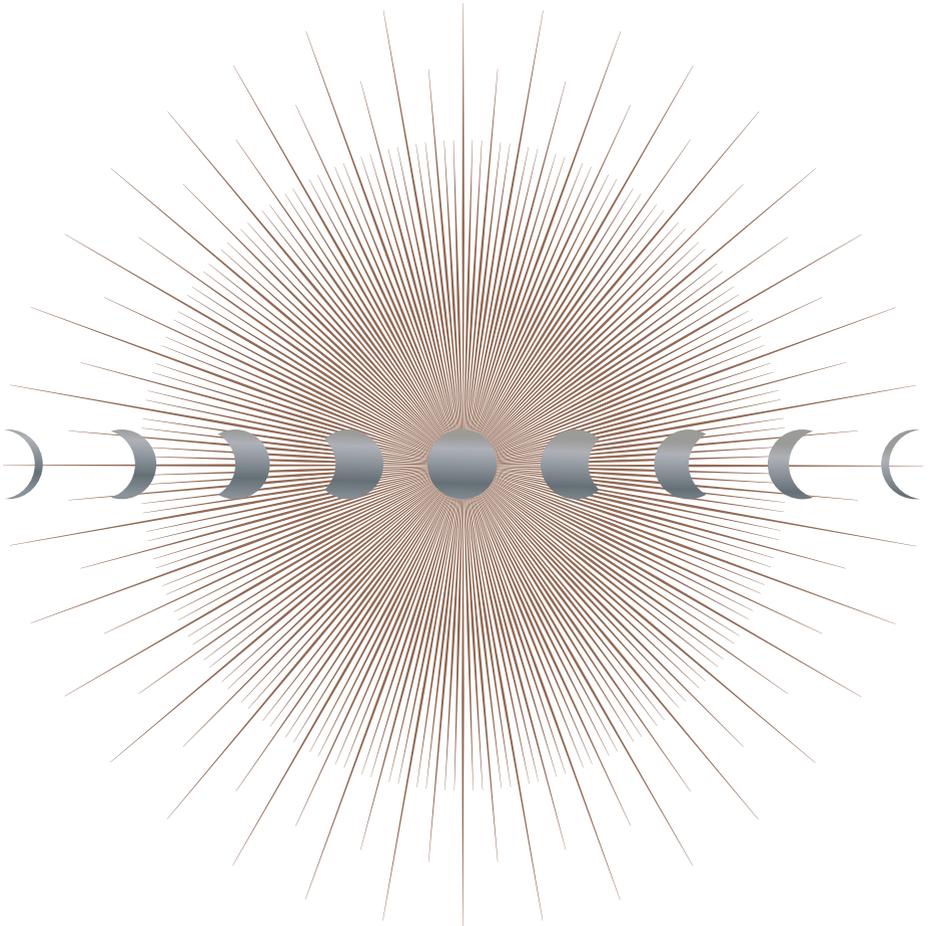




CITYCHAMP
WATCH & JEWELLERY GROUP LIMITED
冠城鐘錶珠寶集團有限公司



INTERIM REPORT 2014 中期報告

(incorporated in the Cayman Islands with limited liability 於開曼群島註冊成立之有限公司)
Stock Code 股份代號: 256

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

HON Kwok Lung (*Chairman*)

SHANG Jianguang

(*Chief Executive Officer*)

SHI Tao

LAM Toi Man

BI Bo

SIT Lai Hei

HON Hau Wong

(appointed with effect from
29 August 2014)

Independent Non-executive Directors

FUNG Tze Wa

KWONG Chun Wai, Michael

LI Qiang

AUDIT COMMITTEE MEMBERS

FUNG Tze Wa

KWONG Chun Wai, Michael

LI Qiang

REMUNERATION COMMITTEE MEMBERS

FUNG Tze Wa

KWONG Chun Wai, Michael

LI Qiang

HON Kwok Lung

SHANG Jianguang

NOMINATION COMMITTEE MEMBERS

HON Kwok Lung

FUNG Tze Wa

KWONG Chun Wai, Michael

LI Qiang

SHANG Jianguang

QUALIFIED ACCOUNTANT & COMPANY SECRETARY

FONG Chi Wah

AUDITOR

BDO Limited

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

China Construction Bank (Asia)

Corporation Limited

Hongkong and Shanghai Banking

Corporation Limited

Hang Seng Bank Limited

Standard Chartered Bank (Hong Kong)

Limited

China Merchants Bank Co., Ltd.

HONG KONG BRANCH SHARE REGISTRAR

Tricor Secretaries Limited

Level 22, Hopewell Centre

183 Queen's Road East

Hong Kong

REGISTERED OFFICE

P.O. Box 309

Ugland House

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Grand Cayman

Cayman Islands

PRINCIPAL OFFICE

Units 1902 – 04, Level 19

International Commerce Centre

1 Austin Road West, Kowloon

Hong Kong

WEBSITES

<http://www.irasia.com/listco/hk/citychamp>

<http://www.citychampwatchjewellery.com>

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

The Group achieved significant growth and reached the following remarkable milestones in the first half of 2014.

First, we realised a compound growth rate of revenue at around 40% p.a. over the last 5 years. Second, as facilitated by the continuous economic growth, the growth of Rossini and EBOHR accelerated and they continued to gain market share domestically through product and market development. Third, after the management change and product development, both Eterna and Corum started to regain momentum. Essentially, we have restructured these businesses and positioned them for strong improvement in the medium term. Fourth, we acquired The Dreyfuss Group Limited that distributed its three brands of watches globally. Being strong in the UK markets, their mid-priced watches are considered particularly relevant to the Mainland China markets that our Group can help them generate revenue and profit. Essentially, as evidenced by these milestones achieved, the Group has already travelled along a journey that would provide full benefits of sustainable growth.

For the six months ended 30 June 2014, the Group recorded an unaudited revenue of approximately HK\$1,722,042,000 (six months ended 30 June 2013: HK\$1,302,942,000), an increase of HK\$419,100,000 or 32% compared with the corresponding period last year. Gross profit for the period was approximately HK\$874,623,000 (six months ended 30 June 2013: HK\$671,985,000), an increase of HK\$202,638,000 or 30% compared with the corresponding period last year. Net profit attributable to owners of the Company for the period was approximately HK\$254,485,000 (six months ended 30 June 2013: HK\$403,386,000), a decrease of HK\$148,901,000 or 37% compared with the corresponding period last year. Having set apart the gain on the disposal of shares of Citychamp Dartong Company Limited after tax, the Group should have an increase of net profit attributable to owners of the Company of HK\$2,565,000. Net asset value per share was HK\$0.96 (31 December 2013: HK\$0.96).

Business Review

(1) WATCHES AND TIMEPIECES – PROPRIETARY BRANDS

The Group has built a sophisticated vertically integrated business model that equipped the Group with an effective and tight control over the entire value chain, from raw materials and component procurement, product design and development, manufacturing of mechanical movement, assembling, inventory management, distribution to marketing in Mainland China and overseas. Such integrated model enables us to effectively monitor and control the quality of our products and respond quickly to our customers' needs and preferences. It also allows more operational flexibility, better product diversity in terms of styles and functionalities and better market penetration. The speed that the Group can adjust the product mix is a great competitive advantage. Such business model sets us apart from our peers, and enables us to further improve our profitability in the medium term.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Zhuhai Rossini Watch Industry Ltd. ("Rossini"), a 91%-owned subsidiary of the Group, achieved impressive result in the first half of 2014. Revenue in the first half of 2014 was HK\$520,748,000, an increase of HK\$73,469,000, or 16%, from HK\$447,279,000 for the same period last year. Net profit after tax attributable to owners of the Company (equity interest of 91%) for the first half of 2014 was HK\$162,844,000 compared with HK\$139,930,000 for the same period last year, an increase of HK\$22,914,000, or 16%.

Rossini materially outperformed its peers in Mainland China owing to the continued distribution development and brand elevation.

During the period, Rossini has increased its number of distribution outlets by 156. The total number of distribution outlets as of 30 June 2014 was 2,504 including 1,383 direct-sale stores and consignees, 1,115 authorised dealers and 6 boutiques. Rossini's extensive distribution network of outlets, which is one of the largest among competitors, should drive further revenue and market share in the fragmented watch market of Mainland China. The growth outlook for distribution outlets is promising as Rossini watches offer product diversity in design and style to attract Chinese consumers with different tastes and preference, through which Rossini watches are able to reach a wide range of consumers across different economic and age groups.

Internet sales, through the online stores on major E-commerce platform in Mainland China, increased to HK\$54,145,000 from HK\$26,401,000 in the same period last year representing substantial increase of its respective proportion of total revenue from 6% to 10%. Unique product lines, that are different than those available in the physical distribution outlets, are developed for Internet sales. While the Internet sale is a powerful tool to extend the customer reach targeting the group of younger customers aged 18 to 25, it is considered complementary to the sales from physical distribution outlets and expected to grow significantly. The customer consumption data and feedback from the Internet sale is also useful for planning strategy and generating revenue from physical distribution outlets. Given the current growth momentum, we expect that the proportion of Internet sales would continue to increase in the next few years.

The watch museum at the headquarters attracted an increasing number of tourists. During the period, around 35,000 tourists visited the watch museum and the in-house distribution outlets at the headquarters; they contributed revenue of more than HK\$4,430,000. Rossini will devote stronger efforts to attracting tourists and generating revenue.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

In order to promote the brand awareness and image, Rossini has partnered with a well-known Chinese artist as its brand ambassador, who attended various marketing functions and participated in advertisement and television commercial.

Rossini has established a post-doctoral innovation and practice institute in cooperation with an university that invited post-doctoral researchers in conducting different researches on certain components and materials. Results of those studies, representing frontiers of technology for watch, were applied to product development that helped elevate the Rossini brand. During the period, 30 new models have been developed.

Rossini has been awarded China's 500 most valuable brands of the year 2014, with brand value exceeding RMB6.6 billion ranking the 1st in the watch industry of Mainland China by the World Brand Laboratory.

Rossini continues to be a successful company with well-articulated strategy centred on distribution development and brand elevation. It offers a business model with products present in all price segments, strong pricing power and with continued expansion all over Mainland China.

EBOHR Group

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

Revenue for the first half of 2014 was HK\$377,139,000, an increase of HK\$42,491,000, or 13%, from HK\$334,648,000 for the same period last year. Net profit after tax for the first half of 2014 was HK\$99,583,000, compared with HK\$83,089,000 for the same period in 2013, an increase of HK\$16,494,000, or 20%.

During the period, there was a net increase of 109 distribution outlets. The total number of distribution outlets as of 30 June 2014 was 2,204 including 1,533 direct-sale stores and consignees and 671 authorised dealers. Increase in distribution outlets was primarily in second- and third-tier cities. Such expansion would be particularly relevant to meet the increased demand for EBOHR watch in those cities.

In order to increase the number of authorized dealers, EBOHR not only improved the communication but also provided them with more incentives and support such as supply of products and provision of marketing materials.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Internet sales was HK\$42,125,000 for the first half of 2014 (six months ended 30 June 2013: HK\$26,462,000) and respective proportion of total revenue increased from 8% for the same period last year to 11% this year. EBOHR put efforts in developing brand awareness among Internet users by expanding the online presence through popular social media and hence generated strong Internet sale. Through its own marketing information and market research, EBOHR supplies the appropriate products for the Internet sales to maximize the extent of Internet sales. Most importantly, EBOHR has recruited experienced professionals to handle the increasingly important Internet sales.

Creative, attractive and stylish product design is one of the core competencies of EBOHR. The design team is keeping track on customers' tastes and the fast-changing trends in Mainland China. With additional product lines introduced, EBOHR streamlined the existing product lines so that it could focus on the performing product lines and thus more effectively monitor the inventory level. In addition to the product lines for the mass market, EBOHR focused a few product lines such as watches with gold case, exclusive mechanical movement, and Nano-coating, watches focusing on business women and big watches for gentlemen.

There were two reasons for the increase in inventory. Firstly, there was a significant increase in number of directly managed distribution outlets. Secondly, in order to activate the development and production of new products, relatively more watches were produced but had not been sold to ultimate customers yet. EBOHR provided over 1,000 i-pad 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. Besides, EBOHR put increasingly strong efforts to clear old inventory and hence, it is expected that the level of inventory would be gradually in line with revenue generated in the medium term.

EBOHR has been awarded China's 500 most valuable brands of the year 2014, with the brand value exceeding RMB4.4 billions, by the World Brand Laboratory. EBOHR also received various provincial and city awards for its brand and achievement.

Swiss Chronometric AG, a subsidiary 100% owned by the Group through EBOHR, manufactures and distributes Codex watches in Switzerland. Codex is now gaining increasingly strong recognition in Lucerne and Mainland China. Revenue increased but administrative expenses decreased for the period as Swiss Chronometric AG further streamlined the Swiss operation. Loss for the period was HK\$361,000 compared with HK\$3,583,000 for the same period last year.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)

(1) WATCHES AND TIMEPIECES – PROPRIETARY BRANDS (Continued)

Eterna Group

Eterna Group is composed of Eterna AG Uhrenfabrik (“Eterna”), Eterna Uhren GmbH, Kronberg, Eterna (Asia) Limited (“Eterna (Asia)”) and Eterna Movement AG (“Eterna Movement”). Eterna focuses on manufacturing and distribution of Eterna watches in countries outside Asia, while Eterna (Asia) focuses on distribution of Eterna watches in Asia.

The first half of 2014 was still a period of transition for Eterna and Eterna Movement. Eterna underwent restructuring with changes in business strategies and the management teams. The brand was essentially repositioned and their average price levels were reduced so as to cater for the mass markets. Eterna went through the short-term difficulty with a view to enhance brand equity and to expand margin in the medium term. Eterna Movement commenced production of the first batch of 5,000 pieces of Calibre 39.

As of 30 June 2014, there were 264 distribution outlets for Eterna (31 December 2013: 235), of which 232, 8, 20 and 4 were in Europe, America, Middle East and Africa respectively.

Eterna (Asia) continued to build brand awareness by increasing visibility in the Asian markets and upgrading brand image through integrated marketing campaigns. Subsidiaries in Beijing and Shanghai were fully operational to cater for the increasing demand for Swiss-made watches there. Leading department stores in the prime locations or the first-tier cities were the priorities for development. Besides, the long term value of teaming up with strategic partners was also considered. As of 30 June 2014, there were 49 distribution outlets (31 December 2013: 31), of which 13, 35 and 1 were in Hong Kong and Macau, Mainland China and Taiwan respectively.

Eterna watch focuses on three product segments, namely: mechanical watches with Eterna movement, mechanical watches with purchased movement and quartz watches. New products from those three segments have been developed and presented to the market during the Baselworld 2014. In additions, new marketing campaigns for branding and strategic marketing including sponsorships, joint promotions and exhibitions have been launched in 2014 in Europe, Hong Kong and Mainland China. Eterna was confident it could regain market share in the central European markets and re-establish itself as a powerful brand in that region.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Eterna Group contributed revenue and net loss after tax of approximately HK\$34,979,000 (six months ended 30 June 2013: HK\$26,281,000) and HK\$30,922,000 (six months ended 30 June 2013: HK\$80,002,000) respectively. The loss in the first half of 2014 was reduced significantly. The net loss was due to the new product development cost, new market development cost, and in particular promotional and advertising cost incurred for the branding and strategic marketing activities conducted in Mainland China and Hong Kong. Given the increasingly strong revenue being generated from Hong Kong, Mainland China and overseas, Eterna Group is expected to achieve breakeven in one or two years.

Montres Corum Sàrl

Montres Corum Sàrl (“the Corum Group”) is principally engaged in the development, manufacture and sale of Swiss luxury timepieces through its global distribution network with its history dating back to its origin in 1924. It owns a renowned Swiss elite luxury watch brand, Corum, together with a proprietary portfolio of innovative and technical movements. Its technical craftsmanship and non-traditional designs are especially well reflected in its original and unique in-line baguette shaped movements, which are housed in four-sided transparent cases to highlight the innovative mechanisms. It sells its watches through an exclusive global distribution network of five premier branded boutiques and approximately 600 high-end, independent specialty retailers in over 90 countries.

The Corum Group was led by a team of executives from Switzerland and the holding company. The new management team worked to revitalize its business model through product development, production, brand position, distribution, team building and management.

Marketing campaigns, based on products with its original DNA, were primarily focused on the USA, Asia and travel retail with Asian, Russian and Arab clientele. Brand collaborations would also be priorities as they were considered cost-effective in promoting the brand image and generating immediate revenue.

Following the investments in the global infrastructure, people, and process, the Corum Group began to show improved results both in revenue generation and cost reduction in 2014.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)

(1) WATCHES AND TIMEPIECES – PROPRIETARY BRANDS (Continued)

Montres Corum Sàrl (Continued)

Corum Group contributed revenue and net loss after tax of approximately HK\$173,508,000 and HK\$83,297,000 respectively. Leveraging on the Group's existing expertise and resources of extensive distribution channels in Mainland China, Corum is expected to quickly build its own distribution channels in Mainland China and benefit from the enormous potential of Mainland China's unique watch market.

The Dreyfuss Group Limited

On 11 April 2014, the Group acquired 100% interest in The Dreyfuss Group Limited (the "Dreyfuss Group") at a total consideration of GBP27,000,000 (equivalent to HK\$352,141,000). The Dreyfuss Group was founded in 1895 and is principally engaged in watch design and selling, both to the United Kingdom and overseas markets, and watch manufacturing and repair. Its brand portfolio includes Swiss mid-market Rotary brand, Swiss premium Dreyfuss & Co. brand and English premium J & T Windmills brand. Their watches are distributed over 45 countries through a mix of approximately 4,550 regional retailers and third party distributors. Rotary is the No. 1 Swiss watch brand by sales value in the mid-market sector in the United Kingdom, through high street watch and jewellery chains, independent stores and other specialty channels such as catalogues, mail order, television channels, cruise ships, airport shops and airlines. Dreyfus Group was awarded the UK's most prestigious accolade for businesses headquartered in the UK, the Queen's Award for Enterprise: International Trade in April 2014 by Queen Elizabeth II, reflecting its substantial growth in overseas markets and its establishment of the largest single market in the UK.

There is huge untapped demand among Asian mid-market consumers for their affordable Swiss made range of timepieces backed up by over 118 years of Swiss watch making heritage and credentials. The strategy lies behind Rotary's recent signing of a four year sponsorship deal with a Chelsea Football Club as its Global Official Timekeeper, which has a huge, highly engaged and fast-growing aspirational Asian fan base which will, by association, fuel high levels of brand awareness for Rotary in this all important region.

The acquisition of the Dreyfuss Group provides an opportunity for the Group to expand its brand portfolio by adding watch brands with a strong heritage and appeal for consumers. The Group intends to promote the Dreyfuss Group's watch brands internationally and leverage on the Group's distribution network in Mainland China to benefit from the enormous potential of Mainland China's imported watch market in particular in the mid-price segment.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)**(1) WATCHES AND TIMEPIECES – PROPRIETARY BRANDS (Continued)***The Dreyfuss Group Limited (Continued)*

While possessing the No. 1 Swiss watch brand in England in terms of sales volume, the Dreyfuss Group was very keen on the development of the overseas markets. In the first half of 2014, its markets were extended as far as Saudi Arabia and Israel. E-commerce websites for the UK and US markets would be fully operational in the second half of 2014.

Dreyfuss Group contributed revenue and net loss after tax of approximately HK\$62,918,000 and HK\$7,509,000. The net loss was due to the promotional and advertising cost incurred for the branding and strategic marketing activities conducted in England and selected countries. It is the objective of the Dreyfuss Group to expand the distribution network significantly within a couple of years.

Pursuant to the acquisition agreement, the consideration for acquiring the entire share capital of the Dreyfuss Group was GBP27,000,000. GBP16,000,000 has been paid on the completion of the acquisition, GBP6,000,000 (the “Tranche 1 Deferred Consideration”) and GBP5,000,000 (the “Tranche 2 Deferred Consideration”) would be deferred and paid on two agreed dates, respectively. The Tranche 1 Deferred Consideration was subject to the actual performance of the Dreyfuss Group and might be deducted by the amount equivalent to the aggregate shortfall if the Dreyfuss Group failed to meet the agreed performance targets. The target consolidated profit after taxation for the year ended 31 December 2013 was GBP2,150,000, but the actual consolidated profit after taxation was approximately GBP2,120,000. Hence the shortfall was GBP30,000. The target consolidated net asset value as at 31 December 2013 was GBP10,200,000 and the actual consolidated net asset value was GBP10,700,000. The target debt less cash as at 28 February 2014 was GBP900,000 and the actual debt less cash was approximately GBP400,000. Consequently, the Tranche 1 Deferred Consideration would be deducted by the aggregate shortfall of GBP30,000 pursuant to the acquisition agreement. The amount of Tranche 2 Deferred Consideration would be subject to the actual performance of the Dreyfuss Group for the year ended 31 December 2014. The target consolidated profit after taxation for the year ended 31 December 2014 is GBP3,000,000 and the target consolidated net assets as at 31 December 2014 is GBP13,200,000.

(2) WATCHES AND TIMEPIECES – NON-PROPRIETARY BRANDS

After the disposal of Ruihuang (Chongqing) Watch Co., Ltd, the Group now has six distribution companies to develop more market share in distribution of non-proprietary brands in different provinces and cities. Through these watch distribution companies, which have around 200 self-owned brand image retail shops and distribution outlets, the Group distributes over 25 international brands in Beijing, Fujian, Guangdong, Henan, Jilin, Liaoning, Shenyang and other leading cities in Mainland China.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)

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

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

Except for Permanence, all distribution companies are 51% owned by the Group. These distribution companies are different in the brands they distribute and in the regions they focus on. Collectively, they contributed revenue and net profit after tax for the first half of 2014 of HK\$489,192,000 (six months ended 30 June 2013: HK\$441,718,000) and HK\$4,698,000 (six months ended 30 June 2013: HK\$7,930,000) respectively. Revenue increased in line with the expanded brand portfolio and distribution network. Net profit after tax decreased due to the challenging business environment.

Pursuant to the share transfer agreement signed on 23 September 2013, the Group would sell 51% equity interest in Ruihuang (Chongqing) Watch Co., Ltd (“Ruihuang”) together with the assignment of the loans from the group companies, unpaid dividend and selling and distribution network at the total consideration of RMB100,523,000 (equivalent to approximately HK\$127,245,000). The transaction was completed during the period and it generated a profit on disposal of HK\$15,859,000.

Pursuant to certain joint venture agreements, PRC partners have guaranteed the targeted profit after tax (the “Guaranteed Profit”) of certain distribution companies, and agreed to compensate the Group the shortfall on a dollar-to-dollar basis in the event that the actual profit after tax of those distribution companies is less than the Guaranteed Profit.

Those distribution companies generate revenue from the Mainland China which was adversely affected by the relatively slow economic growth in 2013. Due to such economic situation and the anti-corruption policy adopted by the PRC Central Government, the demand for the imported mid-range and high-end watches was weakened in the Mainland China market and it affected the performance of the distribution companies.

The Guaranteed Profit for the year ended 31 December 2013 guaranteed by Beijing Haina Tianshi Watch Co., Ltd (“Beijing Haina”) was RMB26,000,000 but the actual profit after tax for the year was RMB5,464,000. Hence, the shortfall was RMB20,536,000. The PRC partner of Beijing Haina should compensate the Group RMB10,473,000, equivalent to 51% of the shortfall, in accordance to the joint venture agreement. The PRC partner of Beijing Haina has not yet settled the compensation as of the date of this report.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

The Guaranteed Profit for the year ended 31 December 2013 guaranteed by Henan Jinjue Enterprise Co., Ltd (“Henan Jinjue”) was RMB15,600,000 but the actual profit after tax for the year was RMB3,701,000. Hence, the shortfall was RMB11,899,000. The PRC partner of Henan Jinjue should compensate the Group RMB6,068,000, equivalent to 51% of the shortfall, in accordance to the joint venture agreement. The PRC partner of Henan Jinjue has already settled RMB3,500,000 as of the date of this report.

The Group has negotiated on the arrangement of compensation with the PRC partners and partial compensation has been received. The Group shall continue to exercise the right to obtain the compensation from PRC partners, and it is expected that it will be completed by the end of 2014.

Our distribution companies continued to expand product lines and widen customer base. However, they performed below its expectation partially due to the currently challenging environment for the imported watches in Mainland China. In the medium term, the revenue is expected to continue to increase due to favorable government policies such as ongoing reduction of import duties, continuous economic growth, rapid urbanization, increased disposable income and most importantly, increasing demand for luxury goods.

(3) WATCHES AND TIMEPIECES – PRODUCTION

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

Guangzhou Five Goat Watch Company Limited

Guangzhou Five Goat Watch Company Limited (“Five Goat”), a 78% owned subsidiary of the Group, is engaged in the manufacture and distribution of mechanical movement and watch and owns two watch brands, namely, Guangzhou and Dixmont. The tourbillon movement was well accepted by the market and hence, among other mechanical movements, over 600 tourbillon movements were produced in the first half of 2014. As of 30 June 2014, Five Goat distributed watches through 15 distribution outlets (31 December 2013: 12) and 1 e-commerce platform. Five Goat contributed revenue, of which 90% from mechanical movement and 10% from watch, and net profit after tax of approximately HK\$30,309,000 (six months ended 30 June 2013: 37,662,000) and HK\$3,503,000 (six months ended 30 June 2013: 3,935,000) respectively in the first half of 2014.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Business Review (Continued)**(3) WATCHES AND TIMEPIECES – PRODUCTION (Continued)***Fair Future Industrial Limited*

Fair Future Industrial Limited (“Fair Future”), a 25% owned associate of the Group, is engaged in the manufacture of watches and accessories of watches for a well-known Japanese brand on an OEM basis. Creative and stylish design is one of the core-competence of Fair Future. With a design team in excess of 50 professionals well attuned to the changing consumer behavior around the world, Fair Future has made product portfolios that are well received by the OEM customers. Coupled with good quality and cost control, Fair Future is well positioned for sustainable development.

Fair Future contributed net profit after tax for the first half of 2014 of HK\$6,551,000 (six months ended 30 June 2013: HK\$6,433,000).

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

(4) INVESTMENT IN CITYCHAMP DARTONG COMPANY LIMITED (“CITYCHAMP DARTONG”)

On 27 February 2014, Citychamp Dartong announced its results under PRC GAAP for the year ended 31 December 2013. Consolidated profit was RMB1,284,801,000, in which RMB1,277,775,000 was attributable to owners of Citychamp Dartong. On 12 June 2014, 55,000,000 shares of Citychamp Dartong were disposed and the Group generated net profit after tax of HK\$146,103,000. As at 30 June 2014, there were 30,389,058 shares of Citychamp Dartong with a market value of HK\$192,721,000 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 period under review. During the period, these investment properties generated rental income of HK\$3,030,000 (six months ended 30 June 2013: HK\$2,900,000).

(6) MOTOR YACHT

Chart Victory Limited (“Chart Victory”) will consider terminate the motor yacht distribution business. During the period, Chart Victory incurred net loss after tax of approximately HK\$1,561,000 (six months ended 30 June 2013: HK\$1,135,000). One motor yacht was sold during the period and the last one was treated as inventory.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

As at 30 June 2014, the Group had non-pledged cash and cash equivalents of approximately HK\$809,515,000 (31 December 2013: HK\$471,621,000). Based on the borrowings of HK\$1,068,661,000 (31 December 2013: HK\$597,790,000) and shareholders' equity of HK\$4,025,178,000 (31 December 2013: HK\$4,315,079,000), the Group's gearing ratio (being loans divided by Shareholders' equity) was 27% (31 December 2013: 14%). The increase in borrowings was used to provide additional working capital required to finance the continuous expansion and growth of the Group.

As at 30 June 2014, 35% (31 December 2013: 39%) of all borrowings were repayable within one year.

(2) CHARGE ON ASSETS

As at 30 June 2014, banking facilities of the Company were secured by the Group's trade receivables of HK\$140,580,000, investment properties in Hong Kong of HK\$22,200,000 and land and buildings in Switzerland with net book values of HK\$124,602,000, totaling HK\$287,382,000 (31 December 2013: trade receivables of HK\$206,834,000, investment properties in Hong Kong of HK\$22,200,000 and land and buildings in Switzerland with net book values of HK\$144,552,000, totaling HK\$373,586,000).

(3) CAPITAL COMMITMENTS

The Group had no material capital commitments as at 30 June 2014.

Financial Review**(1) GROSS PROFIT**

Gross profit was HK\$874,623,000, an increase of 30% from HK\$671,985,000 for the same period last year.

(2) SELLING AND DISTRIBUTION EXPENSES

Total selling and distribution expenses was HK\$410,907,000, an increase of 33% from HK\$307,875,000 last year. Such increase was in line with the increase in revenue. Rossini, EBOHR, Eterna and Corum contributed selling and distribution expenses of HK\$135,566,000, HK\$121,252,000, HK\$13,994,000 and HK\$65,830,000 respectively.

(3) ADMINISTRATIVE EXPENSES

Total administrative expenses was HK\$331,533,000, an increase of 54% from HK\$215,322,000 for the same period last year. Rossini, EBOHR, Eterna and Corum contributed administrative expenses of HK\$42,456,000, HK\$27,770,000, HK\$42,168,000 and HK\$74,400,000 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Financial Review (Continued)**(4) NET PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY**

Net profit attributable to owners of the Company was HK\$254,485,000, a decrease of 37% from HK\$403,386,000 for the same period last year. Rossini contributed net profit of HK\$162,844,000 while EBOHR contributed net profit of HK\$99,583,000. Sale of 55,000,000 shares of Citychamp Dartong contributed a gain on disposal after tax of HK\$146,103,000.

(5) INVENTORY

As at 30 June 2014, inventory was HK\$2,080,084,000, an increase of 5% from HK\$1,987,473,000 as at 31 December 2013. Such increase was partially due to the acquisition of the Dreyfuss Group during the period. Rossini, EBOHR, Eterna, Corum and the Dreyfuss Group contributed inventory of HK\$355,310,000, HK\$545,206,000, HK\$280,743,000, HK\$388,866,000 and HK\$101,423,000 respectively.

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

Outlook

The global economy remains robust in 2014 as the growth rate is gradually picking up. The US is well positioned to regain its pre-crisis position as a driver of global economic growth, as employment picks up and inflation normalizes gradually. The Eurozone is showing signs of a recovery, with economic growth rate strengthening in 2014. In Mainland China, recent economic data raises comfort level about the strength of the economy. It appears that concerns over the domestic financial market seem to have been exaggerated. The strength has calmed fears of a hard landing for the economy in Mainland China. It is a general consensus that the Chinese economy would grow in excess of 7% p.a. at least in the next few years. Notwithstanding the global challenges, Mainland China is more likely to weather any further economic deterioration better than the western countries.

Based on the favorable macroeconomic environment and their growth momentum, Rossini and EBOHR have remained market share winners in the short and medium term.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Outlook (Continued)

It is expected that the performance of Eterna and Corum will improve in the future as the market recognition of the high brand value of Eterna and Corum will increase following the investments on product development, marketing and advertising strategies and restructuring of its brand building strategy during the previous years. The expected expansion of presence in the Mainland China market will also help Eterna and Corum capture the enormous potential of the Mainland China's imported watch market. Similarly, by capitalizing on the Group's increasingly comprehensive distribution network and its relevant range of products, Rotary would generate increasingly strong revenue from the Mainland China. The Group is prepared to allocate significant amount of various resources to transform those brands into long-term revenue drivers.

The Group will remain focused on executing the various initiatives under the strategic plan of developing both proprietary brands and non-proprietary brands. The Group would continue its impressive organic growth through development of its products, markets and distribution, leveraging on our strong balance sheet. These multiple strategic moves to achieve a balanced portfolio in a prudent manner are expected to drive significant growth in the years to come.

Investments we have made are crucial to our long-term competitiveness. With regard to funds, we have successfully issued bonds at the amount of CHF100 million in Switzerland, which have been listed and traded on the SIX Swiss Exchange from 22 July 2014. In the aspect of human resources, we continue to recruit talents for the overseas companies with the aim of improving the corporate management overseas. We are well-prepared with great confidence to overcome any hiccups and perform with great agility so as to bring sustainable returns to our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Employees and Remuneration Policy

As at 30 June 2014, the Group had more than 4,000 full-time staff in Hong Kong and Mainland China and more than 200 full-time 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.

Foreign Exchange Risk

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

Dividend

The directors have declared the payment of an interim dividend of HK3.6 cents per share for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil). The interim dividend is expected to be paid in Hong Kong dollars on or before 31 October 2014 to those members registered in the Company's register of members as at 8 October 2014.

The Register of members will be closed from 6 October 2014 to 8 October 2014, both days inclusive. In order to be eligible for the interim dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the share registrar of the Company, Tricor Secretaries Limited of Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 3 October 2014.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

As at 30 June 2014, the interests or short positions of the directors and chief executive in the share capital and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

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

As at 30 June 2014, certain directors of the Company held long positions in the shares of the Company as follows:

Name of directors	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Hon Kwok Lung	Corporate interests	2,944,513,515 (Note)	66.83%
	Personal interests	3,500,000	0.08%
	Family interests	1,374,000	0.03%
		2,949,387,515	66.94%
Shang Jianguang	Beneficial owner	8,000,000	0.18%
Shi Tao	Beneficial owner	5,000,000	0.11%
Lam Toi Man	Beneficial owner	3,500,000	0.08%
Fung Tze Wa	Beneficial owner	2,500,000	0.06%
Hon Hau Wong (appointed with effect from 29 August 2014)	Beneficial owner	1,750,000	0.04%

Note:

1,194,513,515 shares of the Company are held by Sincere View International Limited ("Sincere View"), which is owned as to 80% and 20% by Mr. Hon Kwok Lung and his spouse, Ms. Lam Suk Ying, respectively. 1,750,000,000 shares were held by Full Day Limited ("Full Day"), which is wholly-owned by Mr. Hon Kwok Lung.

Mr. Hon Kwok Lung and Ms. Lam Suk Ying are deemed to have an interest in the same parcel of shares of 2,944,513,515 held by Sincere View and Full Day.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Directors' and Chief Executive's Interests and Short Positions in Shares and Underlying Shares (Continued)**(B) SHARE OPTIONS OF THE COMPANY**

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

(C) LONG POSITION IN ROSSINI (NOTE 1)

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

Notes:

- Rossini is owned as to 91% indirectly by the Company and 9% by Fujian Fengrong Investment Company Limited ("Fujian Fengrong"). Rossini is an associated corporation of the Company within the meaning of Part XV of the SFO.
- The interest in Rossini was held by Fujian Fengrong, which is owned as to approximately 68.5% by Ms. Sit Lai Hei, an Executive Director, and 31.5% by Ms. Lu Xiaojun. Both Ms. Sit Lai Hei and Ms. Lu Xiaojun are daughters-in-law of Mr. Hon Kwok Lung, an Executive Director of the Company. Mr. Hon Hau Wong being the husband of Ms. Lu Xiaojun, is also deemed to be interested in the 31.5% interest in Fujian Fengrong.

Save as disclosed above, as at 30 June 2014, no other person had registered an interest or short position in the shares and underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Share Option Scheme

The following table discloses movements in the Company's share options for the six months ended 30 June 2014:

Name and category of participants	Number of share options		
	At 1 January 2014	Movement during the period	At 30 June 2014
Independent non-executive director			
Li Qiang	3,500,000	–	3,500,000
Other eligible employees			
In aggregate	6,925,000	–	6,925,000
Other eligible persons			
In aggregate	6,285,000	–	6,285,000
Total	16,710,000	–	16,710,000

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Substantial Shareholders' Interests in Shares and Underlying Shares

As at 30 June 2014, the following persons hold interests of 5% or more of the issued share capital of the Company, as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

LONG POSITION:

Name of shareholders	Capacity and nature of interest	Note	Number of ordinary shares held	Percentage of the Company's issued share capital
Full Day	Directly beneficially owned		1,750,000,000	39.72%
Sincere View	Directly beneficially owned		1,194,513,515	27.11%
Hon Kwok Lung	Corporate interests	(1)	2,944,513,515	66.83%
	Family interests		1,374,000	0.03%
	Personal interests		3,500,000	0.08%
			2,949,387,515	66.94%
Lam Suk Ying	Interest of spouse	(1)	2,948,013,515	66.91%
	Beneficial owner		1,374,000	0.03%
			2,949,387,515	66.94%
Keywise Capital Management (HK) Limited	Investment manager		249,546,000	5.66%

Note:

- (1) As Mr. Hon Kwok Lung owns 100% and 80% of Full Day and Sincere View respectively, he is deemed to be interested in the total of 2,944,513,515 shares held by Full Day and Sincere View under Part XV of the SFO. Mr. Hon Kwok Lung is a director of both Full Day and Sincere View. Ms. Lam Suk Ying, being Mr. Hon Kwok Lung's spouse, is also deemed to be interested in the total of 2,949,387,515 shares held by Mr. Hon Kwok Lung (2,944,513,515 shares held by Full Day and Sincere View, 3,500,000 shares held by Mr. Hon Kwok Lung and 1,374,000 shares held by Ms. Lam Suk Ying).

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

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

Save as disclosed above, as at 30 June 2014, no other person, other than the directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and chief executive's interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

Code of Corporate Governance Practices

During the six months period ended 30 June 2014, the Company has complied respectively with all the code provisions of the "Code on Corporate Governance Practices" and "Corporate Governance Code", as set out in Appendix 14 to the "Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited" (the "Listing Rules"), except with the details disclosed below:

Code E.1.2

Code E.1.2 stipulates that the Chairman of the board of directors should attend the annual general meeting of the Company. The Chairman of the Board was unable to attend the annual general meeting of the Company held on 21 May 2014 due to his business trip outside Hong Kong.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2014.

Audit Committee

The audit committee (the "AC") comprises the three independent non-executive directors, Mr. Fung Tze Wa (the Chairman of the Committee), Dr. Kwong Chun Wai, Michael and Mr. Li Qiang. The AC reviewed the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited interim financial information for the six months ended 30 June 2014. The AC also reviewed and commented internal audit reports of subsidiaries and associates and adequacy of resources, qualifications, experience and training of staff engaged in the accounting and financial report function.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Remuneration Committee

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

The majority of the RC members are independent non-executive directors. The RC makes recommendations to the board on the Company’s policy and structure for all directors’ and senior management’s remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy. The RC also makes recommendations to the board on the remuneration packages of individual executive directors and senior management. The RC ensures that no director or any of his/her associates is involved in deciding his/her own remuneration.

Nomination Committee

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Purchase, Sale or Redemption of Shares

During the six months ended 30 June 2014, the Company made the following off-market repurchase of the Company's listed shares::

Date of repurchase	Number of shares repurchased	Consideration per share HK\$	Total paid HK\$
1 April 2014	340,300,000	0.75	255,225,000

Save as disclosed above, the Company has not repurchased any Company's listed shares (whether on the Stock Exchange or otherwise) during the period under review.

Appreciation

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

Hon Kwok Lung

Chairman

Hong Kong, 29 August 2014

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the Six Months Ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Revenue	6	1,722,042	1,302,942
Cost of sales		(847,419)	(630,957)
Gross profit		874,623	671,985
Other income and financial income		40,787	27,505
Selling and distribution expenses		(410,907)	(307,875)
Administrative expenses		(331,533)	(215,322)
Loss on fair value changes in financial assets at fair value through profit or loss, net		(343)	(16,714)
Dividend income from available-for-sale financial assets		–	30,965
Gain on disposal of available-for-sale financial assets	16.2	163,542	327,763
Gain on disposal of a subsidiary	12.2	15,859	–
Gain on fair value changes in derivative financial instruments	22	12,001	1,625
Share of profit of associates		6,551	6,433
Finance costs	7	(20,560)	(14,660)
Profit before income tax	8	350,020	511,705
Income tax expense	9	(76,400)	(89,860)
Profit for the period		273,620	421,845
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
– Exchange gain on translation of financial statements of foreign operations		3,740	15,982
– Release of exchange fluctuation reserve to profit or loss on disposal of a subsidiary	12.2	(2,015)	–
– Release of investment revaluation reserve upon disposal	16.2	(163,542)	(327,763)
– Changes in fair value of available-for-sale financial assets	16.1	(126,935)	301,391
Other comprehensive income for the period		(288,752)	(10,390)
Total comprehensive income for the period		(15,132)	411,455

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)
For the Six Months Ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Profit for the period attributable to:			
Owners of the Company		254,485	403,386
Non-controlling interests		19,135	18,459
		273,620	421,845
Total comprehensive income for the period attributable to:			
Owners of the Company		(34,676)	391,364
Non-controlling interests		19,544	20,091
		(15,132)	411,455
Earnings per share attributable to owners of the Company during the period			
	11		
– Basic		HK 5.56 cents	HK 9.35 cents
– Diluted		HK 5.55 cents	HK 9.32 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		30 June 2014	31 December 2013
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	588,770	553,193
Investment properties	14	109,097	109,097
Prepaid land lease payments		38,397	38,921
Goodwill	15	791,031	670,777
Interests in associates		76,754	70,203
Available-for-sale financial assets	16.1	192,803	699,408
Intangible assets		394,841	278,263
Prepayments and deposits		21,969	26,771
Deferred tax assets		1,344	1,344
		2,215,006	2,447,977
Current assets			
Inventories	17	2,080,084	1,987,473
Trade receivables	18	776,374	633,269
Prepaid land lease payments		935	935
Prepayments, deposits and other receivables		416,377	250,782
Financial assets at fair value through profit or loss		214,093	214,302
Short-term investments	19	–	55,696
Cash and cash equivalents		809,515	471,621
		4,297,378	3,614,078
Assets of a disposal group classified as held for sale	12.1	–	211,576
		4,297,378	3,825,654

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2014

	Notes	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Current liabilities			
Trade payables	20	391,089	400,456
Other payables and accruals		618,470	368,546
Dividend payables		453	453
Tax payables		45,028	60,373
Borrowings	21	375,243	231,011
Derivative financial instruments	22	31,339	49,450
Due to associates		9,122	92,545
Due to related companies		12,821	12,821
		1,483,565	1,215,655
Liabilities of a disposal group classified as held for sale	12.1	–	55,523
		1,483,565	1,271,178
Net current assets		2,813,813	2,554,476
Total assets less current liabilities		5,028,819	5,002,453
Non-current liabilities			
Other payables		43,718	48,937
Borrowings	21	693,418	366,779
Deferred tax liabilities		48,890	24,693
		786,026	440,409
Net assets		4,242,793	4,562,044
EQUITY			
Equity attributable to owners of the Company			
Share capital		440,610	472,840
Reserves		3,584,568	3,842,239
		4,025,178	4,315,079
Non-controlling interests		217,615	246,965
Total equity		4,242,793	4,562,044

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the Six Months Ended 30 June 2014

	Equity attributable to owners of the Company				
	Share capital HK\$'000 (Unaudited)	Share premium account* HK\$'000 (Unaudited)	Share option reserve* HK\$'000 (Unaudited)	Other reserve* HK\$'000 (Unaudited)	Goodwill arising on consolidation* HK\$'000 (Unaudited)
At 1 January 2013	426,806	798,647	3,046	22,692	(15,300)
Transactions with owners					
Issuance of shares for acquisition of intangible assets and an associate	5,234	18,889	-	-	-
Proceeds from shares issued under share option scheme	55	124	-	-	-
Exercise of share options	-	83	(83)	-	-
Dividend paid to non-controlling interests	-	-	-	-	-
Total transactions with owners	5,289	19,096	(83)	-	-
Comprehensive income					
Profit for the period	-	-	-	-	-
Other comprehensive income					
Exchange gain on translation of financial statements of foreign operations	-	-	-	-	-
Release of investment revaluation reserve upon disposal	-	-	-	-	-
Changes in fair value of available-for-sale financial assets	-	-	-	-	-
Total comprehensive income	-	-	-	-	-
At 30 June 2013	432,095	817,743	2,963	22,692	(15,300)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
For the Six Months Ended 30 June 2014

Equity attributable to owners of the Company						Non-controlling interests	Total equity
Statutory reserve*	Exchange fluctuation reserve*	Investment revaluation reserve*	Retained profits*	Shares to be issued reserve**	Total		
HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
26,268	63,258	725,385	1,720,170	18,049	3,789,021	167,098	3,956,119
-	-	-	-	(8,204)	15,919	-	15,919
-	-	-	-	-	179	-	179
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(8,214)	(8,214)
-	-	-	-	(8,204)	16,098	(8,214)	7,884
-	-	-	403,386	-	403,386	18,459	421,845
-	14,350	-	-	-	14,350	1,632	15,982
-	-	(327,763)	-	-	(327,763)	-	(327,763)
-	-	301,391	-	-	301,391	-	301,391
-	14,350	(26,372)	403,386	-	391,364	20,091	411,455
26,268	77,608	699,013	2,123,556	9,845	4,196,483	178,975	4,375,458

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
For the Six Months Ended 30 June 2014

	Equity attributable to owners of the Company				
	Share capital	Share premium account*	Share option reserve*	Other reserve*	Goodwill arising on consolidation*
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2014	472,840	1,053,488	2,534	22,692	(15,300)
Transactions with owners					
Issuance of shares for acquisition of an associate	1,800	8,045	-	-	-
Repurchase of ordinary shares (note 27)	(34,030)	(221,195)	-	-	-
Disposal of a subsidiary	-	-	-	-	-
Dividend paid to non-controlling interests	-	-	-	-	-
Total transactions with owners	(32,230)	(213,150)	-	-	-
Comprehensive income					
Profit for the period	-	-	-	-	-
Other comprehensive income					
Exchange gain on translation of financial statements of foreign operations	-	-	-	-	-
Release of exchange fluctuation reserve to profit or loss on disposal of a subsidiary	-	-	-	-	-
Release of investment revaluation reserve upon disposal	-	-	-	-	-
Changes in fair value of available-for-sale financial assets	-	-	-	-	-
Total comprehensive income	-	-	-	-	-
At 30 June 2014	440,610	840,338	2,534	22,692	(15,300)

* These reserve accounts comprise the consolidated reserves of HK\$3,584,568,000 (31 December 2013: HK\$3,842,239,000) in the condensed consolidated statement of financial position.

The shares to be issued reserve as at 30 June 2013 and 1 January 2014 represents the fair value of 18,000,000 units of ordinary shares to be issued for the acquisition of an associate, which have been issued to the vendor in January 2014.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the Six Months Ended 30 June 2014

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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the Six Months Ended 30 June 2014

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash outflow from operating activities	(112,418)	(114,519)
Net cash inflow from investing activities	221,745	400,698
Net cash inflow from financing activities	181,442	72,664
Net increase in cash and cash equivalents	290,769	358,843
Cash and cash equivalents at beginning of period (Note (i))	478,713	217,840
Effect of foreign exchange rate changes, net	3,171	15,284
Cash and cash equivalents at end of period (Note (ii))	772,653	591,967

Notes:

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

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

For the Six Months Ended 30 June 2014

1. General Information

Pursuant to the passing of a special resolution at the Annual General Meeting held on 21 May 2014, the English name of the Company was changed from “CHINA HAIDIAN HOLDINGS LIMITED” to “CITYCHAMP WATCH & JEWELLERY GROUP LIMITED” and the Chinese name of the Company was changed from “中國海澱集團有限公司” to “冠城鐘錶珠寶有限公司”. The Certificate of Incorporation on Change of Name was issued by the Registrar of Companies of the Cayman Islands on 26 May 2014.

As disclosed in note 1 to the annual financial statements of the Group for the year ended 31 December 2013 (the “2013 Annual Financial Statements”), on 23 September 2013, the Group entered into an agreement with third parties to sell its 51% equity interest in Ruihuang (Chongqing) Watch Company Limited (“Ruihuang”) together with the assignment of the loans from the group companies, unpaid dividend and selling and distribution networks at the total consideration of RMB100,523,000 (equivalent to approximately HK\$127,245,000). The Group completed the disposal of its 51% equity in Ruihuang on 17 June 2014.

Other than the aforementioned disposal of Ruihuang and the acquisition of The Dreyfuss Group Limited and its subsidiaries (collectively referred to as “Dreyfuss”) as disclosed in note 26 to the unaudited condensed interim financial information (the “Unaudited Interim Financial Information”), there were no other significant changes in the Group’s operations during the period.

2. Basis of Preparation

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

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

The Unaudited Interim Financial Information for the six months ended 30 June 2014 was approved for issue by the board of directors on 29 August 2014.

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

For the Six Months Ended 30 June 2014

3. Summary of Significant Accounting Policies

The Unaudited Interim Financial Information has been prepared in accordance with the accounting policies and method of computation used in the 2013 Annual Financial Statements, except for the adoption of the new or amended Hong Kong Financial Reporting Standards (“HKFRSs”), which include individual HKFRSs, HKAS and Interpretations (“Int”). The adoption of these new and revised HKFRSs has had no material impact on the Group’s financial statements. The Group has not early adopted any new HKFRSs that have been issued but are not yet effective. The Unaudited Interim Financial Information should be read in conjunction with the 2013 Annual Financial Statements.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

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

ESTIMATED IMPAIRMENT OF GOODWILL

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

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

For the Six Months Ended 30 June 2014

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

PROVISION AGAINST INVENTORIES

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

ESTIMATED IMPAIRMENT OF TRADE AND OTHER RECEIVABLES

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

For the Six Months Ended 30 June 2014

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

INCOME TAXES

The Group is subject to income taxes in Hong Kong and the PRC. Significant judgement is required in determining the amount of the provision for income taxes and the timing of the payments of related taxes. The Group recognises liabilities for anticipated tax based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

ASSESSMENT OF NET IDENTIFIABLE ASSETS 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 value of the property, plant and equipment, intangible assets and inventories is 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.

FAIR VALUE MEASUREMENT

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

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

- Level 1 valuations: Quoted prices in active markets for identical items (unadjusted);
- Level 2 valuations: Observable direct or indirect inputs other than Level 1 inputs;
- Level 3 valuations: Unobservable inputs (i.e. not derived from market data).

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

For the Six Months Ended 30 June 2014

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

FAIR VALUE MEASUREMENT (Continued)

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

The Group measures a number of items at fair value:

- Investment properties
- Available-for-sales financial assets
- Financial assets at fair value through profit or loss
- Derivative financial instruments

5. Segment Information

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

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

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

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

For the Six Months Ended 30 June 2014

5. Segment Information (Continued)

	Six months ended 30 June 2014			
	Watches and timepiece	Property investment	Yacht	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue and income:				
Sales to external customers	1,704,274	7,968	9,800	1,722,042
Other income and financial income	36,783	688	–	37,471
Total	1,741,057	8,656	9,800	1,759,513
Segment results	232,592	(792)	(1,561)	230,239
Unallocated corporate income and expenses, net				(45,611)
Share of profit of associates				6,551
Gain on disposal of available-for-sale financial assets				163,542
Gain on disposal of a subsidiary				15,859
Finance costs				(20,560)
Profit before income tax				350,020
Income tax expense				(76,400)
Profit for the period				273,620

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

For the Six Months Ended 30 June 2014

5. Segment Information (Continued)

	Six months ended 30 June 2013			
	Watches and timepiece HK\$'000 (Unaudited)	Property investment HK\$'000 (Unaudited)	Yacht HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue and income:				
Sales to external customers	1,294,828	8,114	–	1,302,942
Other income and financial income	24,614	1,794	–	26,408
Total	1,319,442	9,908	–	1,329,350
Segment results	229,303	1,071	(1,135)	229,239
Unallocated corporate income and expenses, net				(37,070)
Share of profit of associates				6,433
Gain on disposal of available-for-sale financial assets				327,763
Finance costs				(14,660)
Profit before income tax				511,705
Income tax expense				(89,860)
Profit for the period				421,845

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

For the Six Months Ended 30 June 2014

6. Revenue

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

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sale of goods	1,714,074	1,294,828
Gross rental income	7,968	8,114
	1,722,042	1,302,942

7. Finance Costs

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interests charged on bank borrowings	20,560	14,660

8. Profit Before Income Tax

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

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Depreciation	35,516	19,720
Amortisation of prepaid land lease payments	524	370
Amortisation of intangible assets	8,778	6,532

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

For the Six Months Ended 30 June 2014

9. Income Tax Expense

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax for the period		
PRC	75,821	89,762
Switzerland	579	98
Total income tax expense	76,400	89,860

Hong Kong profit tax was provided at the rate of 16.5% on the estimated assessable profit arising in Hong Kong. No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong for both the six months ended 30 June 2014 and 2013.

The subsidiaries established in the PRC are subject to income taxes at tax rates ranging between 15% and 25% (Six months ended 30 June 2013: between 15% and 25%). Overseas tax is calculated at the rates applicable in the respective jurisdictions.

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

10. Dividends

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interim dividends of HK3.6 cents per ordinary share (six months ended 30 June 2013: Nil)	158,620	–

At the board meeting held on 29 August 2014, the directors have declared the payment of an interim dividend of HK3.6 cents per ordinary share (six months ended 30 June 2013: Nil). No liability is recorded in the Unaudited Interim Financial Information in respect of this dividend for the six months ended 30 June 2014.

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

For the Six Months Ended 30 June 2014

11. Earnings Per Share

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

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company for the purpose of calculating basic and diluted earnings per share	254,485	403,386

	Number of shares	
	Six months ended 30 June	
	2014	2013
	'000	'000
	(Unaudited)	(Unaudited)
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	4,575,310	4,315,844
Effect of dilutive potential ordinary shares:		
– share options issued by the Company	10,676	11,727
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	4,585,986	4,327,571

12. Assets or Liabilities of A Disposal Group Classified as Held for Sale/Gain on Disposal of A Subsidiary

12.1 Assets or liabilities of a disposal of group classified as held for sale

As mentioned in note 1, the Group entered into an agreement with third parties to sell its 51% equity interest in Ruihuang on 23 September 2013. The assets and liabilities of Ruihuang were presented under assets or liabilities of a disposal group classified as held for sale as at 31 December 2013.

The disposal of Ruihuang was completed on 17 June 2014. Details of the Group's gain on disposal of a subsidiary was set out in note 12.2.

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

For the Six Months Ended 30 June 2014

12. Assets or Liabilities of A Disposal Group Classified as Held for Sale/Gain on Disposal of A Subsidiary (Continued)

12.2 Gain on disposal of a subsidiary, Ruihuang for the six months ended 30 June 2014 is as follows:

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

	HK\$'000 (Unaudited)
Net cash inflow arising on disposal:	
Fair value of consideration in cash	127,245
Less: Consideration receivables	(89,549)
Cash and cash equivalents disposed of	(6,311)
Net cash inflow	31,385

The cash consideration of HK\$37,696,000 from disposal of Ruihuang has been received by the Group during the period. The remaining consideration of HK\$89,549,000 will be received before 31 December 2014.

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

For the Six Months Ended 30 June 2014

13. Property, Plant and Equipment

During the six months ended 30 June 2014, the Group acquired property, plant and equipment of HK\$40,220,000 (Six months ended 30 June 2013: HK\$40,052,000). Property, plant and equipment of HK\$786,000 were disposed of during the six months ended 30 June 2014 (Six months ended 30 June 2013: HK\$900,000).

As at 30 June 2014, the Group has not yet obtained the title certificates for certain leasehold buildings in the PRC with an aggregate carrying amount of approximately HK\$501,000 (31 December 2013: HK\$643,000). The Group's legal advisors have confirmed that the Group has legally obtained the rights to use the buildings. The directors are now in process of obtaining the title certificates from the relevant government authorities.

As at 30 June 2014, land and buildings in Switzerland with an aggregate carrying amount of HK\$124,602,000 (31 December 2013: HK\$144,552,000) have been pledged to secure banking facilities granted to the Group (note 21).

14. Investment Properties

As at 30 June 2014, the Group has not obtained the relevant title certificates for investment properties with an aggregate carrying amount of HK\$41,100,000 (31 December 2013: HK\$41,100,000). The Group's legal advisors have confirmed that the Group is the rightful and equitable owner of these investment properties. The directors are now in process of obtaining the title certificates from the relevant government authorities.

As at 30 June 2014, certain of the Group's investment properties with carrying amount of HK\$22,200,000 (31 December 2013: HK\$22,200,000) have been pledged to secure banking facilities granted to the Group (note 21).

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

For the Six Months Ended 30 June 2014

15. Goodwill

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Balance at the beginning of period/year	670,777	621,382
Acquisition of subsidiaries (note 26)	120,254	49,395
Balance at the end of period/year	791,031	670,777

16. Available-for-sale Financial Assets

16.1 Available-for-sale financial assets

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Listed equity investment in the PRC, at fair value	192,721	699,326
Unlisted equity investments, at cost	82	82
	192,803	699,408

As at 30 June 2014, the listed equity investment in the PRC represented 2.55% (31 December 2013: 7.18%) equity interest in Citychamp Dartong Company Limited (referred to "Citychamp" and its shares referred to as the "Citychamp Dartong Shares"). As at 30 June 2014, the Group held 30,389,058 Citychamp Dartong Shares (31 December 2013: 85,389,058 Citychamp Dartong Shares).

During the period, the decrease in fair value of Citychamp Dartong Shares of HK\$126,935,000 (Six months ended 30 June 2013: increase of HK\$301,391,000) has been dealt with in other comprehensive income and investment revaluation reserve.

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

For the Six Months Ended 30 June 2014

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

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

On 13 June 2014, the Group completed the disposal of 55,000,000 Citychamp Dartong Shares (six months ended 30 June 2013: 58,600,000 Citychamp Dartong Shares) at a cash consideration of RMB302,104,000 (equivalent to HK\$379,671,000) (six months ended 30 June 2013: RMB441,487,000, equivalent to HK\$558,040,000). Details of the completion of the disposal of Citychamp Dartong Shares are set out in the Company's announcement dated 13 June 2014. The related cumulative gain previously recognised in other comprehensive income of HK\$163,542,000 (six months ended 30 June 2013: HK\$327,763,000) was reclassified from the investment revaluation reserve to profit or loss for the period.

17. Inventories

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Raw materials	368,967	234,633
Work in progress	362,131	295,415
Finished goods and merchandise	1,348,986	1,457,425
	2,080,084	1,987,473

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

For the Six Months Ended 30 June 2014

18. Trade Receivables

The Group's trading terms with its customers are mainly on credit, except for certain customers, where payment in advance is required. The credit period is generally for a period of one to six months (31 December 2013: one to six months) for major customers. Each customer has a maximum credit limit. The credit term for customers is determined by the management according to various market criteria.

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
1 to 3 months	601,602	471,195
4 to 6 months	65,262	84,981
Over 6 months	109,510	77,093
	776,374	633,269

19. Short-Term Investments

As at 31 December 2013, the Group had short-term investments of HK\$55,696,000 with major banks in the PRC, of which an amount of HK\$3,797,000 was not subject to maturity and an amount of HK\$51,899,000 was subject to maturity up to March 2014. For those short-term investment not subject to maturity, the Group is entitled to redeem the investments from the banks anytime with immediate effect. The estimated return from these short-term investments ranged from 3.8% to 6% per annum.

During the six months ended 30 June 2014, the Group had redeemed the investments not subject to maturity and there is no short-term investment as at 30 June 2014.

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

For the Six Months Ended 30 June 2014

20. Trade Payables

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

	30 June 2014	31 December 2013
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
1 to 3 months	318,400	385,583
4 to 6 months	49,306	13,193
Over 6 months	23,383	1,680
	391,089	400,456

21. Borrowings

	30 June 2014	31 December 2013
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Bank overdrafts	36,862	–
Bank borrowings	1,031,799	597,790
Carrying amount as the end of period/year	1,068,661	597,790
Less: Current portion	(375,243)	(231,011)
Non-current portion	693,418	366,779

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

For the Six Months Ended 30 June 2014

21. Borrowings (Continued)

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

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Portion of bank borrowings due for repayment within one year	332,386	223,361
Other bank borrowings due for repayment after one year		
After one year but within two years	521,735	77,338
After two years but within five years	160,713	279,846
After five years	16,965	17,245
	699,413	374,429
	1,031,799	597,790

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

- (i) corporate guarantee provided by subsidiaries within the Group as at 30 June 2014 and 31 December 2013.
- (ii) a corporate guarantee provided by Fujian Fengron Investment Company Limited ("Fengrong") as at 30 June 2014 and 31 December 2013.
- (iii) a legal charge over certain of the Group's investment properties with carrying amounts of HK\$22,200,000 (31 December 2013: HK\$22,200,000) (note 14).
- (iv) a legal charge over certain of the Group's land and buildings with the carrying amounts of HK\$124,602,000 (31 December 2013: HK\$144,552,000) (note 13).
- (v) certain of the Group's trade receivables with the carrying amounts of HK\$140,580,000 (31 December 2013: HK\$206,834,000).
- (vi) a personal guarantee of HK\$27,600,000 provided by the director of a subsidiary as at 30 June 2014 and 31 December 2013.

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

For the Six Months Ended 30 June 2014

21. Borrowings (Continued)

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

22. Derivative Financial Instruments

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Financial undertakings provided by the Group in relation to issuance of ordinary shares for:		
– Acquisition of intangible assets (note a)	28,774	40,242
– Acquisition of an associate (note b)	2,565	9,208
	31,339	49,450

Notes

- (a) In 2013, the Group completed the acquisition of certain intangible assets, including suppliers and distributions networks from a PRC partner at a consideration of RMB30,600,000. The purchase consideration was settled by issue and allotment of 37,335,000 ordinary shares ("Consideration Shares for Intangible Assets A") of the Company. Pursuant to the terms of the acquisition agreement, the Group had provided a financial undertaking to compensate the vendor the shortfall in cash if the average selling price of the Consideration Shares for Intangible Assets A disposed of by the vendor from the expiration of the respective lock-up periods is less than HK\$1. The fair values of the abovementioned financial undertaking as at 30 June 2014 was HK\$13,231,000 (31 December 2013: HK\$18,553,000).

In 2012, the Group completed the acquisition of certain intangible assets, including suppliers and distributions networks from a PRC partner at a consideration of RMB51,000,000. The purchase consideration was settled as to RMB6,500,000 by cash and as to RMB44,500,000 by issue and allotment of 54,527,000 ordinary shares ("Consideration Shares for Intangible Assets B") of the Company. Pursuant to the terms of the acquisition agreement, the Group had provided a financial undertaking to compensate the vendor the shortfall in cash if the average selling price of the Consideration Shares for Intangible Assets B disposed of by the vendor from the expiration of the respective lock-up periods is less than HK\$1. The fair value of the abovementioned financial undertaking as at 30 June 2014 was HK\$15,543,000 (31 December 2013: HK\$21,689,000).

**NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED
INTERIM FINANCIAL INFORMATION (CONTINUED)***For the Six Months Ended 30 June 2014***22. Derivative Financial Instruments (Continued)**

Notes (Continued)

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

The aforementioned financial undertakings meet the definition of derivatives in accordance with HKAS 39. The value of the financial undertakings will change in response to changes in the share price of the Company's shares. There are no initial net investments and they are settled at a future date. In these regards, the financial undertakings will be accounted for as derivative financial instruments, which are designated as financial liabilities at fair value through profit or loss. The fair value gain of the derivative financial instruments during the period amounted to HK\$12,001,000 (six months ended 30 June 2013: HK\$1,625,000), which has been recognised in the profit or loss for the period.

23. Contingent Liabilities

At 30 June 2014 and 31 December 2013, the Group had contingent liabilities in relation to guarantee of approximately HK\$120,000,000 given to banks in respect of a loan granted to an associate. The directors of the Company consider that the fair value of guarantee is considered as immaterial. Details of the guarantee were set out in the Company's announcement dated 17 December 2013.

24. Capital Commitments

There was no capital commitment as at 30 June 2014 and 31 December 2013.

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

For the Six Months Ended 30 June 2014

25. Related Party Transactions

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

(i) *Rental income*

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Rental income received (note a)	60	60
Sub-lease income received (note b)	171	171

Note:

- (a) This was received from a director and this was charged at HK\$10,000 per month on average (Six months ended 30 June 2013:HK\$10,000).
- (b) Sub-lease income was received from a related company which is controlled by a director of the Company and this was charged at approximately HK\$29,000 (Six months ended 30 June 2013:HK\$29,000) per month on average.

(ii) *Interest expense*

	Six months ended 30 June	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Interest expense	–	376

The interest expense for the six months ended 30 June 2013 was paid to a related company which is controlled by a director of the Company.

On 22 April 2013, the Company borrowed an unsecured loan from the related company, with the principal amount of HK\$45,000,000 and bearing interest at 5% per annum. The loan was fully repaid on 26 July 2013.

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

For the Six Months Ended 30 June 2014

25. Related Party Transactions (Continued)

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

(Continued)

(iii) *Outstanding balances included in other receivables*

	30 June 2014 HK\$'000 (Unaudited)	31 December 2013 HK\$'000 (Audited)
Due from related companies	1,697	1,441

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

(iv) *Disposal of Citychamp Dartong Shares*

On 13 June 2014, the Group disposed of 55,000,000 Citychamp Dartong Shares to Fengrong at a consideration of approximately RMB302,104,000 (equivalent to HK\$379,671,000). Ms. Sit Lai Hei, a director of the Company is also a director and a beneficial owner of Fengrong.

(v) *Financial guarantee*

On 24 June 2013, the Company executed an agreement with Fengrong in respect of a financial guarantee of RMB300,000,000 provided by Fengrong in favour of a bank for a loan facility granted to the Group of EUR35,000,000. The financial guarantee provided by Fengrong covered a 3-year period from 27 June 2013 to 26 June 2016, and secured by 72,000,000 Citychamp 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 six months ended 30 June 2014, the Group had not reimbursed any guarantee fee and other direct expenses to Fengrong (Six months ended 30 June 2013: Nil).

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

For the Six Months Ended 30 June 2014

25. Related Party Transactions (Continued)

25.2 Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Short-term employee benefits	9,775	9,784
Post-employment benefits	75	66
	9,850	9,850

26. Acquisition of Subsidiaries

On 11 April 2014, the Company acquired the entire equity interests of Dreyfuss 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 Dreyfuss through the Company's right to nominate all the members of Dreyfuss's board of directors, and Dreyfuss became the wholly-owned subsidiaries of the Company. The acquisition of Dreyfuss 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 (Unaudited)
Cash consideration paid	208,745
Consideration payable	143,396
Total consideration	352,141
Less: Fair value of net assets acquired	(231,887)
Goodwill	120,254

Total purchase consideration is GBP27,000,000 (equivalent to approximately HK\$352,141,000) in which GBP16,000,000 (equivalent to approximately HK\$208,745,000) was paid during the six months ended 30 June 2014, GBP6,000,000 (equivalent to approximately HK\$78,216,000) will be paid in August 2014 and GBP5,000,000 (equivalent to approximately HK\$65,180,000) will be paid in June 2015.

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

For the Six Months Ended 30 June 2014

26. Acquisition of Subsidiaries (Continued)

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.

Pursuant to the acquisition agreement, the total consideration would be adjusted if a number of conditions precedent cannot be satisfied by Dreyfuss. Details of the conditions precedent are set out in the sub-section with the heading "Adjustments to the Consideration" in the Company's announcement dated 11 April 2014.

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

	Fair value	Acquirees' carrying amount
	HK\$'000 (Unaudited)	HK\$'000 (Unaudited)
Property, plant and equipment	30,522	30,522
Intangible assets	124,720	1,181
Deferred tax assets	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	(31,992)	–
Fair value of net assets acquired	231,887	
Net assets		126,279
Net cash outflow from acquisition of a subsidiary:		
Cash and cash equivalents in the subsidiary acquired		3,103
Less: Purchase consideration settled in cash		(208,745)
		(205,642)

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

For the Six Months Ended 30 June 2014

26. Acquisition of Subsidiaries (Continued)

Dreyfuss contributed revenue of approximately HK\$62,918,000 and net loss of approximately HK\$7,509,000 to the Group for the six months ended 30 June 2014.

Had the business combination taken place on 1 January 2014, revenue and profit of the Group for the six months period ended 30 June 2014 would have been approximately HK\$1,785,054,000 and HK\$259,474,000 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 been completed on 1 January 2014 nor are they intended to be a projection of future results.

27. Repurchase of Ordinary Shares

On 13 February 2014, the Company entered into a share buy-back agreement with Severin Participations GmbH and the trustee of Severin Wunderman Family Trust for the benefit of Michael Wunderman as the vendors, pursuant to which the Company conditionally agreed to purchase and vendors conditionally agreed to sell 340,300,000 shares of the Company, representing approximately 7.17% of the issued capital of the Company as at 13 February 2014. The agreed repurchase price is HK\$0.75 and the aggregate consideration is HK\$255,225,000. Following the completion of the share buy-back, the number of issued shares was reduced by 340,300,000 accordingly. Details of the transaction were set out in the Company's announcement dated 13 February 2014.

28. Fair Value Measurements of Financial Instruments

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

- the fair value of listed securities and available-for-sale financial assets are determined by reference to their quoted bid prices at the reporting dates and have been translated using the spot foreign currency rates at the end of the reporting periods where appropriate. The listed equity securities are denominated in HK\$ and RMB.

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

For the Six Months Ended 30 June 2014

28. Fair Value Measurements of Financial Instruments (Continued)

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

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

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

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

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

	30 June 2014			
	Level 1 HK\$'000 (Unaudited)	Level 2 HK\$'000 (Unaudited)	Level 3 HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Assets:				
Available-for-sale financial assets				
– Listed	192,721	–	–	192,721
Listed securities designated at fair value through profit or loss	214,093	–	–	214,093
	406,814	–	–	406,814
Liabilities				
Derivative financial instruments	–	31,339	–	31,339

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

For the Six Months Ended 30 June 2014

28. Fair Value Measurements of Financial Instruments (Continued)

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

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

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

29. Event After the Reporting Date

On 22 July 2014, Citychamp Watch and Jewellery SwissCo AG (the 'Issuer'), a wholly-owned subsidiary of the Company, the Company and UBS AG entered into a bond purchase and paying agency agreement (the 'Agreement'), pursuant to which the Issuer has agreed to issue and to sell the Bonds of principal amount of CHF100,000,000 unconditionally and irrevocably guaranteed by the Company and UBS AG has agreed to purchase the Bonds at the issue price of 100% of the nominal amount of the Bonds less commissions, fees, costs and expenses in accordance with the Agreement.

The net proceeds from the Bonds Issue of CHF98,400,000 (equivalent to approximately HK\$853,100,000) will be used for general corporate purposes, also including without limitation the potential acquisition of additional watch companies and/or brands. Details of the Bonds Issue were set out in the Company's announcements dated 7 July 2014 and 23 July 2014.

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