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

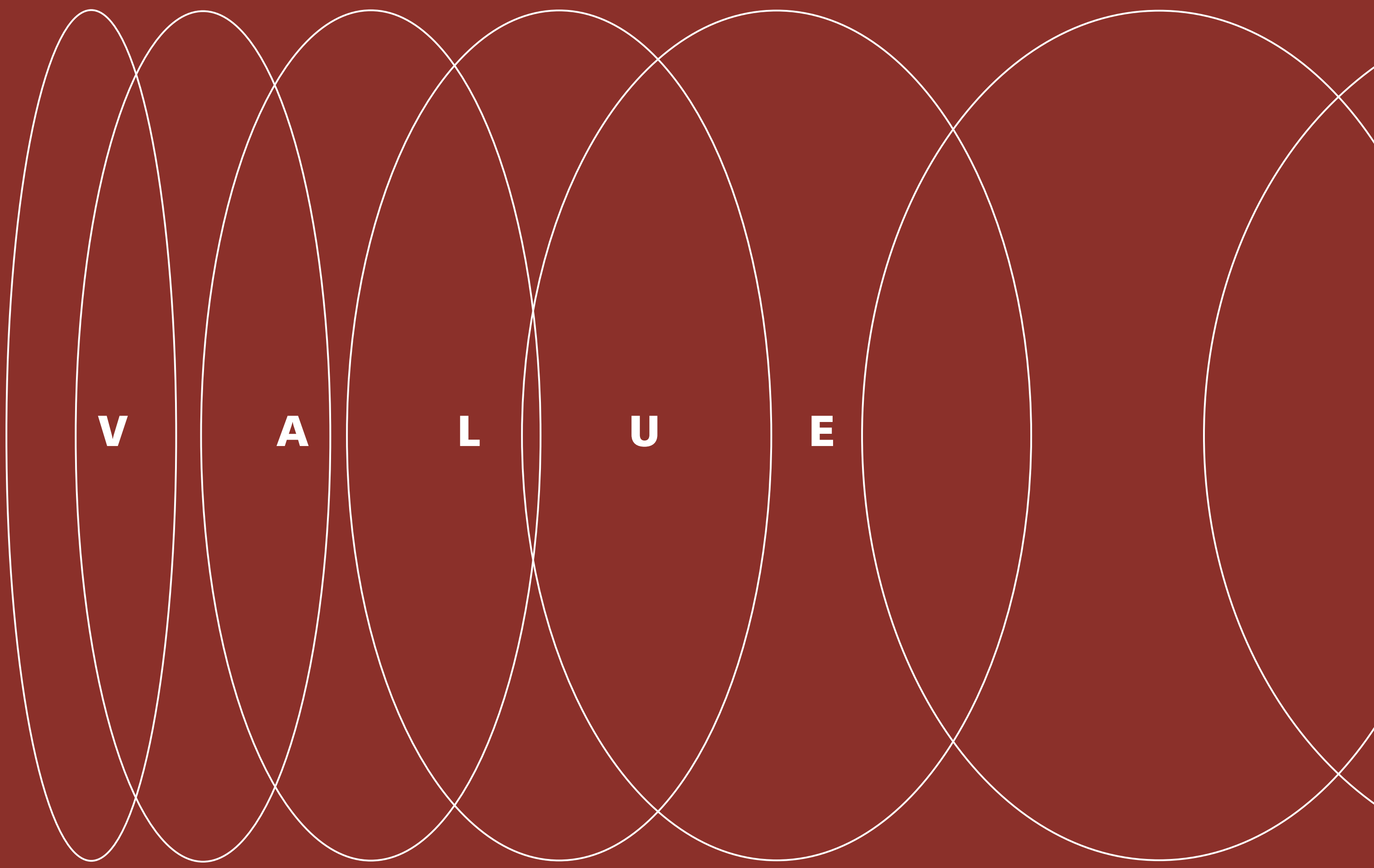
ANNUAL REPORT 2015 年報

(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


EXQUISITENESS
AESTHETICS
DISTINCTION
HERITAGE
TECHNOLOGY
CREATIVITY
ELEGANCE

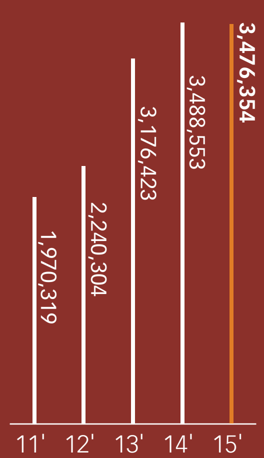
CONTENTS

FINANCIAL HIGHLIGHTS



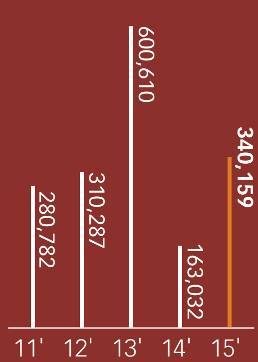
Revenue

HK$'000



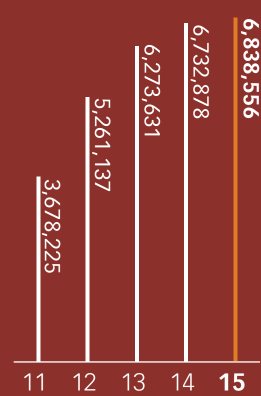
Profit After Tax

HK$'000

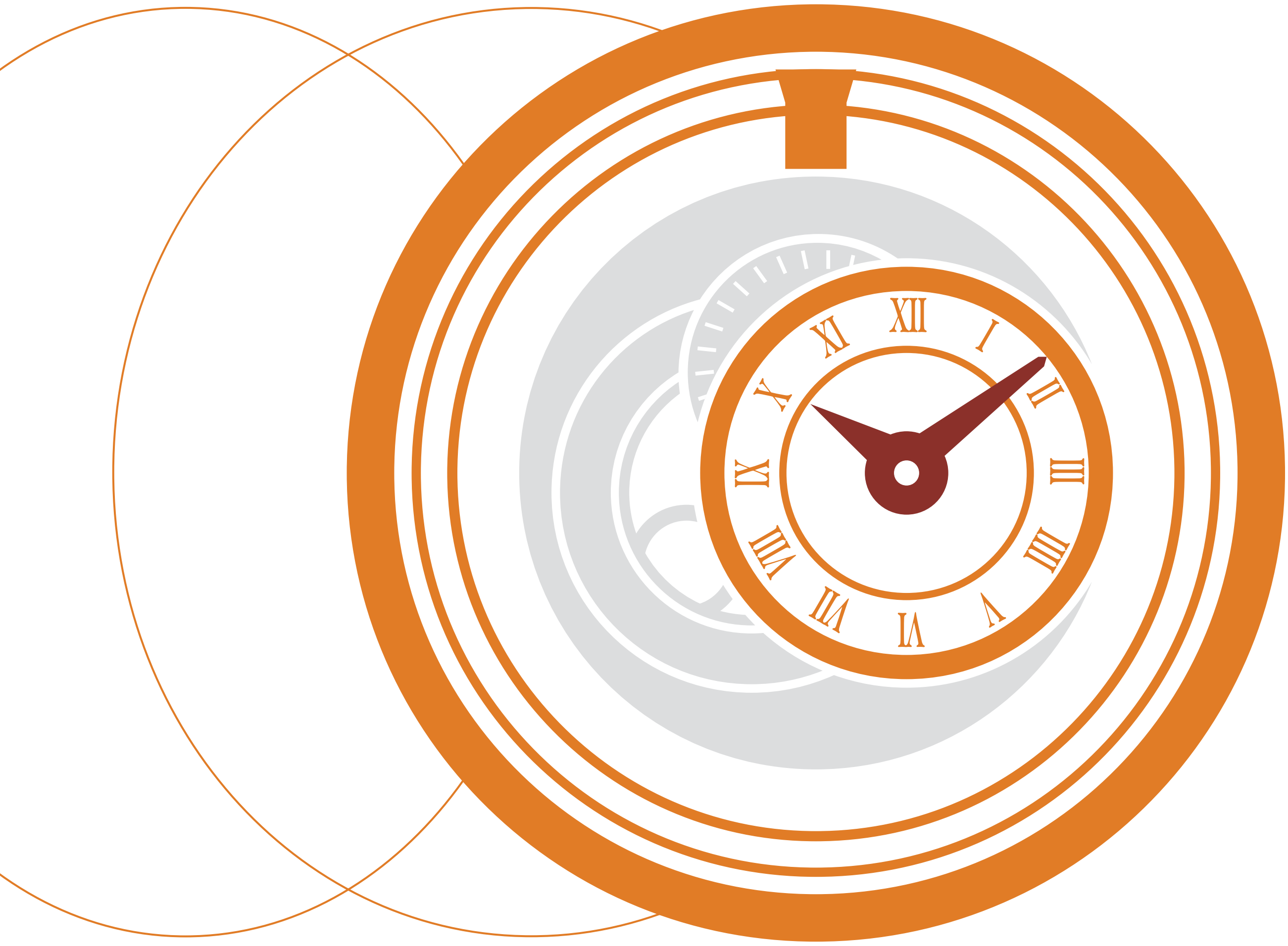


Total Assets

HK$'000

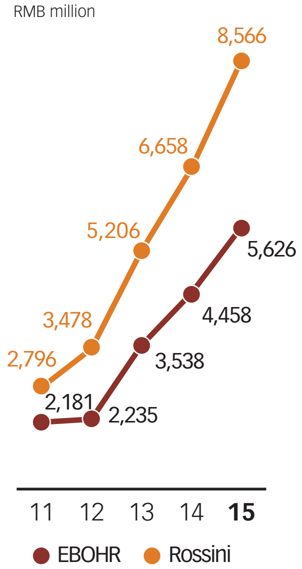


FINANCIAL HIGHLIGHTS



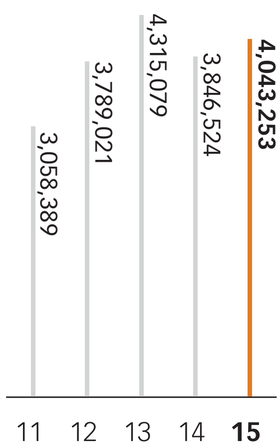
Brand Value

RMB million



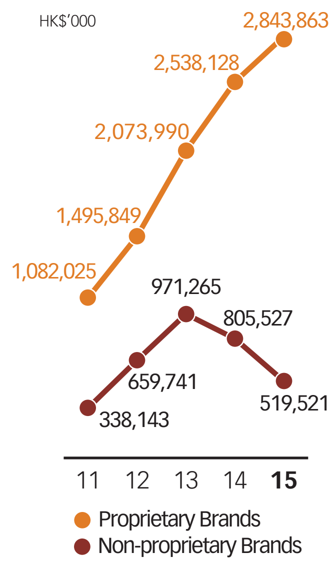
Owners' Equity

HK$'000



Revenue by Proprietary and Non-proprietary Brands

HK$'000



CORPORATE HIGHLIGHTS IN 2015

FEBRUARY 2015

Rotary was awarded the accolade of one of UK's Superbrands, which was based on the opinions of marketing experts, business professionals and voted by consumers in the UK in association with the national research YouGov, for its position of a brand leader in the UK's midmarket sector and a trusted brand known for high quality and design-led Swiss timepieces at an affordable price. Rotary greeted its 120th anniversary in 2015.

MARCH 2015

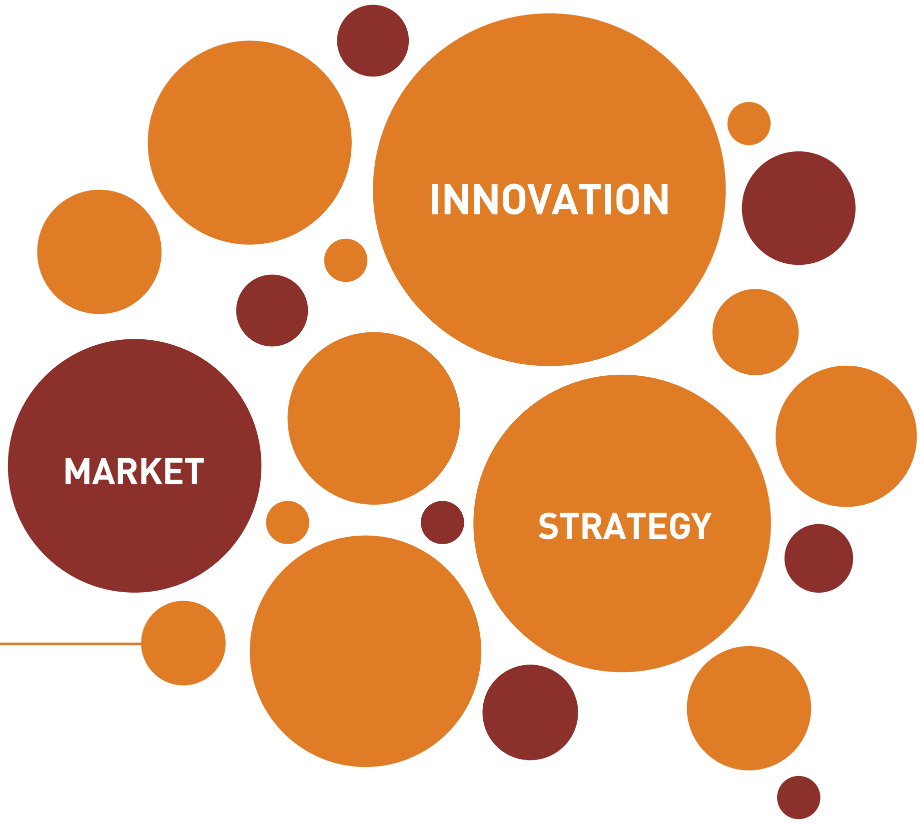
Rossini was ranked as the 1st in overall market share in the domestic watch category for the year 2014 by China General Chamber of Commerce and China National Commercial Information Centre. It was also ranked as the 1st in sales volume in the domestic watch category for 13 consecutive years since 2002.

Corum, which was founded in 1955, turned 60 at Baselworld 2015. For its 60th anniversary, the brand introduced various unique pieces, including a special flying tourbillion as well as a dial made out of wood to reproduce the deck of a boat in an Admiral's Cup watch, and a special Golden Bridge featuring a phoenix entwined with dragon, two legendary animals twisted around the baquette caliber.

MAY 2015

Corum sponsored the Turkcell Platinum Bosphorus Cup, which had more than 60 IRC boats having crossing the departure line on the Bosphorus, Marmara Sea in Turkey as the Official Timekeeper of this spectacular race. Corum offered an Admiral's Cup Challenger 44 GMT watch to this spectacular cup. Being strongly linked to the sailing world since its creation, it was an obvious match for Corum to be a partner of this prestigious sailing event as Official Timekeeper.

Rossini bid RMB63 million and won the tender for an industrial site of 24,000 m^2 and the factory facilities of 24,000 m^2 erected above. The site will be developed as Rossini's 2nd phrase facilities comprising global e-commerce centre, technology research and development centre, smart watch research and development centre and base for upscale clocks.



JUNE 2015

Rossini and EBOHR were both awarded "China's 500 Most Valuable Brands of the Year 2015" (二零一五年中國500最具價值品牌) by the World Brand Laboratory. Rossini was ranked 1st in PRC watch category with brand value of RMB8.57 billion while EBOHR with brand value of RMB5.63 billion.

SEPTEMBER 2015

Rossini and EBOHR were both awarded the "Asia's 500 Most Influential Brands in 2015" (二零一五年亞洲品牌500強) by the World Brand Laboratory. It was the 1st time for EBOHR to receive such award.

NOVEMBER 2015

Mr. Hon Kwok Lung was presented the highest honor, the "Special Achievement Award", of Asia Pacific Entrepreneurship Awards 2015 (the "APEA"). APEA is a regional award for outstanding entrepreneurship with three elements in place: benchmarking against best practices, recognition of past and current efforts, and continued publicity and public attention and built on the idea that for entrepreneurs to continue innovating and sustaining their leadership.

DECEMBER 2015

Rossini was awarded "The Chinese Brand of the Year 2015 No. 1 in the Watch Category" (2015年度 "中國品牌年度大獎NO. 1 (手錶行業)") by the World Brand Laboratory. Rossini was the only domestic watch brand in Mainland China that was selected by World Brand Laboratory to participate in the appraisal.

EBOHR was awarded "2015 China Charity Award – Group Award" ("2015中國公益獎－集體獎") in The 5th China Charity Festival.

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

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

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Cayman Islands

PRINCIPAL OFFICE

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

WEBSITES

http://www.citychampwatchjewellery.com
http://www.irasia.com/listco/hk/citychamp

OUR BRANDS


CORUM
LA CHAUX-DE-FONDS · SUISSE
ETERNA
ROTARY
ROSSINI
羅西尼
EBOHR
依波表

CHAIRMAN'S STATEMENT

CHAIRMAN'S STATEMENT

On behalf of the board of directors (the "Board"), I am pleased to present the annual results of Citychamp Watch & Jewellery Group Limited (the "Company") and its subsidiaries (collectively, the "Group") for the year ended 31 December 2015.

Following the turnaround of Dreyfuss and the significant loss reduction of Eterna and Corum, the Group has entered into a steady position for sustainable growth. We are now ready to rise to the next level of development, continuously working with internal and external partners. In 2015, we continued our effort to consolidate our strategic strengths, sharpen our competitive edge, create synergy, and ensure all our businesses are sustainable. It is a time of new opportunities and we have the strong conviction to seize them and we are ready to embrace the future with optimism in spite of challenging global economic outlook.

RESULTS OVERVIEW

Even after taking into account of the disposal of Beijing Haina Tianshi Watch Co., Ltd. in May 2015, profit of the Group for the year 2015 was higher than the profit for the year 2014. Revenue decreased slightly by 0.3% to HK$3.48 billion in 2015, versus HK$3.49 billion generated in 2014. Profit attributable to owners of the Company in 2015 increased to HK$308 million, which was HK$176 million or 133% higher than the HK$132 million earned in 2014. Basic earnings per share were HK6.98 cents. Return on average equity and return on average assets were 7.4% and 4.5%, respectively.

The Board, after due deliberation, resolved to recommend a final dividend of HK2.5 cents per share for the year ended 31 December 2015.

BUSINESS AND MARKET DEVELOPMENT

Rossini and EBOHR continue to be the dominant leaders of the watch-making industry in Mainland China and the solid profit contributors to the Group. Such strong presence and reputation in Mainland China provides us with strategic advantages to pursue our

vision of building a global group. Our existing annual production capability of over 3 million pieces of watch and our comprehensive distribution with over 6,000 outlets provide tremendous support and resources to the sustainable development of our foreign subsidiaries.

In the last few years, both Rossini and EBOHR have been building up the channels for e-commerce as they are complementary to the physical distribution and increasingly important in Mainland China. In 2015, e-commence was increasingly important, amounting to over 16% of total revenue for our Chinese brands. Similarly, we are aggressively building the physical channels of distribution for our foreign brands targeting different market segments ranging from the high-end luxury segment to the mass market. At the same time, our foreign brand such as Dreyfuss started building up the channels for e-commerce in Mainland China in 2015.

During 2015, Dreyfuss improved performance and successfully made a turnaround by further developing the markets outside the UK, its single largest market, and streamlining the operations. Similarly, Eterna increased its turnover and reduced loss through new product market development. Corum focused the resources on building the brand. All these activities couldn't be achieved without the European Executive Committee, composed of CEOs from our European subsidiaries and key executives from the holding company, and the talents in the foreign subsidiaries and in the Group as a whole.

We continue to invest in human resources and create adequate systems to ensure we have the right level of capacity to deliver our growth plan; and we are keeping track of market movements and circumstances to ensure to stay competitive locally and internationally.

Details of the solid progress we made in 2015 for individual companies and segments are set out in the MD&A of this Annual Report.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE PERFORMANCE

Good Environmental, Social and Governance, or ESG, practices have always been an integral part of the Group's business strategy and management approach. As a good corporate citizen, the Group contributes to the communities that we operate our businesses.

RISK MANAGEMENT

Risk management is one of the important pillars in the establishment of good corporate governance, thus the Group always implements prudent principle and maintain high awareness in the operations. It is also an integral part in decision making process. The Board oversees the Group's risk management system, and conducts periodic reviews of such system to manage risks that may occur and ultimately ensure good corporate governance practice. Pursuant to the relevant rules and requirements in relation to risk management of listed companies, the Board continues to optimize the internal governance structure and system formulation in order to enhance the standardized operation level. As such, the Company has newly established risk management committee. Led by the Board, the risk management committee will commence risk prevention and monitoring duties and conduct risk controls on subsidiaries and associates regularly. We will monitor our risk management and formulate and adopt appropriate risk management measures against each principal risk.

OUTLOOK

The global economy would still be growing in 2016, although at a lower rate.

Mainland China continues its economic transformation, moving to a greater focus on domestic consumption – a profound complex but necessary restructuring that is working throughout the entire Mainland China. Despite various challenges, the Mainland China economy is still expanding at a pace more than twice as fast as the rest of the world.

In view of the slower growth rate than before, supply-side and demand-side accommodative policies will be continuously introduced. Supply-side structural reform will more focus on cultivating medium- and long-term growth drivers. Demand-stimulating policies such as more interest rate cuts and RRR cuts are likely to be introduced in 2016. The Central Economic Work Conference 2015 agreed to maintain a sustained economic growth.

In accordance with the 13th Five-Year Plan, the Central Government would drive domestic consumption by creating jobs, improving income distribution structure and reducing the need for precautionary savings. Collectively, these policies would continue to be favorable to the demand for our watches, especially our Chinese watches.

The favorable performance of the existing portfolio of watch companies and related businesses facilitate us aiming to position our Group at the forefront of global key players. We are confident of our future achievements and financial performance through our persistent efforts of consolidating our strategic strength, sharpening our competitive edge and creating synergy.

As a publicly listed company, we conduct our business by following sound business principles – delivering value to our shareholders, observing strict business disciplines, and balancing risks with opportunities. Most importantly, we consider ourselves a member of the communities we serve. It is what guided us in the past, and we shall follow the same commitment in the future.

ACKNOWLEDGEMENTS

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

Hon Kwok Lung
Chairman
Hong Kong, 30 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Group achieved significant growth in 2015.

For the year ended 31 December 2015, the Group recorded revenue of approximately HK$3,476,354,000 (31 December 2014: HK$3,488,553,000), a slight decrease of HK$12,199,000 or 0.3% over 2014.

Gross profit for the year was approximately HK$1,781,858,000 (31 December 2014: HK$1,690,642,000), an increase of HK$91,216,000 or 5.4% over 2014.

Operating expenses for the year was approximately HK$1,499,303,000 (31 December 2014: HK$1,624,464,000), a decrease of HK$125,161,000 or 7.7% over 2014.

Net profit after tax for the year was approximately HK$340,159,000 (31 December 2014: HK$163,032,000) an increase of HK$177,127,000 or 109% over 2014. Having set apart the financial impact of an aggregate amount of approximately HK$182,561,000 of impairment losses were made on goodwill and intangible assets related to two Swiss companies and the gain on disposal of available-for-sale financial assets of HK$163,542,000 in 2014, the Group should have an increase of net profit after tax of HK$158,108,000 in 2015 over 2014.

BUSINESS DEVELOPMENT STRATEGIES

The following business development strategies have been accomplished in 2015.

1. **Enhancing the competitiveness of core revenue drivers**
   Rossini and EBOHR continued to be the major sources of revenue and accounted for more than 60% of the total revenue of the Group (2014: 54%). These two brands seize the opportunity to expand their market shares. The market for the brands in Mainland China still appeared promising despite the slower economic growth in 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 and higher proportion of local watches to minimize the adverse impact. The distribution companies collectively accounted for 15% of the total revenue of the Group (2014: 23%).

3. **Developing Swiss proprietary brands**
   Through management reorganization and product development, the Group has repositioned the foreign subsidiaries for strong improvement. The favourable effect was reflected in the 2015 financials, despite challenging external environment, particularly in Mainland China and Hong Kong. The foreign subsidiaries collectively accounted for 21% of the total revenue of the Group (2014: 19%).

(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 2015. Revenue in 2015 was HK$1,152,437,000, an increase of HK$100,896,000 or 10%, from HK$1,051,541,000 in 2014. Net profit after tax attributable to owners of the company in 2015 was HK$342,694,000 compared with HK$341,632,000 in 2014, an increase of HK$1,062,000, or 0.31%.

Year	2013	2014	2015
No. of distribution Outlets	2,348	2,681	3,190

Rossini has expanded sales to overseas markets such as Australia, Cambodia, Iran, Macau, Bengal, Thailand, Vietnam, UK and established its first overseas subsidiary in India, catering for the Indian and Middle East markets. Rossini has established additional regional sale offices in Yichang, Mianyang, Ganqing, Ningxia and Neimeng, totaling 33 all over Mainland China. They are useful and important for targeting precisely the local markets.

In 2015, Rossini set up cross-border E-commerce by cooperating with AliExpress, an online platform facing global market. Internet sales increased to HK$202,381,000 in 2015 from HK$135,000,000 in 2014 and its respective proportion of total revenue to 17.6% from 12.8%.

The Rossini watch museum attracted tremendous number of tourists amounting to more than 300,000 in 2015 and generated revenue of over HK$37,688,000. Rossini is putting stronger efforts into expanding the watch museum and developing industrial tourism, and hence boosting brand awareness. In 2015, Rossini has completed a renovation project on the watch museum, which has been approved by the China National Tourism Administration as a AAAA National Tourist Attraction, the first industrial tourism program in Zhuhai to gain such recognition.

Rossini has obtained an industrial site of 24,000 sqm with factory facilities adjacent to the existing headquarters of Rossini. It will be developed as the second phase of factories facilities for global e-commerce centre, technology R&D centre and base for upscale clocks.

Rossini has been selected as one of China's 500 Most Valuable Brands of the Year 2015 with a brand value of approximately RMB8.6 billion and as one of Asia's 500 Most Influential Brands in 2015 both by the World Brand Laboratory. Its brand value is the highest among all the watches brands in Mainland China. In terms of units sold, Rossini tops the list in the last thirteen years in Mainland China. Rossini received numerous awards in 2015, including the Encouragement of The 15th China Quality Award by the China Association for Quality, National Technology Centre and, as the first watch enterprise in Mainland China, Laboratory Accreditation Certificate awarded by the China National Accreditation Service for Conformity Assessment.

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.

EBOHR Group

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

Revenue in 2015 was HK$956,559,000, an increase of HK$134,102,000, or 16%, from HK$822,457,000 for the same period last year. Net profit after tax in 2015 was HK$231,683,000, compared with HK$131,038,000 in 2014, an increase of HK$100,645,000, or 77%.

Year	2013	2014	2015
No. of distribution Outlets	2,095	2,493	2,910

Following the appointment of new general manager and reconstruction of management, EBOHR has strengthened management and control by implementing a number of administration policies, covering numerous aspects including management of regional sale offices, performance evaluation on e-commerce sales and after sales services. 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 analysis 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 major E-commerce platforms in Mainland China increased to HK$148,348,000 in 2015 from HK$81,725,000 in 2014 and its respective proportion of total revenue to 15.5% from 9.9%. 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. EBOHR focuses on further expanding the coverage of the existing E-commerce platforms and at the same time introduces new E-commerce platforms with development potentials.

EBOHR established a central laboratory to enhance the research of various fundamental technologies and improve the control on product quality in 2015. Following the investment in human resources and hardware, talented professionals and high-end equipment are already in place. EBOHR also works closely with local and international technical and design partners for new product development. EBOHR was recognized as Chinese High-tech Enterprise in 2015.

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 acknowledged as one of Asia's 500 Most Influential Brands in 2015 for the first time. EBOHR also received various provincial and city awards for its brand and achievements.

Eterna Group

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

2015 was still a period of transition for Eterna. Eterna streamlined the operation and put strong emphasis on sales and marketing, precisely targeted sales and marketing activities in selected markets. Eterna achieved satisfactory growth in 2015, through working closer with the existing points of sales, in Asia Pacific, Europe, Middle East, Russia and US. Eterna also worked on converting the significant of its inventory into cash to finance the increasingly strong operation.

Following the full strategic review of the brand and business in 2015, it was decided to put more efforts to develop lady watch as (1) Eterna is androgynous appeals equally to both men and women, (2) Eterna has a rich history and heritage with women, (3) the watch industry doesn't need another men's brand but ladies' and (4) no Swiss brand produces dedicated lady's product.

Besides, Eterna also started to implement a digital strategy. Eterna builds the E-commerce platform, recruits E-commerce team and establishes infrastructure for E-commerce.

Digital marketing, E-commerce and CRM sections will primarily help increase the brand's recognition and build everlasting relationships with our end consumers on a global level, especially aiming towards our new target customer. It will also be an additional channel for direct sales.

In 2015, Eterna Movement's Caliber 39 got the COSC-certification that is the highest official achievement in Switzerland for mechanical movement and started mass production. It has commenced sale of movements in the United States and Germany and engaged a Business Development Manager for exploring the US and Canada markets. There are also potential demands from other markets including Japan, Mainland China and Italy.

Eterna (Asia) 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. The constant and effective advertising campaign channels included traditional media such as trade magazine, commercial magazine and watch supplements in weekly magazine and popular online media such as Facebook, Weibo and WeChat. Additionally, Eterna produced mini brochures for 41 hotels in Hong Kong, and placed outdoor advertising billboards at shopping hot spots and on tourist bus. Eterna (Asia) places strong emphasis on the sales and marketing activities for Chinese tourists in Hong Kong that accounted for 80% of its revenue.

As of 31 December 2015, there were 372 distribution outlets for Eterna (31 December 2014: 322), of which 111, 205, 16 and 40 were in Asia Pacific, Europe, Americas and Middle East, respectively.

Eterna Group contributed revenue and net loss after tax of approximately HK$162,353,000 (31 December 2014: HK$83,049,000) and HK$59,759,000 (31 December 2014: HK$87,023,000) respectively. The net loss after tax of Eterna Group for 2015 has not taken into account of certain reversal of inventory provision and capitalization of development costs. If taking those effects into account, the loss for the year would be HK$2,943,000 in 2015.

Corum Group

The management team continued 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$281,746,000 (31 December 2014: HK$328,732,000) and HK$90,078,000 (31 December 2014: HK$169,156,000) respectively. The net loss after tax of Corum Group for 2015 has not taken into account of certain reversal of inventory provision. If taking that effect into account, the loss for the year would be HK$42,524,000 in 2015.

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. Special sale and marketing efforts are put in Middle East and South East Asia, especially, Hong Kong, Malaysia and Singapore, as potential consumers from those areas travel to Paris, Switzerland and other travel retail destinations throughout Europe.

Mainland China is expected to be the leading market for generating revenues due to the immense untapped potential. 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.

During 2015, Corum, based on the success of the iconic golden bridge collection, introduced round golden bridge collection, which is expected to be a significant revenue and profit driver.

As of 31 December 2015, the number of distribution outlets was 607, including 5 boutiques. Europe continues to top the list with 301 distribution outlets, followed by Asia, the Americas and Middle East with 126, 108 and 51 distribution outlets respectively.

Dreyfuss Group

The UK remains the largest single market representing 73.4% to total revenue in 2015 (2014: 69%) of total revenue of Dreyfuss Group, which possesses three proprietary brands of Rotary, Dreyfuss & Co. and J&T Windmills.

It has been the objective of Dreyfuss to diversify its sources of revenue outside the UK. Dreyfuss leverage its sponsorship with Chelsea Football Club as a marketing and brand awareness tool in 2015 to accelerate overseas growth and support its entry into new markets. Its international development has been especially strong in Asia Pacific where football, especially the English Premier League is very popular. In Mainland China, 24 distribution outlets were established in 2015. In Europe, new distribution outlets were established in 10 additional countries. In Middle East and North Africa, new distribution outlets were established in 20 different countries. In US, a local regional sales manager is recruited to cater for the continuous expansion. During 2015, we exported to 63 counties around the world. As at 31 December 2015, Dreyfuss Group had 3,885 distribution outlets globally, including 2,270 Rotary outlets in the UK.

Sales form UK's E-commerce website contributed GBP385,000 in 2015, representing an increase of GBP126,000 over 2014.

Dreyfuss Group made a turnaround in 2015 and contributed revenue and net profit after tax of approximately HK$290,768,000 (31 December 2014: HK$252,347,000 (note)) and HK$16,887,000 (31 December 2014: net loss after tax of HK$4,855,000 (note)) respectively.

Note: Revenue and net loss after tax for the year ended 31 December 2014 covered period from 11 April 2014, the acquisition date, to 31 December 2014.

(2) Watches and timepieces – non-proprietary brands

Pursuant to a settlement agreement signed on 20 April 2015 (the "Settlement Agreement"), the Group and the joint venture partner ("Kuntai Hengshi") of Beijing Haina Tianshi Watch Co., Ltd ("Beijing Haina") agreed to terminate all the joint venture agreements having been executed by both parties. Pursuant to the Settlement Agreement, Kuntai Hengshi agreed to refund to the Group all the investments that the Group had been invested in Beijing Haina and the Group agreed to sell 51% equity interest in Beijing Haina to Kuntai Hengshi. The disposal was completed during the year and all investments have been refunded to the Group. The disposal would have a short term negative impact on our revenue of the business segment of distribution companies.

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 128 distribution outlets as at 31 December 2015, distribute international brands mainly in Guangdong, Hebei, Henan, Jilin and Liaoning provinces in Mainland China.

Collectively, distribution companies contributed revenue and net loss after tax in 2015 of HK$519,884,000 (31 December 2014: HK$805,527,000) and HK$1,783,000 (31 December 2014: net profit after tax HK$8,672,000) 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.

The PRC partner of Henan Jinjue Enterprise Co., Ltd ("Henan Jinjue") failed to meet the guaranteed profit for the year ended 31 December 2014 of RMB20,200,000 and the shortfall, which the PRC partner shall compensate to the Group, was RMB7,614,000. As at the date of this annual report, the PRC partner has duly settled compensation of RMB7,000,000.

(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 manufacture and distribution of mechanical movements and watches of its two proprietary brands, namely, Guangzhou and Dixmont. The challenging economic environment in Mainland China had an adverse impact on the demand for the movement of Five Goat in 2015. Five Goat contributed revenue, of which 95% from mechanical movement and 5% from watches, and net profit after tax attributable to the owners of the Company of approximately HK$52,368,000 (31 December 2014: HK$75,286,000) and HK$6,979,000 (31 December 2014: HK$8,268,000) respectively in 2015.

Fair Future Industrial Limited

Fair Future Industrial Limited ("Fair Future"), a 25% owned associate of the Group, is engaged in the manufacture of watches and accessories of watches for a well-known Japanese brand on an OEM basis. Creative and stylish design is one of the core-competencies of Fair Future. The professional design team is well exposed to the changing global consumer behavior. Fair Future has a product portfolio that has been well received by its OEM customers. Coupled with good quality and cost control, Fair Future is well positioned for sustainable development. Fair Future contributed net profit after tax in 2015 of HK$9,685,000 (31 December 2014: HK$13,333,000).

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 the owners of the Company of approximately HK$32,329,000 (31 December 2014: HK$41,924,000) and HK$3,248,000 (31 December 2014: HK$2,791,000) respectively in 2015.

(4) Investment in Citychamp Dartong

As at 31 December 2015, there were 30,389,058 shares of Citychanp Dartong with a market value of approximately HK$317,173,000 owned by the Group.

(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. The Group has derived rental income of HK$18,109,000 (31 December 2014: HK$17,888,000) during the year.

(6) Distribution of motor yacht

During the year, Chart Victory Limited incurred net loss after tax of HK$8,280,000 (31 December 2014: HK$2,534,000).

FINANCIAL POSITION

(1) Liquidity, financial resources and capital structure

As at 31 December 2015, the Group had non-pledged cash and bank balances of approximately HK$836,065,000 (31 December 2014: HK$878,253,000). Based on the bank loans of HK$938,532,000 (31 December 2014: HK$824,677,000), the corporate bonds of HK$708,834,000 (31 December 2014: HK$764,914,000) and shareholders' equity of HK$4,043,253,000 (31 December 2014: HK$3,846,524,000), the Group's gearing ratio (being loans plus corporate bonds divided by Shareholders' equity) was 41% (31 December 2014: 41%). The increase in bank borrowings was due to additional working capital required to finance the continuous growth of the Group.

As at 31 December 2015, the Group's bank loans amounting to HK$766,654,000 (82% of all bank loans) were repayable within one year.

The Group intends to apply a conservative approach to lending in view of the challenging global economic environment.

(2) Charge on assets

As at 31 December 2015, banking facilities of the Company were secured by the Group's investment properties in Hong Kong of HK$23,800,000 and land and buildings in Switzerland with net book values of HK$129,397,000, totaling HK$153,197,000 (31 December 2014: HK$264,664,000).

(3) Capital commitments

There were capital commitments with an amount of HK$109,974,000 (2014: HK$169,024,000) related to the purchase of property, plant and equipment. Except for the above, the Group had no material capital commitments as at 31 December 2015.

FINANCIAL REVIEW

(1) Gross profit

Gross profit was HK$1,781,858,000, an increase of 5.4% from HK$1,690,642,000 for the same period last year. Before making adjustments for intra-group transactions, Rossini contributed a gross profit of HK$817,046,000 and a gross profit margin of 71% while EBOHR Group contributed a gross profit of HK$570,225,000 and a gross profit margin of 60%.

(2) Selling and distribution expenses

Total selling and distribution expenses was HK$883,152,000, a decrease of 4.7% from HK$926,387,000 last year. Rossini, EBOHR Group, Eterna Group, Corum Group and Dreyfuss Group contributed selling and distribution expenses of HK$318,010,000, HK$279,222,000, HK$24,627,000, HK$71,688,000 and HK$117,743,000 respectively.

(3) Administrative expenses

Total administrative expenses was HK$616,151,000, a decrease of 11.7% from HK$698,077,000 in 2014. Rossini, EBOHR Group, Eterna Group and Corum Group contributed administrative expenses of HK$92,124,000, HK$80,549,000, HK$99,346,000 and HK$114,603,000 respectively.

(4) Financial costs

Total financial costs were HK$77,075,000, an increase of 18.5% from HK$65,055,000 for the same period last year. The increase was due to the increase in the corporate bonds of CHF100 million.

(5) Net profit attributable to owners of the Company

Net profit attributable to owners of the Company was HK$307,675,000, an increase of 133% from HK$132,005,000 in 2014. Before making adjustments for intra-group transactions, Rossini contributed net profit attributable to owners of the Company of HK$342,694,000 while EBOHR Group of HK$231,683,000.

(6) Inventory

Inventory was HK$2,042,892,000, a decrease of 1.1% from HK$2,065,394,000 for the same period last year. Rossini, EBOHR Group, Eterna Group, Corum Group and Dreyfuss Group contributed inventory of HK$401,581,000, HK$522,490,000, HK$241,469,000, HK$324,397,000 and HK$108,660,000 respectively.

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

OUTLOOK

The economic slowdown in Mainland China, ongoing uncertainty in Europe and the normalization of monetary policy in the US will render operating conditions challenging.

In Mainland China, loose monetary policy and expansionary fiscal policy are expected to continue in 2016. The PRC Central Government will streamline channels for the monetary policy and increase the effectiveness of the fiscal policy, leading to a stable growth at around 7%.

Despite the challenges facing our Mainland China business, we remain deeply rooted as the leading group with the comprehensive distribution network, well-known brands and profitable operations in Mainland China. Mainland China remains the backbone of our business. Our overseas business continues to improve as a result of improved management, planning and execution of the appropriate strategies. We recognize that the rapid growth of the digital economy is changing consumer behavior, hence we are aggressively implementing the digital transformation of our business. The portion of our E-commerce shall growing towards 20% of our total revenue.

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 further 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 31 December 2015, the Group had approximately 5,300 full-time staff in Hong Kong and Mainland China and more than 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.

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.

Shang Jianguang
Chief Executive Officer

Hong Kong, 30 March 2016

DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

HON Kwok Lung

Chairman

Mr. Hon Kwok Lung, aged 61, joined the Board in April 2004. He is the chairman of the Nomination Committee and a member of the Remuneration Committee of the Company. Mr. Hon is also the Chairman of the Board of Directors of Citychamp Dartong Company Limited ("Citychamp Dartong"), the shares of which are listed on the Shanghai Stock Exchange in the Mainland China. Citychamp Dartong and its subsidiaries are principally engaged in property development and manufacturing and sale of enamelled copper wires in Mainland China. Mr. Hon has extensive business experience in the Mainland China. Mr. Hon is a Member of the National Committee of the Chinese People's Political Consultative Conference, an Executive Member of All-China Federation of Returned Overseas Chinese Committee and the Executive Vice President of China Federation of Overseas Chinese Entrepreneurs.

SHANG Jianguang

Chief Executive Officer

Mr. Shang Jianguang, aged 64, joined the Board in November 2004 and is a member of the Remuneration Committee and the Nomination Committee of the Company. Mr. Shang is also the General Manager of Zhuhai Rossini Watch Industry Limited, a subsidiary of the Company. Mr. Shang graduated in Fuzhou University majoring in Chemistry, is a qualified senior engineer in the Mainland China. Prior to joining the Group, he assumed senior posts in various large companies, and was General Manager and Director of Min Xin Holdings Limited, a company listed on the main board of the Stock Exchange. He also serves as a director of Citychamp Dartong, the shares of which are listed on the Shanghai Stock Exchange, and has extensive knowledge and experience in corporate and investment management.

SHI Tao

Mr. Shi Tao, aged 52, joined the Board in April 2004. Mr. Shi holds a Bachelor degree in Engineering from Tsinghua University and a Master degree in Engineering from Wuhan University of Technology (formerly known as Wuhan Industrial University). Mr. Shi has years of business experience in the Mainland China. He was an Executive Director of New Capital International Investment Limited ("New Capital"), a company listed on the main board of the Stock Exchange.

LAM Toi Man

Mr. Lam Toi Man, aged 58, joined the Board in April 2004. Mr. Lam has various years of experience in property development in the Mainland China. Mr. Lam was the General Manager of Zhejiang Huashun Real Estate Investment Co., Ltd. and an Executive Director and the General Manager of Hangzhou Yuanhua Mart Construction Co., Ltd.. Mr. Lam is the brother-in-law of Mr. Hon Kwok Lung and uncle of Mr. Hon Hau Wong.

BI Bo

Mr. Bi Bo, aged 36, joined the Board in August 2010. Mr. Bi received a degree of Master of Science (Finance) from The Johns Hopkins University in May 2006. Prior to joining the Group, he was a senior actuarial assistant (supervisor) in Carefirst Bluecross Blueshield, working on actuarial valuation and risk management of insurance company. He qualifies as an associate of the Society of Actuaries (ASA) in 2009. He also has experience in M&A activities.

SIT Lai Hei

Ms. Sit Lai Hei, aged 38, joined the Board in November 2004. She was appointed as a Non-executive Director of the Company first and re-designated as an Executive Director of the Company on 26 March 2012. Ms. Sit graduated in Fuzhou University taking Marketing as her major and is a qualified assistant engineer in Mainland China. Ms. Sit is also a Director of Citychamp Dartong, the shares of which are listed on the Shanghai Stock Exchange, and Fujian Fengrong Investment Co., Ltd. Ms. Sit is the daughter-in-law of Mr. Hon Kwok Lung. In addition, Ms. Sit's husband is a nephew of Mr. Lam Toi Man and brother of Mr. Hon Hau Wong.

HON Hau Wong

Mr. Hon Hau Wong, aged 38, joined the Board in August 2014. Mr. Hon graduated from Tongji University and holds a bachelor degree in Engineering Management. He also serves as the Deputy Chairman of Citychamp Dartong, a company listed on the Shanghai Stock Exchange. He has extensive experience in the real estate industry in Mainland China. He is currently a member of Fujian Province Committee of the Chinese People's Political Consultative Conference. Mr. Hon Hau Wong is a son of Mr. Hon Kwok Lung, and also a nephew of Mr. Lam Toi Man and brother-in-law of Ms. Sit Lai Hei.

TAO Li

Mr. Tao Li, aged 63, joined the Board in November 2014 and currently serves on the European Executive Committee of the Group. Mr. Tao graduated from Beijing Foreign Trade College (currently known as China Foreign Economy and Trade University) majoring in Foreign Trade English. He is also a senior economist in Mainland China. He has over 30 years of experience in respect of business administration, international trading, brands building and marketing. Before he joined the Board, he had been appointed as the Vice President of the Company in charge of the watch manufacturing and distribution businesses in certain subsidiaries of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

FUNG Tze Wa

Mr. Fung Tze Wa, aged 59, joined the Board in April 2004. He is the chairman of the Audit Committee and the Remuneration Committee, and a member of the Nomination Committee of the Company. Mr. Fung is a Certified Public Accountant and a director of an accounting firm in Hong Kong. Mr. Fung has many years of experience in auditing, taxation and company secretarial practice in Hong Kong. He obtained a Master degree in professional accounting from the Hong Kong Polytechnic University in 2000. He is a member of the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Chartered Association of Certified Accountants, the Taxation Institute of Hong Kong and the Society of Chinese Accountants and Auditors. He was an independent non-executive director of New Capital International Investment Limited ("New Capital") from April 2004 to March 2012 and Jiwa Bio-Pharm Holdings Limited from September 2004 to September 2013. He has been appointed as an independent non-executive director of JF Household Furnishings Limited since October 2012. These companies' shares are listed on the Stock Exchange.

KWONG Chun Wai, Michael

Dr. Kwong Chun Wai, Michael, aged 51, joined the Board in April 2004 and is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Dr. Kwong is a fellow of the International Institute of Management, a member of the Hong Kong Institute of Marketing, a business strategist specialising in the area of marketing and business administration. Dr. Kwong obtained a Bachelor of arts degree with honours in philosophy from the University of Nottingham in the United Kingdom in 1987 and a Doctorate degree in business administration from Newport University (US) in 2001. From November 2006 to 21 March 2012, Dr. Kwong was an independent non-executive director of New Capital, a company whose shares are listed on the Stock Exchange.

LI Qiang

Mr. Li Qiang, aged 49, joined the Board in November 2004 and is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Li holds a Master of Science degree and a PhD degree in Economics. He had worked for several financial regulatory authorities in Mainland China and now serves as the managing director of Harvest Capital Management Co., Ltd.. He has over 20 years of experience in financial and capital market in Mainland China, including banking, securities and fund management.

ZHANG Bin

Mr. Zhang Bin, aged 51, joined the Board in November 2014 and is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Zhang is currently a partner of Beijing Hylands Law Firm ("Hylands"). He obtained a degree of Bachelor of Laws from Fudan University in Shanghai in 1986 and was qualified as a lawyer in China in 1988 and had served as a legal advisor in a large scale state-owned enterprise for years upon his graduation. Before joining Hylands in 2008, he worked in law firms in Beijing, London and Hong Kong. Mr. Zhang is involved in a wide range of areas of practice and has accumulated tremendous experiences in legal affairs in respect of financial investments, real estates and intellectual property rights.

SENIOR MANAGEMENT

FONG Chi Wah

Mr. Fong Chi Wah, aged 53, is the Chief Financial Officer and Secretary of the Company. Mr. Fong is an associate member of HKICPA, a fellow member of CPA Australia, a Chartered Financial Analyst and a member of the Hong Kong Institute of Directors. Mr. Fong has over 20 years of extensive experience in various sectors of the financial industry, including direct investment, project and structured finance, and capital markets with focus on Mainland China and Hong Kong. Mr. Fong was a director of Baring Capital (China) Management Limited and held various management positions in ING Bank. He joined the Company in September 2004.

YIN Weirong

Mr. Yin Weirong, aged 59, is a qualified senior economist and the Vice President of the Company. Mr. Yin was the Chief Representative of a reputable multinational company in Mainland China and the General Manager of a large PRC international trust and investment corporation responsible for investment in industrial and financial projects. Having acquired over 30 years of experience in corporate management and developing markets in Mainland China and overseas, he joined the Company in April 2007.

TEGUH Halim

Mr. Teguh Halim, aged 34, joined the Group in October 2008. He is the Vice President of the Company and currently serves on the European Executive Committee of the Group. He is also a director of several subsidiaries of the Group engaged in the watch manufacturing and distribution. Mr. Halim graduated from Ohio State University majoring in accounting. Mr. Halim is the son-in-law of Mr. Hon Kwok Lung.

LU Jun

Mr. Lu Jun, aged 52, has been appointed as the Vice President of the Company since October 2014 and currently serves as a director of Guangzhou Five Goat Watch Company Limited, a subsidiary of the Company. Mr. Lu holds a master degree in Executive Master of Business Administration from Tianjin University of Finance & Economics. He had been working for Tianjin Watch Factory (currently known as Tianjin Seagull Watch Co., Ltd, "Tianjin Seagull") since 1983 and acting as the General Manager of Tianjin Seagull for almost four years before joining the Company. Mr. Lu has engaged in the domestic and overseas watch industry for more than 30 years and possesses tremendous experiences in business administration and international trading.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

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

The Company has applied the principles and complied with all the applicable code provisions of the Code on Corporate Government Practices ("CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") for the year ended 31 December 2015 except for:

(i) CG Code E.1.2

CG 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 "AGM 2015") due to his business trip outside Hong Kong.

(ii) CG Code A.6.7

CG 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.

The Chairman of the board of directors and independent non-executive directors will endeavor to attend all future general meetings of the Company unless unexpected or special circumstances preventing them from doing so. The board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision-making processes are properly regulated.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as the code of conducts for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2015.

BOARD OF DIRECTORS

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

Size, Composition and Diversity of the Board

The Board currently comprises of eight Executive Directors and four Independent Non-executive Directors, as detailed below:

Name of Director	Position	Date of first appointment to the Board	Date of last re-election as Director
HON Kwok Lung	Chairman/Executive Director	08/04/2004	15/05/2013
SHANG Jianguang	Chief Executive Officer/Executive Director	18/11/2004	21/05/2014
SHI Tao	Executive Director	08/04/2004	15/05/2013
LAM Toi Man	Executive Director	08/04/2004	21/05/2014
BI Bo	Executive Director	24/08/2010	21/05/2014
SIT Lai Hei	Executive Director	18/11/2004	15/05/2013
HON Hau Wong	Executive Director	29/08/2014	25/06/2015
TAO Li	Executive Director	26/11/2014	25/06/2015
FUNG Tze Wa	Independent Non-executive Director	08/04/2004	25/06/2015
KWONG Chun Wai, Michael	Independent Non-executive Director	08/04/2004	25/06/2015
LI Qiang	Independent Non-executive Director	18/11/2004	25/06/2015
ZHANG Bin	Independent Non-executive Director	26/11/2014	25/06/2015

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

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

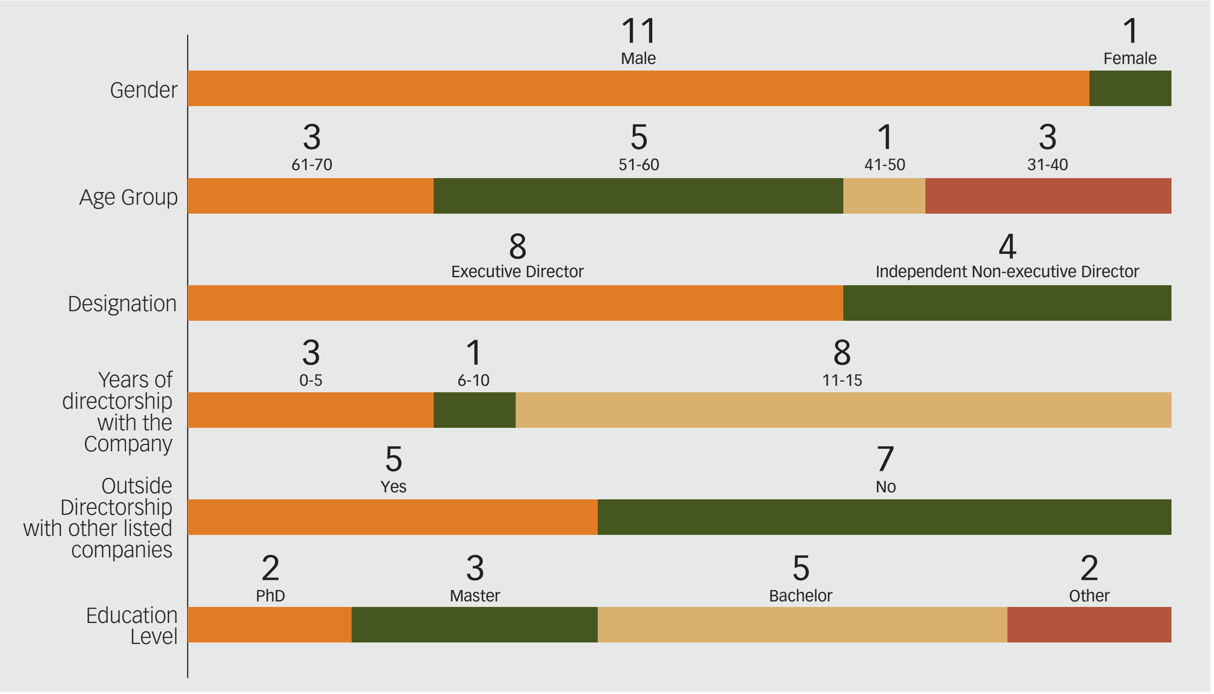
(ii) Ms. Sit Lai Hei (Executive Director) is the daughter-in-law of Mr. Hon Kwok Lung (Chairman of the board) and Ms. Sit's husband is nephew of Mr. Lam Toi Man and brother of Mr. Hon Hau Wong.

(iii) Mr. Hon Hau Wong (Executive Director) is the son of Mr. Hon Kwok Lung (Chairman of the board) and a nephew of Mr. Lam Toi Man (Executive Director). He is also the brother-in-law of Ms. Sit Lai Hei (Executive Director).

Profiles of directors are set out in the pages 23 to 28 of this Annual Report.

The Company considers diversity at the board level important to the achievement of strategic objectives and sustainable development of the Company. A number of aspects, including but not limited to gender, age, educational background, professional experience, skills, knowledge and length of service are taken into account. The Board reviews its size and composition on a regular basis to ensure its effectiveness. In 2014, Mr. Hon Hau Wong and Mr. Tao Li were appointed as Executive Directors and Mr. Zhang Bin as an Independent Non-executive Directors of the Company. All of those new directors were selected with regard to their respective skills, knowledge, experience and abilities, which the Company believes will help build a more balanced and experienced team aligned to the long-term strategy and goals of the Company.

Board Diversity
(no. of members)



Independent Non-executive Directors

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

With a wide range of expertise and a balance of skills, the Independent Non-executive Directors bring independent judgment on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct through their participating in board meetings and committee work. The Company appointed Mr. Zhang Bin, who is a PRC lawyer, as an Independent Non-executive Director in November 2014, Mr. Zhang has brought his profound experience and expertise in the legal background to the Board since the appointment, thus raising the level of discussion on the Board and improving the quality of decision-making of the Board.

The views of the Independent Non-executive Directors carry significant weight in the Board's decision-making process. The Board considers that each Independent Non-executive Director is independent in character and judgment and that they all meet the specific independent criteria as required by the Listing Rules. The assessments of the independence of Independent Non-executive Directors are carried out upon appointment, annual confirmation made by each Independent Non-executive Director of his independence pursuant to Rule 3.13 of the Listing Rules and at any other time where the circumstances require special consideration. Special consideration was given to the independence of Mr. Fung Tze Wa, Dr. Kwong Chun Wai, Michael and Mr. Li Qiang, who have served the Company as Independent Non-executive Directors for more than 9 years. In this regards, special resolutions to approve their re-elections were submitted to and approved by the AGM 2015 in accordance to CG Code A.4.3. The Company still considers such independent non-executive directors to be independent.

Chairman and Chief Executive Officer

The posts of Chairman and CEO are segregated and each of them plays a distinct role. The segregation of such two roles ensures a clear division between the respective responsibilities of the Chairman and the CEO. The Chairman, Mr. Hon Kwok Lung, is mainly responsible for setting direction and strategies of the business development, and leading and managing the Board. The CEO, Mr. Shang Jianguang, undertakes a supervisory role to manage the day-to-day operation and business of the Company.

AGM, Board Meetings and Board Practices

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

Minutes of board meetings and meetings of board committees are kept by the company secretary. All directors have access to board papers and related materials and are promptly provided with adequate information, which enable the Board to make an informed decision on matters placed before it.

During the year ended 31 December 2015, 4 board meetings and the AGM 2015 were held and the individual attendance of each director is set out below:

	Attendance/Meetings Held	
Name of director	**Board Meetings**	**AGM 2015**
Executive Directors:		
HON Kwok Lung	2/4	0/1
SHANG Jianguang	4/4	1/1
SHI Tao	4/4	0/1
LAM Toi Man	4/4	1/1
BI Bo	4/4	1/1
SIT Lai Hei	4/4	1/1
HON Hau Wong	3/4	0/1
TAO Li	2/4	0/1
Independent Non-executive Directors:		
FUNG Tze Wa	4/4	1/1
KWONG Chun Wai, Michael	3/4	1/1
LI Qiang	3/4	0/1
ZHANG Bin	4/4	1/1

Re-election of Directors

Each of the directors is appointed for a specific term. All Independent Non-executive Directors of the Company were appointed for a specific term of two years and are subject to the relevant provisions of the Articles of Association of the Company whereby the directors shall vacate and retire.

According to the Clause 99 of the Articles of Association of the Company, any director appointed as an addition to the board shall hold office only until the next following AGM of the Company and shall be eligible for re-election at that meeting. Further, according to the Clause 116 of the Articles of Association one-third of the directors for the time being or, if their number is not a multiple of three, then the number nearest to but not less than one-third shall retire from office by rotation. Every director should be subject to retirement by rotation at least once every three years.

Continuing Professional Development

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

To facilitate the directors to discharge their responsibilities, monthly updates and reference materials are provided to directors for their readings including the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime, the business and market changes, the strategic development of the Group and the information on directors' training courses. Directors are also encouraged to attend outside talks and seminars to enrich their knowledge and skills in discharging their duties.

Any director may request the Company to provide independent professional advice at the expense of the Company to perform the director's duties and responsibilities.

Introduction tailored kit will be given newly appointed director to his individual needs. This includes meetings with senior management to enable them to have better understanding of the Group's business and strategy and the key risks and issues. With such information, the directors can carry out their duties in an informed manner.

All directors are requested to provide the Company with their respective training records pursuant to the CG Code.

Communication with Directors

The Company acknowledges the importance of providing sufficient and accurate information to all member of the Board on timely basis so as to enable them to discharge their duties and responsibilities effectively. All directors are entitled to have access to board papers and relevant materials. Agenda, board papers and those relevant materials are sent to all directors in a timely manner before the date of a board or board committee meeting, to enable the Board to make informed decisions on matters placed before it at the meetings. All directors are provided with monthly consolidated accounts of the Group and financial information updates giving a balanced and understandable assessment of the performance, financial position and prospects of the Group. Board briefings are issued and circulated to all members of the board when necessary and appropriate, covering financial and operating highlights of the Group. All directors are also provided from time to time the latest changes and development of the Listing Rules, corporate governance practice and other regulatory regime. The management is prepared to provide additional information and explanations if there are areas the directors need to elaborate.

Independent Non-executive Directors are given the opportunity to discuss issues of the Group with the Chairman in the absence of Executive Directors. Besides, they are also given the opportunity to discuss issues of the Group with the management in the absence of Executive Directors. The Independent Non-executive Directors, also being the members of Audit Committee, regularly pay visit to major subsidiaries of the Company and meet the management of those subsidiaries. During the visits, Independent Non-executive Directors receive presentations from the management of subsidiaries in relation to the updated developments of those subsidiaries and review and comment on the issues concerning the internal control systems and risk management.

Insurance for Directors and Officers

The Company has arranged Directors' and Officers' Liability Insurance ("D&O Insurance") for directors and officers of the Company. The Company undertakes an annual review of the Company's D&O Insurance policy in terms of the amount of cover, the reputation and financial strength of the potential insurer and the provisions of the insurance policy to ensure that sufficient cover and protection are provided to the directors and officers of the Company.

DELEGATION BY THE BOARD OF DIRECTORS

The Board has delegated certain authority to three board committees which are established and perform their functions under specific terms of reference. The committees are provided with sufficient resources and opportunities to seek independent professional advice, at the Company's expense, to perform their responsibilities.

Audit Committee

The members of the Audit Committee are:

Independent Non-Executive Directors

Fung Tze Wa (Chairman)
Kwong Chun Wai, Michael
Li Qiang
Zhang Bin

The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules. Terms of reference of the Audit Committee are available on the Exchange's website and the Company's website.

During the year under review, the Committee met with the Company's external auditor, the Board and senior management. During 2015, the Committee met for three times to review the financial reporting (including half-yearly and annual results) and other information to shareholders, the accounting system, the system of internal controls, risk management, independency of the external auditor, effectiveness and objectivity of the audit process and perform other duties set out in this terms of reference. Members of the Committee visited subsidiaries of the Group and enquired about and commented on the matters related to system of accounting, internal controls and risk management of those subsidiaries. They also reviewed and commented internal audit reports of subsidiaries and adequacy of resources, qualifications, experience and training of staff engaged in the accounting and financial reporting function. The Committee also heard reports on the internal audits of selected subsidiaries of the Company conducted during the year under review.

The Audit Committee reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the financial statements for the year ended 31 December 2015.

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

Name of director	Attendance/ Meetings Held
FUNG Tze Wa	3/3
KWONG Chun Wai, Michael	2/3
LI Qiang	1/3
ZHANG Bin	2/3

Remuneration Committee
The Remuneration Committee currently comprises following members:

Independent Non-executive Directors
Fung Tze Wa (Chairman)
Kwong Chun Wai, Michael
Li Qiang
Zhang Bin

Executive Directors
Hon Kwok Lung
Shang Jianguang

The Committee 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 Committee also makes recommendations to the Board on the remuneration packages of individual executive directors and senior management. The Committee ensures that no director or any of his/her associates is involved in deciding his/her own remuneration. Terms of reference of the Remuneration Committee are available on the Stock Exchange's website and the Company's website.

The Remuneration Committee has met once on 30 March 2015 to review the main elements of the Company's remuneration policy for directors and senior management, and to review and approve the specific remuneration packages of all directors and senior management.

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

Name of director	Attendance/ Meetings Held
FUNG Tze Wa	1/1
KWONG Chun Wai, Michael	1/1
LI Qiang	0/1
HON Kwok Lung	0/1
SHANG Jianguang	1/1
ZHANG Bin	1/1

Nomination Committee

The Nomination Committee was established on 26 March 2012 with terms of reference in compliance with the revised CG Code effecting on 1 April 2012. Currently the Nomination Committee comprises following members:

Independent Non-executive Directors
Fung Tze Wa
Kwong Chun Wai, Michael
Li Qiang
Zhang Bin

Executive Directors
Hon Kwok Lung (Chairman)
Shang Jianguang

The principal duties of the Committee are to review the structure, size and composition of the Board, identify and nominate individuals suitable qualified to become board members and make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors. The Committee is also responsible for assessing the independence of independent non-executive directors. Terms of reference of the Remuneration Committee are available on the Exchange's website and the Company's website.

COMPANY SECRETARY

Mr. Fong Chi Wah is the Chief Financial Officer and Company Secretary of the Company. The Company Secretary supports the Chairman in promoting the highest standards of corporate governance and facilitates the effective functioning of the Board and its committees. All directors have direct access to the advice and services of the Company Secretary. The Company Secretary reports to the Chairman on board governance matters, and is responsible for ensuring that board procedures are followed and for facilitating timely and appropriate information flows among directors. The Company Secretary also plays an essential role in the relationship between the Company and investors. The Company Secretary and the assistant company secretary participate in a variety of trainings organized by the professional accounting and company secretarial associations. During 2015, each of the Company Secretary and the assistant company secretary undertook over 15 hours of relevant professional training to update their skills and knowledge.

The biography of the Company Secretary is set out in the Senior Management section in the page 27 of this Annual Report.

EXTERNAL AUDITOR

The Group's external auditor for the year ended 31 December 2015 was BDO Limited ("BDO"). The Audit Committee reviews and monitors the independence of the external auditor to ensure the effectiveness of the audit process in accordance with applicable standards and the objectivity of the financial statements. BDO has made a written declaration to the Audit Committee that they are independent with respect to the Company and that they are not aware of any matters which may reasonably be though to bear on their independence. The following table illustrates the fees paid/payable by the Group to BDO in the past two years for audit and non-audit services:

	2015	2014
Audit fee	HK$2,480,000	HK$2,380,000
Non-audit fee	HK$300,000	HK$600,000
Total	HK$2,780,000	HK$2,980,000

The non-audit fee for the year ended 31 December 2015 mainly included professional fees in relation to review of the compilation of the interim financial information.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

The Board has the responsibility to identify and analyse the risks underlying the achievement of the corporate goals and objectives and to decide what methods should be adopted to manage and mitigate such risks.

PRINCIPAL RISKS AND UNCERTAINTIES

Risk management is one of the important pillars in the establishment of good corporate governance, thus the Group always implements prudent principles and maintains high awareness in its operations. It is also an integral part in decision making process.

The Board as a whole, collectively oversees the Group's risk management system, and conducts periodic reviews of such system to minimize potential risks that may occur and ultimately ensures good corporate governance practice.

Once risks are identified and evaluated, the Group will set up a mitigation plan where the plan is aimed to assist in monitoring and reporting the status of action to control each risk. Risk with the highest ratings will be handled with the highest urgency and the highest extent of efforts. In addition, risk mitigation plan can also assist the Group in directing available resources to manage the major risk.

The following risks are the principal risks and uncertainties facing the Group and the Board will monitor the situation closely and adopt any necessary risk mitigation measures.

Economy risk

The continued 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 a material adverse effect upon the Group's business and results of operations. Currently, both macro-economic outlook and market conditions, domestically or globally, are full of challenges. Our Group will redefine the strategic mix to deal with the ever-changing economy and closely monitor the impact of the future economic trend.

Industry risk

The watch industry is subject to rapidly changing market trends and competition amongst different players domestically or globally. The watch industry is a highly competitive market, and the pricing of and demand for our watches are greatly affected by the intensity of competition we face. Our competitors may have strong competitive edge in terms of financial positions, technology, design, customer relationship etc. In order to maintain our competitiveness, we have to continuously strengthen our products, distributions and our marketing as a whole.

E-commerce risk

E-commerce is increasingly popular and adversely affects the traditional channels of distribution. In the last few years, as both offensive and defensive strategy, the Group has been building up our e-commerce segment. The Group recruits professional officers for e-commerce so that they can work closely with the e-commerce platforms, conduct data analysis, improve customers' experience, and ultimately expand the e-commerce sales. We are yet to develop strong social media and mobile marketing. The Group, through its subsidiaries in Mainland China and overseas, continues to invest in e-commerce and new marketing approaches, such as social media and mobile marketing in the foreseeable future as a way of future-proving our business. In 2014 and 2015, e-commerce accounted for 6% and 10% of the Group's total revenue, respectively.

Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. As at 31 December 2014 and 2015, the interest-bearing loans amounted to HK$824,677,000 and HK$938,532,000 and all of the interest rates of the loans were of floating nature, the spread of which was ranging from 2.2% to 7.3% and from 2.1% to 6.1% respectively. According to the sensitivity analysis, as at 31 December 2015, our Group's profit after income tax and retained profits would decrease/increase by HK$369,000 (2014: increase/decrease HK$212,000) if a general increase/decrease of 50 basis points in interest rate, with all other variables held constant. The Group will keep monitoring the trend of interest rate of the global capital markets and readjust the mix of fixed-rate and floating-rate interest-bearing loans.

Exchange rate risk

Most of our sales are dominated in RMB and some of our purchases are made in other currencies such as Swiss Francs. As a result, we are subject to foreign exchange risks and our profits may be adversely affected should other foreign currencies such as Swiss Francs appreciate against RMB. On the other hand, around 72% and 72% of our total cost were dominated in RMB, and around 16% and 18% were made in Swiss Francs for the year ended 31 December 2014 and 2015.

Our reporting currency is HKD. When we prepare our consolidated financial statements, the sales and purchases made in foreign currency are translated into HKD at average exchange rates of the relevant financial years whereas foreign currency balance sheets are translated in HKD at the rates at the balance sheet date. Accordingly, the profits we derived in foreign currencies would be lower should there be any appreciation in the exchanges of HKD against the respective currencies.

Fluctuations in foreign exchange rates may also affect our customers' purchasing power and their wiliness to purchase our watches. Our business and financial position may be adversely affected by fluctuations in exchange rates especially when fluctuations persist.

Legal risk

Operating internationally, we have to comply with various laws and regulations in the jurisdictions that we operate our business in. Failure to comply with these laws and regulations may result in imposition of conditions on or suspension of sale, seizure of products, or significant penalties or claims. In the event that the countries in which we operate increase the stringency of such laws and regulations, our operating costs may increase and we may not be able to pass these additional costs onto our customer. Further, in the event that any jurisdiction in which we operate impose any new laws, regulations and restrictions on opening new POS or other barriers to entry, our ability may be limited and our growth and development may be adversely affected.

Brand risk

Our brands are an integral part of our competitive advantage. In 2015, the total brand value of Rossini and EBOHR amounted to higher than RMB14 billion. The Group continues to provide premium quality product, distribute products through quality channels and maintain good sale and marketing in order to maintain the good standing of the brands. Specifically, Eterna has not invested much in advertising for 10 years and therefore there is a risk that the brand awareness and value may not be easily reestablished.

Intellectual property rights risk

Intellectual property rights, embodied in our watch-making technologies, designs and brand names, are also an integral part of our competitive advantage. Our operations are dependent upon the adequate protection of our intellectual property rights, including trademarks, patents, and technological know-how. Intellectual property rights can be protected by means of proper registrations with various government authorities of different jurisdictions in which we conduct business. However, there are jurisdictions that may not be able to offer sufficient protection. We are dedicated to work with professionals to protect our intellectual property rights all over the world.

Operational risk

We define operational risk as the potential for loss resulting from inadequate or failed internal processes, people and systems or from the impact of external events. As operational risk arises from all activities carried out within the Group, the potential for operational risk events occurring across a large and complex international organization is a constant challenge. To address this challenge, we aim to achieve "industrial strength" process and standards for all activities, and benchmark practices against peers, other industries and regulatory requirements.

Credit risk

The Group's trading terms with a large portion of customers are mainly on credit. The credit period is generally for a period of one to six months for major customers.

The account receivable is affected by the general economic conditions in the geographies in which the Group operates. As at 31 December 2014 and 2015, our aggregate trade receivables after allowance for bad and doubtful debts were around HK$793 million and HK$694 million, respectively, of which approximately HK$62 million and HK$64 million or approximately 7.2% and 8.4% respectively, were considered delinquent. The Group sets limits on the exposure to any counterparty, and credit risk is spread over a variety of customers across different markets. As such, there is no significant concentration of credit risk. The Group also follows up the delinquent account receivable based on an established internal system.

Liquidity risk

Liquidity risk is the risk that we either do not have sufficient financial resources available to meet our obligation as they fall due, or we only access these financial resources at excessive cost. It is our policy to maintain adequate liquidity at all times in all geographic locations and for all currencies, and hence to be on a position to meet obligations as they fall due. We manage liquidity risk both on a short term and structural basis. In the short term, our focus is on ensuring that the cash flow demands can be met when required. In the medium term, the focus is on ensuring that the balance sheet remains structurally sound and is aligned to our strategy. As at 31 December 2014 and 2015, the current ratio is 3.47 and 2.82 respectively, representing sufficiently strong working capital for the Group.

Inventory risk

The demand for our watches is highly dependent on the customers' preferences and market trends, which are beyond our control. If the products of our Group fail to meet the changing consumer preferences and market trends, slow-moving inventory will increase. If we can't manage inventory to source or manufacture appropriate products to suit the consumer preference and market trends in the future, the volume of obsolete and slow-moving inventory may increase and we need to either sell off such inventory at a lower price or write off such inventory, in the event of which our performance may be materially and adversely affected. 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 carry out increasingly strong efforts to clear inventory.

Impairment Risk

Impairment risk is defined as the risk of written-off in respect of the amount by which the non-current asset's carrying amount exceeds its recoverable amount on our individual business cash generation unit. As stated in the accounts as at 31 December 2014 and 2015, the total amount of goodwill and intangible assets were HK$971,560,000 and HK$913,906,000 respectively. They are subject to impairment if the future performance of the related subsidiaries does not meet their expected performance. The Group will keep monitoring the business performance of the related subsidiaries and minimize the extent of impairment, if any.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board acknowledges its responsibility for preparing the financial statements for the year ended 31 December 2015, which give a true and fair view of the Group's state of affairs, results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2015, the directors:

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

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

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

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

The Board is also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

The Board is committed to present a balanced, clear and comprehensive assessment of the Group's performance, position and prospects.

SHAREHOLDERS' RIGHT

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

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

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

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

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONSHIP

The Company endeavors to maintain a high level of transparency in communicating with shareholders and the investment community at large. In order to ensure effective, clear and accurate communications with the shareholders and investors, all corporate communications are arranged and handled by the executive directors and designated senior executives according to established practices and procedures of the Company. The Company provides up-to-date and extensive information in its annual reports, interim reports, circulars and announcements in a timely manner and within the time limits set out in the Listing Rules to ensure that all shareholders are able to form an accurate understanding of the business performance and financial position of the Group and make informed investment decisions.

Analysis of the Company's shareholders' profile was conducted during the year under review to help the Board better understand the shareholders' background and shareholding movements.

The Company treats AGM as the principal forum for the Board of directors to meet and communicate with the shareholders fact to face. The Chairman of the Board, all executive directors, chairmen of the board committees and the external auditors endeavor to attend the AGM to report the business and operation of the Group to the shareholders, to answer questions and develop a balanced understanding of the view of the shareholders.

The AGM 2015 was held on 25 June 2015. Separate resolutions were proposed at the general meetings on each substantially separate issue, including the re-election of individual directors. In addition, procedures for demanding a poll were included in the circular to shareholders dispatched together with the annual report.

The Company continues to enhance communications and relationships with investment community at large. Executive directors and designated senior management will maintain open and active dialogues with shareholders, institutional investors, fund managers, analysts and the media. The management is pleased to help them better understand the Company and respond to enquiries raised by them during meetings, interviews and road shows, within the constraints of information already provided to the public.

Key shareholders' events in 2015 are set out below.

Event	**Date**
Announcement of profit warning	25 March 2015
2014 annual results announcement	30 March 2015
Announcement in respect of settlement agreement in relation to non-fulfillment of the profit guarantee	20 April 2015
AGM 2015	25 June 2015
2015 interim results announcement	29 August 2015

There was no change to the Memorandum and Articles of Association of the Company during the year ended 31 December 2015.

The Company website (www.irasia.com/listco/hk/citychamp) enables shareholders, investors and the general public to have access to the information of the Company on a timely basis. Financial information and all corporate communications of the Company are made available on the Company' s website and updated regularly.

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

CHANGES AFTER CLOSURE OF FINANCIAL YEAR

On 24 March 2016, the Company entered into a share purchase agreement with independent third parties (the "Sellers"), pursuant to which, the Company conditionally agreed to acquire and the Sellers conditionally agreed to sell not less than 68.85% and up to all the outstanding capital of Valartis Bank (Liechtenstein) AG (the "Bank") (excluding treasury stock held by the Bank). The maximum aggregate consideration payable will be not more than CHF110,500,000 (subject to adjustment) and shall be settled in cash.

Save as disclosed above there are no other material subsequent events undertaken by the Company or by the Group after the reporting period.

REPORT OF THE DIRECTORS

The directors of the Company are pleased to present their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 50 to the financial statements. There were no other significant changes to the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2015 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on pages 62 to 161.

The Board has resolved to recommend a final dividend of HK2.5 cents per share for the year ended 31 December 2015 (year ended 31 December 2014: Nil).

SUMMARY FINANCIAL INFORMATION

A summary of the published results, assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on pages 162 and 163. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment, and investment properties of the Company and of the Group during the year are set out in notes 17 and 18 to the financial statements, respectively. Further details of the Group's principal investment properties are set out on page 164 of the annual report.

SHARE CAPITAL

Details of the movements in the share capital of the Company are set out in note 39 to the financial statements.

PRE-EMPTIVE RIGHTS

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

SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2015 are set out in note 50 to the financial statement.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed shares during the year ended 31 December 2015.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 41 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

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

As at 31 December 2015, the Company had reserves of HK$906,973,000 being the aggregate of retained profits and share premium account, available for cash distribution and/or distribution in specie.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales and purchases attributable to the major customers and suppliers respectively is set out as follows.

	Percentage of the total sales/purchases	
	Sales	**Purchases**
Top five customers	6%	–
Top five suppliers	–	19%
The largest customer	2%	–
The largest supplier	–	6%

DIRECTORS

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

Executive Directors:
Mr. Hon Kwok Lung, *Chairman*
Mr. Shang Jianguang, *Chief Executive Officer*
Mr. Shi Tao
Mr. Lam Toi Man
Mr. Bi Bo
Ms. Sit Lai Hei
Mr. Hon Hau Wong
Mr. Tao Li

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

In accordance with Article 116 of the Articles of Association of the Company, one-third of the directors for the time being shall retire from office, provided that every director shall be subject to retirement by rotation at least once every three years as prescribed by the Listing Rules. Accordingly, Mr. Hon Kwok Lung, Mr. Shi Tao, Mr. Lam Toi Man and Ms. Sit Lai Hei will retire by rotation at the forthcoming AGM and, being eligible, offer themselves for re-election.

The Company has received annual confirmation of independence from each of the four Independent Non-executive Directors that they have met all the factors concerning their independence as set out in Rule 3.13 of the Listing Rules and that there are no other factors which may affect their independence. The Company's board of directors considers all the Independent Non-executive Directors to be independent.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out on pages 23 to 28 of the annual report.

DIRECTORS' INTERESTS IN CONTRACTS

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

DIRECTORS SERVICE CONTRACTS

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

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

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

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

Mr. Hon Hau Wong has entered into a service agreement with the Company for an initial term of two years commencing from 29 August 2014 and is subject to termination by either party by giving not less than two months' written notice. The service agreement will continue for successive terms of one year unless terminated by no less than two months' written notice served by either party to the other.

Mr. Tao Li has entered into a service agreement with the Company for an initial term of two years commencing from 26 November 2014 and is subject to termination by either party by giving not less than two months' written notice. The service agreement will continue for successive terms of one year unless terminated by no less than two months' written notice served by either party to the other.

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

Mr. Zhang Bin, Independent Non-executive Director of the Company, has service contract with the Company for an initial term of two years commencing from 26 November 2014. The service contract will continue for successive terms of one year unless terminated by not less than one month's written notice served by either party to the other.

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

DIRECTORS' REMUNERATION

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

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

At 31 December 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") as set out in the Appendix 10 of the Listing Rules, were as follows:

Long positions in Shares

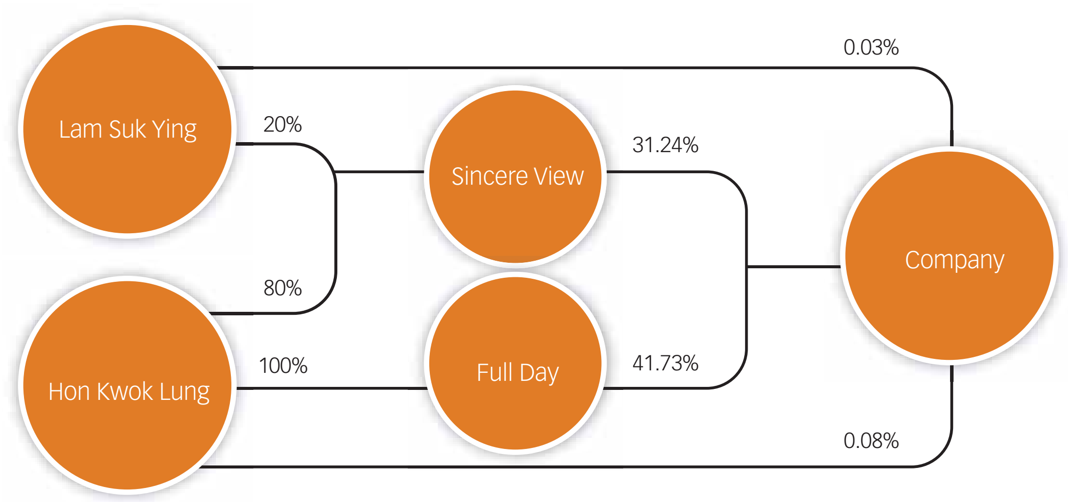
Name of Director	Nature of interest	Number of Shares held	Percentage of shareholding
Hon Kwok Lung	Corporate (Note 1)	3,217,389,515	72.97%
	Beneficial owner	3,500,000	0.08%
	Family Interest (Note 2)	1,374,000	0.03%
Shang Jianguang	Beneficial owner	8,000,000	0.18%
Shi Tao	Beneficial owner	5,000,000	0.11%
Lam Toi Man	Beneficial owner	3,500,000	0.08%
Fung Tze Wa	Beneficial owner	1,600,000	0.04%
Hon Hau Wong	Beneficial owner	1,750,000	0.04%
Tao Li	Beneficial owner	5,000,000	0.11%

Notes:

1. The 3,217,389,515 shares comprise of 1,840,128,000 shares held by Full Day Limited ("Full Day") and 1,377,261,515 shares held by Sincere View International Limited ("Sincere View").

2. 1,374,000 shares were held by Mr. Hon Kwok Lung's wife, Ms. Lam Suk Ying.

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



Long positions in share options of the Company

Name of Director	Date of grant	Number of share options outstanding	Exercisable period	Exercise price per share HK$
Hon Kwok Lung	9/12/2008	–	9/12/2009 – 7/1/2019	0.325
Shang Jianguang	9/12/2008	–	9/12/2009 – 7/1/2019	0.325
Shi Tao	9/12/2008	–	9/12/2009 – 7/1/2019	0.325
Lam Toi Man	9/12/2008	–	9/12/2009 – 7/1/2019	0.325
Hon Hau Wong	9/12/2008	–	9/12/2009 – 7/1/2019	0.325
Tao Li	9/12/2008	–	9/12/2009 – 7/1/2019	0.325
Fung Tze Wa	9/12/2008	–	9/12/2009 – 7/1/2019	0.325
Kwong Chun Wai, Michael	9/12/2008	–	9/12/2009 – 7/1/2019	0.325
Li Qiang	9/12/2008	3,500,000	9/12/2009 – 7/1/2019	0.325

Long position in Zhuhai Rossini Watch Industry Limited ("Rossini") (Note 1)

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

Notes:

1. Rossini is owned as to 91% indirectly by the Company and 9% by Fujian Fengrong Investment Company Limited ("Fujian Fengrong"). Rossini is an associated corporation of the Company within the meaning of Part XV of the SFO.

2. The interest in Rossini was held by Fujian Fengrong, which is owned as to approximately 68.5% by Ms. Sit Lai Hei, Executive Director, and 31.5% by Ms. Lu Xiaojun. Both Ms. Sit Lai Hei and Ms. Lu Xiaojun are daughters-in-law of Mr. Hon Kwok Lung, an Executive Director of the Company. Mr. Hon Hau Wong, the Executive Director of the Company, 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 31 December 2015, no person had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

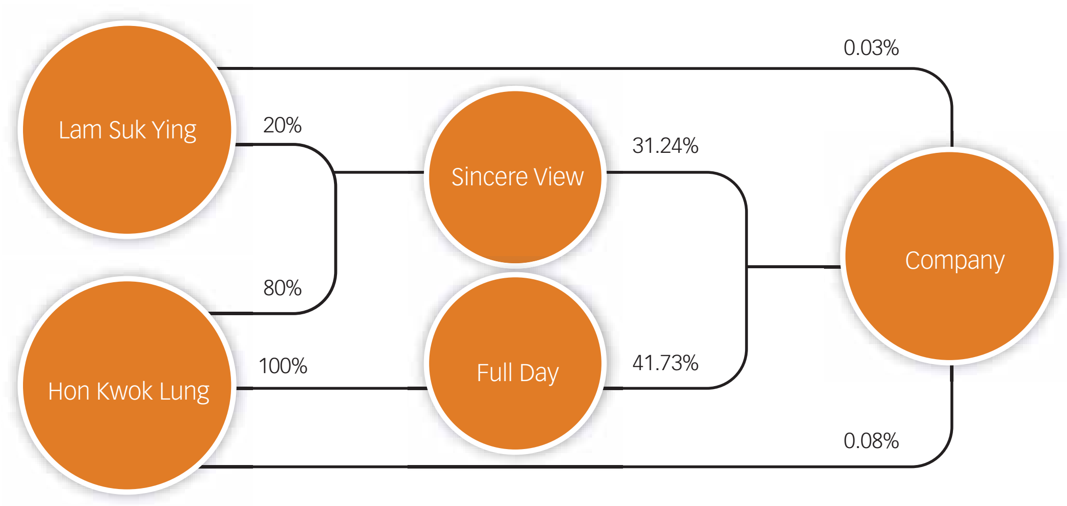
SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 December 2015, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

	No. of Shares	Percentage of existing issued capital
Sincere View International Limited	1,377,261,515	31.24%
Full Day Limited	1,840,128,000	41.73%
Hon Kwok Lung (Note)	3,222,263,515	73.08%
Lam Suk Ying (Note)	3,222,263,515	73.08%

Note:

Mr. Hon Kwok Lung and Ms. Lam Suk Ying are deemed to have an interest in the same parcel of 3,222,263,515 shares (1,377,261,515 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 31 December 2015, no person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTION

There was no material connected transaction of the Group under the Listing Rules during the year.

SHARE OPTION SCHEME

Particulars of the share option scheme of the Company are set out in note 40 to the financial statements.

The following table discloses movements in the Company's share options for the year ended 31 December 2015:

	Number of share options		
Name or category of participants	**At 1 January 2015**	**Exercised during the year**	**At 31 December 2015**
Independent Non-executive Director			
Mr. Li Qiang	3,500,000	–	3,500,000
Sub-total	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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

SUFFICIENCY OF PUBLIC FLOAT

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

CORPORATE GOVERNANCE

A report on the corporate governance practices of the Company is set out on pages 29 to 43 of this annual report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Board adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Having made specific enquiry with all the Company's directors, the Company has ascertained that all of its directors have complied with the required standards set out in the Model Code throughout the accounting year covered by this annual report.

AUDIT COMMITTEE

The Company has an audit committee (the "Audit Committee") which was established in compliance with Rule 3.21 of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee comprises the four Independent Non-executive Directors of the Company, being Mr. Fung Tze Wa (Chairman of the Committee), Dr. Kwong Chun Wai, Michael, Mr. Li Qiang and Mr. Zhang Bin. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, risk management and internal control systems and financial matters including the review of the audited financial statements for the year ended 31 December 2015.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

The Company has established a nomination committee (the "Nomination Committee") on 26 March 2012 in compliance with the Listing Rules, terms of reference of which have been adopted by the Board of the Company are consistent with the requirements of the Code. The Nomination Committee currently comprises the 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 (Chairman of the Committee) and Mr. Shang Jianguang.

AUDITOR

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

ON BEHALF OF THE BOARD

Hon Kwok Lung
Chairman

Hong Kong
30 March 2016

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As a responsible and caring corporate citizen, the Group is not only focused on achieving business goals and financial targets. The Group is also committed to contributing to its different stakeholders in support of the well-beings of its employees and their families, the community and society at large, and advancing environment protection and efficient use of resources. The Group upholds the principle that good business practices and corporate social responsibility are vital for the sustainability of the success.

WORKFORCE

The Group believes that a motivated and balanced workforce is crucial for developing a sustainable business model and delivering long-term returns.

As at 31 December 2015, the permanent employees of the Group approximately totaled 5,500 working in Hong Kong, Macau, Mainland China, Switzerland, UK and other countries. The Group has a diverse workforce in terms of gender and age, generating creative opinions and different level of capabilities.

At managerial and operational level, women represent approximately over 70% of the total employment in the Group. The age distribution of Rossini and EBOHR (as at December 2013, 2014 and 2015) are summarized as below:

Age Distribution (Rossini)	**2013**	**2014**	**2015**
18–29	36%	41%	43%
30–39	35%	32%	31%
40–49	22%	19%	20%
50–59	7%	8%	6%

Age Distribution (EBOHR)	**2013**	**2014**	**2015**
18–29	41%	38%	39%
30–39	44%	45%	46%
40–49	12%	16%	13%
50–59	3%	2%	2%

Staff turnover rate in major subsidiaries is less than 5% every year which is relatively low, representing an excellent level of employee satisfaction and engagement of the Group.

People have been the key assets recognized by management for the Group. The Group would like to retain those capable employees that have retired. In case of EBOHR, on average 70% of the already retired employees were retained for the period from 2013 to 2015.

EMPLOYEE TRAINING AND DEVELOPMENT

The Group regards employees' personal developments and well-being as of the highest importance. As such, we aim at creating a quality community and an environment that motivates our employees, in order to enhance staff development and staff retention.

We strive to motivate our employees with a clear career path, which provides them with opportunities for advancement and upgrading their professional knowledge, qualifications and skills. In this regard, we provide a wide range of tailor-made training programs to enhance their professionalism. We identify and determine what skill sets are crucial to achieving our business goals and maintaining sustainability and then designate individual staff to the appropriate training programs. Series of training provided have been planned and prepared in accordance with best practices. These programs play a strategic role and will be sustainably executed to generate superior, competent and professional human resources in line with the current requirements and business development.

Training programs conducted internally or through external agencies are addressed to all levels and types of job positions without differentiating the employees' background, race, gender, religion, age or class. For instances, Rossini organized different training courses with different curriculums in 2015, the scope of which ranged from professional and technical training to personal development skills. The training formats included seminars and workshops hosted by in-house trainers, and seminars delivered by outside experts. The following summarizes total number of training hours and number of training hours attended by each employee of Rossini from 2013 to 2015:

	2013	**2014**	**2015**
Total number of training hours	4,628	5,321	6,963

	2013	**2014**	**2015**
Number of training hours attended by each employee	8.58	8.72	8.48

The highlights of employee training are as follows:

- New employees are provided with corporate orientation and induction programs upon appointment to help them adjust to the new working environment and familiarize them with their job duties, as well as the business, operations and corporate culture of the Group as soon as possible;

- Trainings on corporate culture and ethical training are provided for existing employee;

- Sales staff are provided with intensive training programs on customer services and product knowledge;

- Watch craftsmen and technicians participate in on-going structured and formalized technical trainings to ensure excellence in the product innovation and quality, which includes sending watch craftsmen and technicians of our Chinese brands to Switzerland to learn the most exquisite craftsmanship and cutting-edge technologies and designs; and

- Management personnel are invited to attend management courses to update and refresh their business management expertise and the most updated developments and trends regarding the market and industry the individual company operates in; intensive leadership development programs and rotational assignment program motivate and help middle-level managers transit into new or more advanced leadership roles.

We also encourage our staff on self-enhancement. Employees are provided with examination leave and benefits if they join relevant courses and trainings approved by the Group. The Group shall continuously arrange and offer intensive trainings to equip its staff with the qualifications and skills and to encourage them to work as a cohesive team in order to provide consistently high-quality products and services.

FAIR AND EQUITABLE WORK ENVIRONMENT

The Company pledges to comply with relevant standards and regulations to provide a fair and equitable work environment. Equal opportunity is provided in all aspects of employment and discrimination or harassment of any kind is not tolerated. We behave with courtesy and respect towards everyone we encounter in the course of our business. All relevant parties are expected to apply the same standards throughout all interactions with colleagues, contractors, suppliers, customers and any other stakeholders. Derogatory actions based on racial or ethnic characteristics, unwelcome sexual advances and similar behavior are strictly prohibited.

EMPLOYEE WELLFARE

We value our staff and wish for them to grow with the Group.

Work-Life-Balance Philosophy

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

A multi-purpose recreation center is built, various musical instruments are purchased for building up a company orchestra, and a multi-purpose sport field is built next to the office and manufacturing facilities. Recreational clubs have been established in each major subsidiary to organize and lead regular recreational activities for employees at the expense of the Group, such as parties, anniversary ceremonies, annual dinner gatherings and group travelling. A total of 19 recreational clubs, including basketball, volleyball, yoga, cycling, swimming, bowling, photography, calligraphy, Chinese chess, culinary and fishing, have been set up in Rossini, to offer platforms for staff to maintain good physical health and fitness and relieve pressure after work. The periodic art performances, sport competitions and other recreational activities arranged by those clubs have certainly improved the communication among employees, strengthened their cohesiveness, and enhanced team spirit and work motivation. To extend the care to employees' families, the Group has also organized activities which employees' families are welcome to join.

Occupational Health and Safety

We are committed to ensure the health and safety of our staff by, among other things, providing and maintaining healthy and safe workplaces to our staff, especially in our manufacturing facilities. Strict management systems and policies have been in place to keep an environment qualified under occupational health and safety standards. The systems and policies are reviewed on an ongoing basis to ensure that standards are maintained across a diverse variety of conditions. In general, our objective is to establish a vigilant view on safety for the ongoing identification of hazards, assessment of risks, and the implementation of necessary control measures.

Our manufacturing facilities in Zhuhai is certified to the Occupational Health and Safety Management System (OHSAS) 18001 standard. Various measures have been implemented including conducting periodical occupational health and safety assessments, providing free body check-ups to employees annually and upon employment, setting up alarming devices and CCTV systems to monitor and minimize the hazardous elements in office and manufacturing plants, as well as engaging third parties to conduct inspections and reviews on the occupational health and safety system on a regular basis.

The following summarizes the number of accidents, the rate of body-checked and the rate of occupational illness for the period from 2013–2015 of Rossini:

	2013	2014	2015
No. of accidents	0	0	0
Rate of body-checked (%)	100	100	100
Rate of occupational illness (%)	0	0	0

Employee Benefits and Welfare

We design the compensation package for all our employees to reward them for their work and contribution to our success. Compensation packages include various fringe benefits, depending on the particular situation of the individual subsidiary, such as medical insurance, vacation trips, lunch allowance, free body check-ups, paternity leave, marriage leave, bereavement leave and other subsidies.

"Helping each other" has been the corporate culture emphasized by the Group. In order to further promote the culture among the employee, Rossini had set up the Emergency Fund with the initial amount of RMB3 million in January 2015 which aim at helping the employee in need of help. There are eleven committee members to manage the Emergency Fund and the committee makes sure that the Emergency Fund is managed with fairness and high transparency. The Emergency Fund targets not only the employee but also the families of the employee as well.

COMMUNITIES

During the year, the Group sponsored a number of long term charitable events.

An 18-year Promise

One of the Group's long-term philanthropic programs "An 18-year Promise", held in cooperation with the China Women's Development Foundation of the All-China Women's Federation, continued for the eighth successive year since the Wenchuan earthquake happened in 2008. The Group continues its commitment to finance the cost of raising 100 children, who became orphans after the earthquake until they are 18 years old. In addition to making donations, volunteers from the Group visit the children around the Children's Day every year. In May 2015, the volunteers went to Guangyuan County in Sichuan Province to visit the orphans, bringing them donations, of gifts and stationeries and living necessities. A national children psychologist was also invited this time and share with the orphans on how to develop a healthy and positive moral values. Up to the end of 2015, the Group had contributed donations in excess of RMB1.9 million under the "An 18-year Promise" program.

We encourage our staff to make personal donations to people suffering from the natural calamity of the Wenchuan earthquake, the Ya'an earthquake and the Southwestern drought or participate in volunteering activities in any way that would help those afflicted by disaster through the difficult times. We are glad to hear our staff sharing their feelings that they can realise their true value as a member of society and build a deeper relationship with society through the charity activities and volunteer programs in which they participate.

Caring for the Less Privileged Groups

To create a brighter future for the next generation, the Group has made contributions to educational causes for children, especially those living in impoverished rural areas. The Group has donated RMB200,000 to the primary school located in Guangdong Province to improve the infrastructure of the school, set up scholarship and subsidize teachers' advanced studies, and also donated useful resources to the pupils and teachers there including air-conditioners, stationery, living necessities and watches, in order to improve their learning and living conditions. The Group has promised to provide continuing support to them under a five-year assistance plan. The pupils were invited to visit the watch museum located in Zhuhai.

As at 31 December 2015, Five Goat had 9 employees who are physically challenged and participated in a number of community services such as prevention of mosquito and maintenance of hygiene, security, environmental protection of the local community.

Cooperation with Universities

The Group has set up the University-Enterprise-Cooperation Program and cooperates with universities and colleges in Mainland China. In 2015, we continued and expanded the University-Enterprise-Cooperation Program and partnered with Jilin University, Beijing Normal University and Guangdong Institute of Science and Technology to share our technical skills and expertise with the students through different workshops, mentorships and internships, with the purpose of transforming the university students into practical talents.

Community services

An employee in Hong Kong works closely with a non-profit and charitable rehabilitation organization that strives to advance the welfare of handicapped persons, individuals with chronic illnesses and ex-mentally ill people. During 2014 and 2015, he helped organize the events that selected and awarded ten outstanding individuals with disabilities who made contributions to the organizations they worked for.

Donations

The following summarizes the total amount of donations from 2013 to 2015 of Rossini and EBOHR:

Rossini	**2013**	**2014**	**2015**
Amount of donations (in RMB)	1,596,000	221,000	3,100,000
EBOHR	**2013**	**2014**	**2015**
Amount of donations (in RMB)	25,000	500,000	322,000

ENVIRONMENTAL PROTECTION AND USE OF RESOURCES

As a responsible business, we conduct ourselves in an environmentally judicious manner. We focus on improving our carbon reduction targets and proactively monitor and minimize environmental impact through an array of energy saving and carbon reduction measures. Our main environment goal is using energy and resources more efficiently across operation. With the continued escalation of environment regulation, both in scope and stringency, we strive not just to comply but where possible exceed our obligatory responsibilities. To achieve this, we use environmental management oversight to set and review our goals, as well as track our performance for persistent improvement.

The following summarizes both the green initiatives undertaken during the year and the performance achieved.

The Group always places great emphasis on sustainable environmental development and incorporates it in every aspects of its business. The manufacturing facilities in Zhuhai have obtained ISO14001 Environmental Management System certification, demonstrating the effectiveness and efficiency of its environmentally-friendly manufacturing process. Selected environmentally friendly manufacturing procedures are as follows:

- Using environmental-friendly materials and incorporating energy-saving concepts in the design and construction of the facilities;
- Appropriately disposing of waste emissions and industrial waste in compliance with the relevant environmental laws and regulations;
- Building dust-proof clean manufacturing facilities which meets standards as strict as those required by the food and catering industry;
- Controlling and minimizing the density of smoke emitted by the dynamotors through Ringelman Smoke Chart;
- Outsourcing the electroplating process which helps reduce the creation of heavy metals of the Group;
- Monitoring and reducing volume of the noise generated the dynamotors; and
- Conducting environmental protection checks and reviewing the results for the entire facilities annually.

Manufacture of the watch cases has been one of the important processes which the Group put a lot of effort to reduce the corresponding waste water created. Waste water is generated during the process and the waste water is being purified before being discharged to the ocean. Corresponding policy and guidelines are developed by the Group based on relevant environmental laws and regulations and the Group has to make sure the waste water is being processed according to the relevant laws. The following summarizes the total volume of waste water being purified from the manufacturing process of Rossini:

	2013	**2014**	**2015**
Sewage being purified (in tons)	4,160	6,500	5,148

Moreover, the Group aims to maximize the energy conversation for the manufacturing process by promoting efficient use of resources and adopting green technologies. Variable frequency drive air-conditioners and reactive power compensation systems were installed in the factories which help to save electricity. The following summarizes the electricity consumed for a single watch case manufactured of Rossini:

	2013	**2014**	**2015**
Electricity consumed for a single watch case manufactured (kWh)	0.92	0.93	0.93

The Group has committed to maximize the use of water during the manufacturing process at a low level governed by environmental laws. The following summarizes the water consumed for a single watch case manufactured of Rossini:

	2013	2014	2015
Water consumed for a single watch case manufactured (tons)	0.02	0.01	0.01

During 2015, Eterna disposed the environmentally unfriendly heating oil tanks and replaced those with gas central heating to minimize significant impact on the environment, reduce running costs and emissions and finally conform to local laws in Switzerland.

Environmental friendliness and energy conversation will continue to be one of the Group's sustainability principles throughout the manufacturing process.

With effective trainings and education, employees' awareness of environmental protection and efficient use of resources has been enhanced.

INDEPENDENT AUDITOR'S REPORT

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To the members of Citychamp Watch & Jewellery Group Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Citychamp Watch & Jewellery Group Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 62 to 161, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants

Lui Chi Kin
Practising Certificate Number P06162
Hong Kong

30 March 2016

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	**2015 HK$'000**	2014 HK$'000
Revenue	7	**3,476,354**	3,488,553
Cost of sales		**(1,694,496)**	(1,797,911)
Gross profit		**1,781,858**	1,690,642
Other income	8	**204,608**	150,825
Selling and distribution expenses		**(883,152)**	(926,387)
Administrative expenses		**(616,151)**	(698,077)
Gain on fair value changes in equity investments held for trading, net	28	**29,078**	45,734
(Loss)/gain on fair value changes in contingent consideration payable	34	**(969)**	54,511
Loss on fair value changes in the conversion option of the convertible bond investment	23	**(1,749)**	–
Gain on fair value changes in derivative financial instruments	35	**17,559**	18,615
Net (deficit)/surplus on revaluation of investment properties	18	**(499)**	3,078
Gain on disposal of available-for-sale financial assets	22	**–**	163,542
Gain on disposal of subsidiaries	12	**9,517**	15,859
Impairment loss on goodwill	20	**–**	(49,395)
Impairment loss on intangible assets	24	**–**	(133,166)
Share of profit of associates	21	**9,685**	13,333
Finance costs	9	**(77,075)**	(65,055)
Profit before income tax	10	**472,710**	284,059
Income tax expense	11	**(132,551)**	(121,027)
Profit for the year		**340,159**	163,032
Other comprehensive income			
Item that will not be reclassified subsequently to profit or loss			
– Remeasurement of defined benefit obligations		**9,485**	(5,955)
Items that may be reclassified subsequently to profit or loss			
– Exchange differences on translation of foreign operations		**(142,928)**	(2,021)
– Release of exchange fluctuation reserve to profit or loss upon disposal of subsidiaries	12	**256**	(2,015)
– Share of other comprehensive income of associates	21	**133**	(16)
– Release of investment revaluation reserve upon disposal of available-for-sale financial assets	22	**–**	(163,542)
– Changes in fair value of available-for-sale financial assets	22	**9,051**	(11,533)
		(133,488)	(179,127)
Other comprehensive income for the year		**(124,003)**	(185,082)
Total comprehensive income for the year		**216,156**	(22,050)

	Notes	2015 HK$'000	2014 HK$'000
Profit for the year attributable to:			
Owners of the Company		**307,675**	132,005
Non-controlling interests		**32,484**	31,027
		340,159	163,032
Total comprehensive income for the year attributable to:			
Owners of the Company		**196,583**	(55,528)
Non-controlling interests		**19,573**	33,478
		216,156	(22,050)
Earnings per share attributable to owners of the Company	14		
– Basic		**HK6.98 cents**	HK2.94 cents
– Diluted		**HK6.96 cents**	HK2.93 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	**2015** **HK$'000**	2014 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	17	**730,799**	576,661
Investment properties	18	**111,676**	112,175
Prepaid land lease payments	19	**45,242**	37,800
Goodwill	20	**741,636**	741,636
Interests in associates	21	**65,828**	56,020
Available-for-sale financial assets	22	**317,250**	308,204
Convertible bond investment	23	**8,327**	–
Intangible assets	24	**172,270**	229,924
Prepayments and deposits	25	**21,887**	23,992
Deferred tax assets	38	**7,641**	10,223
		2,222,556	2,096,635
Current assets			
Inventories	26	**2,042,892**	2,065,394
Trade receivables	27	**693,868**	792,839
Prepaid land lease payments	19	**966**	1,028
Prepayments, deposits and other receivables	25	**522,128**	473,745
Tax recoverable		**9,248**	2,538
Equity investments held for trading	28	**367,471**	271,552
Derivative financial assets	35	**–**	1,653
Short-term investments	29	**143,362**	149,241
Cash and bank balances	30	**836,065**	878,253
		4,616,000	4,636,243
Current liabilities			
Trade payables	31	**359,533**	358,839
Other payables and accruals	32	**431,407**	507,023
Dividend payables		**1,482**	1,492
Tax payables		**69,323**	67,672
Borrowings	33	**766,654**	349,195
Contingent consideration payable	34	**–**	10,669
Derivative financial liabilities	35	**7,260**	26,479
Due to related companies	36	**181**	13,961
		1,635,840	1,335,330
Net current assets		**2,980,160**	3,300,913
Total assets less current liabilities		**5,202,716**	5,397,548

	Notes	**2015 HK$'000**	2014 HK$'000
Non-current liabilities			
Other payables	32	**60,031**	55,406
Borrowings	33	**171,878**	475,482
Corporate bonds	37	**708,834**	764,914
Deferred tax liabilities	38	**27,486**	26,816
		968,229	1,322,618
Net assets		**4,234,487**	4,074,930
EQUITY			
Equity attributable to owners of the Company			
Share capital	39	**440,938**	440,893
Reserves	41	**3,602,315**	3,405,631
		4,043,253	3,846,524
Non-controlling interests		**191,234**	228,406
Total equity		**4,234,487**	4,074,930

The consolidated financial statements on pages 62 to 161 were approved and authorised for issue by the board of directors on 30 March 2016 and are signed on its behalf by:

Hon Kwok Lung
Director

Shang Jianguang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Equity attributable to owners of the Company												
	Share capital HK$'000 (note 39)	Share premium account* HK$'000 (note 41)	Share option reserve* HK$'000 (note 41)	Other reserve* HK$'000 (note 41)	Goodwill arising on consolidation* HK$'000 (note 41)	Statutory reserve* HK$'000 (note 41)	Exchange fluctuation reserve* HK$'000 (note 41)	Investment revaluation reserve* HK$'000 (note 41)	Shares to be issued reserve* HK$'000 (note 41)	Retained profits* HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2014	472,840	1,053,488	2,534	22,692	(15,300)	26,268	91,543	363,780	9,845	2,287,389	4,315,079	246,965	4,562,044
Transactions with owners													
Issuance of shares for acquisition of an associate	1,800	8,045	–	–	–	–	–	–	(9,845)	–	–	–	–
Repurchase of ordinary shares	(34,030)	(221,195)	–	–	–	–	–	–	–	–	(255,225)	–	(255,225)
Proceeds from shares issued under share option scheme	283	636	–	–	–	–	–	–	–	–	919	–	919
Exercise of share options	–	428	(428)	–	–	–	–	–	–	–	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(24,000)	(24,000)
2014 interim dividend payable to owners of the Company	–	–	–	–	–	–	–	–	–	(158,721)	(158,721)	–	(158,721)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(28,037)	(28,037)
Total transactions with owners	(31,947)	(212,086)	(428)	–	–	–	–	–	(9,845)	(158,721)	(413,027)	(52,037)	(465,064)
Comprehensive income													
Profit for the year	–	–	–	–	–	–	–	–	–	132,005	132,005	31,027	163,032
Other comprehensive income													
Remeasurement of defined benefit obligations	–	–	–	–	–	–	–	–	–	(5,955)	(5,955)	–	(5,955)
Exchange (loss)/gain on translation of foreign operations	–	–	–	–	–	–	(4,472)	–	–	–	(4,472)	2,451	(2,021)
Release of exchange fluctuation reserve to profit or loss upon disposal of a subsidiary	–	–	–	–	–	–	(2,015)	–	–	–	(2,015)	–	(2,015)
Share of other comprehensive income of associates	–	–	–	–	–	–	(16)	–	–	–	(16)	–	(16)
Release of investment revaluation reserve upon disposal	–	–	–	–	–	–	–	(163,542)	–	–	(163,542)	–	(163,542)
Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	(11,533)	–	–	(11,533)	–	(11,533)
Total comprehensive income for the year	–	–	–	–	–	–	(6,503)	(175,075)	–	126,050	(55,528)	33,478	(22,050)
Balance at 31 December 2014 and 1 January 2015	440,893	841,402	2,106	22,692	(15,300)	26,268	85,040	188,705	–	2,254,718	3,846,524	228,406	4,074,930
Transactions with owners													
Proceeds from shares issued under share option scheme	45	101	–	–	–	–	–	–	–	–	146	–	146
Exercise of share options	–	68	(68)	–	–	–	–	–	–	–	–	–	–
Disposal of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(28,996)	(28,996)
Dividends paid to non-controlling interests	–	–	–	–	–	–	–	–	–	–	–	(27,749)	(27,749)
Total transactions with owners	45	169	(68)	–	–	–	–	–	–	–	146	(56,745)	(56,599)
Comprehensive income													
Profit for the year	–	–	–	–	–	–	–	–	–	307,675	307,675	32,484	340,159
Other comprehensive income													
Remeasurement of defined benefit obligations	–	–	–	–	–	–	–	–	–	9,485	9,485	–	9,485
Exchange loss on translation of foreign operations	–	–	–	–	–	–	(130,017)	–	–	–	(130,017)	(12,911)	(142,928)
Release of exchange fluctuation reserve to profit or loss upon disposal of a subsidiary	–	–	–	–	–	–	256	–	–	–	256	–	256
Share of other comprehensive income of associates	–	–	–	–	–	–	133	–	–	–	133	–	133
Change in fair value of available-for-sale financial assets	–	–	–	–	–	–	–	9,051	–	–	9,051	–	9,051
Total comprehensive income for the year	–	–	–	–	–	–	(129,628)	9,051	–	317,160	196,583	19,573	216,156
Appropriation to statutory reserve	–	–	–	–	–	4,313	–	–	–	(4,313)	–	–	–
Balance at 31 December 2015	440,938	841,571	2,038	22,692	(15,300)	30,581	(44,588)	197,756	–	2,567,565	4,043,253	191,234	4,234,487

* These reserve accounts comprise the consolidated reserves of HK$3,602,315,000 (2014: HK$3,405,631,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Cash flows from operating activities			
Profit before income tax		**472,710**	284,059
Adjustments for:			
Interest income	8	**(35,511)**	(28,966)
Finance costs	9	**77,075**	65,055
Dividend income from available-for-sale financial assets	8	**(7,597)**	–
Gain on disposal of available-for-sale financial assets		**–**	(163,542)
Dividend income from equity investments held for trading	8	**(1,637)**	(17,731)
Net deficit/(surplus) on revaluation of investment properties	18	**499**	(3,078)
Depreciation	10	**103,144**	103,824
Amortisation of prepaid land lease payments	10	**1,015**	1,028
Amortisation of intangible assets	10	**9,096**	14,037
Amortisation of issuance costs of corporate bonds	10	**3,561**	2,001
Share of profit of associates		**(9,685)**	(13,333)
Loss/(gain) on fair value changes in contingent consideration payable	34	**969**	(54,511)
Gain on fair value changes in derivative financial instruments	35	**(17,559)**	(18,615)
Loss on fair value changes in conversion option component of convertible bonds investment	23	**1,749**	–
Gain on repurchase of corporate bonds	8	**(6,872)**	–
Gain on disposal of property, plant and equipment	10	**(155)**	(1,067)
Gain on disposal of intangible assets	8	**(4,280)**	–
Gain on disposal of brand name	8	**(30,000)**	–
Reversal of impairment loss on trade receivables	10	**(9,864)**	(321)
Reversal of write-down of inventories	10	**(37,696)**	(17,808)
Impairment loss on trade receivables	10	**12,688**	61,145
Write-down of inventories	10	**56,770**	16,807
Gain on disposal of subsidiaries	12	**(9,517)**	(15,859)
Impairment loss on goodwill		**–**	49,395
Impairment loss on intangible assets		**–**	133,166
Operating profit before working capital changes		**568,903**	395,686
(Increase)/decrease in inventories		**(131,314)**	34,155
Decrease/(increase) in trade receivables		**57,103**	(125,466)
Increase in prepayments, deposits and other receivables		**(49,299)**	(76,287)
Increase in equity investments held for trading		**(95,919)**	(46,581)
Increase/(decrease) in trade payables		**18,350**	(71,198)
Decrease in other payables and accruals		**(51,869)**	(24,534)
Cash generated from operations		**315,955**	85,775
Interest received		**35,369**	28,966
Interest paid		**(76,966)**	(51,394)
Income tax paid		**(131,718)**	(132,416)
Net cash generated from/(used in) operating activities		**142,640**	(69,069)

	Notes	**2015 HK$'000**	2014 HK$'000
Cash flows from investing activities			
Dividends received from available-for-sale financial assets		**7,597**	–
Proceeds from disposal of available-for-sales investments	22	**–**	379,671
Dividends received from equity investments held for trading		**1,637**	17,731
Purchases of property, plant and equipment		**(288,093)**	(125,652)
Purchases of intangible assets		**(698)**	(1,367)
Purchases of prepaid land lease payments		**(12,546)**	–
Compensation paid for derivative financial instruments		**–**	(6,109)
Net cash outflow from acquisition of subsidiaries	45	**–**	(282,540)
Net cash inflow from disposal of subsidiaries	12	**90,192**	63,888
Consideration payable for acquisition of subsidiaries	32	**11,638**	–
Proceeds from disposals of property, plant and equipment		**839**	2,899
Proceeds from disposal of intangible assets		**5,636**	–
Proceeds from disposal of brand name		**5,000**	–
Proceeds receivable from disposal of brand name	25	**(25,000)**	–
Purchases of convertible bond investment		**(10,000)**	–
Increase in short-term investments		**(3,155)**	(93,545)
Net cash used in investing activities		**(216,953)**	(45,024)
Cash flows from financing activities			
Dividends paid to owners of the Company		**–**	(157,682)
Dividends paid to non-controlling interests		**(27,749)**	(28,037)
Proceeds from bank and other borrowings		**612,139**	735,804
Repayments of bank and other borrowings		**(491,953)**	(553,089)
Repurchase of ordinary shares		**–**	(153,135)
Proceeds from shares issued under share option scheme		**146**	919
Proceeds from issuance of corporate bonds	37	**–**	762,913
Repurchase of corporate bonds		**(51,262)**	-
Capital contribution from non-controlling interests		**–**	–
Decrease in amounts due to associates		**–**	(92,545)
(Decrease)/increase in amounts due to related companies		**(13,284)**	1,140
Net cash generated from financing activities		**28,037**	516,288
Net (decrease)/increase in cash and cash equivalents		**(46,276)**	402,195
Cash and cash equivalents at 1 January		**878,253**	478,713
Effect of foreign exchange rate changes, net		**4,088**	(2,655)
Cash and cash equivalents at 31 December		**836,065**	878,253
Analysis of balances of cash and cash equivalents			
Cash and bank balances	30	**836,065**	878,253

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL INFORMATION

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

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

– Manufacture and distribution of watches and timepieces;

– Property investments; and

– Distribution of yachts

As disclosed in note 12 to the financial statements, the Group completed the disposal of its 51% equity interest in Beijing Haina Tianshi Watch Company Limited ("Beijing Haina") in May 2015. Other than the aforementioned, there was no other significant change in the Group's operations during the year.

The Group's principal places of the business are in Hong Kong, Switzerland, United Kingdom and the People's Republic of China (the "PRC").

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

(a) Adoption of new or revised HKFRSs – effective 1 January 2015

In the current year, the Group has applied for the first time the following new or revised standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are relevant to and effective for the Group's consolidated financial statements for the annual period beginning on 1 January 2015:

HKFRSs (Amendments)	Annual Improvements 2010-2012 Cycle
HKFRSs (Amendments)	Annual Improvements 2011-2013 Cycle
Amendments to HKAS 19 (2011)	Defined Benefit Plans: Employee Contributions

The adoption of these amendments has no significant impact on the Groups' consolidated financial statements.

Annual Improvements 2010-2012 Cycle and 2011-2013 Cycle

The amendments issued under the annual improvements process make small, non-urgent changes to a number of standards where they are currently unclear. They include amendments to HKAS 16 Property, Plant and Equipment to clarify how the gross carrying amount and accumulated depreciation are treated where an entity uses the revaluation model. The carrying amount of the asset is restated to revalued amount. The accumulated depreciation may be eliminated against the gross carrying amount of the asset. Alternatively, the gross carrying amount may be adjusted in a manner consistent with the revaluation of the carrying amount of the asset and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

The adoption of the amendments to HKAS 16 has no impact on these consolidated financial statements as the Group does not have property, plant and equipment under revaluation model.

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

(a) Adoption of new or revised HKFRSs – effective 1 January 2015 (continued)

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

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

The adoption of the amendments has no significant impact on these consolidated financial statements.

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

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

HKFRSs (Amendments)	Annual Improvement 2012-2014 Cycle[1]
Amendments to HKAS 1	Disclosure Initiative[1]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[1]
HKFRS 9 (2014)	Financial Instruments[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception[1]
HKFRS 15	Revenue from Contracts with Customers[2]

[1] Effective for annual periods beginning on or after 1 January 2016
[2] Effective for annual periods beginning on or after 1 January 2018
[3] No mandatory effective date yet determined but is available for adoption

Amendments to HKAS 1 – Disclosure Initiative

The amendments are designed to encourage entities to use judgement in the application of HKAS 1 when considering the layout and content of their financial statements.

An entity's share of other comprehensive income from equity accounted interests in associates and joint ventures will be split between those items that will and will not be reclassified to profit or loss, and presented in aggregate as a single line item within those two groups.

Amendments to HKAS 16 and HKAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit the use of a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that amortisation based on revenue is not appropriate for intangible assets. This presumption can be rebutted if either the intangible asset is expressed as a measure of revenue or revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

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

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

HKFRS 9 (2014) – Financial Instruments

HKFRS 9 (2014) introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income ("FVTOCI") if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at FVTOCI. All other debt and equity instruments are measured at fair value through profit or loss ("FVTPL").

HKFRS 9 (2014) includes a new expected loss impairment model for all financial assets not measured at FVTPL replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 (2014) carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 (2014) retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

Amendments to HKFRS 10 and HKAS 28 (2011) – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) – Investment Entities: Applying the Consolidation Exception

The amendments clarify that the exemption from preparing consolidated financial statements for an intermediate parent entity is available to a subsidiary of an investment entity (including investment entities that account for their subsidiaries at fair value rather than consolidating them). An investment entity parent will consolidate a subsidiary only when the subsidiary is not itself an investment entity and the subsidiary's main purpose is to provide services that relate to the investment entity's investment activities. A non-investment entity applying the equity method to an associate or joint venture that is an investment entity may retain the fair value measurements that associate or joint venture used for its subsidiaries. An investment entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss should provide the disclosures related to investment entities as required by HKFRS 12.

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

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

HKFRS 15 – Revenue from Contracts with Customers

The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and related interpretations. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to each performance obligation
- Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRSs. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

The Group is in the progress of making assessments of the potential impact of these new or revised HKFRSs and the directors anticipate that more disclosure would be made but are not yet in a position to state whether they would have material impact on the Group's consolidated financial statements.

(c) The amended Main Board Listing Rules relating to the presentation and disclosure in consolidated financial statements

The amended Rules Governing the Listing of Securities on the Main Board of the Stock Exchange (the "Amended Main Board Listing Rules") in relation to the presentation and disclosure in the consolidated financial statements, including the amendments with reference to the new Hong Kong Companies Ordinance, Cap. 622 applies to the Company in this financial year.

The directors consider that there is no impact on the Group's financial position or performance, however the Amended Main Board Listing Rules have impacts on the presentation and disclosures in the consolidated financial statements. For example, the statement of financial position of the Company is now presented in the notes to the financial statements rather than as a primary statement and related notes to the statement of financial position of the Company are generally no longer presented.

3. BASIS OF PREPARATION

3.1 Statement of compliance

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

3.2 Basis of measurement

The consolidated financial statements have been prepared under historical cost basis except for investment properties and financial instruments including available-for-sale financial assets, equity investments held for trading, derivative financial instruments, conversion option of convertible bond investment and contingent consideration payable, which are measured at fair values as explained in the accounting policies as set out in note 4 below.

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarised in note 4 below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new or revised HKFRSs and the impacts on the Group's consolidated financial statements, if any, are disclosed in note 2(a).

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

3.3 Functional and presentation currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Business combination and basis of consolidation

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.1 Business combination and basis of consolidation (continued)

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

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

4.2 Subsidiaries

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

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

4.3 Associates

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

Associates are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the associates' net assets except that losses in excess of the Group's interest in the associate are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its associates are recognised only to the extent of unrelated investors' interests in the associate. The investor's share in the associate's profits and losses resulting from these transactions is eliminated against the carrying value of the associate. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an associate above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the associate. Where there is objective evidence that the investment in an associate has been impaired, the carrying amount of the investment is tested for impairment in the same way as other non-financial assets. Accounting policies on impairment of investment in associates are described in note 4.5 below.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.4 Goodwill

Goodwill is initially recognised at cost being the excess of the aggregate of consideration transferred and the amount recognised for non-controlling interests over the fair value of identifiable assets, liabilities and contingent liabilities acquired. The consideration transferred is measured at the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group.

Where the fair value of identifiable assets, liabilities and contingent liabilities exceed the fair value of consideration paid, the excess is recognised in profit or loss on the acquisition date, after re-assessment.

Goodwill is measured at cost less impairment losses. For the purpose of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired.

For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit ("CGU") is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro-rata on the basis of the carrying amount to each asset in the unit. Any impairment loss for goodwill is recognised in profit or loss and is not reversed in subsequent periods.

4.5 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of the following assets to determine whether there is any indication that those assets have suffered an impairment loss or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- prepaid land lease payments;
- intangible assets;
- goodwill; and
- interests in subsidiaries and associates.

If the recoverable amount (i.e. the greater of the fair value less costs of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

Value in use is based on the estimated future cash flows expected to be derived from the asset or cash generating unit (see note 4.4), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash generating unit.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.6 Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.7 Property, plant and equipment

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

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

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

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

Land and buildings	Over the terms of the leases or estimated useful lives, ranging between 20 years and 40 years, whichever is shorter
Leasehold improvements	Over the terms of the leases, or estimated useful life of 5 years, whichever is shorter
Plant and machinery	6% to 20%
Furniture, fixtures and office equipment	6% to 50%
Motor vehicles	9% to 25%

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

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

CIP, which mainly represents renovation work on buildings and installation of machinery, is stated at cost less any impairment losses. Cost comprises direct costs incurred during the periods of construction, installation and testing. CIP is reclassified to the appropriate class of property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.8 Investment properties

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

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

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the consolidated statement of financial position reflect the prevailing market conditions at the reporting date.

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

4.9 Leases

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

(i) The Group as lessee

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

Where the Group acquires the use of assets under finance lease, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets is included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance lease. Subsequent accounting for assets under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals charged to profit or loss in the accounting period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.9 Leases (continued)

(ii) The Group as lessor

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

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

(iii) Prepaid land lease payments

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

4.10 Intangible assets

(i) Acquired intangible assets

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

Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss.

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

Intangible assets with indefinite useful lives shall not be amortised.

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.10 Intangible assets (continued)

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

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

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

(iii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see note 4.5).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount; however, the carrying amount should not be increased above the lower of its recoverable amount and the carrying amount that would have resulted had no impairment loss been recognised for the asset in prior years. All reversals are recognised in the income statement immediately.

4.11 Financial assets

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Financial assets (continued)

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

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

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

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

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

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

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

(ii) *Loans and receivables*

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

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Financial assets (continued)

(iii) Available-for-sale financial assets

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

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

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

(iv) Derivative financial assets

Accounting policies for derivative financial assets have been set out in note 4.13 below.

(v) Investments in convertible bonds

The component parts of the convertible instruments are classified separately as debt component and conversion option derivative.

At the date of acquisition of investments in convertible bonds, the initial value of the debt component is the residual value after separating out the initial fair value of conversion option component. In subsequent periods, the debt component of the convertible instruments is carried at amortised cost using the effective interest method. The conversion option derivative is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the acquisition of the convertible investments are allocated to debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible instruments using the effective interest method.

Impairment of financial assets

At the end of each reporting period, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset. Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- granting concession to a debtor because of debtor's financial difficulty; and
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.11 Financial assets (continued)

Impairment of financial assets (continued)

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

(i) Financial assets carried at amortised cost

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

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

(ii) Available-for-sale financial assets

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

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

4.12 Financial liabilities

The Group's financial liabilities are classified as financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. Management determines the classification of its financial liabilities at initial recognition depending on the purpose for which the financial liabilities were incurred.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial liabilities at fair value through profit or loss are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.12 Financial liabilities (continued)

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

(i) Borrowings and corporate bonds

Borrowings and corporate bonds are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings and corporate bonds is recognised over the terms of the borrowings and corporate bonds. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs as set out in note 4.22.

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

(ii) Finance lease payables

Finance lease payables are measured at initial value less the capital element of lease repayments.

(iii) Other financial liabilities

Subsequent to initial recognition, other financial liabilities are measured at amortised cost less settlement payments, using the effective interest method.

(iv) Contingent consideration payable

Contingent consideration payable is recognised initially at fair value. Subsequent to initial recognition, contingent consideration payable is measured at fair value, with changes in fair value recognised in profit or loss in the period in which they arise.

(v) Derivative financial liabilities

Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Accounting policies for derivative financial liabilities have been set out in note 4.13 below.

4.13 Derivative financial instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.14 Inventories

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

4.15 Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in values.

4.16 Government grants

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

4.17 Provisions and contingent liabilities

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Income tax

Income tax comprises current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.18 Income tax (continued)

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

(a) the Group has a legally enforceable right to set off current tax assets against current tax liabilities; and

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

(i) the same taxable entity; or

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

4.19 Revenue recognition

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

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

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

Interest income is recognised on a time proportion basis by reference to the principal outstanding and the applicable interest rate.

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

4.20 Retirement benefits

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

Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The contributions recognised in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognised if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Retirement benefits (continued)

Defined contribution plans (continued)

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

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

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

Defined benefit pension plans

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

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

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

Past service costs are recognised immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.20 Retirement benefits (continued)

Short-term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

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

4.21 Share-based employee compensation

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

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

Upon exercise of share options, the amount previously recognised in share option reserve and the proceeds received net of any directly attributable transaction costs up to the nominal value of the share issued are reallocated to share capital with any excess being recorded as share premium. When the share options are lapsed, forfeited or still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

4.22 Borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4.23 Foreign currency

Transactions entered into by group entities in currencies other than the currency of the primary economic environment in which they operate (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.23 Foreign currency (continued)

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

4.24 Share capital and share premium

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

Share premium includes any premiums received on the issuance of share over the par value. Any transaction costs associated with the issuing of shares are deducted from the share premium (net of any related income tax benefit) to the extent that they are incremental costs directly attributable to the equity transaction.

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

4.25 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder (or the beneficiary of the guarantee) for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 4.17 if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount, i.e. the amount initially recognised less accumulated amortisation, where appropriate.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

4.26 Segment reporting

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

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

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

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

– expenses related to share-based payments;

– share of profit or loss of associates accounted for using equity method;

– finance costs;

– income tax expense; and

– corporate income and expenses which are not directly attributable to the business activities of any operating segment

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

Segment assets include all assets but goodwill, interests in associates, available-for-sale financial assets, equity investments held for trading, derivative financial assets, short-term investments and convertible bond investment. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment, which primarily applies to the Group's headquarter.

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

No asymmetrical allocations have been applied to reportable segments.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and 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. Such estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimated impairment of goodwill

The Group tests on an annual basis whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 4.4. The recoverable amounts of the CGUs have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates of the future cash flows expected to arise from the CGUs, the timeframe for the cash flows forecast and the suitable discount rates in order to calculate the present value. In the process of estimating expected future cash flows management makes assumptions about future revenues and profits. These assumptions relate to future events and circumstances. The actual results may vary and may cause a material adjustment to the carrying amount of goodwill within the next financial year. Determining the appropriate discount rate involves estimating the appropriate adjustment for market risk and for asset specific risk factors. Details in impairment assessment are set out in note 20 to the financial statements.

Provision for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective estimated net realisable value. The assessment of the provision involves management judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, such differences will impact the carrying value of inventories and provision charge/write-back in the period in which such estimate has been changed.

Depreciation and amortisation

The Group depreciates and amortises its property, plant and equipment and intangible assets with definite useful lives using straight-line method over their respective estimated useful lives, starting from the date on which the assets are put into productive use, in accordance with accounting policy stated in notes 4.7 and 4.10. The estimated useful lives reflect the directors' estimate of the period that the Group intends to derive future economic benefits from the use of these assets.

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

Estimated impairment of trade and other receivables

The Group's management reviews trade and other receivables on a regular basis to determine if any provision for impairment is necessary. 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 PRC. Significant judgement is required in determining the amount of the provision for income taxes and the timing of the payments of related taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Assessment of identifiable assets and liabilities on acquisition of subsidiaries

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

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

Warranty provision

Warrant 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 warrant 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.

Research and development costs

In accordance with the accounting policy set out in note 4.10, 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. 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.

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

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: unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: observable inputs other than quoted prices included within Level 1; and
- Level 3: unobservable inputs are inputs for which market data are not available.

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

The Group measures the following items at fair value:

- Investment properties (note 18)
- Available-for-sales financial assets (note 22)
- Conversion option component of convertible bond investment (note 23)
- Equity investments held for trading (note 28)
- Derivative financial assets (note 35)
- Contingent consideration payable (note 34)
- Derivative financial liabilities (note 35)

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

6. SEGMENT INFORMATION

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

(a) manufacture and distribution of watches and timepieces;

(b) property investments; and

(c) distribution of yachts.

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

6. SEGMENT INFORMATION (continued)

2015

	Watches and timepiece HK$'000	Property investment HK$'000	Yacht HK$'000	Total HK$'000
Segment revenue and income:				
Sales to external customers	3,458,245	18,109	–	3,476,354
Other income	162,305	1,513	–	163,818
Total	3,620,550	19,622	–	3,640,172
Segment results	549,559	4,470	(8,280)	545,749
Unallocated corporate income and expenses, net				(5,649)
				540,100
Share of profit of associates				9,685
Finance costs				(77,075)
Profit before income tax				472,710
Income tax expense				(132,551)
Profit for the year				340,159
Segment assets	4,247,209	235,551	28,060	4,510,820
Goodwill				741,636
Interests in associates				65,828
Available-for-sale financial assets				317,250
Convertible bond investment				8,327
Equity investments held for trading				367,471
Short-term investments				143,362
Unallocated corporate assets				683,862
Consolidated total assets				6,838,556
Segment liabilities	842,124	49,870	36	892,030
Borrowings				938,532
Corporate bonds				708,834
Due to related companies				181
Derivative financial liabilities				7,260
Unallocated corporate liabilities				57,232
Consolidated total liabilities				2,604,069
Other segment information				
Interest income	16,840	197	–	17,037
Impairment loss on trade receivables	12,688	–	–	12,688
Reversal of impairment loss on trade receivables	9,864	–	–	9,864
Write-down of inventories	49,932	–	6,838	56,770
Reversal of write-down of inventories	37,696	–	–	37,696
Depreciation and amortisation	97,680	4,470	–	102,150
Additions to non-current assets	296,097	–	–	296,097
Net deficit on revaluation of investment properties	–	499	–	499
Gain on disposal of a subsidiary	9,517	–	–	9,517
Loss on fair value change in contingent consideration payable	969	–	–	969

6. SEGMENT INFORMATION (continued)

2014

	Watches and timepiece HK$'000	Property investment HK$'000	Yacht HK$'000	Total HK$'000
Segment revenue and income:				
Sales to external customers	3,460,865	17,888	9,800	3,488,553
Other income	104,463	4,308	–	108,771
Total	3,565,328	22,196	9,800	3,597,324
Segment results	198,422	5,492	(2,535)	201,379
Unallocated corporate income and expenses, net				(29,140)
				172,239
Gain on disposal of available-for-sale financial assets				163,542
Share of profit of associates				13,333
Finance costs				(65,055)
Profit before income tax				284,059
Income tax expense				(121,027)
Profit for the year				163,032
Segment assets	4,262,959	209,882	34,879	4,507,720
Goodwill				741,636
Interests in associates				56,020
Available-for-sale financial assets				308,204
Equity investments held for trading				271,552
Derivative financial assets				1,653
Short-term investments				149,241
Unallocated corporate assets				696,852
Consolidated total assets				6,732,878
Segment liabilities	783,383	43,269	–	826,652
Borrowings				824,677
Corporate bonds				764,914
Due to related companies				13,961
Contingent consideration payable				10,669
Derivative financial liabilities				26,479
Unallocated corporate liabilities				190,596
Consolidated total liabilities				2,657,948
Other segment information				
Interest income	19,827	126	–	19,953
Impairment loss on trade receivables	61,145	–	–	61,145
Reversal of impairment loss on trade receivables	321	–	–	321
Write-down of inventories	16,807	–	–	16,807
Reversal of write-down of inventories	17,808	–	–	17,808
Depreciation and amortisation	112,912	4,937	1	117,850
Additions to non-current assets	127,019	–	–	127,019
Net surplus on revaluation of investment properties	–	3,078	–	3,078
Gain on disposal of a subsidiary	15,859	–	–	15,859
Impairment loss on intangible assets	133,166	–	–	133,166
Impairment loss on goodwill	49,395	–	–	49,395
Gain on fair value change in contingent consideration payable	54,511	–	–	54,511

6. SEGMENT INFORMATION (continued)

Unallocated corporate income and expenses mainly comprised dividend income from equity investments held for trading and available-for-sale financial assets, gain on fair value changes in equity investments held for trading, loss on fair value changes in the conversion option of convertible bond investment, gain on repurchase of corporate bonds and other corporate income and expenses of the Group's headquarter which are not directly attributable to the business activities of any operating segment. Other corporate expenses mainly included staff costs, directors' remuneration and office rental expenses for administrative purpose.

Unallocated corporate assets mainly comprised of cash and bank balances which held as the general working capital of the Group as a whole and other corporate assets of the Group's headquarter which are not directly attributable to the business activities of any operating segment.

Unallocated corporate liabilities mainly comprised of the other corporate liabilities of the Group's headquarter which are not directly attributable to the business activities of any operating segment. Other corporate liabilities mainly included withholding tax payable on corporate bond interest, corporate bond interest payable and accrued headquarter expenses. As at 31 December 2014, unallocated corporate liabilities also included the promissory notes issued to vendors for repurchase of the Company's ordinary shares.

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

	Revenue from external customers		Non-current assets	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong (domicile)	**109,978**	48,627	**75,312**	83,477
PRC	**2,706,583**	2,809,125	**1,344,978**	1,158,518
Switzerland	**152,867**	60,192	**316,821**	272,248
Germany	**24,432**	11,423	**1,203**	887
United Kingdom	**235,871**	252,475	**145,415**	260,686
Singapore	**9,525**	40,218	**–**	–
Others	**237,098**	266,493	**2,929**	2,392
	3,476,354	3,488,553	**1,886,658**	1,778,208

The geographical location of revenue is based on the location of customers. For goodwill and intangible assets, the geographical location is based on the areas of operation of CGUs. The geographical location of other non-current assets is based on the physical location of the asset.

The Group has a large number of customers and there is no significant revenue derived from specific external customers for the years ended 31 December 2015 and 2014.

7. REVENUE

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

	2015 HK$'000	2014 HK$'000
Sales of goods	**3,458,245**	3,470,665
Rental income	**18,109**	17,888
	3,476,354	3,488,553

8. OTHER INCOME

	2015 HK$'000	2014 HK$'000
Bank and other interest income	**35,511**	28,966
Dividend income from equity investments held for trading	**1,637**	17,731
Dividend income from available-for-sale financial assets (note 22)	**7,597**	–
Exchange gain	**–**	38,378
Sales of scrap materials	**8,280**	3,917
Sub-lease income	**341**	346
Other operating income	**39,884**	22,524
Government subsidies (note a)	**26,888**	24,420
Gain on disposal of brand name (note 44.1(ii))	**30,000**	–
Gain on repurchase of corporate bonds (note 37)	**6,872**	–
Gain on disposal of intangible assets	**4,280**	–
Compensation received (note b)	**23,495**	–
Sundry income	**19,823**	14,543
	204,608	150,825

Notes:

(a) Government subsidies mainly comprised of subsidies related to the Group's innovation projects and patent application of which the Group has complied with the conditions in respect of the subsidies.

(b) Compensation received represented the money received from the vendor in respect of the acquisition of Montres Corum Sàrl to compensate the uncollected trade receivables.

9. FINANCE COSTS

	2015 HK$'000	2014 HK$'000
Interest charged on corporate bonds	**29,218**	13,661
Interest charged on bank and other borrowings	**47,782**	51,290
Interest charged on finance leases	**75**	104
	77,075	65,055

10. PROFIT BEFORE INCOME TAX

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

	2015 HK$'000	2014 HK$'000
Cost of inventories recognised as expense, including:	**1,694,496**	1,797,911
– Reversal of write-down of inventories (note c)	**(37,696)**	(17,808)
– Write-down of inventories	**56,770**	16,807
Depreciation (note a)	**103,144**	103,824
Amortisation of prepaid land lease payments (note b)	**1,015**	1,028
Amortisation of intangible assets (note b)	**9,096**	14,037
Amortisation of issuance cost of corporate bonds (note 37) (note b)	**3,561**	2,001
Lease payments under operating leases in respect of:		
– Land and buildings	**54,324**	50,128
– Plant and machinery	**3,493**	–
Auditor's remuneration	**2,480**	2,380
Gross rental income	**(18,109)**	(17,888)
Less: direct operating expenses	**2,538**	3,498
Net rental income	**(15,571)**	(14,390)
Exchange losses	**6,130**	41,276
Gain on disposal of property, plant and equipment	**(155)**	(1,067)
Impairment loss on trade receivables	**12,688**	61,145
Reversal of impairment loss on trade receivables	**(9,864)**	(321)
Research and development expenses (note b)	**110,898**	74,449

Notes:

(a) Depreciation expense of HK$15,104,000 (2014: HK$21,278,000) has been included in cost of sales, HK$44,616,000 (2014: HK$37,774,000) in selling and distribution expenses and HK$43,424,000 (2014: HK$44,772,000) in administrative expenses.

(b) Amortisation expenses, amortisation of issuance cost of corporate bonds and research and development expenses had been included in the administrative expenses.

(c) The reversal of write-down of inventories made in prior years arose mainly due to an increase in the estimated net realisable value of certain finished goods as a result of improved sales performance.

11. INCOME TAX EXPENSE

For both the years ended 31 December 2015 and 2014, no provision for Hong Kong profit 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% (2014: 15% and 25%). Overseas taxes are calculated at the rates applicable in the respective jurisdictions.

The Group is also subject to PRC withholding tax at the rate of 5% or 10% (2014: 5% or 10%) in respect of its PRC sourced income earned, including rental income from properties in the PRC, dividend income derived from PRC incorporated companies and profit arising from the transfer of equity interest in PRC incorporated companies.

	2015 HK$'000	2014 HK$'000
Current tax for the year		
PRC	**124,123**	146,064
Switzerland	**2,128**	270
United Kingdom	**2,370**	4,271
(Over)/Under-provision in respect of prior years		
PRC	**(305)**	(728)
Switzerland	**114**	–
Deferred tax for the year (note 38)	**4,121**	(28,850)
Total income tax expense	**132,551**	121,027

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

	2015 HK$'000	2014 HK$'000
Profit before income tax	**472,710**	284,059
Tax on profit before income tax, calculated at the rates applicable to the tax jurisdictions concerned	**90,856**	74,595
Tax effect of non-taxable income	**(12,111)**	(19,932)
Tax effect of non-deductible expenses	**13,272**	25,411
Over-provision in respect of prior years	**(191)**	(728)
Utilisation of tax losses not recognised	**(659)**	(144)
Tax effect of tax losses not recognised	**41,384**	41,825
Total income tax expense	**132,551**	121,027

12. GAIN ON DISPOSAL OF SUBSIDIARIES

12.1 Disposal of Beijing Haina during the year ended 31 December 2015

In May 2015, the Group has completed the disposal of its 51% equity interest in Beijing Haina together with the selling and distribution networks at the total consideration of HK$81,214,000 and the Group has recognised a gain on disposal of subsidiary of approximately HK$9,517,000. Details of the Group's gain on disposal of a subsidiary for the year ended 31 December 2015 were set out as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment (note 17)	196
Intangible assets (note 24)	41,260
Inventories	41,221
Trade receivables	10,041
Prepayments, deposits and other receivables	10,727
Cash and bank balances	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)

	HK$'000
Net cash inflow arising on disposal:	
Fair value of consideration in cash	81,214
Less: Cash and bank balances disposed of	(6,022)
Net cash inflow for the year ended 31 December 2015	75,192

The cash consideration of HK$81,214,000 has been fully received by the Group during the year ended 31 December 2015. Details in respect of the disposal of Beijing Haina were set out in the Company's announcement dated 20 April 2015.

12. GAIN ON DISPOSAL OF SUBSIDIARIES (continued)

12.2 Disposal of Ruihuang (Chonghing) Watch Company Limited ("Ruihuang") during the year ended 31 December 2014

The disposal of the Group's 51% equity interests in Ruihuang together with the assignment of the loans from group companies and unpaid dividend and selling and distribution networks at the total consideration of RMB100,523,000 (equivalent to approximately HK$127,245,000) were completed in June 2014 and the Group had recognised a gain on disposal of subsidiary of approximately HK$15,859,000. Details of the Group's gain on disposal of a subsidiary for the year ended 31 December 2014 were set out as follows:

	HK$'000
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 bank balances	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
Net cash inflow arising on disposal:	
Fair value of consideration	127,245
Less: Consideration receivable as at 31 December 2014	(57,046)
Cash and bank balances disposed of	(6,311)
Net cash inflow for the year ended 31 December 2014	63,888

The cash consideration of RMB67,457,000 (equivalent to HK$85,389,000) had been received by the Group for the year ended 31 December 2015 in which RMB55,457,000 (equivalent to HK$70,199,000) had been received in 2014 and RMB12,000,000 (equivalent to HK$15,000,000) was received in 2015. The remaining consideration of RMB33,066,000 (equivalent to HK$39,364,000) will be received before 30 June 2016.

12. GAIN ON DISPOSAL OF SUBSIDIARIES (continued)

12.2 Disposal of Ruihuang (Chonghing) Watch Company Limited ("Ruihuang") during the year ended 31 December 2014 (continued)

The consideration receivable in respect of disposal of Ruihuang of RMB33,066,000 (equivalent to HK$39,364,000) as at 31 December 2015 (2014: RMB45,066,000, equivalent to HK$57,046,000) was presented as a current asset under prepayments, deposits and other receivables (note 25).

The cash consideration of HK$15,000,000 received during the year ended 31 December 2015 was presented as cash inflow from disposal of subsidiaries under investing activities of the consolidated statement of cash flows for the year ended 31 December 2015.

13. DIVIDENDS

	2015 HK$'000	2014 HK$'000
Interim dividend: Nil (2014: HK3.6 cents per share)	**–**	158,721

At the board meeting held on 30 March 2016, the board of directors resolved to recommend a 2015 final dividend of HK2.5 cents per ordinary share (2014: Nil). The proposed 2015 final dividend is subject to shareholders' approval in the forthcoming 2016 annual general meeting and has not been recognised as dividend payable as at 31 December 2015, but will be reflected as an appropriation of retained profits/share premium for the year ending 31 December 2016.

14. EARNINGS PER SHARE

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

Earnings	**2015 HK$'000**	2014 HK$'000
Profit attributable to owners of the Company for the purpose of calculating basic and diluted earnings per share	**307,675**	132,005

Number of shares	**2015 Number of shares '000**	2014 Number of shares '000
Weighted average number of shares for the purpose of calculating basic earnings per share	**4,409,302**	4,491,328
Effect of dilutive potential shares:		
– share options issued by the Company	**9,588**	10,595
Weighted average number of shares for the purpose of calculating diluted earnings per share	**4,418,890**	4,501,923

15. EMPLOYEE BENEFIT EXPENSE (INCLUDING DIRECTORS' EMOLUMENTS)

15.1 Employee benefit expense

	2015 HK$'000	2014 HK$'000
Wages and salaries	**612,254**	674,101
Pension costs	**52,329**	56,274
	664,583	730,375

Employee costs of HK$155,460,000 (2014: HK$95,130,000) has been included in cost of sales, HK$228,220,000 (2014: HK$335,149,000) in selling and distribution expenses and HK$280,903,000 (2014: HK$300,096,000) in administrative expenses.

15.2 Defined benefit pension plans

	2015 HK$'000	2014 HK$'000
Net defined benefit liability	**53,436**	53,398

Net defined benefit liability has been included in non-current liabilities under other payables in the consolidated statement of financial position.

The defined benefit pension plans is primarily arising from Eterna AG Uhrenfabrik and its subsidiaries (together the "Eterna Group") and Montres Corum Sàrl and its subsidiaries (together the "Corum Group"). The Group makes contributions to the defined benefit pension plans that provide post-retirement benefits for employees upon retirement. Under the schemes, the employees in Switzerland are entitled to retirement benefits based on the plan assets accumulated on attainment of the retirement age and a fixed annual rate. Since there is potential down-side risk for the employer to pay additional contributions in case the plan has a deficit, Swiss plans are classified as defined benefit pension plans.

The latest independent actuarial valuations of plan assets and the present value of the defined benefit obligation on the Eterna Group were carried out at 31 December 2015 and 2014 by Martin Schnider, a member of the Institute of Actuaries in Switzerland, using the projected unit credit method.

The latest independent actuarial valuations of plan assets and the present value of the defined benefit obligations on the Corum Group were carried out at 31 December 2015 and 2014 by Nicolas Colozier, a member of the Institute of Actuaries in Switzerland, using the projected unit credit method.

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

15.2 Defined benefit pension plans (continued)

(a) The amount included in the consolidated statement of financial position arising from the Group's obligations in respect of its defined benefit plans is as follows:

	2015 HK$'000	2014 HK$'000
Present value of defined funded benefit obligations	**299,974**	310,229
Fair value of planned assets	**(246,538)**	(256,831)
Net liability arising from defined benefit obligations	**53,436**	53,398

(b) Movements in the present value of the defined benefit obligations for both the years ended 31 December 2015 and 2014 are as follows:

	2015 HK$'000	2014 HK$'000
At 1 January	**310,229**	349,767
Current service costs	**22,326**	24,049
Interest cost	**2,861**	5,571
Actuarial (gains)/losses	**(12,298)**	21,438
Benefits paid	**(22,246)**	(56,036)
Exchange realignment	**(898)**	(34,560)
At 31 December	**299,974**	310,229

(c) Movements in the fair value of the plan assets for both the years ended 31 December 2015 and 2014 are as follows:

	2015 HK$'000	2014 HK$'000
At 1 January	**256,831**	305,180
Interest income	**1,045**	2,035
Return on plan assets	**2,466**	5,402
Actuarial (losses)/gains	**(5,279)**	10,081
Contributions by the employer	**8,906**	11,151
Contributions by plan participants	**5,508**	8,031
Benefit paid	**(22,246)**	(56,036)
Exchange realignment	**(693)**	(29,013)
At 31 December	**246,538**	256,831

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

15.2 Defined benefit pension plans (continued)

(d) Amounts recognised in the consolidated statement of comprehensive income in respect of these defined benefit plans are as follows:

	2015 HK$'000	2014 HK$'000
Service cost:		
Current service cost	**22,326**	24,049
Net interest expense	**1,816**	3,536
Components of defined benefit costs recognised in profit or loss	**24,142**	27,585
Remeasurement on the net defined benefit liability:		
Return on plan assets	**2,466**	5,402
Actuarial gains/(losses)	**7,019**	(11,357)
Components of defined benefit costs recognised in other comprehensive income	**9,485**	(5,955)

The defined benefit cost of HK$24,142,000 (2014: HK$27,585,000) has been included in the administrative expenses. The remeasurement of the net defined benefit liability is included in other comprehensive income.

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

	2015 HK$'000	2014 HK$'000
Equity instruments	**62,300**	56,221
Debt instruments	**87,285**	96,659
Properties	**79,654**	75,962
Commodities instruments	**772**	1,027
Assets from reinsurance	**6,639**	6,366
Hedge funds	**–**	7,519
Cash	**9,888**	13,077
	246,538	256,831

The fair values of the above equity and debt instruments are determined based on quoted market prices in active markets whereas the fair value of properties, commodities instruments, assets from reinsurance and hedge funds are not based on quoted market prices in active markets.

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

15.2 Defined benefit pension plans (continued)

(f) The principal assumptions used for the purpose of the actuarial valuations were as follows:

	2015 **HK$'000**	2014 HK$'000
Discount rate(s)	**0.8%-0.85%**	0.85%-1%
Expected salary growth rate(s)	**0.5%-1%**	0.5%-1.5%

(g) Sensitivity analysis on defined benefit pension plans

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

- If the discount rate is 50 basis points higher/(lower), the defined benefit obligation would decrease by HK$29,381,000 (2014: HK$32,613,000)/increase by HK$34,050,000 (2014: HK$37,797,000).

- If the expected salary growth rate increases/(decreases) by 50 basis points, the defined benefit obligations would increase by HK$3,865,000 (2014: HK$4,290,000)/decrease by HK$3,678,000 (2014: HK$4,925,000).

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

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

There was no change in the methods and assumptions used in preparing the sensitivity analysis from prior years.

16. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

16.1 Directors' emoluments

Details of directors' emoluments of the Group are set out below:

	Directors' fees HK$'000	Salaries, bonus, allowances and benefits in kind HK$'000	Contributions to pension scheme HK$'000	Total HK$'000
2015				
Executive directors				
Mr. Hon Kwok Lung	–	1,690	18	1,708
Mr. Shang Jianguang	–	10,169	72	10,241
Mr. Shi Tao	–	1,690	18	1,708
Mr. Lam Toi Man	–	1,430	18	1,448
Mr. Bi Bo	–	1,456	18	1,474
Ms. Sit Lai Hei	–	1,430	18	1,448
Mr. Hon Hau Wong	–	1,430	18	1,448
Mr. Tao Li	–	1,430	18	1,448
Independent non-executive directors				
Mr. Fung Tze Wa	200	–	–	200
Dr. Kwong Chun Wai, Michael	150	–	–	150
Mr. Li Qiang	150	–	–	150
Mr. Zhang Bin	150	–	–	150
	650	20,725	198	21,573

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

16.1 Directors' emoluments (continued)

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Contributions to pension scheme HK$'000	Total HK$'000
2014				
Executive directors				
Mr. Hon Kwok Lung	–	1,690	17	1,707
Mr. Shang Jianguang	–	8,776	72	8,848
Mr. Shi Tao	–	1,690	17	1,707
Mr. Lam Toi Man	–	1,430	17	1,447
Mr. Bi Bo	–	1,456	17	1,473
Ms. Sit Lai Hei	–	1,430	17	1,447
Mr. Hon Hau Wong (note a)	–	488	7	495
Mr. Tao Li (note b)	–	119	–	119
Independent non-executive directors				
Mr. Fung Tze Wa	200	–	–	200
Dr. Kwong Chun Wai, Michael	150	–	–	150
Mr. Li Qiang	150	–	–	150
Mr. Zhang Bin (note b)	15	–	–	15
	515	17,079	164	17,758

Notes:

(a) Mr. Hon Hau Wong was appointed as an executive director of the Company with effect from 29 August 2014.

(b) Mr. Tao Li was appointed as an executive director and Mr. Zhang Bin was appointed as an independent non-executive director of the Company with effect from 26 November 2014.

There was no arrangement under which a director waived or agreed to waive any remunerations during the year ended 31 December 2015 (2014: Nil).

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

16.2 Five highest paid individuals

The five highest paid individuals of the Group during the year included two (2014: one) director, details of whose remuneration are reflected in the analysis presented in note 16.1. Details of the remuneration of the remaining three (2014: four) non-director, highest paid individuals of the Group for the year are as follows:

	2015 HK$'000	2014 HK$'000
Salaries, allowances and benefits in kind	6,377	11,660
Contribution to pension scheme	355	1,045
	6,732	12,705

The emoluments of non-director highest paid individuals were within following bands:

	2015 No. of individuals	2014 No. of individuals
HK$2,000,001 to HK$2,500,000	3	–
HK$2,500,001 to HK$3,000,000	–	3
HK$4,000,001 to HK$4,500,000	–	1
	3	4

No emolument was paid by the Group to the directors or the three (2014: four) highest paid employee(s) as an inducement to join or upon joining the Group, or as compensation for loss of office (2014: Nil).

16.3 Remunerations payable to members of senior management

The remunerations payable to members of senior management (excluding the remunerations to directors which have been disclosed in note 16.1 above) were within the following bands:

	2015 No. of individuals	2014 No. of individuals
Nil to HK$1,000,000	2	2
HK$1,000,001 to HK$1,500,000	2	2
HK$4,000,001 to HK$4,500,000	–	1
	4	5

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	CIP HK$'000	Total HK$'000
At 1 January 2014							
Cost	297,530	45,567	141,208	182,306	49,976	20,107	736,694
Accumulated depreciation	(30,041)	(21,470)	(38,443)	(64,650)	(28,897)	–	(183,501)
Net carrying amount	267,489	24,097	102,765	117,656	21,079	20,107	553,193
Year ended 31 December 2014							
Opening net book amount	267,489	24,097	102,765	117,656	21,079	20,107	553,193
Additions	6,120	7,157	33,337	52,675	6,576	19,787	125,652
Acquisition of subsidiaries (note 45)	–	1,412	–	29,110	–	–	30,522
Depreciation	(9,947)	(11,074)	(19,512)	(57,022)	(6,269)	–	(103,824)
Disposal	–	(261)	(525)	(724)	(322)	–	(1,832)
Exchange realignment	(12,055)	(323)	(4,807)	(7,133)	(224)	(2,508)	(27,050)
Closing carrying amount	251,607	21,008	111,258	134,562	20,840	37,386	576,661
At 31 December 2014							
Cost	291,121	52,824	166,377	227,756	54,347	37,386	829,811
Accumulated depreciation	(39,514)	(31,816)	(55,119)	(93,194)	(33,507)	–	(253,150)
Net carrying amount	251,607	21,008	111,258	134,562	20,840	37,386	576,661
Year ended 31 December 2015							
Opening net book amount	**251,607**	**21,008**	**111,258**	**134,562**	**20,840**	**37,386**	**576,661**
Additions	**6,305**	**6,072**	**20,470**	**74,653**	**2,332**	**178,261**	**288,093**
Disposal of a subsidiary (note 12.1)	**–**	**(24)**	**–**	**(172)**	**–**	**–**	**(196)**
Depreciation	**(9,969)**	**(11,036)**	**(19,285)**	**(56,492)**	**(6,362)**	**–**	**(103,144)**
Disposal	**–**	**–**	**(100)**	**(81)**	**(503)**	**–**	**(684)**
Exchange realignment	**(7,460)**	**(594)**	**(4,692)**	**(6,020)**	**(641)**	**(10,524)**	**(29,931)**
Closing carrying amount	**240,483**	**15,426**	**107,651**	**146,450**	**15,666**	**205,123**	**730,799**
At 31 December 2015							
Cost	**287,511**	**56,174**	**179,368**	**287,939**	**49,845**	**205,123**	**1,065,960**
Accumulated depreciation	**(47,028)**	**(40,748)**	**(71,717)**	**(141,489)**	**(34,179)**	**–**	**(335,161)**
Net carrying amount	**240,483**	**15,426**	**107,651**	**146,450**	**15,666**	**205,123**	**730,799**

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

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

	2015 HK$'000	2014 HK$'000
Short-term leases	**458**	515
Medium-term leases	**239,702**	250,639
Long-term leases	**323**	453
	240,483	251,607

The aforesaid land and buildings are located outside Hong Kong.

At 31 December 2015, land and buildings in Switzerland with an aggregated carrying value of HK$129,397,000 (2014: HK$132,104,000) have been pledged to secure banking facilities granted to the Group (note 33).

(b) At 31 December 2015, the Group has not yet obtained the title certificates for certain leasehold buildings in the PRC with an aggregate carrying value of approximately HK$3,467,000 (2014: HK$597,000). The Group's legal advisor has confirmed that the Group has legally obtained the rights to use the buildings. The directors are now in process of obtaining the title certificates from the relevant government authorities.

(c) At 31 December 2015, there was no asset acquired under finance lease (2014: furniture, fixture and office equipment with net carrying amount of HK$1,591,000).

18. INVESTMENT PROPERTIES

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

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

	2015 HK$'000	2014 HK$'000
Carrying amount at 1 January	**112,175**	109,097
Net (deficit)/surplus on revaluation of investment properties	**(499)**	3,078
Carrying amount at 31 December	**111,676**	112,175

18. INVESTMENT PROPERTIES (continued)

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

	2015 HK$'000	2014 HK$'000
Hong Kong	**23,800**	22,800
PRC	**87,876**	89,375
	111,676	112,175

At 31 December 2015, the Group has not obtained the relevant title certificates for investment properties with an aggregate carrying value of HK$41,900,000 (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.

At 31 December 2015, investment properties in Hong Kong with an aggregate carrying value of HK$23,800,000 (2014: HK$22,800,000) have been pledged to secure banking facilities granted to the Group (note 33).

Investment properties were revalued at 31 December 2015 and 2014 by Asset Appraisal Limited ("Asset Appraisal") and Chung, Chan & Associate, independent professionally qualified valuers, at HK$111,676,000 (2014: HK$112,175,000) in aggregate. Asset Appraisal is a member of Hong Kong Institutes of Surveyors, and Chung, Chan & Associates is a member of Royal Institution of Chartered Surveyors. Both have appropriate qualifications and relevant experiences in the location and category of properties being valued.

Fair value hierarchy

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

	2015 HK$'000	2014 HK$'000
Opening balance (Level 3 recurring fair value)	**112,175**	109,097
Net (deficit)/surplus on revaluation of investment properties	**(499)**	3,078
Closing balance (Level 3 recurring fair value)	**111,676**	112,175
Change in unrealised (losses)/gains for the year included in profit or loss for assets held at 31 December	**(499)**	3,078

During the years ended 31 December 2015 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

18. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Significant unobservable inputs	Range
Capitalisation rate	2.9% to 7% (2014: 2.5% to 7%)
Market unit rent per square metre	HK$6 to HK$77 (2014: HK$6 to HK$83)

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

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

One of the key inputs used under direct comparison method in valuing the investment property was the price per square feet and taking into account of location and other individual factors. The price per square feet used is approximately HK$14,570 (2014: HK$14,060). An increase in the price per square feet would result in an increase in the fair value measurement of the investment property, and vice versa.

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

19. PREPAID LAND LEASE PAYMENTS

Changes to the carrying amounts are summarised as follows:

	2015 **HK$'000**	2014 HK$'000
Carrying amount at 1 January	**38,828**	39,856
Additions	**12,546**	–
Amortisation during the year	**(1,015)**	(1,028)
Exchange realignment	**(4,151)**	–
Carrying amount at 31 December	**46,208**	38,828
Less: Current portion	**(966)**	(1,028)
Non-current portion	**45,242**	37,800

As at 31 December 2015 and 2014, all of the Group's prepaid land lease payments are related to land located in the PRC and held under medium-term leases.

At 31 December 2015, the Group's prepaid land lease payments included certain land use rights with a net carrying amount of HK$11,949,000 (2014: Nil) for which the Group is still in the process of obtaining the land use rights certificate. The Group's legal advisor has confirmed that the Group has the legal right to use the land and there is no legal impediment to obtain the land use right certificate.

20. GOODWILL

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

	2015 HK$'000	2014 HK$'000
At 1 January		
Gross carrying amount	**791,031**	670,777
Accumulated impairment	**(49,395)**	–
Net carrying amount	**741,636**	670,777
Year ended 31 December		
Opening carrying amount	**741,636**	670,777
Acquisition of subsidiaries (note 45)	**–**	120,254
Impairment loss	**–**	(49,395)
Closing carrying amount	**741,636**	741,636
At 31 December		
Gross carrying amount	**791,031**	791,031
Accumulated impairment losses	**(49,395)**	(49,395)
Net carrying amount	**741,636**	741,636

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

	2015 HK$'000	2014 HK$'000
Jia Cheng Investment Limited and its subsidiaries	**621,382**	621,382
Corum Group	**49,395**	49,395
Dreyfuss Group	**120,254**	120,254
Gross carrying amount	**791,031**	791,031

Valuations were carried out by Asset Appraisal to assess the recoverable amount of the goodwill arising from the acquisitions. The Group's management's key assumptions for the Group include stable profit margins, which have been determined based on the past performance and its expectations for the market share after taking into consideration of published market forecasts included in industry reports.

20. GOODWILL (continued)

Jia Cheng Investment Limited and its subsidiaries

The recoverable amount of this CGU is determined based on a value-in-use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period, followed by an extrapolation of expected cash flow at the growth rates of 3% (2014: 3%) which do not exceed the long-term growth rate for the business in which the CGU operates, and a discount rate of 17.12% per annum (2014: 17.55%). The discount rate used is pre-tax and reflect specific risks relating to the CGU. The directors believe that any reasonably possible changes in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable of the CGU.

Dreyfuss Group

The recoverable amount of this CGU is determined based on a value-in-use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period, followed by an extrapolation of expected cash flow at the growth rates of 3% (2014: 3%) which do not exceed the long-term growth rate for the business in which the CGU operates, and a discount rate of 18.72% (2014: 17.32%) per annum. The discount rate used is pre-tax and reflect specific risks relating to the CGU. The directors believe that any reasonably possible changes in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable of the CGU.

Corum Group

The recoverable amount of this CGU is determined based on a value-in-use calculation which uses cash flow projections based on financial budgets approved by the directors covering a five-year period, followed by an extrapolation of expected cash flow at the growth rate of 3% (2014: 3%) which do not exceed the long-term growth rate for the business in which the CGU operates, and a discount rate of 17.94% (2014: 19.56%) per annum. The discount rate used is pre-tax and reflect specific risks relating to the CGU. Corum Group incurred significant loss for the year ended 31 December 2014 and the revenue growth is not achieved as previously expected. The directors of the Company considered the goodwill and intangible assets arising from the acquisition of Corum Group should be impaired. As the recoverable amount of the CGU of Corum Group amounting to HK$158,611,000 is lower than its carrying amount, an impairment loss on the goodwill of HK$49,395,000 was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2014.

Goodwill arising from business combinations prior to 2001 had been eliminated against the consolidated reserves. As at 31 December 2015, the carrying amount of goodwill in the consolidated reserves was HK$15,300,000 (2014: HK$15,300,000).

21. INTERESTS IN ASSOCIATES

	2015 HK$'000	2014 HK$'000
At 1 January	56,020	70,203
Share of total comprehensive income of associates	9,818	13,317
Dividend income from an associate	–	(27,500)
Exchange realignment	(10)	–
	65,828	56,020

Particulars of the principal associate, which is a limited liability company, at 31 December 2015 are as follows:

Name	Particulars of issued/paid-up capital	Place of incorporation	Percentage of interest held	Principal activities and place of operation
Fair Future Industrial Limited	HK$600,000	Hong Kong	25% (2014: 25%)	Manufacturing of watches and related accessories in the PRC

The summarised financial information of the Group's material associate extracted from its unaudited management accounts for the years ended 31 December 2015 and 2014 is as follows:

	2015 HK$'000	2014 HK$'000
Fair Future Industrial Limited ("Fair Future")		
As at 31 December		
Current assets	606,628	862,878
Non-current assets	40,390	34,633
Current liabilities	535,947	824,487
Non-current liabilities	782	531
Net assets	110,289	72,493
Non-controlling interests	434	(1,043)
Net assets attributable to shareholders of the associate	110,723	71,450
Reconciliation to the Group's interest in Fair Future:		
Proportion of the Group's ownership	25%	25%
Group's share of net assets of the associate	27,681	17,863
Goodwill on acquisition	37,987	37,987
Carrying amount of the investment	65,668	55,850

21. INTERESTS IN ASSOCIATES (continued)

	2015 HK$'000	2014 HK$'000
For the year ended 31 December		
Revenue	**1,182,278**	1,109,062
Profit for the year	**37,260**	51,969
Other comprehensive income	**536**	(66)
Total comprehensive income	**37,796**	51,903
Profit for the year attributable to shareholders of an associate	**38,739**	53,333
Total comprehensive income for the year attributable to shareholders of an associate	**39,272**	53,267
Dividend receivable from an associate	**–**	27,500
Reconciliation to the Group's share of results of Fair Future:		
Proportion of the Group's ownership	**25%**	25%
Group's share of profits of the associate	**9,685**	13,333
Group's share of other comprehensive income of the associate	**133**	(16)
Share of total comprehensive income of the associate	**9,818**	13,317

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2015 HK$'000	2014 HK$'000
Listed equity investment, at fair value (note a)	**317,173**	308,122
Unlisted equity investment, at cost – Others (note b)	**77**	82
Total	**317,250**	308,204

22. AVAILABLE-FOR-SALE FINANCIAL ASSETS (continued)

Notes:

(a) During the year, Citychamp Dartong Company Limited (referred to "Dartong" and its shares referred to as the "Dartong Shares") declared a cash dividend of RMB2 per 10 shares (2014: Nil). A dividend income totalling HK$7,597,000 (2014: Nil) was recognised by the Group in the consolidated statement of comprehensive income for the year ended 31 December 2015.

Particulars of the available-for-sale financial assets of listed equity investment, at fair value are as follows:

Name	Country of incorporation	Particulars of issued shares held	Number of shares held by the Group	Percentage of ownership interest attributable to the Group
Citychamp Dartong Company Limited	PRC	Ordinary A Share	30,389,058 (2014: 30,389,058)	2.05% (2014: 2.55%)

During the year, the increase in fair value of Dartong Shares of HK$9,051,000 (2014: decrease in fair value of HK$11,533,000) has been dealt with in other comprehensive income and the investment revaluation reserve.

For the year ended 31 December 2014, the Group has completed the disposal of 55,000,000 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 year ended 31 December 2014. The Group has not disposed of any Dartong Shares during the year ended 31 December 2015.

(b) These are investments in unlisted private entities incorporated in the PRC. Its fair value information is not disclosed because the related fair value cannot be measured reliably, and they are measured at cost less impairment at each reporting date accordingly.

23. CONVERTIBLE BOND INVESTMENT

The Group has subscribed a convertible bond issued by a company listed in Hong Kong, which is due on 1 December 2018 and convertible into fully paid ordinary shares with a par value of HK$0.1 each at an initial conversion price of HK$5, subject to adjustment on the occurrence of dilutive or concentrative event. The Group can exercise the conversion option at anytime until the maturity date and the convertible bond cannot be redeemed before maturity date (in whole or in part).

The principal amount of the convertible bond was HK$10,000,000, which carries interest at 8% per annum payable every six months in arrears. There was no disposal or conversion of the convertible bond during the year ended 31 December 2015.

The convertible bond is separated into two components: the debt component and the conversion option component. The Group has classified the debt component of the convertible bond as loans and receivables and the conversion option component of the convertible bond as derivative financial instruments.

23. CONVERTIBLE BOND INVESTMENT (continued)

The initial value of the debt component is the residual value after separating out the initial fair value of conversion option component. The initial fair value of conversion option component is determined by the directors with reference to the valuation performed by a valuer, Asset Appraisal. Subsequent to initial recognition, the debt component is carried at amortised cost using the effective interest method and the conversion option component is carried at fair value. The effective interest rate of the debt component is 29% (2014: Nil) as at 31 December 2015.

The fair value of the conversion option component is determined by the directors with reference to the valuation performed by Asset Appraisal using Binomial Option Pricing Model with the following key assumptions in respect of the convertible bond issuer:

	At subscription date	At 31 December 2015
Stock price	**HK$4.99**	**HK$3.83**
Conversion price	**HK$5.00**	**HK$5.00**
Expected volatility	**38.19%**	**38.62%**
Discount rate	**18.64%**	**16.62%**
Risk free rate	**0.76%**	**0.70%**
Expected dividend yield	**0.00%**	**0.00%**

The carrying amounts of the debt component and conversion option component of the convertible bond are as follows:

	Debt component HK$'000	Conversion option component HK$'000	Total HK$'000
At subscription date	**6,007**	**3,993**	**10,000**
Interest receivable	**(66)**	**–**	**(66)**
Effective interest income	**142**	**–**	**142**
Change in the fair value of conversion option component	**–**	**(1,749)**	**(1,749)**
At 31 December 2015	**6,083**	**2,244**	**8,327**

The fair value loss of the conversion option component during the year was amounted to HK$1,749,000 (2014: Nil), which has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2015.

The fair value of the conversion option component is Level 3 recurring fair value measurement. There is no transfer under the fair value hierarchy classification for the year ended 31 December 2015.

The key significant unobservable inputs to determine the fair value of the derivative component are the stock price and expected volatility. A higher in the stock price and expected volatility would result in an increase in the fair value of the conversion option component, and vice versa.

24. INTANGIBLE ASSETS

	Supplier and distribution networks HK$'000	Brand names HK$'000	Patents HK$'000	Total HK$'000
At 1 January 2014				
Cost	123,195	146,855	32,959	303,009
Accumulated amortisation	(20,532)	(141)	(4,073)	(24,746)
Net carrying amount	102,663	146,714	28,886	278,263
Year ended 31 December 2014				
Opening carrying amount	102,663	146,714	28,886	278,263
Additions	–	–	1,367	1,367
Acquisition of subsidiaries (note 45)	–	124,720	–	124,720
Impairment loss	(2,024)	(104,833)	(26,309)	(133,166)
Amortisation	(13,675)	(80)	(282)	(14,037)
Exchange realignment	(198)	(24,060)	(2,965)	(27,223)
Closing carrying amount	86,766	142,461	697	229,924
At 31 December 2014				
Cost	122,670	247,518	30,933	401,121
Accumulated amortisation and impairment	(35,904)	(105,057)	(30,236)	(171,197)
Net carrying amount	86,766	142,461	697	229,924
Year ended 31 December 2015				
Opening carrying amount	**86,766**	**142,461**	**697**	**229,924**
Additions	**–**	**–**	**698**	**698**
Disposal of a subsidiary (note 12.1)	**(41,260)**	**–**	**–**	**(41,260)**
Disposal	**(765)**	**–**	**(591)**	**(1,356)**
Amortisation	**(8,826)**	**(79)**	**(191)**	**(9,096)**
Exchange realignment	**(1,327)**	**(5,293)**	**(20)**	**(6,640)**
Closing carrying amount	**34,588**	**137,089**	**593**	**172,270**
At 31 December 2015				
Cost	**58,024**	**242,080**	**31,497**	**331,601**
Accumulated amortisation and impairment	**(23,436)**	**(104,991)**	**(30,904)**	**(159,331)**
Net carrying amount	**34,588**	**137,089**	**593**	**172,270**

As at 31 December 2014, intangible assets with indefinite useful lives amounted to HK$98,441,000 and intangible assets with definite useful lives amounted to HK$5,055,000 are attributable to the CGU of Corum Group. As the recoverable amount of the CGU of Corum Group is lower than its carrying amount, an impairment loss on the intangible assets of HK$75,417,000 was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2014. No further impairment loss has been provided for the year ended 31 December 2015. Details of the impairment assessment of the CGU of Corum Group are set out in note 20 to the financial statements.

24. INTANGIBLE ASSETS (continued)

As at 31 December 2014, intangible assets with indefinite useful lives amounted to HK$33,034,000 and intangible assets with definite useful lives amounted to HK$24,715,000 are attributable to the CGU of Eterna Group. The recoverable amount of the CGU of Eterna Group has been determined from value-in-use calculation in which overall negative cash flow is expected. As a result, the recoverable amount of the CGU of Eterna Group would be nil. In the opinion of the directors of the Company, the revenue growth of Eterna Group is not achieved as previously expected and it is uncertain that those intangible assets could generate economic benefit to Eterna Group. As such, the recoverable amount of the intangible assets would be minimal. An impairment loss on the intangible assets of HK$57,749,000 was recognised in the consolidated statement of comprehensive income for the year ended 31 December 2014. No further impairment loss has been provided for the year ended 31 December 2015.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 **HK$'000**	2014 HK$'000
Other receivables	**299,162**	206,749
Dividend receivable from an associate	**27,500**	27,500
Consideration receivable from an associate in respect of disposal of brand name (note 44.1 (ii))	**25,000**	–
Consideration receivable in respect of disposal of a subsidiary (note 12.2)	**39,364**	57,046
Amounts due from associates	**17,107**	11,017
Amounts due from related companies	**911**	285
Prepayments	**108,052**	190,368
Deposits	**26,919**	4,772
Carrying amount at 31 December	**544,015**	497,737
Less: Current portion	**(522,128)**	(473,745)
Non-current portion	**21,887**	23,992

None of the above other receivables is either past due or impaired. Other receivables relate to counterparties for which there was no recent history of default.

26. INVENTORIES

	2015 **HK$'000**	2014 HK$'000
Raw materials	**246,328**	312,300
Work-in-progress	**367,055**	276,705
Finished goods and merchandises	**1,429,509**	1,476,389
	2,042,892	2,065,394

27. TRADE RECEIVABLES

	2015 HK$'000	2014 HK$'000
Trade receivables	**757,927**	854,833
Less: Provision for impairment loss	**(64,059)**	(61,994)
Trade receivables, net	**693,868**	792,839

The Group's trading terms with its customers are mainly on credit. The credit period is generally for a period of one to six months (2014: one to six months) for major customers. The credit term for customers is determined by the management according to industry practice together with consideration of their creditability. In view of the aforementioned and the fact that the Group's trade receivables relate to a wide range of customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

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

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

	2015 HK$'000	2014 HK$'000
At 1 January	**61,994**	2,477
Reversal of impairment loss previously recognised	**(9,864)**	(321)
Impairment loss for the year	**12,688**	61,145
Exchange realignment	**(759)**	(1,307)
At 31 December	**64,059**	61,994

At each reporting date, the Group reviews trade receivables for evidence of impairment on both an individual and collective basis. The Group does not hold any collateral over these balances. As at 31 December 2015, no trade receivables (2014: HK$109,760,000) have been pledged to secure banking facilities granted to the Group (note 33).

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

	2015 HK$'000	2014 HK$'000
1 to 3 months	**562,540**	612,274
4 to 6 months	**68,523**	110,593
Over 6 months	**62,805**	69,972
	693,868	792,839

27. TRADE RECEIVABLES (continued)

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

	2015 HK$'000	2014 HK$'000
Neither past due nor impaired	**241,825**	250,157
Less than 3 months past due	**353,343**	417,471
More than 3 months but less than 6 months past due	**50,851**	74,297
More than 6 months past due	**47,849**	50,914
	452,043	542,682
	693,868	792,839

Receivables that were neither past due nor impaired related to a wide range of customers for whom most of them do not have recent history of default.

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

The directors of the Company consider that as trade receivables are expected to be recovered within one year, their fair values are not materially different from their carrying amounts because these balances have short maturity periods on their inception at the reporting date.

28. EQUITY INVESTMENTS HELD FOR TRADING

	2015 HK$'000	2014 HK$'000
Listed equity investments in Hong Kong, at market value	**367,471**	271,552

Fair value of the listed equity securities have been determined by reference to their quoted market prices at the reporting date in an active market.

The equity investments are held for trading purposes. The fair value gain during the year was amounted to HK$29,078,000 (2014: HK$45,734,000), which has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2015.

The fair value of the equity investment held for trading is Level 1 recurring fair value measurement. There is no transfer under the fair value hierarchy classification for the year ended 31 December 2015.

29. SHORT-TERM INVESTMENTS

During the year, the Group purchased short-term investments from major banks in the PRC in which the balance of HK$101,797,000 (2014: HK$75,824,000) was subject to maturity up to January 2016 (2014: January 2015) and the balance of HK$41,565,000 (2014: HK$73,417,000) was not subject to maturity.

For those short-term investments not subject to maturity, the Group is entitled to redeem the investments with the banks at anytime with immediate effect. The estimated return from these short-term investments ranged from 4.4% to 6% per annum (2014: 3.86% 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.

30. CASH AND BANK BALANCES

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

Included in cash and bank balances of the Group are the amount of approximately HK$226,043,000 (2014: HK$195,577,000) denominated in RMB which are placed with the banks in the PRC. RMB is not freely convertible into other currencies. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB into foreign currencies through the banks authorised to conduct foreign exchange business.

31. TRADE PAYABLES

The credit terms of trade payables vary according to the terms agreed with different suppliers. Ageing analysis of trade payables as at the reporting dates, based on the invoice dates, is as follows:

	2015 HK$'000	2014 HK$'000
1 to 3 months	**320,297**	316,213
4 to 6 months	**16,745**	22,046
Over 6 months	**22,491**	20,580
	359,533	358,839

Trade payables are non-interest bearing.

32. OTHER PAYABLES AND ACCRUALS

	2015 HK$'000	2014 HK$'000
Accruals	**142,781**	103,393
Promissory notes for share repurchase (note)	**–**	102,090
Consideration payable for acquisition of Dreyfuss Group (note 34)	**11,638**	–
Other payables	**331,562**	350,130
Warranty provision	**5,457**	6,816
Carrying amount at 31 December	**491,438**	562,429
Less: Current portion	**(431,407)**	(507,023)
Non-current portion	**60,031**	55,406

Notes:

Promissory notes in the aggregate with the principal amount of approximately US$26,312,000 (equivalent to approximately HK$204,400,000) were issued to the vendor for the repurchase of the Company's ordinary shares. The outstanding amount of the promissory notes as at 31 December 2014 was US$13,156,000 (equivalent to approximately HK$102,090,000). Promissory notes were unsecured, interest-free and repayable on 15 June 2015 and 15 December 2015.

33. BORROWINGS

	2015 HK$'000	2014 HK$'000
Bank borrowings (note a)	**938,532**	772,750
Other borrowings (note b)	**–**	50,387
Finance lease payables (note c)	**–**	1,540
Carrying amount at 31 December	**938,532**	824,677
Less: Current portion	**(766,654)**	(349,195)
Non-current portion	**171,878**	475,482

(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:

	2015 HK$'000	2014 HK$'000
Bank borrowings payable:		
Within one year or on demand	**559,977**	292,698
In the second year	**258,815**	304,879
In the third to fifth year	**104,744**	157,533
After fifth year	**14,996**	17,640
	378,555	480,052
	938,532	772,750

The abovementioned bank borrowings are charged at floating rates ranging from 2.1% to 6.11% (2014: 2.18% to 7.34%) per annum.

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

(i) corporate guarantees provided by subsidiaries within the Group as at 31 December 2015 and 2014;

(ii) a corporate guarantee provided by Fujian Fengrong Investment Company Limited ("Fengrong") as at 31 December 2015 and 2014 (note 44.1 (v));

(iii) a legal charge over certain of the Group's land and buildings and investment properties with the carrying amounts of HK$129,397,000 (2014: HK$132,104,000)(note 17(a)) and HK$23,800,000 (2014: HK$22,800,000)(note 18) as at 31 December 2015;

(iv) certain of the Group's trade receivables with the carrying amounts of HK$109,760,000 (note 27) as at 31 December 2014; and

(v) a personal guarantee of HK$27,600,000 provided by the director of a subsidiary as at 31 December 2015 and 2014.

Certain of bank borrowings contain clause which give the banks the right at their sole discretion to demand immediate repayment at any time irrespective of whether the Group has complied with the covenants and met the scheduled repayment obligations. Borrowings due for repayment after one year contained a repayment on demand clause are classified as current liabilities which are expected to be settled within one year. The carrying amounts of the borrowings approximate to their fair value.

33. 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. The borrowings had been fully repaid in February 2015.

The Group did not have any such financing arrangement as at 31 December 2015.

(c) Finance lease payables

As at 31 December 2015, the Group does not have finance lease obligation. The analysis of the obligation under finance lease as at 31 December 2014 is as follows:

	2014 HK$'000
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:	
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	–

34. CONTINGENT CONSIDERATION PAYABLE

	2015 HK$'000	2014 HK$'000
Contingent consideration payable	**–**	10,669

Contingent consideration payable represented the fair value of final consideration payments of the acquisition of the Dreyfuss Group as disclosed in note 45 to the financial statements.

For the year ended 31 December 2014, the directors of the Company were of the opinion that Dreyfuss Group cannot achieve the profit target by reference to actual financial result for the year ended 31 December 2014. The final consideration payable to the vendor should be adjusted from GBP5,000,000 (equivalent to approximately HK$65,180,000) to GBP885,000 (equivalent to approximately HK$10,669,000).

For the year ended 31 December 2015, the final consideration payable to the vendor has been mutually agreed at GBP1,050,000 (equivalent to approximately HK$11,638,000) and the amount was recognised as other payables (note 32). The fair value loss of contingent consideration payable of HK$969,000 (2014: fair value gain of HK$54,511,000) has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2015.

The fair value of the contingent consideration payable is a level 3 resuming fair value measurement. The details of assessment are set out in note 47.8 to the financial statements.

35. DERIVATIVE FINANCIAL INSTRUMENTS

	Notes	**2015 HK$'000**	2014 HK$'000
Derivative financial asset			
Currency forward contract	(a)	**–**	1,653
Derivative financial liabilities			
Financial undertakings provided by the Group in relation to issuance of ordinary shares for:			
– Acquisition of intangible assets	(b)	**(7,260)**	(25,544)
– Acquisition of an associate	(c)	**–**	(935)
		(7,260)	(26,479)

Notes:

(a) As at 31 December 2015, there was no outstanding forward exchange contracts held by the Group.

The fair value loss during the year was amounted to HK$1,660,000 (2014: fair value gain of HK$1,753,000), which has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2015.

(b) 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.

(c) Acquisition of an associate

In previous years, 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 have 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 financial undertaking has been expired for the year ended 31 December 2015.

The aforementioned financial undertakings in note (b) and note (c) meet the definition of derivatives in accordance with HKAS 39. The value of the financial undertakings will change in response to changes in the share price of the Company's shares. There are no initial net investments and they are settled at a future date. In these regards, the financial undertakings are accounted for as derivative financial instruments, which are designated as financial liabilities at fair value through profit or loss. The fair value gain of the derivative financial instruments during the year was amounted to HK$19,219,000 (2014: HK$16,862,000), which has been recognised in the consolidated statement of comprehensive income for the year ended 31 December 2015.

The fair value of the derivative financial liabilities are measured by the directors with reference to the valuation performed by Asset Appraisal using Black Scholes Model with the following key assumptions:

	31/12/2015	31/12/2014
Stock price	**HK$1.31**	HK$0.97
Expected dividend yield	**2.076%**	3.959%
Risk free rate	**1.04%**	0.12%–1.43%
Expected volatility	**39.65%**	30.68%–37.65%

The fair value of the derivative financial instruments is level 3 recurring fair value measurement. The details of assessment are set out in note 47.8 to the financial statements.

36. DUE TO RELATED COMPANIES

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

37. CORPORATE BONDS

	2015 HK$'000	2014 HK$'000
At 1 January	**764,914**	–
Issuance of corporate bonds	**–**	825,062
Amortisation of transaction cost	**3,561**	2,001
Repurchase of corporate bonds	**(58,136)**	–
Exchange realignment	**(1,505)**	(62,149)
At 31 December	**708,834**	764,914

On 24 July 2014, the Group 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.

Net proceeds from the issue of the corporate bonds, as reduced by transaction cost, amounted to approximately CHF97,295,000 (equivalent to approximately HK$762,913,000).

The Group 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.

During the year ended 31 December 2015, the Group has repurchased certain corporate bonds of principal amount of CHF7,385,000 (equivalent to approximately HK$58,136,000) at the consideration of CHF6,360,000 (equivalent to approximately HK$51,262,000). The Group recognised a gain on repurchase of the corporate bonds of CHF853,000 (equivalent to approximately HK$6,872,000) (after unamortised placement fee) for the year ended 31 December 2015 (2014: Nil).

38. DEFERRED TAX

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

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

	Provision for inventories HK$'000	Revaluation of inventories HK$'000	Revaluation of intangible assets HK$'000	Revaluation of property, plant and equipment HK$'000	Tax losses HK$'000	Impairment loss on investments HK$'000	Temporary difference arising from bond repurchase HK$'000	Accelerated tax depreciation HK$'000	Total HK$'000
At 1 January 2014	1,344	(9,424)	(26,437)	(5,503)	41,364	(24,693)	–	–	(23,349)
Acquisition of subsidiaries (note 45)	–	(3,269)	(28,723)	–	5,666	–	–	2,100	(24,226)
Credited/(charged) to profit or loss	(1,344)	12,379	25,739	–	(32,733)	23,745	–	1,064	28,850
Exchange realignment	–	314	2,879	550	(2,061)	674	–	(224)	2,132
At 31 December 2014 and 1 January 2015	**–**	**–**	**(26,542)**	**(4,953)**	**12,236**	**(274)**	**–**	**2,940**	**(16,593)**
Credited/(charged) to profit or loss (note 11)	**–**	**–**	**–**	**–**	**(2,194)**	**–**	**(1,942)**	**15**	**(4,121)**
Exchange realignment	**–**	**–**	**1,211**	**19**	**(286)**	**1**	**60**	**(136)**	**869**
At 31 December 2015	**–**	**–**	**(25,331)**	**(4,934)**	**9,756**	**(273)**	**(1,882)**	**2,819**	**(19,845)**

38. DEFERRED TAX (continued)

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

	2015 HK$'000	2014 HK$'000
Deferred tax assets	**7,641**	10,223
Deferred tax liabilities	**(27,486)**	(26,816)
	(19,845)	(16,593)

As at 31 December 2015, the Group has estimated unused tax losses arising in Hong Kong of HK$282,589,000 (2014: HK$237,859,000), subject to the agreement of Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2015, the Group has estimated unused tax losses arising in the PRC was amounted to HK$64,246,000 (2014: HK$42,556,000) which are available for offsetting against future taxable profits of the companies will expire at various dates for a maximum period of five years from the reporting date. Deferred tax assets have not been recognised in respect of these estimated unused tax losses as these were incurred by the companies that have been loss-making for some time.

As at 31 December 2015, the Group has estimated unused tax losses in United Kingdom of HK$35,689,000 (2014: HK$37,396,000), subject to the agreement of tax bureau in United Kingdom, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets of HK$4,822,000 (2014: HK$7,283,000) have been recognised in respect of these estimated unused tax losses.

As at 31 December 2015, the Group has estimated unused tax losses in Switzerland of HK$1,554,116,000 (2014: HK$1,442,007,000), subject to the agreement of tax bureau in Switzerland, that are available for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets of HK$4,934,000 (2014: HK$4,953,000) have been recognised in respect of these estimated unused tax losses to the extent of deferred tax liabilities recognised in respect of revaluation of identifiable assets as a result of the acquisitions. Deferred tax assets have not been recognised in respect of the estimated unused tax losses as these were incurred by the subsidiaries that have been loss-making for some time. These estimated unused tax losses will expire at various dates for a maximum period of five years from the reporting date.

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

As at 31 December 2015, deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries amounted to HK$1,548,493,000 (2014: HK$1,395,929,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

39. SHARE CAPITAL

	2015 Number of shares '000	2015 HK$'000	2014 Number of shares '000	2014 HK$'000
Authorised:				
Ordinary shares of HK$0.10 each at 1 January and 31 December	**6,000,000**	**600,000**	6,000,000	600,000
Issued and fully paid:				
At 1 January	**4,408,924**	**440,893**	4,728,399	472,840
Issuance of shares for acquisitions of intangible assets, subsidiaries and an associate (note a)	**–**	**–**	18,000	1,800
Repurchase of ordinary shares (note b)	**–**	**–**	(340,300)	(34,030)
Share option scheme – proceeds from shares issued (note c)	**450**	**45**	2,825	283
At 31 December	**4,409,374**	**440,938**	4,408,924	440,893

Notes:

(a) 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 in 2012. 38,000,000 ordinary shares had been issued to the vendor before 31 December 2013 and the remaining 18,000,000 ordinary shares have been issued to the vendor in January 2014. (note 35(c)). The excess of the fair value of shares issued over the nominal value of the ordinary shares of HK$8,045,000 has been included in share premium account.

(b) On 13 February 2014, the Company entered into a share repurchase agreement with Severin Participations GmbH and the trustee of Severin Wunderman Family Trust for the benefit of Michael Wunderman as the vendors, pursuant to which the Company conditionally agreed to purchase and vendors conditionally agreed to sell 340,300,000 shares of the Company. The agreed repurchase price is HK$0.75 and the aggregate consideration is HK$255,225,000. Following the completion of the share repurchase, the number of issued shares was reduced by 340,300,000 accordingly. Details of the share repurchase were set out in the Company's announcement dated 13 February 2014.

(c) During the year, 450,000 (2014: 2,825,000) new ordinary shares of the Company were issued upon the exercise of share options. The total proceeds received for the issue of shares under the share option scheme are HK$146,000 (2014: HK$919,000). The amount of HK$101,000 (2014: HK$636,000), representing the excess of the proceeds received over the nominal value of the ordinary shares of HK$45,000 (2014: HK$283,000), has been included in share premium account.

Details of the share options exercised during the years ended 31 December 2015 and 2014 are summarised in note 40. All shares issued in both years in relation to the share option scheme have the same rights as the Company's other issued ordinary shares.

40. SHARE-BASED COMPENSATION

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

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

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

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

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

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

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

40. SHARE-BASED COMPENSATION (continued)

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

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

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

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

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

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

	2015		2014	
	Number '000	**Weighted average exercise price HK$**	Number '000	Weighted average exercise price HK$
Outstanding at 1 January	**13,885**	**0.325**	16,710	0.325
Exercised	**(450)**	**0.325**	(2,825)	0.325
Outstanding at 31 December	**13,435**	**0.325**	13,885	0.325
Exercisable at the end of the year	**13,435**	**0.325**	13,885	0.325

40. SHARE-BASED COMPENSATION (continued)

The options outstanding at 31 December 2015 had a weighted average remaining contractual life of 3 years (2014: 4 years). The weighted average share price for share options exercised during the year at the date of exercise was HK$1 (2014: HK$0.95) per share.

During the year, there is no equity-settled share-based compensation (2014: Nil).

Movements of the New Scheme for the years ended 31 December 2015 and 2014 are as follows:

2015

	Number of share options		
Name or category of participants	**At 1 January 2015**	**Exercised during the year**	**At 31 December 2015**
Independent non-executive director Mr. 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**

2014

	Number of share options		
Name or category of participants	At 1 January 2014	Exercised during the year	At 31 December 2014
Independent non-executive director Mr. Li Qiang	3,500,000	–	3,500,000
Other eligible employees In aggregate	6,925,000	(2,625,000)	4,300,000
Other eligible persons In aggregate	6,285,000	(200,000)	6,085,000
Total	16,710,000	(2,825,000)	13,885,000

41. RESERVES

Group

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

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

Certain amounts of goodwill arising on the acquisition of subsidiaries in prior years remain eliminated against the consolidated reserves as explained in note 20 to the financial statements.

Company

The reserves of the Company as at 31 December 2015 and 2014 are as follows:

	Share premium account HK$'000	Share option reserve HK$'000	Other reserve HK$'000	Shares to be issued reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2014	1,053,488	2,534	22,692	9,845	234,141	1,322,700
Issuance of shares for acquisition of an associate	8,045	–	–	(9,845)	–	(1,800)
Repurchase of ordinary shares	(221,195)	–	–	–	–	(221,195)
Proceeds from shares issued under share option scheme	636	–	–	–	–	636
Exercise of share options	428	(428)	–	–	–	–
Dividends paid to owners of the Company	–	–	–	–	(158,721)	(158,721)
Loss and total comprehensive income for the year	–	–	–	–	(87,215)	(87,215)
At 31 December 2014 and 1 January 2015	**841,402**	**2,106**	**22,692**	**–**	**(11,795)**	**854,405**
Proceeds from shares issued under share option scheme	**101**	**–**	**–**	**–**	**–**	**101**
Exercise of share options	**68**	**(68)**	**–**	**–**	**–**	**–**
Profit and total comprehensive income for the year	**–**	**–**	**–**	**–**	**97,607**	**97,607**
At 31 December 2015	**841,571**	**2,038**	**22,692**	**–**	**85,812**	**952,113**

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

42. OPERATING LEASE ARRANGEMENTS/COMMITMENTS

42.1 At 31 December 2015, total future minimum lease receipts by the Group under non-cancellable operating leases are as follows:

	2015 HK$'000	2014 HK$'000
Within one year	**13,242**	14,995
In the second to fifth year	**35,389**	48,957
After fifth year	**28,475**	36,748
	77,106	100,700

The Group leases certain of its properties under operating lease arrangements, for initial terms ranging from one to twenty years (2014: one to twenty years). None of the leases include contingent rentals.

42.2 At 31 December 2015, the total future minimum lease payments by the Group under non-cancellable operating leases are as follows:

	2015 HK$'000	2014 HK$'000
Within one year	**22,878**	21,829
In the second to fifth year	**20,873**	37,889
	43,751	59,718

The Group leases certain offices and factory premises under operating lease arrangements, for initial terms ranging from one to ten years (2014: one to ten years). None of the leases include contingent rentals.

42.3 The Group is required to pay an annual fee in respect of the leasehold land in the PRC from 1992 up to 2042 with a 20% increment for every five years. During the year, an annual fee of HK$$557,000 (2014: HK$531,000) was charged as an expense in profit or loss for the year.

43. CAPITAL COMMITMENTS

At the reporting date, the Group had the following outstanding commitments:

	2015 HK$'000	2014 HK$'000
Contracted, but not provided for		
Purchase of property, plant and equipment	**109,974**	169,024

44. RELATED PARTY TRANSACTIONS

44.1 Saved as disclosed elsewhere in these consolidated financial statements, the Group also had the following transactions carried out with related parties:

(i) Rental income

	2015 HK$'000	2014 HK$'000
Rental income received (note a)	**120**	120
Sub-lease income received (note b)	**341**	346

Notes:

(a) This was received from a director and this was charged at HK$10,000 (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 (2014: HK$29,000) per month on average.

(ii) Transactions with an associate, Fair Future and its subsidiaries

During the year, the Group has entered into the following transactions with Fair Future and its subsidiaries, which negotiated on normal commercial terms and conditions:

	2015 HK$'000	2014 HK$'000
Disposal of brand name*	**30,000**	–
Sales of goods	**39,229**	32,293
Purchases of goods	**50,480**	1,617
Commission fees paid	**–**	106
Service expenses paid	**192**	112
Rental expenses paid	**354**	–
Rental income received	**154**	333
Processing fee paid	**940**	2,882
Maintenance fee paid	**57**	–
Inspection fee paid	**1,258**	–

* During the year ended 31 December 2015, the Group has entered into an agreement with a subsidiary of Fair Future in respect of the disposal of a brand name CodeX at the consideration of HK$30,000,000. The Group has received part of the consideration of HK$5,000,000 during the year and the remaining balance of HK$25,000,000 was presented as other receivable (note 25). The disposal was completed during the year ended 31 December 2015 and the Group has recognised a gain of disposal of HK$ 30,000,000 in the profit and loss for the year.

(iii) The handling charge relating to the securities trading was paid to a company of which a director of the company is also a director of related company, and this was changed at approximately HK$2,000 for the year ended 31 December 2015.

44. RELATED PARTY TRANSACTIONS (continued)

44.1 (continued)

(iv) Outstanding balances included in other receivables

	2015 HK$'000	2014 HK$'000
Dividend receivable from an associate	**27,500**	27,500
Consideration receivable from an associate in respect of disposal of brand name	**25,000**	–
Due from an associate (note a)	**17,107**	11,017
Due from related companies (note b)	**911**	285

Notes:

(a) The balance was unsecured, interest-free and repayable on demand. The maximum amount outstanding during the year was HK$17,107,000 (2014: HK$11,017,000).

(b) The amounts were due from companies of which certain directors of the Company are also the directors of the related companies. The balance was unsecured, interest-free and repayable on demand. The maximum amount outstanding during the year was HK$911,000 (2014: HK$1,441,000).

(v) Financial guarantee provided by Fengrong

On 24 June 2013, the Company executed an agreement with Fengrong in respect of a financial guarantee of RMB300,000,000 provided by Fengrong in favour of a bank for a loan facility granted to the Group of EUR35,000,000. The financial guarantee provided by Fengrong covered a 3-year period from 27 June 2013 to 26 June 2016, and secured by 72,000,000 of Dartong Shares owned by Fengrong. Fengrong shall pay an annual guarantee fee of RMB4,500,000 to the bank and the Group will fully reimburse Fengrong all the guarantee fees and other direct expenses related to the financial guarantee totalling RMB14,000,000 in three years as incurred during the guarantee period. During the year ended 31 December 2014, the Group had made early repayment of EUR21,000,000 and reimbursed guarantee fee and other direct expenses totalling HK$1,140,000 to Fengrong. For the year ended 31 December 2015, the Group has reimbursed guarantee fee and other direct expenses totalling HK$3,891,000 to Fengrong. The outstanding principal of EUR14,000,000 is secured by 27,210,000 Dartong Shares owned by Fengrong at 31 December 2015.

(vi) Disposal of Dartong Shares

For the year ended 31 December 2015, the Group has not disposal any Dartong shares. For the year ended 31 December 2014, the Group has disposed of 55,000,000 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.

(vii) Financial guarantee provided to Fair Future

At 31 December 2015, the Group has provided a corporate guarantee of HK$120,000,000 (2014: HK$120,000,000) in respect of a bank loan granted to Fair Future (see note 46).

The above transactions were conducted in accordance with the terms mutually agreed between the Group, the associate and the related companies controlled by the directors.

44. RELATED PARTY TRANSACTIONS (continued)

44.2 Key management personnel compensation:

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

	2015 HK$'000	2014 HK$'000
Short-term employee benefits	**21,375**	17,594
Post-employment benefits	**198**	164
	21,573	17,758

The key management represents the directors of the Company. Further details of directors' emoluments are included in note 16.1 to the financial statements.

45. ACQUISITION OF SUBSIDIARIES

On 11 April 2014, the Company acquired the entire equity interests of the Dreyfuss Group which is principally engaged in watch design and selling, both to the United Kingdom and overseas markets, and of watch manufacturing and repair. Following the acquisition, the Company owned the entire equity interest in Dreyfuss and obtained the controls over the Dreyfuss Group through the Company's right to nominate all the members of Dreyfuss's board of directors, and the Dreyfuss Group became the wholly-owned subsidiaries of the Company. The acquisition of the Dreyfuss Group was made with the aim to expand the Group's manufacture and distribution of watches and timepieces business.

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

	HK$'000
Cash consideration	286,961
Add: Contingent consideration payable	65,180
Total purchase consideration	352,141
Less: Fair value of net assets acquired	(231,887)
Goodwill	120,254

Pursuant to the acquisition agreement, total purchase consideration is GBP27,000,000 (equivalent to approximately HK$352,141,000) in which the first consideration payment of GBP16,000,000 (equivalent to approximately HK$208,745,000) has been paid at the completion day, the second consideration payment of GBP6,000,000 (equivalent to approximately HK$78,216,000) should be paid in August 2014 and the final consideration payment of GBP5,000,000 (equivalent to approximately HK$65,180,000) would be paid in June 2015.

45. ACQUISITION OF SUBSIDIARIES (continued)

The second and final consideration payments would be adjusted if certain condition precedents cannot be satisfied by the Dreyfuss Group. The major condition precedents are disclosed as follow:

Condition precedents related to 2013 financial result of Dreyfuss Group

(i) The adjusted consolidated profit after taxation of Dreyfuss Group for the year ended 31 December 2013 is not less than GBP2,150,000 (equivalent to approximately to HK$28,036,000); or

(ii) The adjusted consolidated net assets of the Dreyfuss Group as at 31 December 2013 is not less than GBP10,200,000 (equivalent to approximately to HK$133,008,000); or

Condition precedents related to 2014 financial result of the Dreyfuss Group

(iii) The debt less cash of the Dreyfuss Group as at 28 February 2014 is not greater than GBP900,000 (equivalent to approximately HK$11,736,000).

The second consideration payment of GBP6,000,000 (equivalent to approximately HK$78,216,000) shall be reduced by a sum equal to the aggregate of the deficit of (i) and (ii) and the excess of (iii).

(iv) The adjusted consolidated profit after taxation of the Dreyfuss Group for the year ended 31 December 2014 is not less than GBP3,000,000 (equivalent to approximately HK$39,120,000); or

(v) The adjusted consolidated net assets of the Dreyfuss Group as at 31 December 2014 is not less than GBP13,200,000 (equivalent to approximately HK$172,128,000).

The final consideration payment of GBP5,000,000 (equivalent to approximately HK$65,180,000) shall be reduced by a sum equal to the higher of the deficit of (iv) or (v).

At the acquisition date, since the directors of the Company are of the opinion that the Dreyfuss Group would satisfy condition precedents of (iv) and (v) by reference to the forecast and the historical performance of the Dreyfuss Group, no adjustment was made to the fair value of contingent consideration payable.

The goodwill of HK$120,254,000, which is not deductible for tax purposes, comprises the acquired workforce and the value of expected synergies arising from the combination of the acquired business with the existing operations of the Group.

45. ACQUISITION OF SUBSIDIARIES (continued)

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

	Fair value HK$'000	Acquirees' carrying amount HK$'000
Property, plant and equipment (note 17)	30,522	30,522
Intangible assets (note 24)	124,720	1,181
Deferred tax assets (note 38)	7,766	7,766
Inventories	109,896	95,835
Trade receivables	77,454	77,454
Prepayments, deposits and other receivables	37,014	37,014
Cash and cash equivalents	3,103	3,103
Trade payables	(34,554)	(34,554)
Other payables and accruals	(41,611)	(41,611)
Finance leases	(3,483)	(3,483)
Bank borrowings	(46,948)	(46,948)
Deferred tax liabilities (note 38)	(31,992)	–
Net assets		126,279
Fair value of net assets acquired	231,887	
Net cash outflow from acquisition of subsidiaries:		
Cash and cash equivalents in subsidiaries acquired		3,103
Less: Purchase consideration settled in cash		(285,643)
		(282,540)

The abovementioned purchase consideration settled in cash consist of the first consideration payment of GBP16,000,000 (equivalent to approximately HK$208,745,000) and the second consideration payment of GBP5,901,000 (equivalent to approximately HK$76,898,000).

Dreyfuss Group contributed revenue of approximately HK$268,020,000 and net loss of approximately HK$24,720,000 to the Group for the year ended 31 December 2014.

Had the business combination taken place on 1 January 2014, revenue and net loss of the Group for the year ended 31 December 2014 would have been approximately HK$331,032,000 and HK$14,861,000 respectively. The pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of the operations of the Group that actually would have been achieved had the acquisition of the Dreyfuss Group been completed on 1 January 2014 nor are they intended to be a projection of future results.

46. GUARANTEE

At 31 December 2015, the Group had contingent liability in relation to guarantees of approximately HK$120,000,000 (2014: HK$120,000,000) given to banks in respect of a loan granted to an associate which is repayable in 2016. In the opinion of the directors, it is unlikely that a claim will be made against the Group and no cash outflow under the financial guarantee contracts, the financial impact arising from the above guarantees is insignificant and accordingly, such financial guarantee is not accounted for in these consolidated financial statements. Details of the guarantee were set out in the Company's announcement dated 17 December 2013.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial assets and financial liabilities such as available-for-sale financial assets convertible bond investment, trade receivables, other receivables and deposits, equity investments held for trading, short-term investments, cash and bank balances, trade payables, other payables and accruals, dividend payables, borrowings, contingent consideration payable, derivative financial instruments, corporate bonds and amounts due to related companies, which arise directly from its operations. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk.

It is not the Group's policy to actively engage in the trading of financial instruments for speculative purposes. Its treasury department works under the policies approved by the board of directors and identifies ways to access financial markets and monitors the Group's financial risk exposures. Regular reports are provided to the board of directors. The board has reviewed and agreed policies periodically for managing each of these risks and they are summarised below.

47.1 Summary of financial assets and financial liabilities by category

The carrying amounts of the Group's financial assets and financial liabilities as recognised at 31 December 2015 are categorised as follows:

	2015 HK$'000	2014 HK$'000
Financial assets		
Financial assets at fair value:		
Available-for-sale financial assets, at fair value	**317,173**	308,122
Equity investments held for trading	**367,471**	271,552
Derivative financial assets	**–**	1,653
Convertible bond investment, conversion option component	**2,244**	–
	686,888	581,327
Loans and receivables:		
– Convertible bond investments, debt component	**6,083**	–
– Trade receivables	**693,868**	792,839
– Other receivables and deposits	**416,756**	307,369
– Short-term investments	**143,362**	149,241
– Cash and bank balances	**836,065**	878,253
	2,096,134	2,127,702
Available-for-sale financial assets, at cost	**77**	82
	2,783,099	2,709,111
Financial liabilities		
Derivative financial liabilities	**7,260**	26,479
Contingent consideration payable	**–**	10,669
Financial liabilities measured at amortised cost		
– Trade payables	**359,533**	358,839
– Other payables and accruals	**487,867**	562,429
– Dividend payables	**1,482**	1,492
– Corporate bonds	**708,834**	764,914
– Borrowings	**938,532**	824,677
– Due to related companies	**181**	13,961
	2,496,429	2,526,312
	2,503,689	2,563,460

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

47.2 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk arises primarily from borrowings and bank deposits. Borrowings bearing variable rates and fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The interest rate and repayment terms of the borrowings outstanding at the end of the reporting period are disclosed in note 33.

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

Sensitivity Analysis

At 31 December 2015, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would decrease/increase the Group's profit for the year and retained profits by approximately HK$369,000 (2014: increase/decrease by approximately HK$212,000). The assumed changes have no impact on the Group's other components of equity.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the end of reporting period. The assumed changes in interest rates are considered to be reasonably possible changes on observation of current market conditions and represent management's assessment of a reasonably possible change in interest rates over the next twelve month period.

The calculation is based on a change in average market interest rates for each period, and the financial instruments held at each reporting date that are sensitive to changes in interest rates. All other variable are held constant. The sensitivity analysis for the year ended 31 December 2014 has been prepared on the same basis.

47.3 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong, Switzerland, United Kingdom and the PRC with most of the transactions denominated and settled in HK$, US$, Euro, CHF, GBP and RMB. The Group's exposure to foreign currency risk primarily arise from certain financial instruments including available-for-sale financial assets, other receivables, cash and bank balances, other payables and accruals, contingent consideration payables and borrowings which are denominated in US$, Euro, CHF, GBP and RMB. The Group currently does not have a foreign currency hedging policy but the management continuously monitors the foreign exchange exposure.

The following table summarises the Group's major financial assets and financial liabilities denominated in currencies other than the functional currencies of the respective group companies as at 31 December 2015 and 2014.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

47.3 Foreign currency risk (continued)

	Expressed in HK$'000				
	US$	Euro	CHF	GBP	RMB
As at 31 December 2015					
Available-for-sale financial assets	–	–	–	–	317,173
Other receivables	–	–	110	–	31,855
Cash and bank balances	148,135	1,542	313,131	2,044	1,785
Other payables and accruals	(7,521)	(522)	–	(11,638)	(24,633)
Borrowings	(635,533)	(148,478)	–	–	–
Overall net exposure	(494,919)	(147,458)	313,241	(9,594)	326,180
As at 31 December 2014					
Available-for-sale financial assets	–	–	–	–	308,122
Other receivables	–	–	–	–	16,614
Derivative financial assets	708	–	143	–	802
Cash and bank balances	–	208	392,016	–	46,316
Other payables and accruals	(102,090)	–	–	–	(24,711)
Contingent consideration payable	–	–	–	(10,669)	–
Borrowings	(434,417)	(132,042)	–	–	–
Overall net exposure	(535,799)	(131,834)	392,159	(10,669)	347,143

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

47.3 Foreign currency risk (continued)

The following table indicates the approximate change in the Group's profit for the year and investment revaluation reserve (due to the change in fair value of the available-for-sale financial assets) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of reporting period. The sensitivity analysis includes balances between Group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or the borrower. A positive number below indicates an increase in profit and investment revaluation reserve where the HK$ strengthens against the relevant currency. For a weakening of the HK$ against the relevant currency, there would be an equal and opposite impact on the profit and investment revaluation reserve, and the balances below would be negative.

	2015			2014		
	Change in foreign exchange rates	**Effect on profit for the year HK$'000**	**Effect on investment revaluation reserve HK$'000**	Change in foreign exchange rates	Effect on profit for the year HK$'000	Effect on investment revaluation reserve HK$'000
Euro	**+5%**	**(7,373)**	**–**	+5%	(6,592)	–
	-5%	**7,373**	**–**	-5%	6,592	–
CHF	**+5%**	**15,662**	**–**	+5%	19,708	–
	-5%	**(15,662)**	**–**	-5%	(19,708)	–
GBP	**+5%**	**(480)**	**–**	+5%	(533)	–
	-5%	**480**	**–**	-5%	533	–
RMB	**+5%**	**450**	**15,859**	+5%	1,289	15,406
	-5%	**(450)**	**(15,859)**	-5%	(1,289)	(15,406)

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. In this respect, it is assumed that the pegged rate between the HK$ and the US$ would be materially unaffected by any changes in movement in value of the US$ against other currencies. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit for the year and equity measured in the respective functional currencies, translated into HK$ at the exchange rate ruling at the end of reporting period for presentation purposes. The analysis is performed on the same basis for 2014.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

47.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instruments and cause a financial loss to the Group. In order to minimise the credit risk, the Group trades only with recognised and creditworthy parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

As at 31 December 2015 and 2014, the Group's trade receivables relate to a large number of diversified customers and there is no significant concentration of credit risk.

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

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

As at 31 December 2015, the maximum exposure to credit risk in respect of financial guarantees issued by the Group was HK$120,000,000 (2014: HK$120,000,000) which represented the maximum amount the Group could be required to pay if the guarantees were called on.

47.5 Liquidity risk

Liquidity risk related to the risk that the Group will not able to meet its obligation associated with its financial liabilities. The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business. Liquidity needs are monitored on a day-to-day basis. Long-term liquidity needs for a 360-day lookout period are identified monthly.

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

The following tables show the remaining contractual maturities at the reporting date of the Group's financial liabilities, which are based on contractual undiscounted cash flow (including interest payments computed using contractual rates or, if floating, based on rates current at the reporting date) and the earliest date the Group can be required to pay. Specially, for bank borrowings which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

47.5 Liquidity risk (continued)

As at 31 December 2015

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	Over 1 year HK$'000
Non-derivative financial liabilities				
Trade payables	**359,533**	**359,533**	**359,533**	**–**
Other payables and accruals	**487,867**	**498,400**	**438,369**	**60,031**
Dividend payable	**1,482**	**1,482**	**1,482**	**–**
Borrowings	**938,532**	**957,847**	**782,836**	**175,011**
Corporate bonds	**708,834**	**800,909**	**25,695**	**775,214**
Due to related companies	**181**	**181**	**181**	**–**
	2,496,429	**2,618,352**	**1,608,096**	**1,010,256**
Financial guarantee issued				
Maximum amount guaranteed	**–**	**120,000**	**120,000**	**–**

As at 31 December 2014

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	Over 1 year HK$'000
Non-derivative financial liabilities				
Trade payables	358,839	358,839	358,839	–
Other payables and accruals	562,429	562,429	507,023	55,406
Dividend payable	1,492	1,492	1,492	–
Borrowings	824,677	932,465	504,537	427,928
Corporate bonds	764,914	892,001	27,728	864,273
Due to related companies	13,961	13,961	13,961	–
	2,526,312	2,761,187	1,413,580	1,347,607
Financial guarantee issued				
Maximum amount guaranteed	–	120,000	120,000	–

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

47.5 Liquidity risk (continued)

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

	Carrying amount HK$'000	Total contractual undiscounted cash flow HK$'000	Within 1 year or on demand HK$'000	Over 1 year but within 2 years HK$'000	Over 2 years HK$'000
As at 31 December 2015	**310,021**	**333,556**	**115,859**	**111,844**	**105,853**
As at 31 December 2014	115,368	131,638	126,887	2,306	2,445

47.6 Fair value risk

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

47.7 Equity price risk

Equity price risk related to the risk that the fair values or future cash flows of a financial instrument will fluctuate because of change in market price (other than changes in interest rate and foreign exchange rate). The Group is exposed to equity price changes arising from equity investments classified as equity investments held for trading and available-for-sale financial assets. Other than unlisted equity investments held for strategic purposes, all of these investments are listed, and they are valued at quoted market prices at the end of the reporting period.

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

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

47.7 Equity price risk (continued)

The following table indicates the approximate change in the Group's profit after income tax and consolidated equity in response to reasonably possible changes in the share prices of the listed investments classified as equity investments held for trading and available-for-sale financial assets to which the Group has significant exposure at the reporting date. The analysis is performed on the same basis for 2014.

	2015		2014	
	Effect on profit after tax and retained profits HK$'000	**Effect on other comprehensive income and to the investment revaluation reserve HK$'000**	Effect on profit after tax and retained profits HK$'000	Effect on other comprehensive income and to the investment revaluation reserve HK$'000
Equity investments held for trading:				
Increase in share prices of the listed investments by 30% (2014: 30%)	**110,241**	**–**	81,466	–
Decrease in share prices of the listed investments by 30% (2014: 30%)	**(110,241)**	**–**	(81,466)	–
Available-for-sale financial assets at fair value:				
Increase in share price of the listed investment by 30% (2014: 30%)	**–**	**95,152**	–	92,437
Decrease in share price of the listed investment by 30% (2014: 30%)	**–**	**(95,152)**	–	(92,437)

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

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

- the fair value of listed securities and available-for-sale financial assets are determined by reference to their quoted bid prices at the reporting dates and have been translated using the spot foreign currency rates at the end of the reporting periods where appropriate. The listed equity securities are denominated in HK$ and RMB.

- 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 fair values of derivative financial assets are marked to market using the foreign exchange forward rates ruling at the end of each reporting periods.

- the fair value of contingent consideration payable is determined by the directors with reference to 2014 actual financial result of the Dreyfuss Group.

HKFRS 13 introduced a three-level hierarchy for fair value measurement disclosures and additional disclosures about the relative reliability of fair value measurements.

The hierarchy groups financial assets and financial liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and financial liabilities. The fair value hierarchy has the following levels:

– Level 1: unadjusted quoted prices in active markets for identical assets or liabilities;

– Level 2: observable direct and indirect inputs other than quoted prices included within Level 1; and

– Level 3: unobservable inputs are inputs for which market data are not available.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

The financial assets and financial liabilities measured at fair value in the consolidated statement of financial position are grouped into the fair value hierarchy as follows:

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
2015				
Assets				
Available-for-sale financial assets				
– Listed	**317,173**	**–**	**–**	**317,173**
Listed securities designated at fair value through profit or loss	**367,471**	**–**	**–**	**367,471**
Convertible bond investment, conversion option component	**–**	**–**	**2,244**	**2,244**
	684,644	**–**	**2,244**	**686,888**
Liabilities				
Derivative financial liabilities	**–**	**–**	**7,260**	**7,260**
	–	**–**	**7,260**	**7,260**
2014				
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
	–	–	37,418	37,148

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

The level in the fair value hierarchy within which the financial assets and financial liabilities are categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

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.

47. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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

	2015 HK$'000	2014 HK$'000
Opening balance (Level 3 recurring fair value)	**(10,669)**	–
Acquisition of subsidiaries (note 45)	**–**	65,180
Change in fair value recognised in profit or loss during the year (note 34)	**(969)**	(54,511)
Reclassification from contingent consideration payable to other payable	**11,638**	–
Closing balance (Level 3 recurring fair value)	**–**	(10,669)

One of the key inputs to determine the fair value of contingent consideration payable is actual financial result of the Dreyfuss Group for the year ended 31 December 2014.

A better actual financial result of the Dreyfuss Group for the year ended 31 December 2014 would result in a increase in the fair value measurement of contingent consideration payable, and vice versa.

The fair value of derivative financial liabilities is Level 3 recurring fair value measurement. A reconciliation of the opening and closing fair value balances are provided as below.

	2015 HK$'000	2014 HK$'000
Opening balance (Level 3 recurring fair value)	**26,479**	49,450
Compensation paid	**–**	(6,109)
Change in fair value recognised in profit or loss during the year (note 35)	**(19,219)**	(16,862)
Closing balance (Level 3 recurring fair value)	**7,260**	26,479

The key inputs to determine the fair value of derivative financial liabilities are the stock price and expected volatility. A higher in stock price and volatility would result in an increase in the fair value of derivative financial liabilities, and vice versa.

The reconciliation of the opening and closing fair value balances on the conversion option component of convertible bond investment are disclosed in note 23 to the financial statements.

48. CAPITAL MANAGEMENT

The Group's capital management objectives are:

(i) To safeguard the Group's ability to continue as a going concern, so that it continues to provide returns and benefits for stakeholders;

(ii) To support the Group's stability and growth; and

(iii) To provide capital for the purpose of potential mergers and acquisitions.

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

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

	2015 HK$'000	2014 HK$'000
Capital		
Total equity	**4,234,487**	4,074,930
Overall financing		
Borrowings	**938,532**	824,677
Corporate bonds	**708,834**	764,914
Due to related companies	**181**	13,961
	1,647,547	1,603,552
Capital-to-overall financing ratio	**2.57**	2.54

49. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2015 HK$'000	2014 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**7,256**	2,891
Convertible bond investment		**8,327**	
Interests in subsidiaries		**1,356,052**	1,437,907
		1,371,635	1,440,798
Current assets			
Prepayments, deposits and other receivables		**79,453**	9,849
Equity investments held for trading		**283,885**	75,165
Cash and cash equivalents		**483,662**	462,980
		847,000	547,994
Current liabilities			
Other payables and accruals		**24,612**	123,425
Dividend payables		**1,482**	1,492
Borrowings		**437,150**	108,618
Due to a related company		**–**	1,140
		463,244	234,675
Net current assets		**383,756**	313,319
Total assets less current liabilities		**1,755,391**	1,754,117
Non-current liabilities			
Other payables		**655**	977
Borrowings		**361,685**	457,842
		362,340	458,819
Net assets		**1,393,051**	1,295,298
EQUITY			
Share capital		**440,938**	440,893
Reserves	41	**952,113**	854,405
Total equity		**1,393,051**	1,295,298

The statements of financial position of the Company was approved and authorised for issue by the board of directors on 30 March 2016 and are signed on its behalf by:

Hon Kwok Lung
Director

Shang Jianguang
Director

50. INFORMATION ABOUT PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries, each of which is a limited liability company, at 31 December 2015 are as follows:

Name	Place of incorporation/ registration	Particulars of issued/ paid-up capital	Effective percentage of equity interest held by the Company 2015	2014	Principal activities and principal place of business
Directly held:					
Qingapen Limited	Hong Kong	HK$2	**100%**	100%	Property investment, PRC
China Haidian Commercial Network Services Limited	Hong Kong	HK$2	**100%**	100%	Property investment, PRC
Haidian-Creation International Limited	British Virgin Islands ("BVI")	US$1	**100%**	100%	Investment holding, Hong Kong
Sure Best Management Limited	Hong Kong	HK$1	**100%**	100%	Property investment, Hong Kong
Jia Cheng Investment Limited	BVI	US$1	**100%**	100%	Investment holding, Hong Kong
Citychamp Watch and Jewellery SwissCo AG	Switzerland	CHF100,000	**100%**	100%	Issuance of bonds, Switzerland
Indirectly held:					
EBOHR Luxuries International Co., Limited (note a)	PRC	HK$36,000,000	**100%**	100%	Manufacture and distribution of watches and timepieces, PRC
Shenzhen EBOHR Luxuries Online E-commerce Company Limited (note b)	PRC	RMB1,000,000	**100%**	100%	Distribution of watches and timepieces, PRC
Seti Timber Industry (Shenzhen) Co., Ltd. (note c)	PRC	US$45,525,860	**100%**	100%	Investment holding, PRC
Shenzhen Seti Trading Development Company Limited (note b)	PRC	RMB500,000	**100%**	100%	Investment holding, PRC
Actor Investments Limited	Hong Kong	HK$10,000	**100%**	100%	Investment holding, Hong Kong
Lalique (Hong Kong) Limited	Hong Kong	HK$1	**100%**	–	Investment holding, Hong Kong
Zhuhai Rossini Watch Industry Limited (note d)	PRC	RMB180,000,000	**91%**	91%	Manufacture and distribution of watches and timepieces, PRC
PAMA Precision Manufacturing Limited (note b)	PRC	RMB10,000,000	**100%**	100%	Manufacture and distribution of watches and timepieces, PRC

50. INFORMATION ABOUT PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	Particulars of issued/ paid-up capital	Effective percentage of equity interest held by the Company 2015	2014	Principal activities and principal place of business
Indirectly held: (continued)					
Shenzhen Permanence Commerce Co., Limited (note b)	PRC	RMB23,000,000	**100%**	100%	Distribution of watches and timepieces, PRC
Zhuhai Rossini Glasses Industry Limited (note b)	PRC	RMB1,000,000	**91%**	91%	Distribution of glasses, PRC
Swiss Chronometric AG	Switzerland	CHF2,000,000	**100%**	100%	Manufacture and distribution of watches and timepieces, Switzerland
Eterna AG Uhrenfabrik	Switzerland	CHF6,000,000	**100%**	100%	Manufacture and distribution of watches and timepieces, Switzerland
Eterna Uhren GmbH, Kronberg	Germany	EUR205,000	**100%**	100%	Distribution of watches and timepieces, Germany
Eterna Movement AG	Switzerland	CHF1,000,000	**100%**	100%	Manufacture and distribution of watches and timepieces, Switzerland
Guangdong Juxin Watch Co., Limited (note d)	PRC	RMB15,000,000	**51%**	51%	Distribution of watches and timepieces, PRC
Liaoning Hengjia Horologe Co., Limited (note d)	PRC	RMB25,500,000	**51%**	51%	Distribution of watches and timepieces, PRC
Guangzhou Five Goat Watch Co., Limited (note b)	PRC	RMB100,000,000	**78%**	78%	Manufacture and distribution of watches and timepieces, PRC
Eterna (Asia) Limited	Hong Kong	HK$5,000,00	**70%**	70%	Distribution of watches and timepieces, Hong Kong
Centenaire Trading (Shanghai) Co., Ltd (note a)	PRC	RMB4,550,000	**70%**	70%	Distribution of watches and timepieces, PRC
Eterna (Beijing) International Trading Co., Ltd (note b)	PRC	RMB1,000,000	**70%**	70%	Distribution of watches and timepieces, PRC
Jilin Dayou Watch Limited (note d)	PRC	RMB15,000,000	**51%**	51%	Distribution of watches and timepieces, PRC

50. INFORMATION ABOUT PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	Particulars of issued/ paid-up capital	Effective percentage of equity interest held by the Company 2015	2014	Principal activities and principal place of business
Indirectly held: (Continued)					
Henan Jinjue Enterprise Company Limited (note b)	PRC	RMB100,000,000	**51%**	51%	Distribution of watches and timepieces, PRC
Gold Vantage Industrial Limited	Hong Kong	HK$10,000	**51%**	51%	Investment holding, Hong Kong
Qinzhou Jintai Precision Products Co., Ltd. (note b)	PRC	RMB1,000,000	**51%**	51%	Manufacturing of watches and related accessories, PRC
Shenzhen Grand Chances Watch Manufacture Ltd. (note b)	PRC	RMB500,000	**51%**	51%	Manufacturing of watches and related accessories, PRC
Qinzhou Pros Watch Industrial Co., Ltd. (note b)	PRC	RMB1,000,000	**51%**	51%	Manufacturing of watches and related accessories, PRC
Montres Corum Sàrl	Switzerland	CHF3,000,000	**100%**	100%	Manufacture, and distribution of watches and timepieces, Switzerland
Montres Corum (UK) Ltd.	United Kingdom	GBP3,383,424	**100%**	100%	Distribution of watches and timepieces, United Kingdom
Corum Italia SRL	Italy	EUR10,400	**100%**	100%	Distribution of watches and timepieces, Italy
Montres Corum Europe SA	Switzerland	CHF100,000	**100%**	100%	Distribution of watches and timepieces, Switzerland
Servicio de Importacion SA	Spain	EUR739,000	**100%**	100%	Distribution of watches and timepieces, Spain
Corum Deutschland GmbH	Germany	EUR200,000	**100%**	100%	Distribution of watches and timepieces, Germany
Corum (Hong Kong) Limited	Hong Kong	HK$1,000	**100%**	100%	Distribution of watches and timepieces, Hong Kong
The Dreyfuss Group Limited	United Kingdom	GBP221,541	**100%**	100%	Distribution of watches and timepieces, United Kingdom
Rotary Overseas Limited	United Kingdom	GBP1,000,000	**100%**	100%	Distribution of watches and timepieces, United Kingdom

50. INFORMATION ABOUT PRINCIPAL SUBSIDIARIES (continued)

Name	Place of incorporation/ registration	Particulars of issued/ paid-up capital	Effective percentage of equity interest held by the Company 2015	2014	Principal activities and principal place of business
Indirectly held: (Continued)					
Artemis Watch Company Limited	United Kingdom	GBP100	**100%**	100%	Distribution of watches and timepieces, United Kingdom
Rotary Watches LLC	United States of America	US$10	**100%**	100%	Distribution of watches and timepieces, United States of America
Dreyfuss & Co SA	Switzerland	CHF100,000	**100%**	100%	Manufacturing of watches and timepieces, Switzerland
Fabrique de Moritres Rotary S.A	Switzerland	CHF1,000,000	**100%**	100%	Manufacturing and distribution of watches and timepieces, Switzerland

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

Save as the issuance of corporate bonds of principle amount of CHF100,000,000 bear interest at 3.65% per annum (see note 37) by Citychamp Watch and Jewellery SwissCo AG, none of the other subsidiaries had issued any debt securities at the end of the year.

Notes:

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

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

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

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

50. INFORMATION ABOUT PRINCIPAL SUBSIDIARIES (continued)

Set out below are the summarised financial information for the subsidiaries that had non-controlling interests which is material to the Group, before any elimination.

	Henan Jinjue Enterprise Co., Ltd.		Zhuhai Rossini Watch Industry Limited	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
Summarised statement of financial position				
As at 31 December				
Non-controlling interests percentage	**49%**	49%	**9%**	9%
Non current assets	**1,824**	6,961	**252,801**	170,076
Current assets	**172,400**	149,181	**1,043,712**	937,857
Current liabilities	**(45,919)**	(19,935)	**(221,276)**	(226,326)
Net assets	**128,305**	136,207	**1,075,237**	881,607
Accumulated non-controlling interests	**62,869**	66,741	**96,771**	79,345
Summarised statement of comprehensive income				
For the year ended 31 December				
Revenue	**202,990**	203,019	**1,162,111**	1,066,632
Profit for the year	**2,716**	4,869	**386,838**	375,420
Other comprehensive income	**(8,118)**	–	**(64,777)**	–
Total comprehensive income	**(5,402)**	4,869	**322,061**	375,420
Profit allocated to non-controlling interests	**1,331**	2,386	**34,815**	33,788
Dividends paid to non-controlling interests	**1,275**	1,291	**11,997**	6,965
Summarised statement of cash flows				
For the year ended 31 December				
Cash flows generated from operating activities	**4,926**	5,053	**89,722**	127,221
Cash flows used in investing activities	**(305)**	(2,154)	**(45,247)**	(12,403)
Cash flows used in financing activities	**(2,381)**	(2,532)	**(15,399)**	(43,284)
Net cash inflow	**2,240**	367	**29,076**	71,534

FIVE YEAR FINANCIAL SUMMARY

FINANCIAL PERFORMANCE

	Year ended 31 December				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Continuing operations					
Revenue	**3,476,354**	3,488,553	3,176,423	2,240,304	1,465,276
Cost of sales	**(1,694,496)**	(1,797,911)	(1,697,584)	(1,022,583)	(637,042)
Gross profit	**1,781,858**	1,690,642	1,478,839	1,217,721	828,234
Other income and financial income	**204,608**	150,825	74,945	29,182	21,027
Selling and distribution expenses	**(883,152)**	(926,387)	(724,581)	(513,278)	(343,908)
Administrative expenses	**(616,151)**	(698,077)	(542,743)	(351,448)	(234,144)
Gain/(loss) on fair value changes in equity investments held for trading, net	**29,078**	45,734	(11,450)	2,056	10,947
(Loss)/gain on fair value changes in contingent consideration payable	**(969)**	54,511	–	–	–
Loss on fair value changes in the conversion option component of convertible bond investment	**(1,749)**	–	–	–	–
Gain on fair value changes in derivative financial instruments	**17,559**	18,615	12,093	6,187	–
Excess of fair value of the net identified assets over the cost of acquisition of subsidiaries	**–**	–	–	–	46,904
Net (deficit)/surplus on revaluation of investment properties	**(499)**	3,078	8,185	7,525	5,675
Dividend income from available-for-sale financial assets	**–**	–	30,965	17,169	6,551
Gain on disposal of available-for-sale financial assets	**–**	163,542	456,023	–	–
Gain on disposal of subsidiaries	**9,517**	15,859	–	–	–
Impairment loss on goodwill	**–**	(49,395)	–	–	–
Impairment loss on intangible assets	**–**	(133,166)	–	–	–
Share of profit of associates	**9,685**	13,333	12,134	13,499	1,991
(Loss)/gain on disposal of an associate	**–**	–	–	–	(4,952)
Finance costs	**(77,075)**	(65,055)	(36,554)	(14,894)	(4,331)
Profit before income tax	**472,710**	284,059	757,856	413,719	333,994
Income tax expense	**(132,551)**	(121,027)	(157,246)	(103,432)	(68,240)
Profit after income tax from continuing operations	**340,159**	163,032	600,610	310,287	265,754
Discontinued operations					
Profit from discontinued operations	**–**	–	–	–	16,036
Profit for the year	**340,159**	163,032	600,610	310,287	281,790

	Year ended 31 December				
	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000	2011 HK$'000
Other comprehensive income					
Item that will not be subsequently reclassified to profit or loss					
– Remeasurement of defined benefit obligations	**9,485**	(5,955)	1,785	–	–
Items that may be subsequently reclassified to profit or loss					
– Exchange (loss)/gain on translation of foreign operations	**(142,928)**	(2,021)	32,719	16,468	14,570
– Release of exchange fluctuation reserve to profit or loss upon disposal of subsidiaries	**256**	(2,015)	–	–	–
– Release of exchange fluctuation reserve to profit or loss upon disposal of a jointly controlled entity	**–**	–	–	–	(17,496)
– Share of other comprehensive income of associates	**133**	(16)	–	–	–
– Release of investment revaluation reserve upon disposal	**–**	(163,542)	(456,023)	–	–
– Changes in fair value of available-for-sale financial assets	**9,051**	(11,533)	94,418	601,480	(305,401)
Other comprehensive income for the year	**(124,003)**	(185,082)	(327,101)	617,948	(308,327)
Total comprehensive income for the year	**216,156**	(22,050)	273,509	928,235	(26,537)
Profit for the year attributable to:					
Owners of the Company	**307,675**	132,005	565,434	270,425	255,874
Non-controlling interests	**32,484**	31,027	35,176	39,862	25,916
	340,159	163,032	600,610	310,287	281,790
Total comprehensive income for the year attributable to:					
Owners of the Company	**196,583**	(55,528)	233,899	887,501	(54,105)
Non-controlling interests	**19,573**	33,478	39,610	40,734	27,568
	216,156	(22,050)	273,509	928,235	(26,537)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	As at 31 December				
	2015 HK$'000	2014 HK$'000	2013 HK$'000	2012 HK$'000	2011 HK$'000
Total assets	**6,838,556**	6,732,878	6,273,631	5,261,137	3,678,225
Total liabilities	**(2,604,069)**	(2,657,948)	(1,711,587)	(1,305,018)	(543,286)
Non-controlling interests	**(191,234)**	(228,406)	(246,965)	(167,098)	(76,550)
	4,043,253	3,846,524	4,315,079	3,789,021	3,058,389

SCHEDULE OF PRINCIPAL INVESTMENT PROPERTIES

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

CITYCHAMP
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