3,842,239,000 (2012: HK$3,362,215,000) in the consolidated statement of financial position.

The shares to be issued reserve represents the fair value of 18,000,000 (2012: 33,000,000) ordinary shares to be issued for the acquisition of an associate, which have been issued to the vendor in January 2014.

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; and
- Distribution of yachts

On 23 September 2013, the Group entered into an agreement with third parties to sell its 51% equity interest in Ruihuang (Chongqing) Watch Company Limited ("Ruihuang") together with the assignment of the loans from the group companies and unpaid dividend and selling and distribution networks at the total consideration of RMB100,523,000 (equivalent to approximately HK$127,245,000). Details of the transaction are set out in the Company's announcement dated 23 September 2013.

As management considers that the disposals of Ruihuang is highly probable as at 31 December 2013, in accordance with HKFRS 5, the Group has reclassified the assets and liabilities of Ruihuang as at 31 December 2013 as assets and liabilities of a disposal group classified as held for sale in the Group's consolidated statement of financial position.

Other than the aforementioned and the acquisition of Montres Corum Sàrl and its subsidiaries as disclosed in note 45 to the financial statements, 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, Switzerland and the People's Republic of China (the "PRC").

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

(a) Adoption of new/revised HKFRSs – effective 1 January 2013

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 2013:

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

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

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2013 (continued)

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 and those that may not. Tax on items of other comprehensive income is allocated and disclosed on the same basis.

The Group has adopted the amendments retrospectively for the financial year ended 31 December 2013. Items of other comprehensive income that may and may not be reclassified to profit and loss in the future have been presented separately in the consolidated statement of comprehensive income. As the amendments affect presentation only, there are no effects on the Group's financial position or performance.

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 accounting requirements in HKAS 27 (2008) on other consolidation related matters are carried forward unchanged. The Group has changed its accounting policy in determining whether it has control of an investee and therefore is required to consolidate that interest (see note 4.2). The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

HKFRS 12 – Disclosure of Interests in Other Entities

HKFRS 12 integrates and makes consistent the disclosures requirements about interests in subsidiaries, associates and joint arrangements. It also introduces new disclosure requirements, including those related to unconsolidated structured entities. The general objective of the standard is to enable users of financial statements to evaluate the nature and risks of a reporting entity's interests in other entities and the effects of those interests on the reporting entity's financial statements. As the new standard affects only disclosure, there is no effect on the Group's financial position and performance.

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 is applied prospectively. HKFRS 13 did not materially affect any fair value measurements of the Group's assets and liabilities and therefore has no effect on the Group's financial position and performance.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(a) Adoption of new/revised HKFRSs – effective 1 January 2013 (continued)

HKAS 19 (2011) – Employee Benefits

HKAS 19 (2011) abandons the corridor approach with the result that changes in defined benefit obligations and the fair value of plan assets are recognised in the period in which they occur. The revised standard requires the changes in the Group's net defined benefit liability (or asset) to be separated into three components: service cost (including current and past service cost and settlements) recognised in profit or loss; net interest on the net defined benefit liability recognised in profit or loss; and re-measurements of the defined benefit liability (or asset) recognised in other comprehensive income. The revised standard distinguishes between short-term and long-term employee benefits based on the expected date of settlement. The previous standard used the term "due to be settled". HKAS 19 (2011) provides additional guidance on the definition of termination benefits. Benefits that are conditional on future service being provided including those that increase if additional service is provided are not termination benefits. The revised standard requires that a liability for termination benefits is recognised on the earlier of the date when the entity can no longer withdraw the offer of those benefits and the date the entity recognises any related restructuring costs. The adoption did not have material impact on the Group's financial position and performance, more extensive disclosures regarding the defined benefit costs are presented in note 16.2.

(b) New/revised HKFRSs that have been issued and have been early adopted

Amendments to HKAS 36 – Recoverable Amount Disclosures

The amendments limit the requirements to disclose the recoverable amount of an asset or cash generating unit ("CGU") to those periods in which an impairment loss has been recognised or reversed, and expand the disclosures where the recoverable amount of impaired assets or CGUs has been determined based on fair value less costs of disposal. The amendments are effective for annual periods commencing on or after 1 January 2014. The Group has early adopted the amendments to HKAS 36 in the current year.

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

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

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
HKFRS 9	Financial Instruments
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011)	Investment Entities[1]
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions[2]
HKFRSs (Amendments)	Annual Improvements 2010–2012 Cycle[3]
HKFRSs (Amendments)	Annual Improvements 2011–2013 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Effective for annual periods beginning, or transaction occurring, on or after 1 July 2014

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments clarify the offsetting requirements by adding appliance guidance to HKAS 32 which clarifies when an entity "currently has a legally enforceable right to set off" and when a gross settlement mechanism is considered equivalent to net settlement.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(c) 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.

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The amendments apply to a particular class of businesses that qualify as investment entities. An investment entity's business purpose is to invest funds solely for returns from capital appreciation, investment income or both. It evaluates the performance of its investments on a fair value basis. Investment entities could include private equity organisations, venture capital organisations, pension funds and investment funds. The amendments provide an exception to the consolidation requirements in HKFRS 10 Consolidated Financial Statements and require investment entities to measure particular subsidiaries at fair value through profit or loss rather than to consolidate them. The amendments also set out the disclosure requirements for investment entities. The amendments are applied retrospectively subject to certain transitional provisions.

Amendments to HKAS 19 (2011) – Defined Benefit Plans: Employee Contributions

The amendments permit contributions that are independent of the number of years of service to be recognised as a reduction in the service cost in the period in which the service is rendered instead of allocating the contributions to periods of service.

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

The Group is in the process of making 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 Hong Kong Financial Reporting Standards ("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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

3.2 Basis of measurement

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

3. BASIS OF PREPARATION (continued)

3.2 Basis of measurement (continued)

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.

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. Inter-company transactions and balances between group companies together with unrealised profits 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.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the dates of acquisition or up to the dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

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 that represent present ownership interests 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 that represent present ownership interests 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, the 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 that represent present ownership interests 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 investee over which the Company is able to exercise control. The Company controls an investee if all three of the following elements are present: power over the investee, exposure, or rights, to variable returns from the investee, and the ability to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

In the Company's statement of financial position, investments in subsidiaries are stated at cost less impairment loss, if any. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

4.3 Associates

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.3 Associates (continued)

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 are described in note 4.5 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.

4.4 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), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase, after reassessment.

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.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to CGUs and is tested annually for impairment, and whenever there is an indication that the unit may be impaired (see note 4.5). In respect of associates, the carrying amount of goodwill, if any, is included in the carrying amount of the Group's interests in the associate and is assessed for impairment as part of the interests in the associate.

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 is recognised immediately in profit or loss, after reassessment.

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

4.5 Impairment of non-financial assets

Goodwill, intangible assets, property, plant and equipment, prepaid land lease payments and interests in subsidiaries and associates 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)

4.5 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.

4.6 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Related parties (continued)

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

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

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

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

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

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

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

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

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

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

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

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

4.7 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Property, plant and equipment (continued)

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:

Land and buildings	Over the terms of the leases or estimated useful lives, ranging between 20 years to 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.

The 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.

4.8 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 classified and 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.

4.9 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Operating leases (continued)

(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 rental 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 the 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 accounting period 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.

4.10 Intangible assets

(i) Acquired intangible assets

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses.

Supplier and distribution networks	10 years
Brand names	10 years
Patents	10 years

Intangible asset with an indefinite useful life shall not be amortised.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Intangible assets (continued)

(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. The 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 4.5 above.

4.11 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Financial assets (continued)

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

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

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

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

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

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

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

(ii) Loans and receivables

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

(iii) Available-for-sale financial assets

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Financial assets (continued)

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 the loss is recognised in profit or loss of the year in which the impairment occurs.

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

(ii) Available-for-sale financial assets

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Financial assets (continued)

Impairment of financial assets (continued)

(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.

4.12 Financial liabilities

The Group's financial liabilities include trade payables, other payables and accruals, derivative financial instruments, borrowings and amounts due to associates and related companies. These are included in the consolidated statement of financial position line items as trade payables, other payables and accruals, derivative financial instruments, borrowings and amounts due to associates and 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 4.13 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 as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.13 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.

4.14 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.

4.15 Cash and cash equivalents

In the consolidated statement of cash flows, 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. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

4.16 Government grants

Government grants are recognised when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

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. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, 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.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Income taxes are recognised in profit or loss, except when they relate to items recognised in other comprehensive income in which case taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case taxes are also recognised 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Income taxes (continued)

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.

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

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

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

4.20 Employee benefits

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

Defined contribution plans

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Employee benefits (continued)

Defined contribution plans (continued)

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

Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflow using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to terms of the related pension obligation. In countries where there is no deep market in such bonds, the market rates on government bonds are used.

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

Past service costs are recognised immediately in profit or loss.

Short-term employee benefits

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

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

4.21 Share-based employee compensation

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.21 Share-based employee compensation (continued)

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

4.22 Capitalisation of borrowing costs

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

4.23 Foreign currency

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

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

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

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

4.24 Segment reporting

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.24 Segment reporting (continued)

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, financial assets at fair value through profit or loss, short-term investments and assets of a disposal group classified as held for sale. 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, amounts due to associates and related companies, derivative financial instruments and liabilities of a disposal group classified as held for sale.

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 account (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 inventories

Provision for 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.

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

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.

Estimated impairment of trade and other receivables

Impairment loss on 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 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 Hong Kong, Switzerland and 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.

Assessment of identifiable assets and liabilities on acquisition of subsidiaries

Upon completion of acquisition of subsidiaries or businesses, the directors have assessed the acquisition-date fair value of the identifiable assets acquired and liabilities assumed from the acquisition. The directors use their judgement in selecting an appropriate valuation technique for the Group's property, plant and equipment, intangible assets and inventories obtained upon the acquisition of subsidiaries during the year. The fair values of the property, plant and equipment, intangible assets and inventories are estimated by an independent professional valuer. Where fair value of the identifiable assets acquired and liabilities assumed from the acquisition exceed the fair value of consideration paid for the acquisition, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Estimation of defined benefit obligations

The Group operates two defined benefit plans. Pension costs for defined benefit plans are assessed using the projected unit credit method in accordance with HKAS 19 (2011) Employee Benefits. Under this method, the cost of providing pensions is charged to the profit or loss in accordance with the advice of the actuaries who carry out a full valuation of the plans. The pension obligation is measured at the present value of the estimated future cash outflows using interest rates determined by reference to market yields at the end of the reporting period based on government agency or high quality corporate bonds with currency and term similar to the estimated term of benefit obligations. All actuarial gains and losses are recognised in full, in the year in which they occur, in other comprehensive income.

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

Estimation of defined benefit obligations (continued)

Management appointed actuaries to carry out a full valuation of these pension plans to determine the pension obligations that are required to be disclosed and accounted for in the accounts in accordance with the HKFRS requirements.

The actuaries use assumptions and estimates in determining the fair value of the defined benefit plans and evaluate and update these assumptions on an annual basis. Judgement is required to determine the principal actuarial assumptions to determine the present value of defined benefit obligations and service costs. Changes to the principal actuarial assumptions can significantly affect the present value of plan obligations and service costs in future periods.

Fair value measurement

A number of assets and liabilities included in the Group's financial statements require measurement at, and/or disclosure of, fair value.

The fair value measurement of the Group's financial and non-financial assets and liabilities utilises market observable inputs and data as far as possible. Inputs used in determining fair value measurements are categorised into different levels based on how observable the inputs used in the valuation technique utilised are (the 'fair value hierarchy'):

– Level 1 valuations: Quoted prices in active markets for identical items (unadjusted);

– Level 2 valuations: Observable direct or indirect inputs other than Level 1 inputs;

– Level 3 valuations: Unobservable inputs (i.e. not derived from market data).

The classification of an item into the above levels is based on the lowest level of the inputs used that has a significant effect on the fair value measurement of the item. Transfers of items between levels are recognised in the period they occur.

The Group measures the following items at fair value:

– Investment properties (note 19)

– Available-for-sales financial assets (note 24)

– Financial assets at fair value through profit or loss (note 29)

– Derivative financial instruments (note 35)

For more detailed information in relation to the fair value measurement of the items above, please refer to the respective notes.

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)

2013

	Watches and timepiece HK$'000	Property investment HK$'000	Yacht HK$'000	Total HK$'000
Segment revenue and income:				
Sales to external customers	3,152,966	16,957	6,500	3,176,423
Other income and financial income	59,630	4,239	1,000	64,869
Total	3,212,596	21,196	7,500	3,241,292
Segment results	392,288	9,983	(1,618)	400,653
Unallocated corporate income and expenses, net				(74,400)
				326,253
Gain on disposal of available-for-sale financial assets				456,023
Share of profit of associates				12,134
Finance costs				(36,554)
Profit before income tax				757,856
Income tax expense				(157,246)
Profit for the year				600,610
Segment assets	3,893,191	166,317	46,061	4,105,569
Goodwill				670,777
Interests in associates				70,203
Available-for-sale financial assets				699,408
Financial assets at fair value through profit or loss				214,302
Short-term investments				55,696
Assets of a disposal group classified as held for sale				211,576
Unallocated corporate assets				246,100
				6,273,631
Segment liabilities	771,594	42,289	–	813,883
Borrowings				597,790
Due to associates				92,545
Due to related companies				12,821
Derivative financial instruments				49,450
Liabilities of a disposal group classified as held for sale				55,523
Unallocated corporate liabilities				89,575
				1,711,587
Other segment information				
Interest income	11,752	229	–	11,981
Provision for impairment loss on trade receivables	2,380	–	–	2,380
Depreciation and amortisation	77,957	5,076	1	83,034
Additions to non-current assets	219,070	–	–	219,070
Net surplus on revaluation of investment properties	–	8,185	–	8,185

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	46,612	4,389	27	51,028
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)

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		Non-current assets	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong (domicile)	**44,495**	10,872	**101,515**	75,952
PRC	**2,747,379**	2,131,988	**1,140,972**	1,067,952
Switzerland	**45,763**	97,444	**501,550**	153,450
Germany	**35,491**	–	**679**	–
Singapore	**32,441**	–	**–**	–
Other	**270,854**	–	**2,509**	–
	3,176,423	2,240,304	**1,747,225**	1,297,354

The geographical location of customers is based on the location at which the goods and services are delivered. For goodwill and intangible assets, the geographical location is based on the areas of operation of CGUs. The geographical location of other 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 years ended 31 December 2013 and 2012.

7. REVENUE

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

	2013	2012
	HK$'000	HK$'000
Sales of goods	**3,159,466**	2,225,082
Gross rental income	**16,957**	15,222
	3,176,423	2,240,304

8. OTHER INCOME AND FINANCIAL INCOME

	2013	2012
	HK$'000	HK$'000
Bank interest income	**19,937**	9,222
Dividend income from financial assets at fair value through profit or loss	**2,114**	1,262
Exchange gains	**3,425**	543
Sales of scrap materials	**2,026**	1,744
Sub-lease income	**346**	341
Other operation incomes	**23,832**	6,011
Government subsidies	**10,291**	1,331
Sundry income	**12,974**	8,728
	74,945	29,182

9. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest charged on bank and other loans	**36,554**	14,894

10. PROFIT BEFORE INCOME TAX

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

	2013 HK$'000	2012 HK$'000
Cost of inventories recognised as expense, including:	**1,697,584**	1,022,583
– Provision for inventories	**27,630**	1,079
Depreciation (note a)	**65,879**	43,091
Amortisation of prepaid land lease payments (note b)	**1,015**	739
Amortisation of intangible assets (note b)	**17,297**	8,576
Minimum lease payments under operating leases in respect of land and buildings	**40,920**	25,708
Auditor's remuneration	**2,100**	1,900
Gross rental income	**(16,957)**	(15,222)
Less: direct operating expenses	**3,033**	2,510
Net rental income	**(13,924)**	(12,712)
Exchange losses	**18,880**	1,914
Loss on disposal of property, plant and equipment	**317**	3,028
Provision for impairment loss on trade receivables	**2,380**	–
Research and development expenses (note b)	**73,166**	44,277

Notes:

(a) Depreciation expense of HK$11,021,000 (2012: HK$9,394,000) has been included in cost of sales, HK$24,637,000 (2012: HK$8,849,000) in selling and distribution expenses and HK$30,221,000 (2012: HK$24,848,000) in administrative expenses.

(b) Amortisation expenses and research and development expenses had been included in the administrative expenses.

11. INCOME TAX EXPENSE

For both the years ended 31 December 2013 and 2012, Hong Kong profits tax was provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong. The subsidiaries established in the PRC are subject to income taxes at tax rates ranging between 15% and 25% (2012: 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 the PRC and dividend income derived from PRC incorporated company.

	2013 HK$'000	2012 HK$'000
Current tax for the year		
PRC	**158,816**	103,588
Switzerland	**99**	101
Over-provision in respect of prior years		
PRC	**(1,669)**	(257)
Total income tax expense	**157,246**	103,432

11. INCOME TAX EXPENSE (continued)

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

	2013 **HK$'000**	2012 HK$'000
Profit before income tax	**757,856**	413,719
Tax calculated at the rates applicable to the tax jurisdictions concerned	**89,949**	61,667
Tax effect of income not taxable	**(5,348)**	(10,557)
Tax effect of non-deductible expenses	**20,629**	48,915
Over-provision in respect of prior years	**(1,669)**	(257)
Utilisation of tax losses not recognised	**(470)**	(3,829)
Tax effect of tax losses not recognised	**54,155**	7,493
Total income tax expense	**157,246**	103,432

12. ASSETS AND LIABILITIES OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

As mentioned in note 1, the Group's management committed to dispose of its 51% equity interest in Ruihuang. In accordance with HKFRS 5, the Group has reclassified the assets and liabilities of Ruihuang (the "Disposal Group") as at 31 December 2013 as assets and liabilities of a disposal group classified as held for sale in the Group's consolidated statement of financial position.

An analysis of the assets and liabilities of the Disposal Group classified as held for sale as at the 31 December 2013 is as follows:

	HK$'000
Assets of a disposal group classified as held for sale:	
Property, plant and equipment	3,229
Intangible assets	7,824
Inventories	163,213
Trade receivables	21,796
Prepayments, deposits and other receivables	8,422
Cash and cash equivalents	7,092
	211,576
Liabilities of a disposal group classified as held for sale:	
Trade payables	31,252
Other payables and accruals	23,610
Tax payables	661
	55,523

The aggregated income recognised in the other comprehensive income relating to the Disposal Group is approximately HK$4,377,000.

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Of the consolidated profit attributable to owners of the Company of HK$565,434,000 (2012: HK$270,425,000), a loss of HK$118,927,000 (2012: HK$67,705,000) has been dealt with in the financial statements of the Company.

14. DIVIDENDS

14.1 Dividend attributable to the year

	2013 HK$'000	2012 HK$'000
Interim dividend: Nil (2012: HK1 cent per share)	–	42,681

The directors do not recommend the payment of a final dividend for the year ended 31 December 2013 (2012: Nil).

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

	2013 HK$'000	2012 HK$'000
Final dividend in respect of the previous financial year (2012: HK4.5 cents per share)	–	192,000

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	2013 HK$'000	2012 HK$'000
Profit attributable to owners of the Company for the purpose of calculating basic and diluted earnings per share	565,434	270,425

Number of shares	2013 Number of shares '000	2012 Number of shares '000
Weighted average number of shares for the purpose of calculating basic earnings per share	4,522,925	4,232,782
Effect of dilutive potential shares:		
– share options issued by the Company	11,045	21,691
Weighted average number of shares for the purpose of calculating diluted earnings per share	4,533,970	4,254,473

16. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

16.1 Employee benefit expense

	2013 HK$'000	2012 HK$'000
Wages and salaries	598,411	403,065
Pension costs	47,203	24,753
	645,614	427,818

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

16.2 Defined benefit pension plans

	2013	2012
	HK$'000	HK$'000
Net defined benefit liability	**44,587**	12,059

Net defined benefit liability has been included in other payables in the consolidated statement of financial position.

The defined benefit pension plans is primarily arising from Eterna AG Uhrenfabrik and its subsidiaries (together the "Eterna Group") and Montres Corum Sàrl and its subsidiaries (together the "Corum Group"). The Group makes contributions to the defined benefit pension plans that provide 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 the plan has a deficit, Swiss plans are classified as defined benefit pension plans.

The latest independent actuarial valuations of plan assets and the present value of the defined benefit obligations on the Eterna Group were carried out at 31 December 2013 and 2012 by Martin Schnider, a member of the Institute of Actuaries in Switzerland, using the projected unit credit method.

The latest independent actuarial valuations of plan assets and the defined benefit obligations on the Corum Group were carried out at the acquisition date of the Corum Group and 31 December 2013 by Nicolas Colozier, 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:

	2013	2012
	HK$'000	HK$'000
Present value of funded obligations	**349,767**	153,420
Fair value of planned assets	**(305,180)**	(141,361)
Present value of unfunded obligations	**44,587**	12,059

(b) Movements in the present value of the defined benefit obligations in the current year are as follows:

	2013	2012
	HK$'000	HK$'000
At 1 January	**153,420**	118,765
Addition through acquisition of subsidiaries	**193,006**	–
Current service costs	**31,655**	6,194
Interest cost	**6,403**	2,969
Past service cost	**(22,206)**	–
Actuarial gains	**2,160**	13,935
Benefits (paid)/received	**(29,722)**	7,757
Exchange realignment	**15,051**	3,800
At 31 December	**349,767**	153,420

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

16.2 Defined benefit pension plans (continued)

(c) Movements in the fair value of the plan assets in the current year are as follows:

	2013 HK$'000	2012 HK$'000
At 1 January	**141,361**	109,354
Addition through acquisition of subsidiaries	**144,886**	–
Expected return on plan assets	**6,319**	4,375
Actuarial gains	**3,945**	116
Contributions by the employer	**15,560**	2,340
Contributions by plan participants	**10,270**	2,340
Contributions by third parties	**–**	11,578
Benefit (paid)/received	**(29,722)**	7,757
Exchange realignment	**12,561**	3,501
At 31 December	**305,180**	141,361

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

	2013 HK$'000	2012 HK$'000
Service cost:		
Current service cost	**31,655**	6,194
Interest cost	**6,403**	2,969
Past service cost	**(22,206)**	–
Expected return on plan assets	**(6,319)**	(4,375)
	9,533	4,788

The defined benefit costs of HK$9,533,000 (2012: HK$4,788,000) has been included in the administrative expenses.

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

16.2 Defined benefit pension plans (continued)

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

	2013 **HK$'000**	2012 HK$'000
Equity instruments	**63,801**	23,769
Debt instruments	**145,074**	59,080
Property	**68,548**	50,490
Commodities instruments	**1,768**	–
Asset from reinsurance	**5,827**	–
Cash	**20,162**	8,022
	305,180	141,361

(f) The principle actuarial assumptions used for accounting purpose at 31 December are as follows:

	2013 **%**	2012 %
Discount rate applied to pension obligations	**2–2.15**	2
Expected salary growth increase	**1–1.5**	1.5

(g) Sensitivity analysis on defined benefit pension plans

Significant actuarial assumptions for the determination of the defined benefit obligations are discount rate, expected salary growth increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 50 basis points higher (lower), the defined benefit obligations would decrease by HK$28,351,000 (increase by HK$31,574,000).

- If the expected salary growth increases (decreases) by 50 basis points, the defined benefit obligations would increase by HK$5,135,000 (decrease by HK$4,433,000).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligations has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit liability recognised in the consolidated statement of financial position.

17. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

17.1 Directors' emoluments

2013

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Contributions to pension scheme HK$'000	Total HK$000
Executive directors				
Mr. Hon Kwok Lung	–	**1,690**	**15**	**1,705**
Mr. Shang Jianguang	–	**7,568**	**72**	**7,640**
Mr. Shi Tao	–	**1,690**	**15**	**1,705**
Mr. Lam Toi Man	–	**1,430**	**15**	**1,445**
Mr. Bi Bo	–	**1,456**	**15**	**1,471**
Ms. Sit Lai Hei	–	**1,430**	**15**	**1,445**
Independent non-executive directors				
Mr. Fung Tze Wa	**200**	–	–	**200**
Dr. Kwong Chun Wai, Michael	**150**	–	–	**150**
Mr. Li Qiang	**150**	–	–	**150**
	500	**15,264**	**147**	**15,911**

2012

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Contributions to pension scheme 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

* 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 (2012: Nil).

17. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

17.2 Five highest paid individuals

The five highest paid individuals of the Group during the year included one (2012: five) director, details of whose remuneration are reflected in the analysis presented in note 17.1. Details of the remuneration of the remaining four (2012: Nil) non-director, highest paid individuals of the Group for the year are as follows:

	2013 **HK$'000**	2012 HK$'000
Salaries, allowances and benefits in kind	**12,431**	–
Contribution to pension scheme	**1,075**	–
	13,506	–

The emoluments of one non-director highest paid individuals fell within the band of HK$2,500,001 to HK$3,000,000 (2012: Nil), one fell within the band of HK$3,000,001 to HK$3,500,000 (2012: Nil), one fell within the band of HK$3,500,001 to HK$4,000,000 (2012: Nil) and one fell within the band of HK$4,500,001 to HK$5,000,000 (2012: Nil).

No emolument was paid by the Group to the directors or the four (2012: Nil) highest paid employee(s) as an inducement to join or upon joining the Group, or as compensation for loss of office (2012: Nil).

17.3 Remunerations payable to members of senior management

The remunerations payable to members of senior management (excluding the remunerations to directors which have been disclosed in note 17.1 above) were within the following bands:

	2013	2012
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**2**	3
HK$4,500,001 to HK$5,000,000	**1**	–
	4	4

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 1 January 2012							
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
Year ended 31 December 2013							
Opening carrying amount	**155,426**	**19,095**	**66,321**	**46,560**	**24,041**	**9,337**	**320,780**
Additions	**18,277**	**14,606**	**43,770**	**87,322**	**4,331**	**9,935**	**178,241**
Acquisition of subsidiaries (note 45)	**94,064**	**552**	**6,088**	**6,664**	**228**	**–**	**107,596**
Reclassification to assets of a disposal group classified as held for sale (note 12)	**–**	**(2,073)**	**–**	**(93)**	**(1,063)**	**–**	**(3,229)**
Depreciation	**(8,726)**	**(8,443)**	**(15,740)**	**(26,364)**	**(6,606)**	**–**	**(65,879)**
Disposal	**–**	**(136)**	**(542)**	**(55)**	**(259)**	**–**	**(992)**
Exchange realignment	**8,448**	**496**	**2,868**	**3,622**	**407**	**835**	**16,676**
Closing carrying amount	**267,489**	**24,097**	**102,765**	**117,656**	**21,079**	**20,107**	**553,193**
At 31 December 2013							
Cost	**297,530**	**45,567**	**141,208**	**182,306**	**49,976**	**20,107**	**736,694**
Accumulated depreciation	**(30,041)**	**(21,470)**	**(38,443)**	**(64,650)**	**(28,897)**	**–**	**(183,501)**
Net carrying amount	**267,489**	**24,097**	**102,765**	**117,656**	**21,079**	**20,107**	**553,193**

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 1 January 2012				
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
Year ended 31 December 2013				
Opening carrying amount	**159**	**375**	**1,837**	**2,371**
Additions	**81**	**157**	**–**	**238**
Depreciation	**(135)**	**(163)**	**(630)**	**(928)**
Closing carrying amount	**105**	**369**	**1,207**	**1,681**
At 31 December 2013				
Cost	**1,696**	**2,093**	**10,048**	**13,837**
Accumulated depreciation	**(1,591)**	**(1,724)**	**(8,841)**	**(12,156)**
Net carrying amount	**105**	**369**	**1,207**	**1,681**

18. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

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

	2013 **HK$'000**	2012 HK$'000
Short-term leases	**553**	671
Medium-term leases	**266,468**	153,695
Long-term leases	**468**	1,060
	267,489	155,426

The aforesaid land and buildings are located outside Hong Kong.

At 31 December 2013, land and buildings in Switzerland with an aggregated carrying value of HK$144,552,000. (2012: HK$47,627,000) have been pledged to secure banking facilities granted to the Group (note 34).

(b) At 31 December 2013, the Group has not yet obtained the title certificates for certain leasehold buildings in the PRC with an aggregate carrying value of approximately HK$643,000 (2012: HK$927,000). The Group's legal advisor has 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:

	2013 **HK$'000**	2012 HK$'000
Carrying amount at 1 January	**100,912**	93,387
Net surplus on revaluation of investment properties	**8,185**	7,525
Carrying amount at 31 December	**109,097**	100,912

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:

	2013 **HK$'000**	2012 HK$'000
Hong Kong	**22,200**	22,150
PRC	**86,897**	78,762
	109,097	100,912

Investment properties were revalued at 31 December 2013 by Asset Appraisal Limited and Chung, Chan & Associate, independent professionally qualified valuers, at HK$109,097,000 (2012: HK$100,912,000) in aggregate. 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.

19. INVESTMENT PROPERTIES – GROUP (continued)

At 31 December 2013, the Group has not obtained the relevant title certificates for investment properties with an aggregate carrying value of HK$41,100,000 (2012: HK$39,500,000). The Group's legal advisor has 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 2013, investment properties in Hong Kong with an aggregate carrying value of HK$22,200,000 (2012: HK$22,150,000) have been pledged to secure banking facilities granted to the Group (note 34).

Fair value hierarchy

The fair value of investment properties is a Level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balance is provided below.

	2013 **HK$'000**
Opening balance (Level 3 recurring fair value)	**100,912**
Gain on revaluation of investment properties	**8,185**
Closing balance (Level 3 recurring fair value)	**109,097**
Change in unrealised gains or losses for the year included in profit or loss for assets held at 31 December	**8,185**

During the year ended 31 December 2013, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

For the fair value measurement for investment properties in the PRC under income approach, the fair value was determined by taking into account the net rental incomes of the properties derived from the existing tenancies with due allowance for the reversionary income potential of the tenancies, which are then capitalised into the values at appropriate capitalisation rates.

Significant unobservable inputs	**Range**
Capitalisation rate	2.5% to 7%
Market unit rent per square metre	HK$5 to HK$82

A lower in the capitalisation rate and a higher in the market unit rent used would result in an increase in the fair value measurement of the investment properties, and vice versa.

For the fair value measurement for investment property in Hong Kong under direct comparison method, it is assumed that each of the properties is capable of being sold in its existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets.

One of the key inputs used under direct comparison method in valuing the investment property was the price per square feet and taking into account of location and other individual factors. The price per square feet used is approximately HK$13,680. An increase in the price per square feet would result in an increase in the fair value measurement of the investment property, and vice versa.

There has been no change from the valuation technique used in the prior year. The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

20. PREPAID LAND LEASE PAYMENTS – GROUP

Changes to the carrying amounts are summarised as follows:

	2013 HK$'000	2012 HK$'000
Carrying amount at 1 January	**40,191**	28,965
Additions	**–**	11,607
Amortisation during the year	**(1,015)**	(739)
Exchange realignment	**680**	358
Carrying amount at 31 December	**39,856**	40,191
Less: Current portion	**(935)**	(834)
Non-current portion	**38,921**	39,357

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

The amount of goodwill capitalised as an asset recognised in the consolidated statement of financial position, arising from business combinations, is as follows:

	2013 HK$'000	2012 HK$'000
At 1 January		
Gross carrying amount	**621,382**	621,382
Accumulated impairment	**–**	–
Net carrying amount	**621,382**	621,382

	2013 HK$'000	2012 HK$'000
Year ended 31 December		
Opening carrying amount	**621,382**	621,382
Acquisition of subsidiaries (note 45)	**49,395**	–
Closing carrying amount	**670,777**	621,382

	2013 HK$'000	2012 HK$'000
At 31 December		
Gross carrying amount	**670,777**	621,382
Accumulated impairment	**–**	–
Net carrying amount	**670,777**	621,382

21. GOODWILL – GROUP (continued)

For the purpose of impairment testing, goodwill is allocated to the CGUs under watch and timepieces segment. The CGUs were identified as follows:

	2013	2012
	HK$'000	HK$'000
Jia Cheng Investment Limited and its subsidiaries	**621,382**	621,382
Montres Corum Sàrl and its subsidiaries	**49,395**	–
Net carrying amount	**670,777**	621,382

A valuation was carried out by Asset Appraisal Limited to assess the recoverable amount of the goodwill arising from the acquisitions. The recoverable amounts of the CGUs 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 0% to 3% (2012: 1.45%) which do not exceed the long-term growth rate for the business in which CGUs operate.

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 cash flows and discounted using discount rates of 12.84% to 16.50% (2012: 16.09%). The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs. 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 2013, the carrying amount of goodwill in the consolidated reserves was HK$15,300,000 (2012: HK$15,300,000).

22. INTERESTS IN SUBSIDIARIES – COMPANY

	2013	2012
	HK$'000	HK$'000
Unlisted investments, at cost	**793,194**	793,184
Deemed capital contribution	**189,951**	–
Due from subsidiaries	**1,337,806**	1,106,192
	2,320,951	1,899,376
Less: Provision for impairment	**(303,703)**	(303,703)
	2,017,248	1,595,673

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 2013 are as follows:

Name	Place of incorporation/ establishment	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 Co., Limited (note a)	PRC	HK$36,000,000	–	100	Manufacture and distribution of watches and timepieces in the PRC
Shenzhen EBOHR Luxuries Online E-commerce Company Limited (note b)	PRC	RMB1,000,000	–	100	Distribution of watches and timepieces in the PRC
Seti Timber Industry (Shenzhen) Co., Ltd. (note c)	PRC	US$45,525,860	–	100	Investment holding in the PRC
Shenzhen Seti Trading Development Company Limited (note b)	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 (note d)	PRC	RMB100,000,000	–	91	Manufacture and distribution of watches and timepieces in the PRC
PAMA Precision Manufacturing Limited (note b)	PRC	RMB10,000,000	–	100	Manufacture and distribution of watches and timepieces in the PRC
Shenzhen Permanence Commerce Co., Limited (note b)	PRC	RMB23,000,000	–	100	Distribution of watches and timepieces in the PRC
Zhuhai Rossini Glasses Industry Limited (note b)	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 (note d)	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 of incorporation/ establishment	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 (note d)	PRC	RMB15,000,000	–	51	Distribution of watches and timepieces in the PRC
Liaoning Hengjia Horologe Co., Limited (note d)	PRC	RMB25,500,000	–	51	Distribution of watches and timepieces in the PRC
Guangzhou Five Sheep Watch Co., Limited (note b)	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
Centenaire Trading (Shanghai) Co., Ltd (note a)	PRC	RMB4,550,000	–	70	Distribution of watches and timepieces in the PRC
Eterna (Beijing) International Trading Co., Ltd (note b)	PRC	RMB1,000,000	–	70	Distribution of watches and timepieces in the PRC
Beijing Haina Tianshi Watch Company Limited (note d)	PRC	RMB30,000,000	–	51	Distribution of watches and timepieces in the PRC
Jilin Dayou Watch Limited (note d)	PRC	RMB15,000,000	–	51	Distribution of watches and timepieces in the PRC
Henan Jinjue Enterprise Company Limited (note b)	PRC	RMB100,000,000	–	51	Distribution of watches and timepieces in the PRC
Gold Vantage Industrial Limited	Hong Kong	HK$10,000	–	51	Investment holding in the PRC
Qinzhou Jintai Precision Products Co., Ltd. (note b)	PRC	RMB1,000,000	–	51	Manufacturing of watches and related accessories in the PRC
Shenzhen Grand Chances Watch Manufacture Ltd. (note b)	PRC	RMB500,000	–	51	Manufacturing of watches and related accessories in the PRC
Qinzhou Pros Watch Industrial Co., Ltd. (note b)	PRC	RMB1,000,000	–	51	Manufacturing of watches and related accessories in the PRC
Montres Corum Sàrl	Switzerland	CHF3,000,000	–	100	Manufacture, and distribution of watches and timepieces in Switzerland
Montres Corum (UK) Ltd.	United Kingdom	GBP3,383,424	–	100	Distribution of watches and timepieces in United Kingdom

22. INTERESTS IN SUBSIDIARIES – COMPANY (continued)

Name	Place of incorporation/ establishment	Particulars of issued ordinary/ paid-up capital	Percentage of issued ordinary/ paid-up capital held Directly	Indirectly	Principal activities and place of operation
Corum Italia SRL	Italy	EUR10,400	–	100	Distribution of watches and timepieces in Italy
Montres Corum Europe SA	Switzerland	CHF100,000	–	100	Distribution of watches and timepieces in Switzerland
Servicio de Importacion SA	Spain	EUR739,000	–	100	Distribution of watches and timepieces in Spain
Corum Deutschland GmbH	Germany	EUR200,000	–	100	Distribution of watches and timepieces in Germany

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 t he opinion of the directors, result in particulars of excessive length.

Notes:

(a) These subsidiaries are registered as wholly foreign owned enterprises under the law of PRC.

(b) These subsidiaries are registered as limited liability companies under the law of PRC.

(c) This subsidiary is registered as foreign joint venture under the law of PRC.

(d) These subsidiaries are registered as sino-foreign joint ventures under the law of PRC.

23. INTERESTS IN ASSOCIATES – GROUP

	Group 2013 HK$'000	2012 HK$'000
At 1 January	**58,065**	164
Acquisition of an associate (note)	**–**	55,650
Share of profit of associates	**12,134**	13,499
Dividend income received from an associate	**–**	(11,250)
Exchange realignment	**4**	2
	70,203	58,065

Note:

In April 2012, 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 38,000,000 ordinary shares had been issued up to 31 December 2013 and 18,000,000 ordinary shares have been issued to the vendor in January 2014; 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).

23. INTERESTS IN ASSOCIATES – GROUP (continued)

Particulars of the principal associate at 31 December 2013 are as follows:

Name	Particulars of equity held	Place of incorporation	Percentage of interest held	Principal activities and place of operation
Fair Future Industrial Limited	Paid up capital of HK$600,000	Hong Kong	25% (2012: 25%)	Manufacturing of watches and related accessories in the PRC

The summarised financial information of the Group's material associate extracted from its management accounts for the year ended 31 December 2013 and for the period ended 31 December 2012 is as follows:

a) Summarised financial information (material associate)

	2013 HK$'000	2012 HK$'000
Fair Future Industrial Limited		
As at 31 December		
Current assets	**735,168**	409,204
Non-current assets	**22,348**	21,975
Current liabilities	**628,550**	351,655
Non-current liabilities	**784**	120
Included in the above amounts are:		
Cash and cash equivalents	**48,506**	16,934
Current financial liabilities (excluding trade and other payables)	**384,158**	125,757
Non-current financial liabilities (excluding other payables and provisions)	**784**	120

	01/01/2013 to 31/12/2013 HK$'000	01/04/2012 to 31/12/2012 HK$'000
Revenue	**904,089**	788,240
Profit for the year/period	**48,535**	53,997
Other comprehensive income	**243**	1,502
Total comprehensive income	**48,778**	55,499
Dividends received from an associate	**–**	11,250
Included in the above amounts are:		
Depreciation	**3,290**	3,431
Interest income	**4,951**	3,369
Interest expense	**4,574**	2,251
Income tax expense	**10,862**	10,893

24. AVAILABLE-FOR-SALE FINANCIAL ASSETS – GROUP

	2013	2012
	HK$'000	HK$'000
Listed equity investment, at fair value (note a)	**699,326**	1,409,097
Unlisted equity investment, at cost		
– Others (note b)	**82**	79
Total	**699,408**	1,409,176

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 RMB2.12 (2012: RMB1.3) for every 10 Citychamp Shares. In 2012, Citychamp also issued bonus issues of 6 shares for every 10 Citychamp Shares. A dividend income totalling HK$30,965,000 (2012: HK$17,169,000) was recognised by the Group in the 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	85,389,058 (2012: 173,989,058)	7.18% (2012: 14.78%)

During the year, the increase in fair value of Citychamp Shares of HK$94,418,000 (2012: HK$601,480,000) has been dealt with in other comprehensive income and the investment revaluation reserve.

During the year, the Group has completed the disposal of 88,600,000 Citychamp Shares at a cash consideration of RMB637,100,000 (equivalent to HK$804,189,000). The related cumulative gain previously recognised in other comprehensive income of HK$456,023,000 was reclassified from the investment revaluation reserve to profit or loss for the year.

There is no disposal of Citychamp Shares for the year ended 31 December 2012.

(b) 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$'000	Brand names HK$'000	Patents HK$'000	Total HK$'000
At 1 January 2012				
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
Year ended 31 December 2013				
Opening carrying amount	**81,099**	**37,409**	**30,541**	**149,049**
Additions	**39,520**	**–**	**1,548**	**41,068**
Acquisition of subsidiaries (note 45)	**2,384**	**107,735**	**–**	**110,119**
Reclassification to assets of a disposal group classified as held for sale (note 12)	**(7,824)**	**–**	**–**	**(7,824)**
Amortisation	**(13,303)**	**(80)**	**(3,914)**	**(17,297)**
Exchange realignment	**787**	**1,650**	**711**	**3,148**
Closing carrying amount	**102,663**	**146,714**	**28,886**	**278,263**
At 31 December 2013				
Cost	**123,195**	**146,855**	**32,959**	**303,009**
Accumulated amortisation	**(20,532)**	**(141)**	**(4,073)**	**(24,746)**
Net carrying amount	**102,663**	**146,714**	**28,886**	**278,263**

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other receivables	**193,335**	192,866	**19,846**	4,959
Prepayments	**81,068**	61,383	**91**	275
Deposits	**3,150**	4,212	**2,841**	2,836
Carrying amount at 31 December	**277,553**	258,461	**22,778**	8,070
Less: Current portion	**(250,782)**	(250,652)	**(22,778)**	(8,070)
Non-current portion	**26,771**	7,809	**–**	–

27. INVENTORIES – GROUP

	2013	2012
	HK$'000	HK$'000
Raw materials	**234,633**	229,656
Work-in-progress	**295,415**	48,439
Finished goods and merchandise	**1,457,425**	1,309,562
	1,987,473	1,587,657

28. TRADE RECEIVABLES – GROUP

	2013	2012
	HK$'000	HK$'000
Trade receivables	**635,746**	347,366
Less: Provision for impairment loss	**(2,477)**	–
Trade receivables, net	**633,269**	347,366

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 six months (2012: one to two months) for major customers. Each customer has a maximum credit limit. The credit term for customers is determined by the management according to various market criteria. 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.

28. TRADE RECEIVABLES – GROUP (continued)

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. Movements in the provision for impairment of trade receivables are as follows:

	2013	2012
	HK$'000	HK$'000
At 1 January	**–**	1,642
Amount written off	**–**	(1,662)
Impairment loss for the year	**2,380**	–
Exchange realignment	**97**	20
At 31 December	**2,477**	–

At each reporting date, the Group reviews trade receivables for evidence of impairment on both an individual and collective basis. The Group does not hold any collateral over these balances. As at 31 December 2013, certain trade receivables amounted to approximately HK$206,834,000 (2012: Nil) have been pledged to secure banking facilities granted to the Group (note 34).

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

	2013	2012
	HK$'000	HK$'000
1 to 3 months	**471,195**	319,787
4 to 6 months	**84,981**	24,760
Over 6 months	**77,093**	2,819
	633,269	347,366

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

	2013	2012
	HK$'000	HK$'000
Neither past due nor impaired	**216,573**	205,818
Less than 3 months past due	**261,324**	122,379
More than 3 months but less than 6 months past due	**80,637**	16,590
More than 6 months past due	**74,735**	2,579
	416,696	141,548
	633,269	347,366

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	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Listed equity investments in Hong Kong, at market value	**214,302**	106,929	**47,935**	52,590

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

30. SHORT-TERM INVESTMENTS – GROUP

During the year, the Group purchased short-term investments from major banks in the PRC in which the balance of HK$3,797,000 (2012: HK$18,518,000) was not subject to maturity and balance of HK$51,899,000 (2012: HK$12,716,000) was subject to maturity up to March 2014 (2012: January 2013).

For those short-term investments not subject to maturity, the Group is entitled to redeem the investments with the banks at anytime with immediate effect. The estimated return from these short-term investments ranged from 3.8% to 6% per annum (2012: 4.4% to 5.73% per annum). The accrued and unpaid interest will be received upon redemption of the investment from the banks. 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.

31. CASH AND CASH EQUIVALENTS

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$328,986,000 (2012: HK$194,436,000) 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 – GROUP

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

	2013	2012
	HK$'000	HK$'000
1 to 3 months	**385,583**	289,235
4 to 6 months	**13,193**	8,353
Over 6 months	**1,680**	9,418
	400,456	307,006

Trade payables are non-interest-bearing.

33. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Accruals	**108,968**	43,867	**3,712**	1,941
Other payables	**308,515**	309,036	**10,901**	11,622
Carrying amount at 31 December	**417,483**	352,903	**14,613**	13,563
Less: Current portion	**(368,546)**	(352,903)	**(14,613)**	(13,563)
Non-current portion	**48,937**	–	**–**	–

34. BORROWINGS

		Effective interest rates	Group		Company	
			2013	2012	**2013**	2012
			HK$'000	HK$'000	**HK$'000**	HK$'000
Bank overdraft	**Floating**	3.38%	**–**	10,784	**–**	10,784
Bank borrowings	**Floating**	1.82%-7.34%	**597,790**	467,728	**289,408**	156,000
Carrying amount at 31 December			**597,790**	478,512	**289,408**	166,784
Less: Current portion			**(231,011)**	(478,512)	**(16,000)**	(166,784)
Non-current portion			**366,779**	–	**273,408**	–

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

	Group		Company	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Portion of bank loans due for repayment within one year	**223,361**	443,034	**16,000**	156,000
Other bank loans due for repayment after one year:				
After one year but within two years	**77,338**	1,849	**–**	–
After two years but within five years	**279,846**	22,845	**273,408**	–
After five years	**17,245**	–	**–**	–
	374,429	24,694	**273,408**	–
	597,790	467,728	**289,408**	156,000

34. BORROWINGS (continued)

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

(i) corporate guarantees provided by subsidiaries within the Group as at 31 December 2013 and 2012;

(ii) a corporate guarantee provided by Fujian Fengrong Investment Company Limited ("Fengrong") as at 31 December 2013 (note 43.1 (v));

(iii) a legal charge over certain of the Group's investment properties with carrying amounts of HK$22,200,000 (2012: HK$22,150,000) (note 19);

(iv) a legal charge over certain of the Group's land and buildings with the carrying amounts of HK$144,552,000 (2012: HK$47,627,000) (note 18(a));

(v) certain of the Group's trade receivables with the carrying amounts of HK$206,834,000 (2012: Nil) (note 28); and

(vi) a personal guarantee of HK$27,600,000 provided by the director of a subsidiary as at 31 December 2013 and 2012.

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 Group has complied with the covenants and met the scheduled repayment obligations. 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. The carrying amounts of the borrowings approximate to their fair value.

35. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP

	2013 **HK$'000**	2012 HK$'000
Financial undertakings provided by the Group in relation to issuance of ordinary shares for:		
– Acquisition of intangible assets (note a)	**40,242**	23,452
– Acquisition of an associate (note b)	**9,208**	16,674
	49,450	40,126

Notes:

(a) During the year, the Group has completed the acquisition of certain intangible assets, including suppliers and distributions networks from a PRC partner at a consideration of RMB30,600,000. The purchase consideration was settled by issue and allotment of 37,335,000 ordinary shares ("Consideration Shares for Intangible Assets A") of the Company. Pursuant to the terms of the acquisition agreement, the Group has provided a financial undertaking to compensate the vendor the shortfall in cash if the average selling price of the Consideration Shares for Intangible Assets A disposed of by the vendor from the expiration of the respective lock-up periods is less than HK$1. The fair values of the abovementioned financial undertaking as at the acquisition date and 31 December 2013 are HK$21,417,000 and HK$18,553,000 respectively (2012: Nil).

In 2012, the Group completed the acquisition of certain intangible assets, including suppliers and distributions networks from a PRC partner 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 B") of the Company. Pursuant to the terms of the acquisition agreement, the Group has provided a financial undertaking to compensate the vendor the shortfall in cash if the average selling price of the Consideration Shares for Intangible Assets B disposed of by the vendor from the expiration of the respective lock-up periods is less than HK$1. The fair value of the abovementioned financial undertaking as at 31 December 2013 is HK$21,689,000 (2012: HK$23,452,000).

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

35. DERIVATIVE FINANCIAL INSTRUMENTS – GROUP (continued)

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 was amounted to HK$12,093,000 (2012: HK$6,187,000), which has been recognised in the profit or loss for the year.

36. DUE TO ASSOCIATES/RELATED COMPANIES

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

37. DEFERRED TAX – GROUP

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

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

	Provision for inventories	Revaluation of Inventories	Revaluation of intangible assets	Revaluation of property, plant and equipment	Tax losses	Provision for impairment loss on investments	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 31 December 2011	1,295	–	(7,466)	(203)	7,669	–	1,295
Exchange realignment	16	–	(189)	(5)	194	–	16
At 31 December 2012 and 1 January 2013	**1,311**	**–**	**(7,655)**	**(208)**	**7,863**	**–**	**1,311**
Acquisition of subsidiaries (note 45)	**–**	**(20,681)**	**(18,574)**	**(5,289)**	**44,544**	**(23,304)**	**(23,304)**
Charged/(credited) to profit or loss for the year	**–**	**12,160**	**–**	**–**	**(12,160)**	**–**	**–**
Exchange realignment	**33**	**(903)**	**(208)**	**(6)**	**1,117**	**(1,389)**	**(1,356)**
At 31 December 2013	**1,344**	**(9,424)**	**(26,437)**	**(5,503)**	**41,364**	**(24,693)**	**(23,349)**

For the purpose of presentation in the consolidated 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:

	2013	2012
	HK$'000	HK$'000
Deferred tax assets	**1,344**	1,311
Deferred tax liabilities	**(24,693)**	–
	(23,349)	1,311

As at 31 December 2013, the Group has estimated tax losses arising in Hong Kong of HK$213,499,000 (2012: HK$192,602,000), 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. As at 31 December 2013, the Group has estimated tax losses arising in the PRC was amounted to HK$16,739,000 (2012: HK$226,000) which are available for offsetting against future taxable profits of the companies will expire from 2014 to 2018 (2012: 2013 to 2017). Deferred tax assets have not been recognised in respect of these estimated tax losses as these were incurred by the companies that have been loss-making for some time.

37. DEFERRED TAX – GROUP (continued)

As at 31 December 2013, the Group has estimated tax losses in Switzerland of HK$1,296,333,000 (2012: HK$587,253,000), 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$41,364,000 (2012: HK$7,863,000) have been recognised in respect of these estimated tax losses to the extent of deferred tax liabilities recognised in respect of revaluation of identifiable assets as a result of the acquisitions. Deferred tax assets have not been recognised in respect of the estimated unused tax losses as these were incurred by the subsidiaries that have been loss-making for some time. These estimated unused tax losses will expire at various dates from 2014 to 2019 (2012: 2013 to 2018).

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 2013, deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries amounted to HK$1,120,636,000 (2012: HK$875,132,000) 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

	2013		2012	
	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	**4,268,064**	**426,806**	4,139,747	413,975
Issuance of shares for acquisitions of intangible assets, subsidiaries and an associate (note a)	**456,960**	**45,696**	77,527	7,752
Share option scheme – proceeds from shares issued (note b)	**3,375**	**338**	50,790	5,079
At 31 December	**4,728,399**	**472,840**	4,268,064	426,806

38. SHARE CAPITAL (continued)

Notes:

(a) During the year, 37,335,000, 15,000,000 and 404,625,000 new ordinary shares of the Company were issued for the acquisitions of intangible assets (note 35(a)), an associate (note 35(b)) and subsidiaries (note 45) respectively. The excess of the fair value of shares issued over the nominal value of the ordinary shares of HK$12,185,000, HK$6,704,000 and HK$234,681,000 has been included in share premium account.

In 2012, 54,527,000 and 23,000,000 new ordinary shares of the Company were issued for the acquisitions of intangible assets (note 35(a)) and an associate (note 35(b)) 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 has been included in share premium account.

(b) During the year, 3,375,000 (2012: 50,790,000) new ordinary shares of the Company were issued upon the exercise of share options. The total proceeds received for the issues of shares under the share option scheme are HK$1,097,000 (2012: HK$16,508,000). The amount of HK$759,000 (2012: HK$11,429,000), representing the excess of the proceeds received over the nominal value of the ordinary shares of HK$338,000 (2012: HK$5,079,000), has been included in share premium account.

Details of the share options exercised during the years ended 31 December 2013 and 2012 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.

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.

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

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

39. SHARE-BASED COMPENSATION (continued)

The exercise period of the share options granted is determinable 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 account. 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:

	2013		2012	
	Number '000	**Weighted average exercise price HK$**	Number '000	Weighted average exercise price HK$
Outstanding at 1 January	**20,085**	**0.325**	70,875	0.325
Exercised	**(3,375)**	**0.325**	(50,790)	0.325
Outstanding at 31 December	**16,710**	**0.325**	20,085	0.325
Exercisable at the end of the year	**16,710**	**0.325**	20,085	0.325

The options outstanding at 31 December 2013 had a weighted average remaining contractual life of 5 years (2012: 6 years). The weighted average share price for share options exercised during the year at the date of exercise was HK$0.76 (2012: HK$0.80) per share.

39. SHARE-BASED COMPENSATION (continued)

During the year, there is no equity-settled share-based compensation (2012: Nil).

Movements of the New Scheme for the years ended 31 December 2013 and 2012 are as follows:

2013

	Number of share options		
Name or category of participants	**At 1 January 2013**	**Exercised during the year**	**At 31 December 2013**
Independent non-executive directors			
Mr. Fung Tze Wa	**1,400,000**	**(1,400,000)**	**–**
Mr. Li Qiang	**3,500,000**	**–**	**3,500,000**
Sub-total	**4,900,000**	**(1,400,000)**	**3,500,000**
Other eligible employees			
In aggregate	**7,300,000**	**(375,000)**	**6,925,000**
Other eligible persons			
In aggregate	**7,885,000**	**(1,600,000)**	**6,285,000**
Total	**20,085,000**	**(3,375,000)**	**16,710,000**

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

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.

Certain amounts of 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 account HK$'000	Share option reserve HK$'000	Other reserve HK$'000	Shares to be issued reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2012	792,405	10,748	22,692	–	–	825,845
Issuance 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)	(42,681)	–	–	–	–	(42,681)
At 31 December 2012 and 1 January 2013	**798,647**	**3,046**	**22,692**	**18,049**	**133,246**	**975,680**
Issuance of shares for acquisitions of intangible assets, subsidiaries and an associate	**253,570**	**–**	**–**	**(8,204)**	**–**	**245,366**
Proceeds from shares issued under share option scheme	**759**	**–**	**–**	**–**	**–**	**759**
Exercise of share options	**512**	**(512)**	**–**	**–**	**–**	**–**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**100,895**	**100,895**
At 31 December 2013	**1,053,488**	**2,534**	**22,692**	**9,845**	**234,141**	**1,322,700**

Under the Companies Law Cap. 22, (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the funds in the share premium account of the Company 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 2013, total future minimum lease receivables by the Group under non-cancellable leases are as follows:

	2013	2012
	HK$'000	HK$'000
Within one year	**9,682**	13,484
In the second to fifth years	**32,326**	38,145
After five years	**29,622**	30,343
	71,630	81,972

The Group leases certain of its 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 2013, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group		**Company**	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**19,016**	19,688	**9,741**	9,562
In the second to fifth years	**33,983**	40,708	**9,741**	19,889
After five years	**2,526**	4,991	**–**	–
Total	**55,525**	65,387	**19,482**	29,451

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 (2012: HK$531,000) was charged as an expense in profit or loss of the Group.

42. CAPITAL COMMITMENTS

Group

	2013	2012
	HK$'000	HK$'000
Contracted, but not provided for		
Purchases of intangible assets	**–**	37,335

Note:

On 10 September 2012, the Group entered into a framework agreement (the "Framework Agreement") with independent parties (the "PRC Partners") to establish a 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 Framework Agreement, the Group agreed to pay RMB30,600,000 (equivalent to approximately HK$37,335,000) to the PRC Partners as a consideration for the transfers of certain intangible assets, including suppliers and distributions networks to Henan Jinjue. The consideration will be settled by issue and allotment of approximately 37,335,000 ordinary shares of the Company. As at 31 December 2012, the Framework Agreement was 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 were set out in the Company's announcement dated 10 September 2012. The Framework Agreement was completed and the relevant shares have been issued in March 2013.

Company

At 31 December 2013, the Company did not have any significant capital commitments (2012: Nil).

43. RELATED PARTY TRANSACTIONS

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

(i) Rental income

	2013	2012
	HK$'000	HK$'000
Rental income received (note a)	**120**	120
Sub-lease income received (note b)	**346**	341

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

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

(ii) Interest expense

	2013	2012
	HK$'000	HK$'000
Interest expense	**518**	–

The interest expense was paid to a company of which a director of the Company, is also a director of the related company. On 22 April 2013, the Company borrowed an unsecured loan from this related company, with the principal amount of HK$45,000,000 and bearing interest at 5% per annum. The loan was fully repaid on 26 July 2013.

43. RELATED PARTY TRANSACTIONS (continued)

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

(iii) Outstanding balances included in other receivables

	2013 **HK$'000**	2012 HK$'000
Due from related companies	**1,441**	1,822

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

(iv) Disposal of Citychamp Shares

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

(v) Financial guarantee

On 24 June 2013, the Company executed an agreement with Fengrong in respect of a financial guarantee of RMB300,000,000 provided by Fengrong in favour of a bank for a loan facility granted to the Group of EUR35,000,000. The financial guarantee provided by Fengrong covered a 3-year period from 27 June 2013 to 26 June 2016, and secured by 72,000,000 ordinary shares of Citychamp owned by Fengrong. Fengrong shall pay an annual guarantee fee of RMB4,500,000 to the bank and the Group will fully reimburse Fengrong all the guarantee fees and other direct expenses related to the financial guarantee totalling RMB14,000,000 in three years as incurred during the guarantee period. During the year, the Group has reimbursed guarantee fee and other direct expenses totalling HK$6,357,000 (2012: Nil) to Fengrong.

43.2 Key management personnel compensation:

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

	2013 **HK$'000**	2012 HK$'000
Short-term employee benefits	**15,764**	14,066
Post-employment benefits	**147**	140
	15,911	14,206

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 37,335,000 ordinary shares to acquire the intangible assets (note 35(a)) and issued 404,625,000 ordinary shares to acquire the entire equity interest of Montres Corum Sàrl (note 45).

45. ACQUISITION OF SUBSIDIARIES

On 9 July 2013, the Group acquired the entire equity interest of Corum Group. Corum Group principally engaged in the development, manufacture and sale of Swiss luxury timepieces through it global distribution network. Following the acquisition, the Group owned the entire equity interest in Corum Group and obtained the controls over Corum Group through the Group's right to nominate all the members of Corum Group's board of directors, and Corum Group became wholly owned subsidiaries of the Group. The acquisition of Corum Group was made with the aim to expand the Group's manufacture and distribution of watches and timepieces business.

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

	HK$'000
Fair value of share consideration	275,145
Compensation receivable	(33,188)
Total purchase consideration	241,957
Less: Fair value of net assets acquired	(192,562)
Goodwill	49,395

Total purchase consideration comprised share consideration and compensation receivable. The fair value of 404,625,000 ordinary shares issued by the Company was determined by reference to the quoted market price of the Company's share of HK$0.68 per share at the date of acquisition. The compensation receivable represents the fair value of the compensation to be offered by the vendor regarding the shortfall in net assets of Corum Group at the date of acquisition below the guaranteed net assets, which is determined on Swiss GAAP in accordance to the acquisition agreement.

The goodwill of HK$49,395,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

45. ACQUISITION OF SUBSIDIARIES (continued)

The fair values of the identifiable assets and liabilities arising from the acquisition of Corum Group as at the 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)	107,596	84,608
Intangible assets (note 25)	110,119	29,362
Inventories	457,936	368,018
Trade receivables	138,680	138,680
Prepayments, deposits and other receivables	26,222	26,222
Cash and cash equivalents	28,819	28,819
Trade payables	(131,249)	(131,249)
Other payables and accruals	(94,858)	(94,858)
Provision	(17,106)	(17,106)
Employee benefits	(48,120)	(48,120)
Deferred tax liabilities (note 37)	(23,304)	(23,304)
Borrowings	(449,305)	(449,305)
Net assets/(liabilities)	105,430	(88,233)
Add: Shareholder's loan, included in borrowings, assigned to the Group	87,132	
Fair value of net assets acquired	192,562	

	HK$'000
Net cash inflow from acquisition of subsidiaries:	
Cash and cash equivalents in subsidiaries acquired	28,819

The Corum Group contributed revenue of approximately HK$351,289,000 and net loss of approximately HK$61,141,000 to the Group for the year ended 31 December 2013.

Had the business combination taken place on 1 January 2013, revenue and profit of the Group for the year ended 31 December 2013 would have been approximately HK$3,384,802,000 and HK$502,813,000 respectively. The pro-forma information is 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 Corum Group been completed on 1 January nor are they intended to be a projection of future results.

46. GUARANTEE

Group

At 31 December 2013, the Group had contingent liability in relation to guarantees of approximately HK$120,000,000 (2012: Nil) given to banks in respect of a loan granted to an associate. The directors of the Company consider that the fair value of guarantee is considered as immaterial. Details of the guarantee were set out in the Company's announcement dated 17 December 2013.

Company

At 31 December 2013, the Company had contingent liability in relation to guarantees of approximately HK$169,375,000 (2012: HK$26,543,000) given to banks in respect of loans granted to the subsidiaries and an associate.

Pursuant to the terms of the guarantees, upon default in loan repayment, the Group/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 of the Company, the repayment of aforesaid loans would not be in default.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

47.1 Summary of financial assets and liabilities by category

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

Categories of financial assets and liabilities

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

Group

	2013 **HK$'000**	2012 HK$'000
Financial assets		
Available-for-sale financial assets	**699,408**	1,409,176
Financial assets at fair value through profit or loss	**214,302**	106,629
Loans and receivables:		
– Trade receivables	**633,269**	347,366
– Other receivables and deposits	**196,485**	197,078
– Short-term investments	**55,696**	31,234
– Cash and cash equivalents	**471,621**	228,624
	1,357,071	804,302
	2,270,781	2,320,107

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)

Company

	2013 HK$'000	2012 HK$'000
Financial assets		
Financial assets at fair value through profit or loss	**47,935**	52,590
Loans and receivables:		
– Other receivables and deposits	**22,687**	7,795
– Cash and cash equivalents	**95,372**	6,382
	118,059	14,177
	165,994	66,767

Group

	2013 HK$'000	2012 HK$'000
Financial liabilities		
Derivative financial instruments	**49,450**	40,126
Financial liabilities measured at amortised cost		
– Trade payables	**400,456**	307,006
– Other payables and accruals	**417,483**	352,903
– Dividend payables	**453**	82,253
– Borrowings	**597,790**	478,512
– Due to associates	**92,545**	–
– Due to related companies	**12,821**	159
	1,521,548	1,220,833
	1,570,998	1,260,959

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)

Company

	2013	2012
	HK$'000	HK$'000
Financial liabilities		
Financial liabilities measured at amortised cost		
– Other payables and accruals	**14,613**	13,563
– Dividend payables	**453**	82,253
– Borrowings	**289,408**	166,784
– Due to associates	**85,000**	–
	389,474	262,600

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's and the Company's interest rate risk arises primarily from borrowings and bank deposits. 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 Group's and the Company's exposure to the risk of changes in market interest rates relates primarily to the Group's and the Company's debt obligations and bank deposits 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 2013, 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's and the Company's profit after income tax and retained profits by approximately HK$500,000 and HK$970,000 (2012: HK$937,000 and HK$802,000) 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 2012.

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, Switzerland, and the PRC with most of the transactions denominated and settled in HK$, CHF and RMB. No foreign currency risk has been identified for those Swiss and PRC subsidiaries' financial assets and liabilities denominated in CHF and RMB respectively, which is the functional currency of Swiss and 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 Euro and 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 2013 and 2012.

	2013	2012
	HK$'000	HK$'000
Available-for-sale financial assets	**699,326**	1,409,097
Cash and cash equivalents	**98,350**	2,094
Other receivables	**495**	6,704
Other payables	**(27,343)**	(26,645)
Borrowings	**(273,408)**	–

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).

	2013	2012
	HK$'000	HK$'000
(Decrease)/Increase in the profit for the year:		
5% strengthening in HK$	**10,095**	892
5% weakening in HK$	**(10,095)**	(892)

	2013	2012
	HK$'000	HK$'000
(Decrease)/Increase in the other comprehensive income and the investment revaluation reserve (due to the change in fair value of the available-for-sale financial assets):		
5% strengthening in HK$	**(34,966)**	(70,455)
5% weakening in HK$	**34,966**	70,455

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2013 and 2012, 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, financial assets at fair value through profit or loss and short-term investments, 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.

As at 31 December 2013, the maximum exposure to credit risk in respect of financial guarantees issued by the Group and the Company was HK$120,000,000 (2012: Nil) and HK$169,375,000 (2012: HK$26,543,000) respectively, which represented the maximum amount the Group and the Company could be required to pay if the guarantees were called on.

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 2013 and 2012 the Group's and the Company's financial liabilities have contractual maturities which are summarised below:

Group

As at 31 December 2013

	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	400,456	400,456	400,456	–
Other payables and accruals	417,483	417,483	368,546	48,937
Dividend payable	453	453	453	–
Borrowings	597,790	625,335	245,898	379,437
Due to associates	92,545	92,545	92,545	–
Due to related companies	12,821	12,821	12,821	–
	1,521,548	1,549,093	1,120,719	428,374
Financial guarantee issued				
Maximum amount guaranteed	–	120,000	120,000	–

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

47.5 Liquidity risk (continued)

Group (continued)

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 and accruals	352,903	352,903	352,903	–
Dividend payable	82,253	82,253	82,253	–
Borrowings	478,512	495,226	495,226	–
Due to related companies	159	159	159	–
	1,220,833	1,237,547	1,237,547	–

Company

As at 31 December 2013

	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 and accruals	**14,613**	**14,613**	**14,613**	**–**
Dividend payable	**453**	**453**	**453**	**–**
Borrowings	**289,408**	**302,954**	**21,799**	**281,155**
Due to associates	**85,000**	**85,000**	**85,000**	**–**
	389,474	**403,020**	**121,865**	**281,155**
Financial guarantee issued				
Maximum amount guaranteed	**–**	**169,375**	**169,375**	**–**

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

47.5 Liquidity risk (continued)

Company (continued)

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 and accruals	13,563	13,563	13,563	–
Dividend payable	82,253	82,253	82,253	–
Borrowings	166,784	171,485	171,485	–
	262,600	267,301	267,301	–
Financial guarantee issued				
Maximum amount guaranteed	–	26,543	26,543	–

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 positions, the directors do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment. The directors believe that such bank loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

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 2013	**26,430**	**27,650**	**19,592**	**3,003**	**5,055**
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 2013	**16,000**	**16,496**	**16,496**	**–**	**–**
As at 31 December 2012	156,000	160,701	160,701	–	–

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

	2013		2012	
	Effect on profit after tax and retained profits HK$'000	**Effect on other comprehensive income and to the investment revaluation reserve HK$'000**	Effect on profit after tax and retained profits HK$'000	Effect on other comprehensive income and to the investment revaluation reserve HK$'000
Financial assets at fair value through profit or loss:				
Increase in share prices of the listed investments by 30% (2012: 30%)	**64,291**	**–**	32,078	–
Decrease in share prices of the listed investments by 30% (2012: 30%)	**(64,291)**	**–**	(32,078)	–
Available-for-sale financial assets at fair value:				
Increase in share price of the listed investment by 30% (2012: 30%)	**–**	**209,798**	–	422,729
Decrease in share price of the listed investment by 30% (2012: 30%)	**–**	**(209,798)**	–	(422,729)

47.8 Fair value measurements recognised in the consolidated statement of financial position

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

- the fair value of listed securities and available-for-sale financial assets are 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. The listed equity securities are denominated in HK$ and RMB.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

- 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 and financial liabilities 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).

		2013		
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Assets				
Available-for-sale financial assets				
– Listed	**699,326**	**–**	**–**	**699,326**
Listed securities designated at fair value through profit or loss	**214,302**	**–**	**–**	**214,302**
	913,628	**–**	**–**	**913,628**
Liabilities				
Derivative financial instruments	**–**	**49,450**	**–**	**49,450**

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

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

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

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:

	2013 **HK$'000**	2012 HK$'000
Capital		
Total equity	**4,562,044**	3,956,119
Overall financing		
Borrowings	**597,790**	478,512
Due to associates	**92,545**	–
Due to related companies	**12,821**	159
	703,156	478,671
Capital-to-overall financing ratio	**6.49**	8.26

49. EVENT AFTER THE REPORTING DATE

On 13 February 2014, the Company entered into a share buy-back agreement with Severin Participations GmbH and the trustee of Severin Wunderman Family Trust for the benefit of Michael Wunderman as the vendors ("Vendors"), pursuant to which the Company conditionally agreed to purchase and Vendors conditionally agreed to sell 340,300,000 shares of the Company, representing approximately 7.17% of the issued capital of the Company as at 13 February 2014. The agreed repurchase price is HK$0.75 and the aggregate consideration is HK$255,225,000. Following completion of the share buy-back, the number of shares in issue will be reduced by 340,300,000. The buy-back shares are part of the shares issued by the Company to the Vendors for their then equity interests in Montres Corum Sàrl under the acquisition. Details of the transaction are set out in the Company's announcement dated 13 February 2014.

50. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2013 were approved and authorised for issue by the board of directors on 22 March 2014.

FIVE YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Continuing operations					
Revenue	**3,176,423**	2,240,304	1,465,276	800,604	574,565
Cost of sales	**(1,697,584)**	(1,022,583)	(637,042)	(307,030)	(204,410)
Gross profit	**1,478,839**	1,217,721	828,234	493,574	370,155
Other income and financial income	**74,945**	29,182	21,027	10,492	5,464
Selling and distribution expenses	**(724,581)**	(513,278)	(343,908)	(205,511)	(153,310)
Administrative expenses	**(542,743)**	(351,448)	(234,144)	(150,211)	(112,576)
(Loss)/gain on fair value changes in financial assets at fair value through profit or loss, net	**(11,450)**	2,056	10,947	6,669	42,234
Gain on fair value changes in derivative financial instruments	**12,093**	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	**8,185**	7,525	5,675	13,004	5,102
Dividend income from available-for-sale financial assets	**30,965**	17,169	6,551	5,172	8,238
Gain on disposal of available-for-sale financial assets	**456,023**	–	–	–	–
Share of profit of associates	**12,134**	13,499	1,991	6,979	1,877
(Loss)/gain on disposal of an associate	**–**	–	(4,952)	177,711	–
Finance costs	**(36,554)**	(14,894)	(4,331)	(1,811)	(2,669)
Profit before income tax	**757,856**	413,719	333,994	356,068	164,515
Income tax expense	**(157,246)**	(103,432)	(68,240)	(82,349)	(31,380)
Profit after income tax from continuing operations	**600,610**	310,287	265,754	273,719	133,135
Discontinued operations					
Profit from discontinued operations	**–**	–	16,036	7,063	236,481
Profit for the year	**600,610**	310,287	281,790	280,782	369,616
Other comprehensive income					
Item that will not be subsequently reclassified to profit or loss					
– Remeasurement of defined benefit obligations	**1,785**	–	–	–	–
Items that may be subsequently reclassified to profit or loss					
– Exchange gain on translation of financial statements of foreign operations	**32,719**	16,468	14,570	28,948	11
– Transfer of exchange fluctuation reserve to profit or loss on disposal of a jointly controlled entity	**–**	–	(17,496)	–	–
– Release of investment revaluation reserve upon disposal	**(456,023)**	–	–	–	–
– Changes in fair value of available-for-sale financial assets	**94,418**	601,480	(305,401)	(327,623)	1,027,705

	Year ended 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Other comprehensive income for the year	**(327,101)**	617,948	(308,327)	(298,675)	1,027,716
Total comprehensive income for the year	**273,509**	928,235	(26,537)	(17,893)	1,397,332
Profit for the year attributable to:					
Owners of the Company	**565,434**	270,425	255,874	271,566	362,561
Non-controlling interests	**35,176**	39,862	25,916	9,216	7,055
	600,610	310,287	281,790	280,782	369,616
Total comprehensive income for the year attributable to:					
Owners of the Company	**233,899**	887,501	(54,105)	(27,672)	1,390,275
Non-controlling interests	**39,610**	40,734	27,568	9,779	7,057
	273,509	928,235	(26,537)	(17,893)	1,397,332

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2013	2012	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**6,273,631**	5,261,137	3,678,225	3,887,086	3,481,082
Total liabilities	**(1,711,587)**	(1,305,018)	(543,286)	(573,199)	(522,816)
Non-controlling interests	**(246,965)**	(167,098)	(76,550)	(29,105)	(16,482)
	4,315,079	3,789,021	3,058,389	3,284,782	2,941,784

SCHEDULE OF PRINCIPAL INVESTMENT PROPERTIES

As at 31 December 2013

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

中國海澱
集團有限公司

二零一三年年報

(於開曼群島註冊成立之有限公司)
股份代號：256