

CITYCHAMP

WATCH & JEWELLERY GROUP LIMITED
冠城鐘錶珠寶集團有限公司



INTERIM REPORT 2015 中期報告

(incorporated in the Cayman Islands with limited liability 於開曼群島註冊成立之有限公司)

Stock Code 股份代號 : 256

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

HON Hau Wong

TAO Li

INDEPENDENT NON-EXECUTIVE DIRECTORS

FUNG Tze Wa

KWONG Chun Wai, Michael

LI Qiang

ZHANG Bin

Audit Committee Members

FUNG Tze Wa

KWONG Chun Wai, Michael

LI Qiang

ZHANG Bin

Remuneration Committee Members

FUNG Tze Wa

KWONG Chun Wai, Michael

LI Qiang

ZHANG Bin

HON Kwok Lung

SHANG Jianguang

Nomination Committee Members

HON Kwok Lung

SHANG Jianguang

FUNG Tze Wa

KWONG Chun Wai, Michael

LI Qiang

ZHANG Bin

Qualified Accountant & Company

Secretary

FONG Chi Wah

Auditor

BDO Limited

Principal Bankers

Bank of China (Hong Kong) Limited

China Construction Bank (Asia)

Corporation Limited

China Merchants Bank Co., Ltd.

Hongkong and Shanghai Banking

Corporation Limited

Hang Seng Bank Limited

Standard Chartered Bank (Hong Kong)

Limited

UBS AG

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/citychamp>

<http://www.citychampwatchjewellery.com>



MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

For the six months ended 30 June 2015, the unaudited revenue of the Group reached HK\$1,715,716,000 (six months ended 30 June 2014: HK\$1,722,042,000), decreased by 0.37% (approximately HK\$6,326,000) compared with the corresponding period last year.

Gross profit for the period was approximately HK\$972,390,000 (six months ended 30 June 2014: HK\$874,623,000), increased by 11% (approximately HK\$97,767,000) compared with the corresponding period last year mainly due to a greater portion of revenue from proprietary brands.

Operating expenses was approximately HK\$773,798,000 (six months ended 30 June 2014: HK\$742,440,000), increased by 4% (approximately HK\$31,358,000) compared with the corresponding period last year mainly due to higher staff costs attributable to increased headcount.

Net profit attributable to owners of the Company was approximately HK\$209,169,000 (six months ended 30 June 2014: HK\$254,485,000), decreased by 18% (approximately HK\$45,316,000) compared with the corresponding period last year. Having set apart the financial impact of the gain on disposal of available-for-sale financial assets of approximately HK\$163,542,000 for the six months ended 30 June 2014, the Group should have an increase of net profit of approximately HK\$118,226,000 or 130% during the period under review compared with the corresponding period last year.

Business Development Strategies

The following business development strategies have been accomplished during period under review.

(1) ENHANCING THE COMPETITIVENESS OF CORE REVENUE DRIVERS

Rossini and EBOHR continued to be the major sources of revenue and accounted for more than 63% of the total revenue of the Group (six months ended 30 June 2014: 52%). These two brands seize the opportunity to expand their market shares continuously. The market for the brands in Mainland China still appeared promising despite the slower economic growth in the first half of 2015.

(2) RESTRUCTURING DISTRIBUTION BUSINESS

Owing to the anti-corruption campaign of the PRC Central Government and the deteriorating consumer's sentiment towards luxury goods, the demand for imported mid-range and high-end watches was weakened, which adversely affected the revenue of distribution companies of the Group. In response to those challenges, distribution companies adjusted the product mix skewed towards relatively inexpensive imported watches to minimize the impact. They collectively accounted for 17% of the total revenue of the Group (six months ended 30 June 2014: 28%).



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Development Strategies (Continued)**(3) CONTINUING EFFORT IN DEVELOPING SWISS PROPRIETARY BRANDS**

Through management reorganization and product development, the Group has repositioned the foreign subsidiaries for strong improvement. The effect was reflected in the 2015 financials, despite challenging external environment, particularly in Mainland China and Hong Kong. The foreign subsidiaries collectively accounted for 16% of the total revenue of the Group (six months ended 30 June 2014: 16%).

Business Review**(1) WATCHES AND TIMEPIECES – PROPRIETARY BRANDS**

Zhuhai Rossini Watch Industry Ltd.

Zhuhai Rossini Watch Industry Ltd. (“Rossini”), a 91% subsidiary of the Group, achieved impressive result in the first half of 2015. Revenue in the first half of 2015 was HK\$611,833,000, an increase of HK\$91,085,000, or 17%, from HK\$520,748,000 for the same period last year. Net profit after tax attributable to owners of the Company for the first half of 2015 was HK\$206,391,000 compared with HK\$162,844,000 for the same period last year, an increase of HK\$43,547,000, or 27%.

Year	30 June 2013	30 June 2014	30 June 2015
No. of distribution outlets	2,088	2,504	2,948

Rossini has set up online stores on more than 16 E-commerce platforms. Internet sales increased to HK\$84,238,000 in the first half of 2015 from HK\$54,145,000 in same period last year and its respective proportion of revenue of Rossini to 16% from 10%.

The watch museum in the headquarters attracted tremendous number of tourists amounting to more than 170,000 in the first half of 2015 (30 June 2014: 35,000 tourists) and generating revenue of HK\$34,313,000 (30 June 2014: HK\$4,430,000). Rossini is putting stronger efforts into developing industrial tourism and hence boosting brand awareness. The watch museum has been approved by the China National Tourism Administration as a AAAA National Tourist Attraction, which was the first industrial tourism program in Zhuhai to gain such recognition.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)**(1) WATCHES AND TIMEPIECES – PROPRIETARY BRANDS (Continued)***Zhuhai Rossini Watch Industry Ltd. (Continued)*

The research centre for eco-watch, intelligent watch and related movement has been established with the objective of developing another revenue driver as both offensive and defensive strategy for Rossini. A total of 40,000 eco-watches will be sold in the second half of 2015 through distribution outlets and E-commerce.

In the first half of 2015, Rossini opened 4 distribution outlets in Macau, representing a breakthrough of international expansion. A representative office has also been established in India to cater for the Indian and Middle East markets. In the second half of 2015, Rossini watches will be sold in duty free shops in Cambodia and Russia.

In May 2015, Rossini bid RMB63 million and won the tender for an industrial site of 25,000 m² and the factory facilities of 24,000 m² erected above. The site is adjacent to Rossini's existing production facilities in Zhuhai and will be developed as the second phase of Rossini's production facilities. It is believed that the expansion of the production facilities will satisfy and boost Rossini's continuous growth in business and production capacity.

Rossini has been selected as one of China's 500 Most Valuable Brands for 12 consecutive years with a brand value of approximately RMB8.6 billion for the year 2015, being the highest among all the watch brands in Mainland China. In terms of units sold, Rossini tops the list in the last thirteen years.

Rossini continues to benefit from a high-quality growth profit, a strong track record and a leading market position in the watch industry in Mainland China. It offers a business model with products present in various price segments, great brand awareness and strong pricing power as it continues expanding distribution outlets all over Mainland China.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)**(1) WATCHES AND TIMEPIECES – PROPRIETARY BRANDS (Continued)***EBOHR Group*

EBOHR Group is composed of EB Brand Limited, EBOHR Luxuries International Limited (“EBOHR”), Shenzhen EBOHR Luxuries E-commerce Co., Ltd., PAMA Precision Manufacturing Limited and Swiss Chronometric AG.

Revenue for the first half of 2015 was HK\$476,989,000, an increase of HK\$99,850,000, or 26%, from HK\$377,139,000 for the same period last year. Net profit after tax for the first half of 2015 was HK\$116,876,000, compared with HK\$99,583,000 for the same period in 2014, an increase of HK\$17,293,000, or 17%.

Year	30 June 2013	30 June 2014	30 June 2015
No. of distribution outlets	1,871	2,204	2,803

Following the reorganization of the top management, EBOHR has strengthened management and control by implementing a number of administration policies. The officers in the headquarters and regional offices are motivated to perform and communicate with each other. Besides, revenue increases, productivity and quality improve, and expenses decrease, leading to greater profitability.

Greater effort is put on data analyses with the objective to formulate various strategies targeted to the issues identified. For instance, new product planning is accurately based on the consumer behavior of the targeted markets.

Internet sales through the online stores on the major E-commerce platforms in Mainland China increased to HK\$48,523,000 in the first half of 2015 from HK\$42,125,000 for the same period last year. EBOHR recruits quality officers for E-commerce so that they can work closely with the E-commerce platforms, conduct data analyses, improve the consumers’ experience, and ultimately gradually expand the E-commerce. During the first half of 2015, nine new products with thirty SKU were launched exclusively for Internet sales.

Efforts have also been put in technology research. During the first half of 2015, a central laboratory was established to improve the research on product quality and talented professionals and high-end equipment are already in place for that purpose.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)**(1) WATCHES AND TIMEPIECES – PROPRIETARY BRANDS** (Continued)*EBOHR Group (Continued)*

EBOHR's famous Chinese artist as its brand spokesman works effectively and has further promoted the brand image and delivered the brand philosophy of "Engineered Elegance".

EBOHR has been acknowledged as one of China's 500 Most Valuable Brands of the Year 2015 by the World Brand Laboratory with a brand value of approximately RMB5.6 billion and has also received various provincial and city awards for its brand and achievements.

Eterna Group

Eterna Group comprises Eterna AG Uhrenfabrik ("Eterna AG"), Eterna Uhren GmbH, Kronberg, Eterna (Asia) Limited ("Eterna (Asia)"), Eterna Movement AG ("Eterna Movement").

As of 30 June 2015, there were 226 distribution outlets for Eterna AG outside Asia (30 June 2014: 264), of which 187, 10 and 29 were in Europe, America, and Middle East respectively.

Eterna AG focuses on manufacturing of Eterna brand watch and its distribution in countries outside Asia. The first half of 2015 was still a period of transition for Eterna AG. Eterna AG streamlined the operation and put strong emphasis on sales and marketing, precisely targeted sales and marketing activities in selected markets. Eterna AG also worked on converting the inventory into cash to finance the increasingly strong operation.

Eterna Movement is wholly owned by Eterna AG and specializes in manufacturing mechanical movements. In the first half of 2015, Eterna Movement's Caliber 39 got the COSC-certification that is the highest official achievement in Switzerland for mechanical movement. It has commenced sale of movements in Switzerland, UK and Germany. It also signed a contract with a distributor for the US and Canada. There are also demands from Japan, Mainland China and Italy.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)**(1) WATCHES AND TIMEPIECES – PROPRIETARY BRANDS (Continued)***Eterna Group (Continued)*

Eterna (Asia), a 70% owned subsidiary of the Group is mainly engaged in distribution of Eterna watches in Asian market. It continued to build brand awareness by increasing visibility in the Asian markets and upgrading brand image by using integrated marketing campaigns and to expand the distribution network. Eterna (Asia) places strong emphasis on the sales and marketing activities for Chinese tourists who account for 80% of its revenue. As of 30 June 2015, there were 99 distribution outlets for Eterna in Asian market (30 June 2014: 49), of which 82, 13, 3 and 1 were in Mainland China, Hong Kong, Macau and Taiwan respectively.

Eterna Group contributed revenue and net loss after tax of approximately HK\$68,477,000 (30 June 2014: HK\$34,979,000) and HK\$17,894,000 (30 June 2014: HK\$30,922,000) respectively. Excluding non-cash accounting adjustments, the loss for the period should be approximately HK\$10,736,000. The loss in the first half of 2015 was reduced significantly compared with corresponding period last year.

Montres Corum Sàrl

Montres Corum Sàrl and its subsidiaries (the “Corum Group”) was led by a Management Executive Committee and headed by senior executives from the holding company. The management team worked to revitalize the business model of the Corum Group through production development, production, brand position, distribution, team building and management practices.

Corum Group contributed revenue and net loss after tax of approximately HK\$95,703,000 (30 June 2014: HK\$173,508,000) and HK\$71,493,000 (30 June 2014: HK\$83,297,000) respectively.

There remains a challenge for Corum in the highly competitive industry. The market in Europe still maintains satisfactorily due to the increase in number of Chinese tourists and the weakening of the Euro.

Asia is expected to be the leading market for generating revenues due to the immense untapped potential, especially in Mainland China. Leveraging the group’s existing expertise and resources of extensive distribution channels in Mainland China, Corum is expected to quickly build its dedicated distribution channels in Mainland China and benefit from the potential of Mainland China’s imported watch market.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)**(1) WATCHES AND TIMEPIECES – PROPRIETARY BRANDS (Continued)***Montres Corum Sàrl (Continued)*

In 2015, a new collection Bubble was launched in addition to Corum's existing three collection pillars, namely, Bridges, Admiral's Cup and Heritage, which gained highly positive reactions from the markets.

As of 30 June 2015, the number of distribution outlets was 541, including 7 boutiques. Europe continues to top the list with 261 distribution outlets, followed by Asia, the US and Middle East/Africa with 125, 106 and 49 distribution outlets respectively.

The Dreyfuss Group Limited

The UK is the largest single market representing 69% of total revenue of The Dreyfuss Group Limited ("Dreyfuss Group"), which possesses three proprietary brands of Rotary, Dreyfuss & Co. and J&T Windmills. Further 30 distribution outlets are confirmed to open in the UK in the second half of 2015. Other markets include Germany, the Middle East, North Africa, Canada and Asia Pacific. As at 30 June 2015, there were 4,354 distribution outlet for Rotary, including 2,985 outlets in the UK. It is the strategy of the Dreyfuss Group to grow its international division in order to diversify into overseas markets. Markets developed in the first half of 2015 include Bulgaria, Canada, Kuwait, Spain, Oman, Portugal and Ukraine. Sale through in-flight catalog is also an increasingly strong source of revenue.

The Chinese sales and marketing team has been established in the first half of 2015 and distribution outlets in China would be operational in the second half of 2015.

E-commerce websites for the UK and the US markets started to operate in the second half of 2014. The Internet sales contributed HK\$2,289,000 in the first half of 2015, representing an increase of HK\$1,522,000 over prior year.

During the period under review, Dreyfuss Group contributed revenue and net loss after tax of approximately HK\$115,195,000 (30 June 2014: HK\$62,918,000 (note)) and HK\$16,333,000 (30 June 2014: HK\$7,509,000 (note)) respectively.

Note: Revenue and net loss after tax for the six months ended 30 June 2014 covered period from 11 April 2014, the acquisition date, to 30 June 2014.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)**(2) WATCHES AND TIMEPIECES – NON-PROPRIETARY BRANDS**

Pursuant to a settlement agreement signed on 20 April 2015, the Group and the joint venture partner (“Kungtai Hengshi”) of Beijing Haina Tianshi Watch Co., Ltd (“Beijing Haina”) agreed to terminate all the joint venture agreements having been executed by both parties and refund to the Group all the investments that the Group had been invested in Beijing Haina. Also, the Group would sell 51% equity interest in Beijing Haina to Kungtai Hengshi. The disposal was completed during the period. As at the date of this Interim Report, all investments have been refunded to the Group pursuant to the Settlement Agreement except the final payment of RMB15,300,000. Kuntai Hengshi is now working on the formalities related to the remittance of the last payment. Among all the formalities required, the State Administration of Foreign Exchange needs to approve such remittance due to its nature. Once the approval is granted, the payment can be executed. It is believed that the final payment of RMB15,300,000 will be received by 15 September 2015.

After the disposal of Beijing Haina, the Group has five distribution companies engaged in distribution of non-proprietary brands. These watch distribution companies, which had 134 distribution outlets as at 30 June 2015, distribute international brands mainly in Fujian, Guangdong, Henan, Jilin, Liaoning, Shenyang provinces in Mainland China.

Collectively, distribution companies contributed revenue and net loss after tax for the first half of 2015 of HK\$296,865,000 (30 June 2014: HK\$489,192,000) and HK\$4,526,000 (30 June 2014: net profit after tax HK\$4,698,000) respectively. Owing to the relatively slow economic growth in Mainland China and the strong anti-extravagance policies adopted by the PRC Central Government, the demand for the imported mid-range and high-end watches was weakened in the Mainland China market, which affected the revenue and performance of the distribution companies.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)**(2) WATCHES AND TIMEPIECES – NON-PROPRIETARY BRANDS (Continued)**

The PRC partner of Henan Jinjue Enterprise Co., Ltd (“Henan Jinjue”) guaranteed certain profit targets and agreed to compensate to the Group any shortfall. For each of the three years ended 31 December 2014, Henan Jinjue did not meet the profit targets and incurred shortfall as illustrated in the table below.

Year	Guaranteed	Actual	Guaranteed	Actual	Compensation			
	revenue				profit	profit/(loss)	to the Group	by PRC
	for the year	revenue	for the year	for the year	Shortfall	Partner	to the Group	to the Group
	(note 2)	for the year	for the year	for the year	RMB'000	(i.e. 51% of	already	to be
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	the shortfall)	received	received
							RMB'000	RMB'000
2012	12,500 (note 1)	0	1,000 (note 1)	(226)	1,226	625	625	0
2013	195,000	121,730	15,600	3,701	11,899	6,068	6,068	0
2014	253,000	163,290	20,200	5,270	14,930	7,614	0	7,614

Notes:

1. Guaranteed annual revenue and profit for the year ended 31 December 2012 was adjusted on a pro rata basis subject to the actual commencement date of operation.
2. Guaranteed revenue is for indicative purpose only and therefore no compensation is required on the shortfall of sales.

As at the date of this Interim Report, the PRC partner of Henan Jinjue has duly settled the compensations of RMB625,000 and RMB6,068,000 related to 2012 and 2013 respectively. Regarding the compensation related to 2014, our executives have held a few meeting with the PRC partner in order to recover such compensation. It is orally agreed by the PRC partner that the compensation of RMB7,614,000 will be paid by the end of 2015.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)**(3) WATCHES AND TIMEPIECES – PRODUCTION**

The Group has the capability to produce mechanical movement ranging from basic mechanical movement to tourbillon and fashion watches 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 proprietary manufacture and distribution of mechanical movement and watch. It owns two proprietary watch brands, namely, Guangzhou and Dixmont. Five Goat contributed revenue and net profit after tax attributable to owners of the Company of approximately HK\$23,003,000 (30 June 2014: HK\$30,309,000) and HK\$2,118,000 (30 June 2014: HK\$3,503,000) respectively in the first half of 2015. Approximately 94% of the revenue of Five Goat came from sale of mechanical movement.

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 watch accessories for a well-known Japanese brand on an OEM basis. Creative and stylish design is one of the core-competencies of Fair Future. With a design team of more than 50 professionals well exposed to the changing global consumer behavior. Fair Future offers product portfolio that has been highly recognised by OEM customers. Coupled with good quality and cost control, Fair Future is well positioned for sustainable development.

Fair Future contributed net profit after tax for the first half of 2015 of HK\$5,103,000 (30 June 2014: HK\$6,551,000).

Gold Vantage Industrial Limited

Gold Vantage Industrial Limited (“Gold Vantage”), a 51%-owned subsidiary of the Group, is engaged in the manufacture of watch cases on an OEM basis. Gold Vantage contributed revenue and net loss after tax attributable to owners of the Company of approximately HK\$16,346,000 (30 June 2014: HK\$15,481,000) and HK\$1,192,000 (30 June 2014: HK\$1,923,000) respectively in the first half of 2015.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)**(4) INVESTMENT IN CITYCHAMP DARTONG COMPANY LIMITED (“CITYCHAMP DARTONG”)**

As at 30 June 2015, the Group hold 30,389,058 shares of Citychamp Dartong, representing 2.05% of its total issued share capital, with a market value of HK\$381,594,000.

(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.

(6) DISTRIBUTION OF MOTOR YACHT

During the period, Chart Victory Limited incurred net loss after tax of approximately HK\$602,000 (six months ended 30 June 2014: HK\$1,561,000).

Financial Position**(1) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE**

As at 30 June 2015, the Group had non-pledged cash and bank balances of approximately HK\$927,474,000 (31 December 2014: HK\$878,253,000). Based on the borrowings of HK\$807,789,000 (31 December 2014: HK\$824,677,000), the corporate bonds of HK\$811,764,000 (31 December 2014: HK\$764,914,000) and shareholders' equity of HK\$4,087,945,000 (31 December 2014: HK\$3,846,524,000), the Group's gearing ratio (being borrowings plus corporate bonds divided by Shareholders' equity) was 40% (31 December 2014: 41%).

As at 30 June 2015, the Group's borrowings amounting to HK\$530,059,000 (66% of all borrowings) were repayable within one year.

(2) CHARGE ON ASSETS

As at 30 June 2015, banking facilities of the Company were secured by the Group's trade receivables of HK\$174,142,000, investment properties in Hong Kong of HK\$22,800,000 and land and buildings in Switzerland with net book values of HK\$108,909,000, totaling HK\$305,851,000 (31 December 2014: HK\$264,664,000).



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial Position (Continued)**(3) CAPITAL COMMITMENTS**

There were capital commitments with an amount of HK\$121,756,000 (31 December 2014: HK\$169,024,000) related to purchase of property, plant and equipment. Except for the above, the Group had no other material capital commitments as at 30 June 2015.

Financial Review**(1) GROSS PROFIT**

Gross profit was HK\$972,390,000, an increase of 11% from HK\$874,623,000 for the same period last year. Before making adjustments for intra-group transactions, Rossini contributed a gross profit of HK\$439,785,000 and a gross margin of 72% while EBOHR contribute a gross profit of HK\$303,976,000 and a gross margin of 64%.

(2) SELLING AND DISTRIBUTION EXPENSES

Total selling and distribution expenses was HK\$418,748,000, an increase of 2% from HK\$410,907,000 last year. Rossini, EBOHR, Eterna, Corum and Dreyfuss contributed selling and distribution expenses of HK\$157,744,000, HK\$131,453,000, HK\$14,137,000 and HK\$57,707,000 and HK\$16,310,000 respectively.

(3) ADMINISTRATIVE EXPENSES

Total administrative expenses was HK\$355,050,000, an increase of 7% from HK\$331,533,000 for the same period last year. Rossini, EBOHR, Eterna, Corum and Dreyfuss contributed administrative expenses of HK\$50,330,000, HK\$34,291,000, HK\$40,917,000, HK\$71,886,000 and HK\$62,860,000 respectively.

(4) FINANCE COSTS

Total finance costs were HK\$36,709,000, an increase of 79% from HK\$20,560,000 for the same period last year. The increase was mainly due to the issue of the corporate bonds.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial Review (Continued)**(5) NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY**

Net profit attributable to owners of the Company was HK\$209,169,000, a decrease of 18% from HK\$254,485,000 for the same period last year. Before making adjustments for intra-group transactions, Rossini contributed net profit attributable to owners of the Company of HK\$206,391,000 while EBOHR contributed net profit of HK\$116,876,000.

(6) INVENTORY

Inventory was HK\$2,096,411,000, an increase of 1.5% from HK\$2,065,394,000 as at 31 December 2014. Rossini, EBOHR, Eterna, Corum and Dreyfuss contributed inventory of HK\$390,642,000, HK\$601,305,000, HK\$253,456,000, HK\$378,331,000 and HK\$102,691,000 respectively.

The inventory level of Rossini and EBOHR was decreased compared with their respective inventory as at 31 December 2014. For Eterna, Corum and Dreyfuss, 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.

Governance and the Board

The Board remains focused on improving its effectiveness, and the efficiency of the governance processes. We believe that an appropriate mix of skills, experience and perspectives within the Board helps strengthen its effectiveness. In addition to two experienced Executive Directors, namely Mr. Hon Hau Wong and Mr. Tao Li joining the board in August 2014 and November 2014 respectively, Mr. Zhang Bin, who has a wealth of legal experience in various practicing areas, also joined the Board as an Independent Non-executive Director in November 2014.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Principal Risks and Uncertainties

The Board, as assisted by the Audit Committee, oversees the Group's risk management system, and conducts periodic reviews of such system to ensure good corporate governance practice. Foreign exchange risk, economy risk and industry risk are the principal risks and uncertainties facing the Group and the Board will monitor the situation closely and adopt any necessary risk mitigation measures.

(1) FOREIGN EXCHANGE RISK

The Group incurs a large portion of cost of goods sold in RMB and receives the majority of revenues also in RMB. Certain portions of the Group's sales and purchases and loans are denominated in Swiss Franc and GBP. Currently, we may consider to enter into foreign exchange hedging transactions as the foreign exchange risks exist. If we are not engaged in foreign exchange hedging transactions, it may affect our financial condition and performance.

(2) ECONOMY RISK

The growth in revenue is dependent on the growth of consumer spending on watches. Any continued economic slowdown domestically or globally may result in a decrease in consumer spending in watches and may lead to an adverse effect upon the Group's business and results of operations.

(3) INDUSTRY RISK

Analysis of the economic situation of international and Mainland China markets demonstrates that the retail industry of watches and timepieces will confront relatively substantial pressure. The severe competition of the industry may affect the Group's business performance.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Outlook

The economic slowdown on Mainland China, ongoing uncertainty in Europe and the normalization of monetary policy in the US will render operating conditions challenging for the rest of the year. Our strategic planning and investment have given us a strong base for the next chapter of development.

Loose monetary policy has started a new downtrend of short term interest rates. As monetary policy continues to remain loose and the People's Bank of China continues to inject liquidity, short term interest rates may continue to drop. Fiscal policy will proactively revitalize existing capital of the provincial fiscal departments. Activating the capital will not only increase the effectiveness of the fiscal policy, but also help to streamline channels for monetary policy and effectively guide funds into the real economy, leading to a stable growth at around 7%. Such stable economic growth in Mainland China is expected to provide favourable environment for the development of Rossini and EBOHR, and other proprietary brands. Due to the increasing prestige of the proprietary brands which are led by Rossini and EBOHR and the various new management measures adopted by the Group, the Group will continue its stable growth in the new round of competition.

Looking ahead, with our strong cross-border infrastructure and unique market position in Mainland China, we continue to enhance the value of our businesses in Mainland China and develop our Swiss proprietary brands. The Group has entered a new era and shall enjoy a time of dynamic and sustainable growth prospects in the years to come.

Employees and Remuneration Policy

As at 30 June 2015, the Group had more than 5,000 full-time staff in Hong Kong and Mainland China and approximately 200 staff in Europe. 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.

Dividend

The directors have resolved not to distribute an interim dividend for the six months ended 30 June 2015 (six months ended 30 June 2014: HK3.6 cents per share).



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

As at 30 June 2015, the interests or short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(1) ORDINARY SHARES OF HK\$0.10 EACH OF THE COMPANY

As at 30 June 2015, certain directors of the Company held long positions in the shares of the Company as follows:

Name of directors	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Hon Kwok Lung	Corporate interests (Note 1)	3,162,889,515	71.73%
	Personal interests	3,500,000	0.08%
	Family interests (Note 2)	1,374,000	0.03%
		3,167,763,515	71.84%
Shang Jianguang	Beneficial owner	8,000,000	0.18%
Shi Tao	Beneficial owner	5,000,000	0.11%
Lam Toi Man	Beneficial owner	3,500,000	0.08%
Fung Tze Wa	Beneficial owner	2,500,000	0.06%
Hon Hau Wong	Beneficial owner	1,750,000	0.04%
Tao Li	Beneficial owner	5,000,000	0.11%

Notes:

- The 3,162,889,515 shares comprise of 1,840,128,000 shares held by Full Day Limited ("Full Day") and 1,322,761,515 shares held by Sincere View International Limited ("Sincere View").
- 1,374,000 shares were held by Mr. Hon Kwok Lung's wife, Ms. Lam Suk Ying.

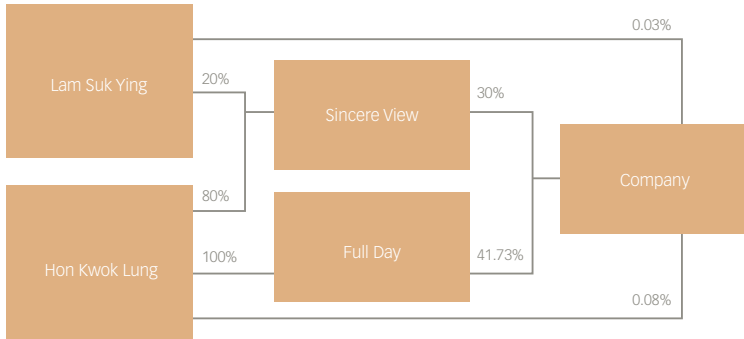


MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

(1) **ORDINARY SHARES OF HK\$0.10 EACH OF THE COMPANY** (Continued)

The deemed interest held by Mr. Hon Kwok Lung was summarised in the following chart.



(2) **SHARE OPTIONS OF THE COMPANY**

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



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares (Continued)**(3) LONG POSITION IN ROSSINI (NOTE 1)**

Name of directors	Nature of interest	Percentage of shareholding
Sit Lai Hei	Corporate (Note 2)	9%
Hon Hau Wong	Corporate (Note 2)	9%

Notes:

- 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.
- The interest in Rossini was held by Fujian Fengrong, which is owned as to approximately 68.5% by Ms. Sit Lai Hei, an Executive Director, and 31.5% by Ms. Lu Xiaojun. Both Ms. Sit Lai Hei and Ms. Lu Xiaojun are daughters-in-law of Mr. Hon Kwok Lung, an Executive Director of the Company. Mr. Hon Hau Wong being the husband of Ms. Lu Xiaojun, is also deemed to be interested in the 31.5% interest in Fujian Fengrong.

Save as disclosed above, as at 30 June 2015, no other 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.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Share Option Scheme

The following table discloses movements in the Company's share options for the six months ended 30 June 2015:

Name and category of participants	Number of share options		
	At 1 January 2015	Movement during the period	At 30 June 2015
Independent non-executive director			
Li Qiang	3,500,000	–	3,500,000
Other eligible employees			
In aggregate	4,300,000	(75,000)	4,225,000
Other eligible persons			
In aggregate	6,085,000	(375,000)	5,710,000
Total	13,885,000	(450,000)	13,435,000

Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2015, the following persons hold interests of 5% or more of the issued share capital of the Company, as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

LONG POSITION:

Name of shareholders	Capacity and nature of interest	Note	Number of ordinary shares held	Percentage of the Company's issued share capital
Full Day	Directly beneficially owned		1,840,128,000	41.73%
Sincere View	Directly beneficially owned		1,322,761,515	30.00%
Hon Kwok Lung	Corporate interests	(1)	3,162,889,515	71.73%
	Family interests		1,374,000	0.03%
	Personal interests		3,500,000	0.08%
			3,167,763,515	71.84%
Lam Suk Ying	Interest of spouse	(1)	3,166,389,515	71.81%
	Beneficial owner		1,374,000	0.03%
			3,167,763,515	71.84%

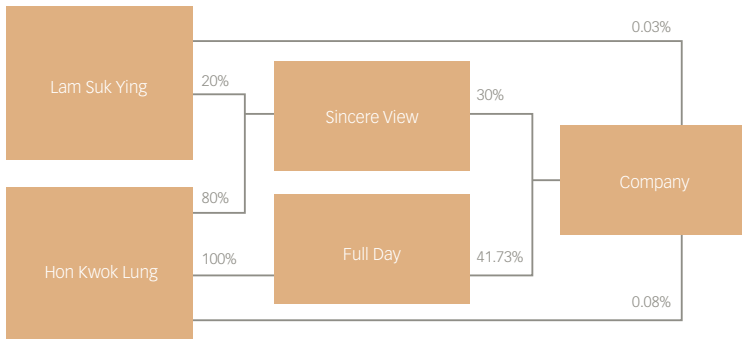


MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Note:

1. Mr. Hon Kwok Lung and Ms. Lam Suk Ying are deemed to have an interest in the same parcel of 3,167,763,515 shares (1,322,761,515 shares held by Sincere View, 1,840,128,000 Shares held by Full Day, 3,500,000 shares held by Mr. Hon Kwok Lung and 1,374,000 shares are held by Ms. Lam Suk Ying). The shareholding structure was summarised in the following chart:



Save as disclosed above, as at 30 June 2015, no other person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Corporate Governance Code

During the six months period ended 30 June 2015, the Company has complied with all the code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the "Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited" (the "Listing Rules"), except with the details disclosed below:

(1) CODE E.1.2

Code E.1.2 stipulates that the Chairman of the board of directors should attend the annual general meeting of the Company. The Chairman of the Board was unable to attend the annual general meeting of the Company held on 25 June 2015 (the "2015 AGM") due to his business trip outside Hong Kong.

(2) CODE A.6.7

Code A.6.7 stipulates that independent non-executive directors should attend general meetings. One independent non-executive director did not attend the 2015 AGM due to other business engagements.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2015.

Audit Committee

The audit committee (the "AC") comprises the four independent non-executive directors, Mr. Fung Tze Wa (the Chairman of the Committee), Dr. Kwong Chun Wai, Michael, Mr. Li Qiang and Mr. Zhang Bin. The AC reviewed the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited interim financial information for the six months ended 30 June 2015. The AC also reviewed and commented internal audit reports of subsidiaries and associates and adequacy of resources, qualifications, experience and training of staff engaged in the accounting and financial report function.

Remuneration Committee

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

The majority of the RC members are independent non-executive directors. The RC 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.

Nomination Committee

The nomination committee (the "NC") comprises the four independent non-executive directors, Mr. Fung Tze Wa, Dr. Kwong Chun Wai, Michael, Mr. Li Qiang and Mr. Zhang Bin, Mr. Hon Kwok Lung and Mr. Shang Jianguang. Mr. Hon Kwok Lung has been appointed as the chairman of the NC. The terms of reference of the NC have been included on the Stock Exchange's website and the Company's website.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Nomination Committee (Continued)

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

Purchase, Sale or Redemption of Shares

During the six months ended 30 June 2015, the Company has not repurchased any Company's listed shares (whether on the Stock Exchange or otherwise).

Publication of 2015 Interim Results and 2015 Interim Report on the Websites of the Stock Exchange and the Company

The interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.irasia.com/listco/hk/citychamp and www.citychampwatchjewellery.com), and the 2015 Interim Report containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

Appreciation

Our financial performance and strategic moves reflected the joint efforts of the Board and management in successfully pursuing our mission to be one of the leaders in the watch industry of Mainland China. Our strong sales and profit growth could not have achieved without the leadership of the Board and our management team. I would like to express my deep gratitude to our employees, customers, suppliers, bankers, professional consultants, business partners, and shareholders for their support.

Hon Kwok Lung

Chairman

Hong Kong, 26 August 2015



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Six Months Ended 30 June 2015

	Notes	Six months ended 30 June	
		2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Revenue	6	1,715,716	1,722,042
Cost of sales		(743,326)	(847,419)
Gross profit		972,390	874,623
Other income and financial income	7	108,389	56,646
Selling and distribution expenses		(418,748)	(410,907)
Administrative expenses		(355,050)	(331,533)
Gain/(Loss) on fair value changes in financial assets at fair value through profit or loss, net		12,033	(343)
Gain on disposal of available-for-sale financial assets	17.2	–	163,542
Gain on fair value changes in derivative financial instruments	23	16,696	12,001
Share of profit of associates		5,103	6,551
Finance costs	8	(36,709)	(20,560)
Profit before income tax	9	304,104	350,020
Income tax expense	10	(77,556)	(76,400)
Profit for the period		226,548	273,620
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
– Exchange (loss)/gain on translation of financial statements of foreign operations		(43,886)	3,740
– Release of exchange fluctuation reserve to profit or loss on disposal of subsidiaries	13	256	(2,015)
– Release of investment revaluation reserve upon disposal	17.2	–	(163,542)
– Changes in fair value of available-for-sale financial assets	17.1	74,284	(126,935)
Other comprehensive income for the period		30,654	(288,752)
Total comprehensive income for the period		257,202	(15,132)



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
For the Six Months Ended 30 June 2015

	Notes	Six months ended 30 June	
		2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Profit for the period attributable to:			
Owners of the Company		209,169	254,485
Non-controlling interests		17,379	19,135
		226,548	273,620
Total comprehensive income for the period attributable to:			
Owners of the Company		241,277	(34,676)
Non-controlling interests		15,925	19,544
		257,202	(15,132)
Earnings per share attributable to owners of the Company during the period			
	12		
– Basic		HK 4.74 cents	HK 5.56 cents
– Diluted		HK 4.73 cents	HK 5.55 cents



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

	Notes	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	584,627	576,661
Investment properties	15	112,175	112,175
Prepaid land lease payments		37,438	37,800
Goodwill	16	741,636	741,636
Interests in associates		61,123	56,020
Available-for-sale financial assets	17.1	419,621	308,204
Intangible assets		188,669	229,924
Prepayments and deposits		103,977	23,992
Deferred tax assets		7,631	10,223
		2,256,897	2,096,635
Current assets			
Inventories	18	2,096,411	2,065,394
Trade receivables	19	787,189	792,839
Prepaid land lease payments		908	1,028
Prepayments, deposits and other receivables		617,176	473,745
Tax recoverable		800	2,538
Financial assets at fair value through profit or loss		222,522	271,552
Derivative financial assets	23	–	1,653
Short-term investments	20	37,975	149,241
Cash and cash equivalents		927,474	878,253
		4,690,455	4,636,243



CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2015

	Notes	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Current liabilities			
Trade payables	21	355,596	358,839
Other payables and accruals		526,115	507,023
Dividend payables		1,481	1,492
Tax payables		58,668	67,672
Borrowings	22	530,059	349,195
Contingent consideration payable		10,779	10,669
Derivative financial liabilities	23	8,129	26,479
Due to related companies		218	13,961
		1,491,045	1,335,330
Net current assets		3,199,410	3,300,913
Total assets less current liabilities		5,456,307	5,397,548
Non-current liabilities			
Other payables		51,117	55,406
Borrowings	22	277,730	475,482
Corporate bonds	24	811,764	764,914
Deferred tax liabilities		26,542	26,816
		1,167,153	1,322,618
Net assets		4,289,154	4,074,930
EQUITY			
Equity attributable to owners of the Company			
Share capital		440,937	440,893
Reserves		3,647,008	3,405,631
		4,087,945	3,846,524
Non-controlling interests		201,209	228,406
Total equity		4,289,154	4,074,930



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2015

	Equity attributable to owners of the Company				
	Share capital HK\$'000 (Unaudited)	Share premium account* HK\$'000 (Unaudited)	Share option reserve* HK\$'000 (Unaudited)	Other reserve* HK\$'000 (Unaudited)	Goodwill arising on consolidation* HK\$'000 (Unaudited)
At 1 January 2014	472,840	1,053,488	2,534	22,692	(15,300)
Transactions with owners					
Issuance of shares for acquisition of an associate	1,800	8,045	-	-	-
Repurchase of ordinary shares	(34,030)	(221,195)	-	-	-
Disposal of a subsidiary	-	-	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-
Total transactions with owners	(32,230)	(213,150)	-	-	-
Comprehensive income					
Profit for the period	-	-	-	-	-
Other comprehensive income					
Exchange gain on translation of financial statements of foreign operations	-	-	-	-	-
Release of exchange fluctuation reserve to profit or loss on disposal of a subsidiary	-	-	-	-	-
Release of investment revaluation reserve upon disposal	-	-	-	-	-
Changes in fair value of available-for-sale financial assets	-	-	-	-	-
Total comprehensive income	-	-	-	-	-
At 30 June 2014	440,610	840,338	2,534	22,692	(15,300)



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
For the Six Months Ended 30 June 2015

Equity attributable to owners of the Company							
Statutory reserve*	Exchange fluctuation reserve*	Investment revaluation reserve*	Shares to be issued reserve**	Retained profits*	Total	Non-controlling interests	Total equity
HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
26,268	91,543	363,780	9,845	2,287,389	4,315,079	246,965	4,562,044
-	-	-	(9,845)	-	-	-	-
-	-	-	-	-	(255,225)	-	(255,225)
-	-	-	-	-	-	(24,000)	(24,000)
-	-	-	-	-	-	(24,894)	(24,894)
-	-	-	(9,845)	-	(255,225)	(48,894)	(304,119)
-	-	-	-	254,485	254,485	19,135	273,620
-	3,331	-	-	-	3,331	409	3,740
-	(2,015)	-	-	-	(2,015)	-	(2,015)
-	-	(163,542)	-	-	(163,542)	-	(163,542)
-	-	(126,935)	-	-	(126,935)	-	(126,935)
-	1,316	(290,477)	-	254,485	(34,676)	19,544	(15,132)
26,268	92,859	73,303	-	2,541,874	4,025,178	217,615	4,242,793



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the Six Months Ended 30 June 2015

	Equity attributable to owners of the Company				
	Share capital	Share premium account*	Share option reserve*	Other reserve*	Goodwill arising on consolidation*
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
1 January 2015	440,893	841,402	2,106	22,692	(15,300)
Transactions with owners					
Capital contribution from non-controlling interest	-	-	-	-	-
Proceeds from shares issued under share option scheme	44	100	-	-	-
Exercise of share options	-	69	(69)	-	-
Disposal of a subsidiary	-	-	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-
Total transactions with owners	44	169	(69)	-	-
Comprehensive income					
Profit for the period	-	-	-	-	-
Other comprehensive income					
Exchange loss on translation of financial statements of foreign operations	-	-	-	-	-
Release of exchange fluctuation reserve to profit or loss on disposal of a subsidiary	-	-	-	-	-
Changes in fair value of available-for-sale financial assets	-	-	-	-	-
Total comprehensive income	-	-	-	-	-
At 30 June 2015	440,937	841,571	2,037	22,692	(15,300)

* These reserve accounts comprise the consolidated reserves of HK\$3,647,008,000 (31 December 2014: HK\$3,405,631,000) in the condensed consolidated statement of financial position.

The shares to be issued reserve as at 1 January 2014 represents the fair value of 18,000,000 units of ordinary shares to be issued for the acquisition of an associate, which had been issued to the vendor in January 2014.



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
For the Six Months Ended 30 June 2015

Equity attributable to owners of the Company					Total HK\$'000 (Unaudited)	Non-controlling interests HK\$'000 (Unaudited)	Total equity HK\$'000 (Unaudited)
Statutory reserve* HK\$'000 (Unaudited)	Exchange fluctuation reserve* HK\$'000 (Unaudited)	Investment revaluation reserve* HK\$'000 (Unaudited)	Retained profits* HK\$'000 (Unaudited)	Total			
26,268	85,040	188,705	2,254,718	3,846,524	228,406	4,074,930	
-	-	-	-	-	9,114	9,114	
-	-	-	-	144	-	144	
-	-	-	-	-	-	-	
-	-	-	-	-	(28,996)	(28,996)	
-	-	-	-	-	(23,240)	(23,240)	
-	-	-	-	144	(43,122)	(42,978)	
-	-	-	209,169	209,169	17,379	226,548	
-	(42,432)	-	-	(42,432)	(1,454)	(43,886)	
-	256	-	-	256	-	256	
-	-	74,284	-	74,284	-	74,284	
-	(42,176)	74,284	209,169	241,277	15,925	257,202	
26,268	42,864	262,989	2,463,887	4,087,945	201,209	4,289,154	



CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 June 2015

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Net cash outflow from operating activities	(5,465)	(112,418)
Net cash inflow from investing activities	95,519	221,745
Net cash (outflow)/inflow from financing activities	(41,276)	181,442
Net increase in cash and cash equivalents	48,778	290,769
Cash and cash equivalents at beginning of period (Note (i))	878,253	478,713
Effect of foreign exchange rate changes, net	(42,185)	3,171
Cash and cash equivalents at end of period (Note (ii))	884,846	772,653

Notes:

- (i) Cash and cash equivalents at the beginning of the period comprised HK\$471,621,000 of the remaining group and HK\$7,092,000 of the disposal group for the six month ended 30 June 2014.
- (ii) Cash and cash equivalents at the end of period comprised cash and bank balances and bank overdrafts for the purpose of condensed consolidated statements of cash flows.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the Six Months Ended 30 June 2015

1. General Information

During the period, the Group has completed the disposal of its 51% equity interest in Beijing Haina Tianshi Watch Company Limited ("Beijing Haina") together with the selling and distribution networks at the total consideration of HK\$81,214,000.

Other than the aforementioned disposal of Beijing Haina, there were no other significant changes in the Group's operations during the period.

2. Basis of Preparation

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

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

The Unaudited Interim Financial Information for the six months ended 30 June 2015 was approved for issue by the board of directors on 26 August 2015.

3. Summary of Significant Accounting Policies

The Unaudited Interim Financial Information has been prepared in accordance with the accounting policies and method of computation used in the 2014 Annual Financial Statements, except for the adoption of the new or amended Hong Kong Financial Reporting Standards ("HKFRSs"), which include individual HKFRSs, HKAS and Interpretations ("Int"). The adoption of these new and revised HKFRSs has had no material impact on the Group's financial statements. The Group has not early adopted any new HKFRSs that have been issued but are not yet effective. The Unaudited Interim Financial Information should be read in conjunction with the 2014 Annual Financial Statements.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

ESTIMATED IMPAIRMENT OF GOODWILL

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

PROVISION AGAINST 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.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty
(Continued)

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, United Kingdom and the People's Republic of China (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.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty
(Continued)

WARRANTY PROVISION

Warranty provision is made for expenditure associated with future variable services and repair cost related to warranty claims. The management makes an assessment of the future costs related to this work by using the proportion of actual tasks related to warranty work as the basis for the calculation. The assessment of provision involves management judgement and estimates. When the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of warranty provision and provision charge/write-back in the period in which such estimate has been changed.

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.

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 requirements of HKFRSs.

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.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty (Continued)

RESEARCH AND DEVELOPMENT COSTS

In accordance with the accounting policy set out in note 4.10 of 2014 Annual Financial Statements, costs associated with research activities are expensed in profit or loss as they are incurred, while costs that are directly attributable to development activities are recognised as intangible assets provided they meet all the requirements as set out in note 4.10 of 2014 Annual Financial Statements. This requires the management to make judgements to distinguish the research phase and development phase of the projects being undertaken. Research is original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Development is the application of research, findings or other knowledge to a plan or design for the production of new or substantially improved materials devices, products, processes, systems or services before the start of commercial production or use. Determining the amounts to be expensed in profit or loss or to be capitalised required management to make judgement, and assumptions regarding the expected progress and outcome of the research and development activities the future expected cash generation of the assets, discount rates to be applied, and also the expected period of, probable future economic benefits. Because of the nature of the Group's research and development activities the criteria for the recognition of such costs as an asset are generally not met until late in the development stage of the projects. Hence research costs are generally recognised as expenses in the period in which they are incurred.

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).



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty
(Continued)

FAIR VALUE MEASUREMENT (Continued)

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 a number of items at fair value:

- Investment properties
- Available-for-sales financial assets
- Financial assets at fair value through profit or loss
- Derivative financial assets
- Contingent consideration payable
- Derivative financial liabilities

5. Segment Information

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

- (a) manufacture and distribution of watches and timepieces;
- (b) property investment; and
- (c) distribution of yacht.

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



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

5. Segment Information (Continued)

	Six months ended 30 June 2015			
	Watches and timepiece HK\$'000 (Unaudited)	Property investment HK\$'000 (Unaudited)	Yacht HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue and income:				
Sales to external customers	1,705,878	9,838	-	1,715,716
Other income and financial income	47,708	92	-	47,800
Total	1,753,586	9,930	-	1,763,516
Segment results	307,145	6,193	(602)	312,736
Unallocated corporate income and expenses, net				22,974
Share of profit of associates				5,103
Finance costs				(36,709)
Profit before income tax				304,104
Income tax expense				(77,556)
Profit for the period				226,548



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

5. Segment Information (Continued)

	Six months ended 30 June 2014			
	Watches and timepiece	Property investment	Yacht	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue and income:				
Sales to external customers	1,704,274	7,968	9,800	1,722,042
Other income and financial income	36,783	688	–	37,471
Total	1,741,057	8,656	9,800	1,759,513
Segment results	232,592	(792)	(1,561)	230,239
Unallocated corporate income and expenses, net				(29,752)
Share of profit of associates				6,551
Gain on disposal of available-for-sale financial assets				163,542
Finance costs				(20,560)
Profit before income tax				350,020
Income tax expense				(76,400)
Profit for the period				273,620



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

6. Revenue

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

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Sale of goods	1,705,878	1,714,074
Gross rental income	9,838	7,968
	1,715,716	1,722,042

7. Other Income and Financial Income

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Bank interest income	8,260	9,681
Compensation income	20,410	–
Dividend income from available-for-sale financial assets	7,597	–
Dividend income from financial assets at fair value through profit or loss	87	70
Exchange gains	42,715	5,390
Government subsidies	–	1,564
Gain on disposal of subsidiaries (note 13)	9,517	15,859
Sundry income	19,803	24,082
	108,389	56,646



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

8. Finance Costs

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interests charged on corporate bonds	14,630	–
Interests charged on bank borrowings	22,079	20,560
	36,709	20,560

9. Profit Before Income Tax

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

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation	44,757	35,516
Amortisation of prepaid land lease payments	362	524
Amortisation of intangible assets	7,195	8,778



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

10. Income Tax Expense

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Current tax for the period		
PRC	81,906	75,821
Switzerland	1,102	579
Over-provision in respect of prior years		
United Kingdom	(2,860)	–
Deferred tax for the year		
United Kingdom	(2,592)	–
Total income tax expense	77,556	76,400

For both the six months ended 30 June 2015 and 2014, no provision for Hong Kong profits tax has been made as the Group has no 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% (Six months ended 30 June 2014: between 15% and 25%). Overseas tax is calculated at the rates applicable in the respective jurisdictions.

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

11. Dividends

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Interim dividends	–	158,620

The directors do not declare the payment of an interim dividend for the period ended 30 June 2015 (Six months ended 30 June 2014: HK\$3.6 cents).



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

12. Earnings Per Share

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

	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company for the purpose of calculating basic and diluted earnings per share	209,169	254,485
	Number of shares	
	2015	2014
	'000	'000
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	4,409,229	4,575,310
Effect of dilutive potential ordinary shares: – share options issued by the Company	9,254	10,676
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	4,418,483	4,585,986



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

13. Gain on Disposal of Subsidiaries

13.1 Disposal of Beijing Haina

As mentioned in note 1, the Group has completed the disposal of its 51% equity interest in Beijing Haina during the period. Details of the Group's gain on disposal of a subsidiary was set out as follows:

	HK\$'000 (Unaudited)
Net assets disposed of:	
Property, plant and equipment	196
Intangible assets	41,260
Inventories	41,221
Trade receivables	10,041
Prepayments, deposits and other receivables	10,727
Cash and cash equivalents	6,022
Trade payables	(1,384)
Other payables and accruals	(7,253)
Tax payable	(393)
	100,437
Non-controlling interests	(28,996)
	71,441
Release of exchange fluctuation reserve upon disposal	256
	71,697
Less: Fair value of consideration in cash	(81,214)
Gain on disposal of Beijing Haina	(9,517)



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

13. Gain on Disposal of Subsidiaries (Continued)

13.1 Disposal of Beijing Haina (Continued)

	HK\$'000 (Unaudited)
Net cash inflow arising on disposal:	
Fair value of consideration in cash	81,214
Less: Consideration receivables	(19,125)
Cash and cash equivalents disposed of	(6,022)
Net cash inflow	56,067

The cash consideration of HK\$62,089,000 from disposal of Beijing Haina has been received by the Group during the period. The remaining consideration of HK\$19,125,000 will be received by 15 September 2015.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

13. Gain on Disposal of Subsidiaries (Continued)

13.2 Disposal of Ruihuang (Chongqing) Watch Company Limited (“Ruihuang”)

The Group had completed the disposal of its 51% equity interest in Ruihuang on 17 June 2014. Details of the Group’s gain on disposal of a subsidiary was set out as follows:

	HK\$'000 (Unaudited)
Net assets disposed of:	
Property, plant and equipment	2,459
Intangible assets	7,360
Inventories	163,418
Trade receivables	43,722
Prepayments, deposits and other receivables	5,603
Cash and cash equivalents	6,311
Trade payables	(31,953)
Other payables and accruals	(5,265)
Dividend payable	(42,748)
Amounts due to related companies	(94,067)
	54,840
Non-controlling interests	(24,000)
	30,840
Release of exchange fluctuation reserve upon disposal	(2,015)
	28,825
Add: Amounts due to the Group assigned to the buyer	60,759
Add: Dividend payable to the Group assigned to the buyer	21,802
	111,386
Less: Fair value of consideration	(127,245)
Gain on disposal of Ruihuang	(15,859)

	HK\$'000 (Unaudited)
Net cash inflow arising on disposal:	
Fair value of consideration	127,245
Less: Consideration receivables	(57,046)
Cash and cash equivalents disposed of	(6,311)
Net cash inflow	63,888

The cash consideration of HK\$70,199,000 from disposal of Ruihuang has been received by the Group during the year. The remaining consideration of HK\$57,046,000 will be received before 31 December 2015.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

14. Property, Plant and Equipment

During the six months ended 30 June 2015, the Group acquired property, plant and equipment of HK\$44,757,000 (Six months ended 30 June 2014: HK\$40,220,000). Property, plant and equipment of HK\$437,000 were disposed of during the six months ended 30 June 2015 (Six months ended 30 June 2014: HK\$786,000).

As at 30 June 2015, the Group has not yet obtained the title certificates for certain leasehold buildings in the PRC with an aggregate carrying amount of approximately HK\$570,000 (31 December 2014: HK\$597,000). The Group's legal advisors have confirmed that the Group has legally obtained the rights to use the buildings. The directors are now in process of obtaining the title certificates from the relevant government authorities.

As at 30 June 2015, land and buildings in Switzerland with an aggregate carrying amount of HK\$108,909,000 (31 December 2014: HK\$132,104,000) have been pledged to secure banking facilities granted to the Group (note 22).

15. Investment Properties

As at 30 June 2015, the Group has not obtained the relevant title certificates for investment properties with an aggregate carrying amount of HK\$42,780,000 (31 December 2014: HK\$42,780,000). The Group's legal advisors have confirmed that the Group is the rightful and equitable owner of these investment properties. The directors are now in process of obtaining the title certificates from the relevant government authorities.

As at 30 June 2015, certain of the Group's investment properties with carrying amount of HK\$22,800,000 (31 December 2014: HK\$22,800,000) have been pledged to secure banking facilities granted to the Group (note 22).



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

16. Goodwill

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Balance at the beginning of period/year	741,636	670,777
Acquisition of subsidiaries	–	120,254
Impairment loss	–	(49,395)
Balance at the end of period/year	741,636	741,636

17. Available-for-sale Financial Assets

17.1 Available-for-sale financial assets

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Listed equity investment in the PRC, at fair value	381,594	308,122
Listed debt investment in Switzerland, at fair value	37,945	–
Unlisted equity investments, at cost	82	82
	419,621	308,204



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

17. Available-for-sale Financial Assets (Continued)

17.1 Available-for-sale financial assets (Continued)

As at 30 June 2015, the listed equity investment in the PRC represented 2.05% (31 December 2014: 2.55%) equity interest in Citychamp Dartong Company Limited ("Citychamp Dartong Shares"). As at 30 June 2015, the Group held 30,389,058 Citychamp Dartong Shares (31 December 2014: 30,389,058 Citychamp Dartong Shares).

During the period, the increase in fair value of available-for-sale financial assets of HK\$74,284,000 (Six months ended 30 June 2014: decrease of HK\$126,935,000) has been dealt with in other comprehensive income and investment revaluation reserve.

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

For the six months ended 30 June 2015, there was no disposal of available-for-sale financial assets.

For the six months ended 30 June 2014, the Group had completed the disposal of 55,000,000 Citychamp Dartong Shares at a cash consideration of RMB302,104,000 (equivalent to HK\$379,671,000). The related cumulative gain previously recognised in other comprehensive income of HK\$163,542,000 was reclassified from the investment revaluation reserve to profit or loss for the period.

18. Inventories

	30 June 2015	31 December 2014
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Raw materials	352,642	312,300
Work in progress	517,543	276,705
Finished goods and merchandise	1,226,226	1,476,389
	2,096,411	2,065,394



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

19. Trade Receivables

The Group's trading terms with its customers are mainly on credit, except for certain customers, where payment in advance is required. The credit period is generally for a period of one to six months (31 December 2014: one to six 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. Trade receivables are non-interest bearing.

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

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
1 to 3 months	620,746	612,274
4 to 6 months	59,657	110,593
Over 6 months	106,786	69,972
	787,189	792,839

20. Short-Term Investments

As at 30 June 2015, the Group purchased short-term investments from major banks in the PRC in which no short-term investments (31 December 2014: HK\$73,417,000) was not subject to maturity and balance of HK\$37,975,000 (31 December 2014: HK\$75,824,000) was subject to maturity up to August 2015 (31 December 2014: January 2015).

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 is 5.8% per annum (31 December 2014: 4.4% to 6% 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 their fair value at end of the reporting period.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

21. Trade Payables

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

	30 June 2015	31 December 2014
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
1 to 3 months	210,144	316,213
4 to 6 months	66,949	22,046
Over 6 months	78,503	20,580
	355,596	358,839

22. Borrowings

	30 June 2015	31 December 2014
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Other borrowings	–	50,387
Bank overdrafts	42,628	–
Bank borrowings	765,161	772,750
Finance lease payable	–	1,540
Carrying amount as the end of period/year	807,789	824,677
Less: Current portion	(530,059)	(349,195)
Non-current portion	277,730	475,482



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

22. Borrowings (Continued)

(a) Bank borrowings

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:

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Portion of bank borrowings due for repayment within one year	425,211	292,698
Other bank borrowings due for repayment after one year		
After one year but within two years	283,102	304,879
After two years but within five years	40,548	157,533
After five years	16,300	17,640
	339,950	480,052
	765,161	772,750



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

22. Borrowings (Continued)

(a) Bank borrowings (Continued)

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

- (i) corporate guarantee provided by subsidiaries within the Group as at 30 June 2015 and 31 December 2014.
- (ii) a corporate guarantee provided by Fujian Fengron Investment Company Limited ("Fengrong") as at 30 June 2015 and 31 December 2014.
- (iii) a legal charge over certain of the Group's investment properties with carrying amounts of HK\$22,800,000 (31 December 2014: HK\$22,800,000) (note 15).
- (iv) a legal charge over certain of the Group's land and buildings with the carrying amounts of HK\$108,909,000 (31 December 2014: HK\$132,104,000) (note 14).
- (v) certain of the Group's trade receivables with the carrying amounts of HK\$174,142,000 (31 December 2014: HK\$109,760,000).
- (vi) a personal guarantee of HK\$27,600,000 provided by the director of a subsidiary as at 30 June 2015 and 31 December 2014.

Certain bank borrowings contain clause which gives the banks the right at their sole discretion to demand immediate repayment at any time irrespective of whether the Company has complied with the covenants and met the scheduled repayment obligations. None of the portion of bank 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 bank borrowings approximate to their fair value.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

22. Borrowings (Continued)

(b) Other borrowings

In February 2014, the Group has entered gold borrowing agreement and gold purchase and sales contracts with a major bank in the PRC solely for the financing purpose. Costs involved in the agreement and contracts are treated as finance cost in the consolidated statement of comprehensive income for the year ended 31 December 2014. The effective interest rate is 6.3% per annum and other borrowings had been fully repaid during the period ended 30 June 2015.

(c) Finance lease payables

The Group did not have any outstanding finance lease payables as at 30 June 2015. The analysis of the obligations under finance leases as at 31 December 2014 is as follows:

	HK\$'000 (Audited)
Total minimum lease payables	
Due within one year	1,613
Future finance charges on finance leases	(73)
Present value of finance lease liabilities	1,540
Present value of finance lease liabilities is as follows:	
Due within one year	1,540
Less: Due within one year included under current portion of borrowings	(1,540)
Non-current portion included under non-current liabilities	–



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

23. Derivative Financial Instruments

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Derivative financial assets		
Currency forward contracts	–	1,653
Derivative financial liabilities		
Financial undertakings provided by the Group in relation to issuance of ordinary shares for:		
– Acquisition of intangible assets (note a)	(8,108)	(25,544)
– Acquisition of an associate (note b)	(21)	(935)
	(8,129)	(26,479)

Notes:

(a) Acquisition of intangible assets

In previous years, the Group completed the acquisition of intangible assets by issue and allotment of ordinary shares 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 disposed by the vendor from the expiration of the respective lock-up periods is less than HK\$1.

(b) Acquisition of an associate

In previous year, the Group completed the acquisition of an associate, Fair Future Industrial Limited by issue and allotment of 56,000,000 ordinary shares of the Company. 38,000,000 ordinary shares had been issued to the vendor before 31 December 2013 and the remaining 18,000,000 ordinary shares has been 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 disposed by the vendor within the 12-month period from the expiration of the respective lock-up periods is less than HK\$1.

The aforementioned financial undertakings meet the definition of derivatives in accordance with HKAS 39. The value of the financial undertakings will change in response to changes in the share price of the Company's shares. There are no initial net investments and they are settled at a future date. In these regards, the financial undertakings are accounted for as derivative financial liabilities, which are designated as financial liabilities at fair value through profit or loss. The fair value gain of the derivative financial instruments during the period was amounted to HK\$16,696,000 (Six months ended 30 June 2014: HK\$12,001,000), which has been recognised in the consolidated statement of comprehensive income for the period.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

24. Corporate Bonds

	30 June 2015	31 December 2014
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Corporate bonds	811,764	764,914

In July 2014, the Group had issued CHF denominated corporate bonds of principal amount of CHF100,000,000 bears interest at 3.625% per annum. The interests of the corporate bonds are paid in arrears on 24 July every year. The corporate bonds are listed in SIX Swiss Exchange in Switzerland and guaranteed by the Company. The corporate bonds will mature on 24 July 2019.

The Company may, at any time after the date of issuance and prior to the date of maturity, redeem the whole corporate bonds at 100% of the total principal amounts together with payments of interest accrued up to the dates of such early redemption by serving a prior notice to a period of not less than 30 days nor more than 60 days.

25. Capital Commitments

	30 June 2015	31 December 2014
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Contracted, but not provided for:		
Purchase of property, plant and equipment	121,756	169,024

26. Guarantee

At 30 June 2015 and 31 December 2014, the Group had contingent liabilities in relation to guarantee of approximately HK\$120,000,000 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.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

27. Related Party Transactions

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

(i) *Rental income*

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Rental income received (note a)	60	60
Sub-lease income received (note b)	171	171

Notes:

- (a) This was received from a director and this was charged at HK\$10,000 (Six months ended 30 June 2014: 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 (Six months ended 30 June 2014: HK\$29,000) per month on average.

(ii) *Outstanding balances included in other receivables*

	30 June	31 December
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Audited)
Due from an associate (note a)	27,493	38,517
Due from related companies (note b)	285	285

Notes:

- (a) The balance was unsecured, interest-free and repayable on demand. The maximum amount outstanding during the period was HK\$38,517,000 (31 December 2014: HK\$38,517,000).
- (b) The amounts were due from companies of which certain directors of the Company are also the directors of the related companies. The balances were unsecured, interest-free and repayable on demand. The maximum amount outstanding during the period was HK\$285,000 (31 December 2014: HK\$1,441,000).



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

27. Related Party Transactions (Continued)

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

(iii) *Disposal of Citychamp Dartong Shares*

During the six months ended 30 June 2015, the Group has not disposed any Citychamp Dartong Shares.

During the six months ended 30 June 2014, the Group has disposed of 55,000,000 Citychamp Dartong Shares to Fengrong at a consideration of approximately RMB302,104,000 (equivalent to HK\$379,671,000). Ms. Sit Lai Hei, a director of the Company is also a director and a beneficial owner of Fengrong.

(iv) *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 47,190,000 (31 December 2014: 72,000,000) ordinary shares of Citychamp Dartong 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 six months ended 30 June 2015, the Group has reimbursed guarantee fee and other direct expenses totaling HK\$1,272,000 (Six months ended 30 June 2014: nil) to Fengrong.

27.2 Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Short-term employee benefits	14,325	9,775
Post-employment benefits	99	75
	14,424	9,850



**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)**

For the Six Months Ended 30 June 2015

28. Fair Value Measurements of Financial Instruments

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\$, RMB and CHF.
- the fair value of derivative financial assets are marked to market using the foreign exchange forward rates ruling at the end of each reporting period.
- the fair value of derivative financial liabilities 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).



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

28. Fair Value Measurements of Financial Instruments (Continued)

	30 June 2015			Total HK\$'000 (Unaudited)
	Level 1 HK\$'000 (Unaudited)	Level 2 HK\$'000 (Unaudited)	Level 3 HK\$'000 (Unaudited)	
Assets				
Available-for-sale financial assets				
– Listed	419,539	–	–	419,539
Listed securities designated at fair value through profit or loss	222,522	–	–	222,522
	642,061	–	–	642,061
Liabilities				
Contingent consideration payable	–	–	10,779	10,779
Derivative financial liabilities	–	8,129	–	8,129
	–	8,129	10,779	18,908
	31 December 2014			Total HK\$'000 (Audited)
	Level 1 HK\$'000 (Audited)	Level 2 HK\$'000 (Audited)	Level 3 HK\$'000 (Audited)	
Assets				
Available-for-sale financial assets				
– Listed	308,122	–	–	308,122
Listed securities designated at fair value through profit or loss	271,552	–	–	271,552
Derivative financial assets	–	1,653	–	1,653
	579,674	1,653	–	581,327
Liabilities				
Contingent consideration payable	–	–	10,669	10,669
Derivative financial liabilities	–	26,479	–	26,479
	–	26,479	10,669	37,148



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)

For the Six Months Ended 30 June 2015

28. Fair Value Measurements of Financial Instruments (Continued)

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.

The fair value of contingent consideration payable is Level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balances are provided as below.

	30 June 2015 HK\$'000 (Unaudited)	31 December 2014 HK\$'000 (Audited)
Opening balance (Level 3 recurring fair value)	10,669	–
Acquisition of subsidiaries	–	65,180
Change in fair value recognised in profit or loss during the period/year	110	(54,511)
Closing balance (Level 3 recurring fair value)	10,779	10,669

One of the key inputs to determine the fair value of contingent consideration payable is the actual financial result of The Dreyfuss Group Limited and its subsidiaries (together “Dreyfuss Group”) for the year ended 31 December 2014.

A better in 2014 actual financial result of Dreyfuss Group would result in an increase in the fair value measurement of contingent consideration payable, and vice versa.





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