



SHENZHEN FIYTA HOLDINGS LTD.

2002 ANNUAL REPORT

April 16, 2003

Important: The Board of Directors and all the directors of the Company hereby confirm that there are no important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individually and/or jointly, for the reality, accuracy and completion of the whole contents herein. This annual report is prepared in both Chinese and English. Should there be any difference in understanding of the two versions, the Chinese version shall prevail.

Except that the Financial Report (Chapter 10) of the English version is drawn up according to the Auditors' Report as prepared in accordance with International Financial Report Standards, all financial data are based on Chinese Accounting Standards.

Chairman Wu Guangquan, General Manager Xu Dongsheng, Chief Accountant Li Dehua and Accounting Supervisor Liu Biao hereby guarantee that the financial report enclosed in this 2002 Annual Report is a report bearing true and complete contents.

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Chapter 1 Company Profile

1. Legal Name in Chinese and English and Short Form:
In Chinese: 深圳市飞亚达（集团）股份有限公司
In English: SHENZHEN FIYTA HOLDINGS LTD
English Short Form: FIYTA
2. Legal Representative: Mr. Wu Guangquan
3. Secretary of the Board: Mr. Hao Huiwen
Security Affairs Representative: Mr. Chen Zhuo
Address: FIYTA Building, 163 Zhenhua Rd., Shenzhen
Tel: (0755) 83217888 ext. 8218; 83259702
Fax: (0755) 83348369
E-mail: security@fiyta.com.cn
4. Registered / Office Address: FIYTA Building, 163 Zhenhua Rd., Shenzhen
Post Code: 518031
Internet Website: <http://www.fiyta.com.cn>
E-mail: szfiyta@public.szptt.net.cn
5. Newspapers Designated for Disclosing the Information:
Securities Times, Hong Kong Commercial Daily
Internet Website Designated by China Securities Regulatory Commission for
Publishing the Annual Report: "<http://www.cninfo.com.cn>"
Place Where the Annual Report is Prepared and Placed:
Securities Department of the Company
6. Stock Exchange Listed with: Shenzhen Stock Exchange
Short Form & Code of the Stock: FIYTA A 000026
FIYTA B 200026
7. Other Relevant Information
 - 1) Date of first registration: March 30, 1990
Date of registration updating: January 30, 1997
Registration with: Shenzhen Municipal Administration for Industry and
Commerce.
 - 2) Business License No.: 4403011001583
 - 3) Taxation Registration No.: 440301192189783
 - 4) Certified public accountant engaged

	Name	Office Address
A Shares	Pricewaterhouse Coopers Zhongtian Certified Public Accountants	12-Floor, Rui'an Plaza, No. 333 Huaihai M. Road., Shanghai
B Shares	PRICEWATERHOUSECOOPERS CHINA LTD.	Room 3706, Diwang Commerce Center, Shun Hing Square, No. 5002 Shennan E. Road, Shenzhen

Chapter 2 Financial and Business Highlights

I. Financial Highlights

Items	Amount In RMB
Total profit	-75,424,201
Net profit	-77,434,684
Net profit, less the non-recurring gains and loss	-77,958,917
Profit from principal businesses	74,668,366
Profit from other business lines	14,922,856
Operating profit	-77,570,715
Investment income	1,391,524
Subsidy income	0
Net amount of non-operating income and expenses	754,990
Net cash flows arising from operating activities	23,354,487
Net increase of cash and cash equivalents	-226,463,876

* Deducting non-recurring gain/loss items and the amount involved

Items	Amount In RMB
Net amount of non-operating income and expenses	-754,990
Taxation	230,757
Total	-524,233

II. Note to differences in the net profit as audited respectively by domestic and international certified public accountants

As audited by Pricewaterhouse Coopers China Limited for IFRS, the Company's net profit in the year 2002 was RMB -69,002 thousand. The items involved in the adjustment for the differences as audited by Pricewaterhouse Coopers Zhongtian Certified Public Accountants are as follows:

	In RMB '000
Net profit as audited by Pricewaterhouse Coopers Zhongtian Certified Public Accountants	-77,434
(1) provision for deferred taxes	7,781
(2) Others	651
Net profit as audited by Pricewaterhouse Coopers China Limited according to the IFRS	-69,002

III. Financial highlights over the past three years:

Items	2002	2001	In RMB	
			2000 before adjustment	2000 after adjustment
Income from principal businesses	206,241,298	219,813,846	253,028,149	253,028,149
Net profit	-77,434,684	11,322,807	14,665,211	15,680,229
Total assets	566,681,393	725,845,783	781,982,535	777,436,334
Shareholders' equity	510,368,305	587,802,989	593,228,797	588,946,082
Earnings per share	-0.311	0.045	0.059	0.063
Net assets per share	2.05	2.36	2.38	2.36
Net assets per share after adjustment	1.96	2.25	2.26	2.26
Cash flow arising from business activities per share, net	0.094	0.26	-0.016	-0.016
Net assets-income ratio	-15.17%	1.93%	2.47%	2.66%

Notice: Adjustment of financial data in 2000 is due to: the organization expenses not yet amortized have been stated in the gain and loss statement of the report period on once-and-for-all basis.

Note: Calculation formula of major financial data:

Earnings per share = net profit / total common shares at year end

Net assets per share = shareholders' equity at year end / total common shares at year end

Net assets per share after adjustment = (shareholders' equity at the year end - net accounts receivable over three years – expenses to be apportioned - long-term expenses to be apportioned) / total common shares at year end

Net cash flow per share arising from operating activities = Net cash flow arising from operating activities / Total ordinary shares at year end

Net assets-income ratio = net profit / shareholders' equity at year end × 100%

IV. Net assets-income ratio and earnings per share calculated in accordance with the Rules for Public Companies to Disclose Information and Prepare Statements (No. 9) promulgated by China Securities Regulatory Commission (CSRC)

Profit of report year	Net assets-income ratio (%)		earnings per share (RMB/share)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal businesses	14.63	13.73	0.299	0.299
Operating profit	-15.20	-14.26	-0.311	-0.311
Net profit	-15.17	-14.24	-0.311	-0.311
Net profit after deduction of non-recurring loss/gain	-15.28	-14.33	-0.313	-0.313

V. Changes in Shareholders' Equity in the Report Period

Items	Period beginning	Increase in the period	Decrease in the period	Period end	In RMB
					Reason for change
Share capital	249,317,999	0	0	249,317,999	
Capital public reserve	191,108,477	0	0	191,108,477	
Surplus public reserve	130,467,792	0	0	130,467,792	
Statutory public welfare funds	25,036,994	0	0	25,036,994	
Retained earning	16,908,721	0	77,434,684	-60,252,963	Deficit resulted in the report period
Total shareholders' equity	587,802,989	0	77,434,684	510,368,305	Deficit resulted in the report period

Chapter 3 Changes in Share Capital and Particulars about Shareholders

I. Change in the Company's Shares

1. Changes in the Company's share capital ended December 31, 2002 are as follows:

In shares

	Before change	Increase/ Decrease (+ / -) as of the year	After the change
1. Circulating Shares not Listed			
Promoters' shares	130,248,000	0	130,248,000
Including: domestic legal person shares	130,248,000	0	130,248,000
Total	130,248,000	0	130,248,000
2. Circulating Shares Listed			
1) RMB ordinary shares	60,749,999	0	60,749,999
Including: senior executives' shares	276,307	0	276,307
2) Foreign shares listed domestically	58,320,000	0	58,320,000
Total	119,069,999	0	119,069,999
3. Total shares	249,317,999	0	249,317,999

Note: 124416 shares and 103680 shares held respectively by ex-chairman Mr. Li Zhizheng and ex-director Lu Xianbin are going to be unfrozen for circulating in June, 2003.

2. Issuing and Listing

(1) For three years before the end of the report period, the Company had issued no shares or derivatives.

(2) In the year 2002, the Company was neither involved in any activities of distributing bonus shares, converting public reserve into share capital, share allotment, issuing new shares, absorption and combination, capital reduction, listing of employees' or staff shares, nor issued any convertible bonds. Therefore, there has been no change in total shares or the stock structure.

(3) The Company has no employees' shares.

. Shareholders

1. Ended Dec. 31, 2002, the Company had totally 15,879 shareholders including 5,561 shareholders of A-shares (3 of them are senior executives) and 10,318 shareholders of B-shares.

2. Top 10 shareholders ended Dec. 31, 2002

Shareholders	Increase / decrease in the year	Shares held at year end	Types	Proportion
CATIC SHENZHEN HOLDINGS LTDS.	0	130,248,000	Domestic legal person shares	52.24%
Chen Jiexing	-412,600	1,440,200	Listed B shares	0.58%
XU AILAN	-64,000	926,000	Listed B shares	0.37%
Lin Zhihua	32,000	532,000	Listed B shares	0.21%
Wang Jungang	-2,300	490,730	Listed B shares	0.20%
CHINA PINGAN INSURANCE (HK) CO., LTD.	-17,000	484,900	Listed B shares	0.19%
Liu Hong	-1,000	410,800	Listed B shares	0.16%
Chen Jingan	-6,000	368,100	Listed A shares	0.15%
Lin Hongbo	0	362,880	Listed B shares	0.15%
Qiu Heyun	0	325,409	Listed A shares	0.13%

The shareholder holding over 5% of the Company's total share capital is CATIC SHENZHEN HOLDINGS LTD. and there was no change in its shareholding in the report year.

The Company has never found any business relations among the top 10 shareholders.

3. About the controlling shareholder:

CATIC SHENZHEN HOLDINGS LTD. was founded in June, 1997, with total share capital: RMB 642 million, the legal representative: Li Zhizheng; principal businesses: Design, manufacture and sales of printed circuit board, LCD, mechanical and quartz timepieces. On the date of incorporation, the company issued 400 million domestic shares to CATIC Shenzhen Corporation, taking 62.31% of the total share capital. In 1997, the company successfully issued 242 million H-shares in Hong Kong, taking 37.69% of the total share capital. The company was listed with Hong Kong Stock Exchange in September, 1997.

4. Actual controller of the controlled shareholder

CATIC Shenzhen Corporation is a state enterprise founded in April, 1982, with the registered capital: RMB 80 million, and legal representative: Wu Guangquan. Principal Businesses: import and export of the motor vehicles and machinery equipment for production purpose, etc. within the group.

Chapter 4 Directors, Supervisors, Senior Executives and Employees

I. Directors, supervisors and senior executives

Name	Title	Sex	Age	Office Term	Shares held at the year end	Office taking in shareholder companies
Wu Guangquan	Chairman of the Board	male	40	Dec., 2002 to May 2003	0	
Wang Xinkuo	Director	male	54	Dec., 2002 to May 2003	0	
Sui Yong	Director	male	44	May 2000 to May 2003	0	Director of CATIC (June 6 to June 2003)
You Lei	Director	male	33	Dec., 2002 to May 2003	0	Secretary of the Board of Director of CATIC (June 2000 to June 2003)
Zhu Gensen	Director and general manager	male	54	May 2000 to May 2003	0	Director of CATIC (June 6 to June 2003)
Lu Bingqiang	Director and Deputy General Manager	male	41	May 2000 to May 2003	48210	
Cai Zheng	Independent Director	male	61	June 2002 to May 2003	0	
Diao Weicheng	Independent Director		39	June 2002 to May 2003	0	
Shao Kexiong	Chairman of Supervisory Committee		52	May 2000 to May 2003	0	Supervisor of CATIC (June 2000 to June 2003)
Zhang Meitong	Supervisor	female	53	May 2000 to May 2003	0	
Zhang Songhua	Supervisor	male	49	May 2000 to May 2003	0	
Li Dehua	Deputy General Manager and Chief Accountant	male	42	May 2000 to May 2003	0	
Li Bei	Deputy General Manager	male	47	Feb., 2001 to May 2003	0	
Hao Huiwen	Secretary of the Board of Directors	male	34	May 2000 to May 2003	0	

Notes:

1. At the 18th meeting of the 3rd Board dated Jan. 21, 2003, Mr. Wu Guangquan was elected Chairman of the Board; Mr. Zhu Gensen was approved to resign the office of General Manager, and Mr. Xu Dongsheng was engaged as General Manager instead; Mr. Lu Bingqiang was approved to resign the office of director and Mr. Xu Dongsheng was nominated as a candidate director. For the details, please refer to the public notice of the Company published on Securities Times and Hong Kong Commercial Daily dated Jan. 23, 2003.

2. There was no change in the shares held by Mr. Lu Bingqiang as a senior executive in the report year.

II. Remuneration to directors, supervisors, senior executives in the report year

1. In the report year, the Company paid no special allowances or any other form of remuneration to common directors and supervisors; the annual remuneration to senior executives was paid by the Board according to their respective functions of office and work performances.

2. There are 14 directors, supervisors and senior executives in office in the Company, 9 of whom receive remuneration from the Company. In the report year, the total remuneration paid is RMB 844,000.00. The total remuneration to the three directors enjoying highest salaries was RMB 312,000 (actually two directors) and that to the three senior executives enjoying the highest salaries is RMB 441,000. The allowance provided to the two independent directors in current office is RMB 15,000 per person per year. There is no other remuneration to them.

3. The annual remuneration range of the directors, supervisors, senior executives in the report period: 1 of them enjoying annual pay from RMB 150,000 to 160,000; 4 of them from RMB 100,000 to 150,000, 4 of them below RMB 100,000.

4. Mr. Wu Guangquan, the Chairman of the Board, Mr. Wang Xinkuo, Mr. Sui Yong and Mr. You Lei, three directors, and Mr. Shao Kexiong, the Chairman of the Supervisory Committee receive their remuneration from the Company's shareholders instead of the Company.

III. Personnel change of directors, supervisors and senior executives in the report period

1. In accordance with the Guiding Opinions on Establishing Independent Director System in Public Companies promulgated by China Securities Regulatory Commission, the Company engaged Mr. Cai Zheng and Mr. Diao Weicheng as independent directors.

2. Mr. Li Zhizheng, the ex-Chairman of the Board and ex-director and Mr. Wang Ligu, the ex-director, have resigned the titles in the Company due to retirement; Mr. Lu Xianbin, the ex-director, resigned the director in the Company due to job change. At the extraordinary shareholders' meeting, Mr. Wu Guangquan, Mr. Wang Xinkuan and Mr. You Lei were elected directors.

IV. Staff Composition

Ended the report period, the Company had totally 1555 staff members, 233 of whom have college degree, taking 14.98% of the total. Of the staff members, there are 101 administrative personnel, 84 financial personnel, 735 sales persons, 124 engineers, 254 production personnel, 257 restaurant service personnel. The Company bears no expenses to the retired personnel.

Chapter 5 Administrative Structure

I. Variation between the practical situation and requirement specified in the regulation

In the year 2002, the Company continued to improve the legal person based administration structure and promote the construction for the modern enterprise system.

In the report period, the authority in charge conducted inspection over the Company and its controlling shareholder in respect of the construction for modern enterprise system according to the Circular on Inspection of the Establishment of the Modern Enterprise System in Listed Companies promulgated by China Securities Regulatory Commission and the State Economic and Trade Commission and the Company offered positive support in the inspection. In addition, the Company conducted careful self-inspection and made necessary improvement in terms of the independence and standardized operation of the Board of Directors, the Supervisory Committee and the Trade Union, and information disclosure, etc. according to the PRC Company Law, PRC Securities Law, PRC Rules for Administration of Listed Companies and other regulatory documents promulgated by China Securities Regulatory Commission aiming at promoting its healthy development according

to the modern enterprise system.

At present, there existed deviation between the actual status of the administration and the objectives set in the standardized documents, which can be proved by the fact that the Company has not yet established the system of independent director and the specialized committees of the Board in terms of strategy, auditing, nomination, pays and examination, etc. The Company shall establish the specialized committees of the Board as soon as possible based on its practical situation according to the aforesaid regulations, further standardize the operation of the Board and improve its work quality and efficiency.

II. Performances of Independent Directors

In accordance with the Guiding Opinions on Establishing Independent Director System in Public Companies promulgated by China Securities Regulatory Commission and the relevant regulations, the Company engaged 2 independent directors. In the report period, the independent directors fully exercised their power specified in the law and regulations of the state as well as the Articles of Association of the Company, brought their specialities into full play, fully expressed their independent opinion over replacement of the senior executives, important decision making, etc., promoted the Board to make their decisions and decision-making procedures more scientific and reasonable and protected the investors' specially the minority investors' interests.

III. "Five separations" between the Company and its Controlling Shareholder in terms of business, personnel, assets, organization and finance

The Company has strictly separated itself from its controlling shareholder in terms of business, personnel, assets, organization and finance. The Company has complete and independent business and the ability of autonomous operation.

Business: The Company has independent production system, auxiliary production system, complementary facilities and purchase/sales system. The controlling shareholder has never been engaged in production and marketing of the same products of the Company and there exists no competition in the same trade.

Personnel: The Company has independent managerial organs of labor, personnel and salaries with complete system. Except Mr. Zhu Gensen, Mr. Sui Yong, Mr. You Lei, three directors and Mr. Shao Kexiong, Chairman of the Supervisory Committee, who hold office concurrently in the controlling shareholder, neither other senior executives hold any office in the shareholder companies nor any financial staff have part-time job in any related parties.

Assets: The Company's property rights are distinguishable from that of the controlling shareholder's. All the fixed assets, including real estate provided by any shareholder as capital contribution in the Company, have been entered to the Company's account. The Company practices independent account establishment, accounting and management. There exist no assets occupied and controlled by the controlling shareholder or interference from the controlling shareholder in the Company's assets operation and management. The trademark FIYTA the Company is using now is owned exclusively by the Company.

Organization: The Company has its own Board of Directors, the Supervisory Committee and other internal organs which are working independently. There exists neither subordinative relationship nor the situation sharing functional departments with the controlling shareholder. The controlling shareholder enjoys its rights and undertakes the corresponding obligations according to the law and has never been involved in any action

which directly or indirectly interferes the Company's business activities surpassing the authority of the Shareholders' General Meeting.

Finance: The Company has established its own independent financial department and accounting system, and has the independent financial management system and bank account working independently, with strict separation from its controlling shareholder.

V. Assessment and Encouragement Mechanism for Senior Executives

The Board exercised the work report and assessment practice for senior executives in the report period, and decided their salaries and renewing the engagement based on the result of the assessment. However, the Company has neither exercised the annual salary system nor established the equity (options) encouragement mechanism.

Chapter 6 Shareholders' General Meeting

I. Shareholders' General Meetings in the Report Year

1. 2001 Shareholders' General Meeting

The Company published the announcement for 2002 Shareholders' General Meeting on Securities Times and Hong Kong Commercial Daily dated April 17, 2002. The meeting was held on May 22, 2002 at the 9th Floor Meeting Room of the Company's Office Building. There were 7 shareholders and shareholders' representatives present at the meeting, representing 131,671,684 shares, taking 52.81% of the total share capital. The shareholders present at the meeting examined and adopted the following proposals through voting: 1) 2001 Work Report of the Board of Directors; 2) 2001 Work Report of the Supervisory Committee; 3) 2001 Final Settlement Report; 4) 2001 Profit Distribution Proposal and 2002 Profit Distribution Plan; 5) 2001 Annual Report and the Summary; 6) Proposal on Change of Accounting Policies including Allotting Provision for Devaluation of Each Asset; 7) Proposal on Change of Application of the Funds Raised through Share Offering; 8) Proposal on Amendment of the Articles of Association; 9) Rules of the Procedures of Shareholders' General Meeting; 10) Rules of the Procedures of the Board of Directors; 11) Rules of the Procedures of Supervisory Committee; 12) Proposal on Engagement of Certified Public Accountants.

2. 2002 1st Extraordinary Shareholders' Meeting

The announcement for holding 2002 1st Extraordinary Shareholders' Meeting was published on Securities Times and Hong Kong Commercial Daily dated May 30, 2002. The meeting was held at the 3rd floor meeting room of the Company dated June 30, 2002, there were 6 shareholders and shareholders' representatives present at the meeting, representing 130,301,110, taking 52.26% of the total shares. The shareholders present reviewed and approved the proposal on engaging independent directors through voting.

3. 2002 2nd Extraordinary Shareholders' Meeting

The announcement for holding 2002 2nd Extraordinary Shareholders' Meeting was published on Securities Times and Hong Kong Commercial Daily dated September 28, 2002. The meeting was held at the 9th floor meeting room of the Company dated October 29, 2002. There were 6 shareholders and shareholders' representatives present at the meeting, representing 130,422,166 shares, taking 52.31% of the total shares. The shareholders present reviewed and approved the proposal on authorizing the Board to determine the assets management on commission with specified amount.

4. 2002 3rd Extraordinary Shareholders' Meeting

The announcement for holding 2002 3rd Extraordinary Shareholders' Meeting was published on Securities Times and Hong Kong Commercial Daily dated November 14, 2002. The meeting was held at the 9th floor meeting room of the Company dated December 14, 2002. There were 7 shareholders and shareholders' representatives present at the meeting, representing 130,425,366, taking 52.31% of the total shares. The shareholders present reviewed and approved the proposal on replacing partial directors through voting.

Hu Bo, a lawyer from Guangdong Shentiancheng Law Office produced a written legal opinion on the site to confirm the legality and validness of the meeting. The resolutions of and written legal opinions all the shareholders' meetings in the report year were all published on Securities Times and Hong Kong Commercial Daily dated May 23, July 2, October 30 and December 15, 2002.

II. Changes in Directors and Supervisors

1. At 2002 1st Extraordinary Shareholders' Meeting dated June 30, 2002, Mr. Cai Zheng and Mr. Diao Weicheng were elected independent directors.

2. At 2002 3rd Extraordinary Shareholders' Meeting dated December 14, 2002, Mr. Li Zhizheng, Mr. Wang Liguang and Mr. Li Xianbin were approved to resign director office; instead Mr. Wu Guangquan, Mr. Wang Xinkuo and Mr. You Lei were elected directors.

Chapter 7 Report of the Board

I. Overall Operation Discussion and Analysis

2002 is a year of enhanced severe competition of the domestic timepiece industry. Thanks to the joint efforts devoted by the management and whole staff, the Company overcame mountains of difficulties, trying to slow down the downgrading trend of the Company's principal business. The Company was vigorously engaged in developing new products, adjusted the product structure, optimized the marketing network and successfully kept its leading position in the industry. As a result, the Company once again won the "National First Prize of Sales Volume of the Similar Products" granted by the Industrial Information Statistics Center of the State Bureau of Statistics. It has been the 8th time in succession the Company have this extraordinary honor. The Company has achieved further success in cultivating its brand and the technology research and development. In September, 2002, FIYTA watch honorably won the title of "China Top Brand Product" after the titles of "King of China's Timepieces" and "China's Top Brand". Thus, FIYTA has become the genuine "King with Three Crowns" of China's timepieces industry. In December, 2002, through assessment by the relevant department of Shenzhen Municipal Government, the Company was identified as the enterprise technology center of Shenzhen and can enjoy support of new policy and fund. The top brand and powerful technology shall provide the Company with powerful support and guarantee in its future development.

In the report period, the timepiece market was still in the state of supply exceeding supply and the competition was extraordinarily intense. The operation of most subsidiaries could not be possibly improved in short time and the Company was still confronting big difficulties. To counter the real situation, the Company focused on the integration and optimization of the marketing network of the principal business, sorted out partial defective marketing channels, adjusted product structure; began to conduct strategic adjustment of the industrial structure, faded out in succession some businesses irrelevant to the principal

business. As a result, some losses may occur resulted from transfer or liquidation of some assets due to devaluation. With a view to avoiding operation risks and improving assets quality, the Board conducted overall analysis on and confirmation of the operation risks existing in the timepiece industry and the subsidiaries, decided to provide reserves for devaluation of assets or directly recognize the losses based on the devaluation of partial assets according to the relevant provisions and coped with the potential loss-making factors on overall basis. Therefore, the Company provided a reserve amounting to RMB 27.30 million for bad debts, a reserve amounting to RMB 47.20 million for devaluation of inventories and a reserve amounting to RMB 3.75 million for devaluation of fixed assets, with the total sum of RMB78.25 million, and loss of other assets amounting to RMB 10.73 million ,which were all stated in the gain and loss statement of 2002. As a result, there incurred big loss in the business result in 2002 and the net assets dropped in a certain extend.

In the report year, the profit from the principal business was RMB 206,241 thousand and the profit was RMB 74,668 thousand, respectively 6.17% and 8.29% drop over the previous year; the total profit realized was RMB -75,424 thousand and net profit RMB -77,435 thousand; the net cash flow arising from operation activities was RMB 23,354 thousand. The total assets at the end of 2002 was RMB 566,681 thousand and net assets RMB 510,368 thousand, dropping respectively by 21.93% and 13.17% over the same period of the previous year.

In the report period, the Company conducted effective adjustment of the product structure and industrial structure, which is helpful for the Company to concentrate itself in gather fund resources to develop timepiece industry so as to reverse the gliding trend, realize the objective of stopping the downgrading and recovery of the principal business, carrying out the principal business with fruitful and top-grade result and bringing about better return to the investors.

II. Operation

1. Business Scope and Operation Summary

(1) Principal Businesses

The Company is mainly engaged in design, development, manufacture and sales of timepieces and components. The Company's business activities also include sales of the world top brand watches (such as the products made in Switzerland) and FIYTA watches, and restaurants which mainly offer food with Guangdong and Northeast China flavors. The minority business also includes sales of world top brand products.

(2) Operation

The composition of the income and profit from the principal business is as follows:

Sectors	Income from principal businesses (In RMB)	Proportion	Profit from principal businesses (In RMB)	Proportion
Industry	101,992,508	49.45%	46,312,317	62.02%
Trading	68,051,627	33.00%	10,786,092	14.45%
Catering	36,197,163	17.55%	17,569,957	23.53%
Total	206,241,298	100.00%	74,668,366	100.00%

The business activities which take over 10% of the income and profit from principal businesses were the manufacture and sales of FIYTA watches and the sales of foreign top brand watches. The sales income and sales cost of such products are listed as follows:

Table 1: To be presented based on the categories of the products

Items	Product sales income (In RMB)	Product sales cost (In RMB)	Gross profit rate
Manufacture and sales of FIYTA watches	96,153,905	57,632,035	40.06%
Sales of foreign top brand watches	56,832,873	48,257,912	15.09%
Total	152,986,778	105,889,947	30.78%

Table 2: To be presented based on regions

Items	Product sales income (In RMB)	Proportion	Product sales cost (In RMB)	Proportion
Northeast China	42,474,575	27.76%	29,485,599	27.85%
North China	22,777,485	14.89%	15,010,496	14.18%
Northwest China	33,038,786	21.60%	25,804,943	24.37%
East China	14,675,089	9.59%	9,541,579	9.01%
Southwest China	11,028,853	7.21%	6,939,592	6.55%
South China	28,991,990	18.95%	19,107,739	18.04%
Total	152,986,778	100.00%	105,889,948	100.00%

In the report period, there was no significant change in the principal business or its structure, and the earning capacity in the principal business in comparison with the previous report period.

2. Operation and Performances of the Principal Subsidiaries and Associates

(1) Principal Subsidiaries

Shenzhen FIYTA Sophisticated Manufacture Co., Ltd., with registered capital of RMB 10 million, mainly engaged in producing and repairing services of watches and movements, components and parts, and sophisticated timepieces; the Company holds 99% of its equity. At the end of 2002, its total assets amounted to RMB 27,056 thousand, net assets: RMB 17,615 thousand and net profit realized: RMB 10,594 thousand.

Shenzhen Feijing Sophisticated Optical Instruments Manufacture Co., Ltd., with registered capital of RMB 7 million, mainly engaged in producing and processing, production and marketing of sophisticated optical instruments; the Company holds 99% of its equity. At the end of 2002, its total assets amounted to RMB 8,715 thousand, net assets: RMB -698 thousand and net profit realized: RMB -5,641 thousand.

Shenzhen Feitu New Technology Development Co., Ltd., with registered capital of HK\$ 3.08 million, mainly engaged in pulse gilding, vacuum coating film; the Company holds 60% of its equity. At the end of 2002, its total assets amounted to RMB 7,243 thousand, net assets: RMB -6,785 thousand and net profit realized: RMB -3,012 thousand.

Shenzhen Tianfu Electronics Co., Ltd., with registered capital of HK\$ 3.00 million, mainly engaged in production and marketing of electronic timepieces; the Company holds 66% of its equity. At the end of 2002, its total assets amounted to RMB 2,099 thousand, net assets: RMB -6,553 thousand and net profit realized: RMB -2,461 thousand.

Xi'an Haomen Fine Food and Entertainment City Co., Ltd., with registered capital of HK\$ 16 million, mainly engaged in catering and amusement services and sales of top brand products; the Company holds 62% of its equity. At the end of 2002, its total assets amounted to RMB 20,640 thousand, net assets: RMB 14,336 thousand and net profit realized: RMB -1,454 thousand.

Shanghai Tianlin Xianmen Restaurant Co., Ltd., with registered capital of RMB 1 million, mainly engaged in Chinese and Western food services, drinks and bars; the

Company holds 91% of its equity. At the end of 2002, its total assets amounted to RMB 5,701 thousand, net assets: RMB -4,346 thousand and net profit realized: RMB -2,806 thousand.

Shenzhen Pengmen Restaurant Co., Ltd., with registered capital of RMB 1 million, mainly engaged in catering services, purchase and sales of drinks and food; the Company holds 99% of its equity. At the end of 2002, its total assets amounted to RMB 1,158 thousand, net assets: RMB -208 thousand and net profit realized: RMB -1,219 thousand.

Shenzhen Harmony World Watches Center Co., Ltd., with registered capital of RMB 15 million, mainly engaged in purchase and sales of watches and components and accessories as well as repairing services; the Company holds 90% of its equity. At the end of 2002, its total assets amounted to RMB 73,594 thousand, net assets: RMB 6,970 and net profit realized: RMB -1,881 thousand.

The above to are the Company's industrial subsidiaries whose business revenue in 2002 was RMB 55,558,534, a 178.51% growth over the previous year, net profit RMB -520,908, 110.32% drop over the previous year; to are catering service companies, whose business revenue in 2002 was RMB 36,197,163, 8.29% drop over the previous year, net profit RMB -5,479,013, with deficit increased by 59.73% over the previous year; was a shopping enterprise, whose revenue in 2002 was RMB 56,832,873, 35.79% growth over the previous year, and the net profit was RMB -1,881,470, with deficit increased by 0.75% over the previous year.

(2) Principal Associates

Shenzhen World Watches Center Co., Ltd., with registered capital of RMB 2.8million, mainly engaged in marketing high grade watches, glasses, ornaments, gifts, general merchandise and arts and crafts (excluding jewelry); the Company holds 50% of its equity. In 2002, the Company' income from the principal businesses was RMB 14,277 thousand and net profit RMB 845 thousand.

3. Major Suppliers and Customers

In the report year, the total purchase amount from the top five suppliers took 97.76% of the total annual purchase amount; the total sales amount to the top five customers took 13.10% of the annual turnover.

4. Problems and difficulties occurred in operation and their solutions

(1) China's timepiece production capacity exceeds the market demand and the competition of this sector is extraordinarily intense. While great quantity of imported watches are increasingly entering the Chinese market every year, other China-made products are growing in big volume. As a result, the market share the Company's products are enjoying have been continuously threatened.

To counter the intense market competition, the Company has enhanced the marketing management and taken a series of countermeasures, which are summarized as follows:

Insisting on top brand development strategy. Following the honorable titles of "King of China-made Timepieces" and "Chinese Top Trademark", the Company's timepiece products honorably won the title of "Chinese Top Brand Product" in 2002, which have enhanced its superior position of No.1 Brand of China-made timepieces, and proposed a slogan of "advancing towards the world brand" with focus on creating a top brand identity.

Upgrading the R & D and new product design level, supporting the brand and product development with technical innovation, continuously developing and promoting new varieties and series of products with high technology and high added value, enhancing the competitiveness of the products, focusing on solidifying medium and high grade product market.

Reinforcing the internal marketing management and financial management, checking up the defective marketing channels, improving and optimizing the marketing network; positively adjusting the product structure, establishing a product system in compliance with FIYTA Brand and satisfying the market demand; improving the business management efficiency and fund application result.

Insisting on developing the marketing network of Harmony World Watches Center, fostering “Harmony” Brand; enhancing cooperation with international watch brand and devoting every effort to construct a new top brand marketing platform and expanding the earning channels. In the report year, the Company achieved a preliminary success in distributing Swiss top brand watches TECHNOS and EMILE.

Further developing the customized watch making business. Based on the organization customers’ procurement requirement, the Company carried out customized production in terms of product design and performance composition, offering top quality customized products and services, which became powerful support to the Company’s retail market.

(2) Some of the Company’s subsidiaries, due to their bad operation position and low earning power, have shared the Company’s limited fund resources and thus hindered the Company’s development.

In face of such situation, the Company positively adjusted the management, urged such subsidiaries to make careful analysis, find out the problems, ascertain the responsibilities and take measures to make improvement with deadline, to reverse the unfavorable situation as soon as possible and diminish the unfavorable affects. Through one year’s work, a few of the subsidiaries have made the adjustment to the requirement and fulfilled the expected objective; however, most of the subsidiaries are still doing badly. Based on the market and the practical conditions of the industry, the Company shall sort out the non-principal businesses in 2003.

III. Investment

1. In the report period, the Company raised no proceeds by offering new share Application and the results of the proceeds amounting to RMB 209,718 thousand raised through share offering in 1997 are summarized as follows:

Way of raising proceeds	Investment projects as committed	Actual investment projects and amount involved	Investment plans after change
Allotment of A shares	To set up chain shops of Harmony World Watches Center in China with planned investment of RMB 112 million.	18 chain shops of Harmony World Watches Center have been set up at large and medium cities all over China with total investment of RMB 54.99 million.	The total investment has been decrease to RMB 70 million and the balance amounting to RMB 43.24 million has been changed to invest FIYTA Hi-tech Industrial Park Project.
Allotment of A shares	To set up FIYTA Hi-tech Industrial Park with planned investment of RMB 55 million	The principal part of FIYTA Hi-tech Industrial Park has been completed with total fund invested amounting to RMB 61.27 million.	Amount of the increased proceeds was RMB 84.720 million and the planned accumulative investment amounted to RMB 139.72 million.
Allotment of B shares	To set up chain shops of World Watches Center in Southeast Asia with	The proceeds not yet invested now has been changed to invest FIYTA Hi-tech Industrial Park project.	The total proceeds planned for this project amounted to RMB 41.48 million and now has been changed to

For the aforesaid two projects, proceeds amounting to RMB 116,263 thousand have been used. The remaining amount RMB 93,455 thousand has been deposited in the bank and shall be applied progressively with the progress of the projects.

2. Reasons, Procedures of the Change of Projects and Information Disclosure

(1) The Board has been insisting on the principle of taking the earning power as the priority in the past years and has focused its work on operation of the existing chain shops, decided to reduce the investment on construction of new chain shops of Harmony World Watches Center in China; on the other hand, with consideration of security in application of the proceeds and ensuring shareholders' equity, the Board has decided to cancel the plan for investing construction of chain shops of Harmony World Watches Center in Southeast Asia.

By contrast, FIYTA Hi-tech Industrial Park, another project in the investment plan with the proceeds raised through share offering besides the aforesaid two, enjoys a favorable location and promising development prospect. The Company has decided to make effective application of resources and increase the investment on this project.

(2) The aforesaid investment improvement was reviewed and approved at the 9th meeting of the 3rd Board and the 5th meeting of the 3rd Supervisory Committee dated April 16, 2002, and reviewed and approved by all the rights bearing votes at 2001 Shareholders' General Meeting dated May 22, 2002. The public notice on the aforesaid information was published on Securities Times, Hong Kong Commercial Daily and <http://www.cninfo.com.cn> on the next day following the meeting.

3. Progress and Earnings of the Projects:

(1) Ended the report period, eighteen chain shops of Harmony World Watches Center had been set up in Shenzhen, Harbin, Urumqi, Wuhan, Shenyang, Datong, Changsha, Lanzhou, Kunming, Xi'an, Ningbo, etc. with total investment of RMB 54,990 thousand; additional investment by RMB 4.80 million was made in the report period. In 2002, the Company realized a turnover amounting to RMB 56,832 thousand and net profit amounting to RMB – 1,881 thousand.

(2) At the end of the report period, the civil construction of the principal works of FIYTA Hi-tech Park had been completed; the works is now in the stage of exterior decoration and equipment installation. In February, 2002, No. 1 Construction Company of China Railway No. 2 Bureau Shenzhen Branch signed "Building Construction Contract" with the Company through open bidding for contracting the construction of FIYTA Industrial and Technology Park with the contract term from February, 2002 to August, 2003 and contract amount of RMB 104,788 thousand; in the report period, the Company increased the investment by RMB 46,700 thousand. Thus, the accumulated investment amounted to RMB 62,030 thousand. The whole works is predicted to be completed by the end of 2003. The year 2002 was the construction period and no investment yield would be produced.

4. In the report period, the Company had no investment project with funds raised not through share offering.

IV. Financial Position

Both Pricewaterhouse Coopers Zhongtian Certified Public Accountants and Pricewaterhouse Coopers China Limited produced unqualified 2002 auditors' report for the

Company, which truly reflected the Company's financial position and operation result of the year 2002.

Table 1:

Items	Amount in the Period in RMB	Amount of the same period of previous year in RMB	Increase/Decrease (%)	Causes of Change
Profit from principal businesses	74,668,366	81,417,594	-8.29	decrease of income from principal businesses
Administrative expenses	110,658,913	36,521,122	203.00	provision for devaluation and recognized loss increased by RMB 88.99 million.
Financial expenses	456,411	-8,131,395	105.61	Decrease of interest income in the report period.
Non-operating income	10,543,013	3,135,642	236.23	Increase of the amount of output VAT for local products sold locally transferred in
Non-operating expenses	9,788,023	2,371,903	312.67	Increase of the provision for devaluation of fixed assets and the amount of Input VAT for local products sold locally transferred in
Net profit	-77,434,684	11,322,807	-783.88	profit reduction from the principal business, provision for devaluation and loss recognition in the report period.
Net increase of cash and cash equivalents	-226,463,876	65,000,072	-448.41	It was mainly due to decrease of operational cash flow-in by RMB 40.67 million, cash payment for entrusted fund management by RMB 125 million and additional investment in the hi-tech park by RMB 45.94 million and loan repayment by RMB 70 million.

Table 2:

Items	Year end in RMB	Year beginning In RMB	Increase/decrease rate (%)	Causes of Change
Monetary funds	111,301,871	337,765,747	-67.05	It was mainly due to cash payment for entrusted assets management amounting to RMB 125 million, additional investment in FIYTA Hi-tech Park by RMB 45.94 million and loan repayment by RMB 70 million.
Short-term investment	131,121,176	3,770,910	3,377.18	It was mainly due to increase of the fund involved in the entrusted assets management amounting to RMB 125 million.
Accounts receivable	28,285,813	45,589,193	-37.96	It was mainly due to additional provision for bad debts.
Other receivable:	21,153,573	40,837,227	-48.20	It was mainly due to additional provision for bad debts.
Inventories	118,229,936	164,086,097	-27.95	It was mainly due to additional provision for price falling of inventories by RMB 47.21 million.
Expenses to apportioned	2,455,750	460,322	433.49	It was mainly due to increase of advance for advertisement fee amounting to RMB 2.15 million.
Construction in process	61,317,987	17,132,111	257.91	It was mainly due to additional investment in FIYTA Hi-tech Industrial Park by RMB 45.94 million.
Short-term Loan:	4,000,000	74,000,000	-94.59	It was due to repayment of short term bank loan by RMB 70 million.
Accounts payable	28,603,143	18,046,588	58.50	It was mainly due to increase of the payable engineering fee of FIYTA Hi-tech Industrial Park.
Total assets	566,681,393	725,845,783	-21.93%	It was mainly due to repayment of the short term loan by RMB 70 million and deficits in the report period.
Shareholders' equity	510,368,305	587,802,989	-13.17%	It was mainly due to deficits made in the report period.

V. Influence from significant changes in the production and operation environment, macro

policy, laws and regulations

The effect arising from China's joint in WTO is gradually coming into view – the market competition is increasingly intensified. The Company shall make best use of the honorable reputation of FIYTA Brand, unceasingly develop new products and improve the marketing network; make use of the international top brand watch marketing platform constructed by Harmony chain shops to turn the challenge into the opportunity of redevelopment and expand the development space.

VI. Business Development Plan in the New Year

In 2003, the Company shall establish firmly the work theme of “lifting up the morale, inspiring the confidence, making breakthrough with focus and stopping gliding and going up again; enhance the adjustment of industrial structure, concentrate the superior resources and insist on developing the principal businesses; based on the customers’ requirements, unceasingly create new products and services, create a favorable internal environment featuring pooling the wisdom and efforts of everyone, collectively learning and development in order to create greater value for the society, the Company, the investors and the staff. Plan of the Principal Businesses:

1. Adjusting the industrial structure, checking up non-principal business and focusing on the way of specialization Analyze and assess on overall basis the operation situation and the corresponding market environment of the subsidiaries, definitely clear up the subsidiaries with low ability to support the timepiece industry or with bad prospects.
2. Establish the customer-oriented concept and conduct deepened market survey. Extensively promote and establish the customer-oriented concept throughout the Company and popularize and expand the internal customers, conduct deepened survey on the customer group and fully understand the customers’ requirements and hobbies.
3. Continue to enhance and create good traditional traditions, unceasingly launch new products in compliance with the market demand, enhance the operation and management of the timepiece industry, ensure the existing market share and turnover of the principal business. Reinforce the market promotion, establish scientific, rational and high efficiency product structure system and price system, promote the sales of timepiece products and realize the objective of stopping gliding and pursuing rise.
4. Increase the investment in Harmony World Watches Center, rapidly expand the chain shop network and improve the retail market share. Enhance the international communication, try to win more support from the international top brands and leading brands and develop agency of more brands.
5. Enhance general mood of study, develop human resources in order to form a human resource supporting system on overall and integrated way, establish and improve the objective oriented performance examination mechanism, reinforce the teamwork, create a harmonious atmosphere; promote more staff to be involved in management and jointly depict the Company’s prospects through different measures, such as rational recommendation, designated research funds of employees.
6. Ensure FIYTA Hi-tech Park Building to be successfully completed in the year, introduce and invest new hi-tech projects through effective marketing work, develop new earning channels and enhance the Company’s sustainable development ability.

VII. Routine Work of the Board

1. Board meetings and resolutions in the report year

(1) The 8th meeting of the 3rd Board was held on the 3rd floor meeting room of FIYTA dated March 8, 2002. The meeting decided to disengage Shenzhen Zhongtianqin Certified Public Accountants and engaged Pricewaterhouse Coopers Zhongtian Certified Public Accountants as the A-share auditor of 2001.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated March 9, 2002.

(2) The 9th meeting of the 3rd Board was held on the 3rd floor meeting room of FIYTA company on April 16, 2002. The meeting examined and adopted the following resolutions:

2001 Work Report of the Board;

2001 Final Settlement Report;

2001 Profit Distribution Proposal;

Policy on Profit Distribution in 2002;

2001 Annual Report and Summary;

Proposal for Alteration of the Accounting Policies, such as Provision for Depreciation of Various Assets;

Proposal on Change in Application of Proceeds Raised through Share Offering;

Proposal on Amendment of the Articles of Association;

Rules of Procedures of the Shareholders' General Meeting, Rules of Procedures of the Board Meeting, the Working Rules of the General Manager, the Regulations for Information Disclosure Management;

Decision to Hold 2001 Shareholders' General Meeting on May 22, 2002.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated April 17, 2002.

(3) The 10th meeting of the 3rd Board was held on the 3rd floor meeting room of FIYTA on April 23, 2002. The meeting examined and adopted 2002 1st Quarter Report.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated April 24, 2002.

(4) The 11th meeting of the 3rd Board was held on the 3rd floor meeting room of FIYTA dated May 29, 2002. The meeting nominated Mr. Cai Zheng and Mr. Diao Weicheng as independent director candidate; the annual remuneration to each independent director was RMB 150,000. The resolution was decided to be submitted to the extraordinary shareholders' meeting dated June 30, 2002 for reviewing and approval.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated May 30, 2002.

(5) The 12th meeting of the 3rd Board was held on the 3rd floor meeting room of FIYTA on June 27, 2002. The meeting examined and adopted the Self-inspection Report on Establishing Modern Enterprise System in the Listed Company. .

(6) The 13th meeting of the 3rd Board was held on the 3rd floor meeting room of FIYTA on August 6, 2002. The meeting examined and adopted 2002 Semi-Annual Report and the Summary and 2002 Semi-annual Profit Distribution Proposal.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated August 8, 2002.

(7) The 14th meeting of the 3rd Board was held on the 3rd floor meeting room of FIYTA dated September 27, 2002. The meeting reviewed and adopted the Report on Improving the Inspection for the Modern Enterprise System, Proposal on Entrusting Xinhua Trust for Assets management with Amount of RMB 45 Million, Proposal on Authorizing the Board to Decide the Assets management on Commission within the Limited Amount, and the Decision on Holding Extraordinary Shareholders' Meeting on October 29, 2002 to Deciding the Proposal on Authorizing the Board to Decide the Assets management on Commission within the Limited Amount.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated September 28, 2002.

(8) The 15th meeting of the 3rd Board was held on the 3rd floor meeting room of FIYTA on October 23, 2002. The meeting examined and adopted 2002 3rd Quarter Report..

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated October 25, 2002.

(9) The 16th meeting of the 3rd Board was held on the 3rd floor meeting room of FIYTA on October 31, 2002. The meeting examined and adopted Proposal on Assets management on Commission and decided to entrust Xinhua Trust to make assets management based investment with total amount of RMB 80 million.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated November 2, 2002.

(10) The 17th meeting of the 3rd Board was held on the 3rd floor meeting room of FIYTA on November 13, 2002. The meeting examined and adopted Proposal on Replacing Partial Directors of the Company and decided to hold an extraordinary shareholders' meeting to discuss the said issue on December 14, 2002.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated November 14, 2002.

2. Implementation of the Resolutions of the Shareholders' General Meeting

In the report year, the Board carried out the work strictly according to the Articles of Association and the resolutions of the Shareholders' General Meeting and seriously implemented all the resolutions of the Shareholders' General Meeting.

(1) Pursuant to the resolution of 2001 Shareholders' General Meeting, the Company decided to distribute cash dividend at the rate of RMB 0.50 for every 10 shares (including the tax) based on the total share capital of 249,317,999 shares with July 18, 2002 as the date of record.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated July 13, 2002.

(2) According to the resolution of 2002 2nd Extraordinary Shareholders' Meeting, the Company may authorize the Board to decide the assets management on commission within the amount not exceeding RMB 130 million in a year. On November 1, 2002, the Board

decided to entrust Xinhua Trust and Investment Co., Ltd. to make assets management based investment with amount of RMB 80 million.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated November 2, 2002.

VII. Profit Distribution Proposal

As audited by Pricewaterhouse Coopers Zhongtian Certified Public Accountants according to the Chinese Accounting Standards (CAS) and Pricewaterhouse Coopers according to the International Accounting Standards (IAS), the Company's net profit in the year 2002 was RMB -77,434,684 and RMB-69,002,000 respectively. In accordance with PRC Company Law and the Articles of Association of the Company, based on the net profit confirmed through auditing by Pricewaterhouse Coopers Zhongtian Certified Public Accountants, the distributable profit in the year 2002 was RMB -60,525,963. The Company planned neither to provide statutory public reserve and statutory public welfare fund, nor distribute dividend to the shareholders, nor convert capital public reserve into share capital. This proposal is subject to the approval by 2002 Shareholders' General Meeting.

XI. Other Issues Necessary to be Disclosed

The Company has chosen Securities Times and Hong Kong Commercial Daily for disclosing the Company's information. In the report year, the Company made no change.

Chapter 8 Report of the Supervisory Committee

I. Meetings held by the Supervisory Committee

In the report period, the Supervisory Committee had held 3 meetings:

1. The 5th meeting of the 3rd Supervisory Committee was held at the 3rd floor meeting room of FIYTA on April 16, 2002. The meeting reviewed and approved: 2001 Annual Report and Summary; 2001 Work Report of the Supervisory Committee; Proposal on Change in Application of Proceeds Raised through Share Offering; Rules of Procedures for the Supervisory Committee.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated April 17, 2002.

2. The 6th meeting of the 3rd Supervisory Committee was held at the 3rd floor meeting room of FIYTA on Aug. 6, 2002. The meeting examined and adopted: 2002 Semi-Annual Report and Summary; 2002 Semi-Annual Profit Distribution Preplan.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated Aug. 8, 2002.

3. The 7th meeting of the 3rd Supervisory Committee was held on the 3rd floor meeting room of FIYTA on September 27, 2002. The meeting examined and adopted: Report on Improving the Inspection for Modern Enterprise System.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated September 28, 2002.

II. Independent Opinion Report of the Supervisory Committee

In the report year, the Supervisory Committee fully exercised its power authorized according to the relevant Chinese law and regulations and the Articles of Association of the Company, conducted sustainable and effective supervisions over such issues as the Company's operation according to the law, work of the senior executives, application of the proceeds raised through share offering. On this basis, the Supervisor Committee hereby expresses its independent opinion as follows:

1. In the report period, the Board carried out the work in a serious and responsible way, the decision made by the Board was scientific and reasonable and various management systems were complete and healthy and implemented in a practical way. The Board, the management and all senior executives had never violated the laws and regulations of the state or the Articles of Association of the Company in implementing their duties and had done nothing harmful to the Company's interest or the shareholders' right and interest.

2. In the report year, both Pricewaterhouse Coopers Zhongtian Certified Public Accountants and Pricewaterhouse Coopers China Limited produced unqualified 2002 auditors' report for the Company, which truly and objectively reflected the Company's financial position and operation result of the year.

3. In 2002, the Company adjusted the projects invested with the proceeds raised through share offering in 1997 by reducing the investment in Harmony Chain Shop Project by RMB 84,720 thousand and invested the amount to FIYTA Hi-tech Industrial Park Project. The aforesaid investment alteration was reviewed and approved at the 9th meeting of the 3rd Board and the 5th meeting of the 3rd Supervisory Committee, and reviewed and approved by all the rights bearing votes at 2001 Shareholders' General Meeting.

4. In the report year, the Company had not been involved in such activities as material acquisition and sales of assets and the related transactions were carried out in compliance with the legal procedures and rules. There existed no phenomenon that harmed the rights and interests of shareholders or caused the loss of assets of the Company.

Chapter 9 Significant Events

I. In the report year, the Company had never been involved in any material lawsuit or arbitration.

II. Assets Acquisition, Sales, Absorption or Consolidation

1. Assets Acquisition and Sales

On March 21, 2002, the Company transferred all its equity in Shenzhen Jiangnan Tianhui Network Co., Ltd. (Tianhui Network) to Jiangxi Jiangnan Trust & Investment Co., Ltd. (Jiangnan Trust & Investment), another investor of Tianhui Network at the price of RMB 4 million.

On June 12, 2000, the Company decided to jointly invest RMB 10 million with Jiangxi Jiangnan Trust and Investment Co., Ltd. to set up Shenzhen Jiangnan Tianhui Network Co., Ltd. The Company contributed RMB 4 million, taking 40% of the total registered capital. Tianhui Network is mainly engaged in on-line securities trading and its income is impossible to be separated from the daily securities trading business of Jiangnan Trust & Investment and it is impossible to independently work out the income and profit. Therefore, the Company and Jiangnan Trust & Investment entered into Agreement on Withdrawal

from Shenzhen Jiangnan Tianhui Network Co., Ltd. Thus the Company has withdrawn from Tianhui Network and recovered the initial investment.

2. In the report year, the Company had been involved in no activities of absorption and consolidation.

III. Related Transactions

In the report period, the Company deposited about RMB 203 million with the Financial Clearing Center of CATIC Shenzhen Holdings Ltd., obtained interest income amounting to RMB 2,318,385.

The Financial Clearing Center of CATIC Shenzhen Holdings Ltd. was established on October 9, 1993 according to Provisional Regulations on Enterprise Groups in Shenzhen Special Economic Zone (Order of Shenzhen Municipal People's Government No. 15) and performs the functions of intra-group bank, including fund planning, fund raising, fund regulation and fund management, handling procedures of fund depositing and withdrawing, clearing current accounts, etc. within the enterprise group. The Company opened an account with this clearing center and received interest at the rate higher than the bank deposit of the same period in the year. In addition, the clearing center may make external fund payment or transfer the fund back to the Company's account with commercial bank at any time depending on the operation or investment requirements without affecting the Company's normal production and operation activities.

According to the supervisory opinion of the authority in charge, the Company recovered all the deposit and income and deposited all the funds to the account with commercial banks before October 31, 2002. This related event has never harmed other shareholders' rights and interests.

IV. Important Contracts and Implementation

1. In the report year, the Company had never kept as custodian, contracted or leased any other company's assets and vice versa.

2. Material Guarantees

(1) Guarantees Incurred in the Previous Period(s) but Extended to the Report Period

The Company offered guarantee to CATIC Shenzhen Corporation for its loan amounting to RMB 50 million from China Construction Bank Shenzhen Branch. CATIC Shenzhen Corporation has timely repaid this loan.

(2) The Company had offered no external guarantee.

3. Assets Management on Commission

(1) Reviewed and approved at the 14th meeting of the 3rd Board, the Company signed the Fund Trust Contract with Xinhua Trust and Investment Co., Ltd. (Xinhua Trust) dated October 8, 2002 and entrusted Xinhua Trust to operate the Company's idle self fund amounting to RMB 45 million on commission. The valid term of the contract was one year. The trustee collected the service charge based on a certain proportion of the performance remuneration, i.e. if the annual net return from the trust was less than 8% (with 8% inclusive), the trustee would not collect any service charge; if the annual net return from the trust exceeded 8% (with 8% exclusive), the trustee would collect the amount exceeding 8% as the service charge. The investment return was cleared once half a year. In the report year, the Company had no such investment return yet.

(2) Authorized at 2002 2nd Extraordinary Shareholders' Meeting and with the resolution of the 16th meeting of the 3rd Board, the Company signed the Fund Trust Contract with Xinhua Trust dated November 1, 2002 and entrusted Xinhua Trust to operate the Company's idle self fund amounting to RMB 80 million on commission with valid term of one year. The trustee agreed to collect the service charge based on a certain proportion of the performance remuneration, i.e. if the annual net return from the trust was less than 8% (with 8% inclusive), the trustee would not collect any service charge; if the annual net return from the trust exceeded 8%, the trustee would collect the amount by 100% exceeding 8% as the service charge. The investment return was cleared once half a year. In the report year, the Company had no such investment return yet.

4. Other Important Contracts

For FIYTA Hi-tech Park construction contract and the implementation, please refer to "Progress and Earnings of the Projects Invested with the Proceeds Raised through Share Offering" of "III. Investment of Chapter 7".

V. Implementation of the Commitments Disclosed to the Public by the Company or the Shareholders Holding over 5% of the Company's Share Capital

1. The Company disclosed 2002 Profit Distribution Policy in its 2001 Annual Report. The Company planned to distribute profit once either in the middle 2002 or at the year end; no less than 30% of the net profit realized in 2002 would be used for dividend distribution; no less than 30% of the undistributed profit in 2001 would be used for dividend distribution in 2002. The profit distribution would be carried out in a form of cash dividend or bonus shares; in which the proportion of cash dividend would not be below 30%. As the Company made big deficits in 2002, the Company has decided to update the aforesaid distribution policy according to PRC Company Law and the Articles of Association. The Company shall neither make profit distribution nor convert capital public reserve into share capital in 2002.

2. In the report period, the shareholder holding over 5% of the Company's share capital had never disclosed any commitments.

VI. Engagement of Certified Public Accountants and the Pay

Types	Names	Annual Pay		Continuous Service Term
		2002	2001	
A shares	Pricewaterhouse Coopers Zhongtian Certified Public Accountants	RMB 225 thousand	RMB 225 thousand	2 years
B shares	PricewaterhouseCoopers China Limited	RMB 225 thousand	RMB 225 thousand	3 years

VII. In the report year, the Company, its directors and senior executives had never been punished by the supervisory/administrative authority.

VIII. Inspection for Modern Enterprise System Construction

In accordance with the Circular on Inspection of the Establishment of the Modern Enterprise System in Listed Companies promulgated by China Securities Regulatory Commission and the State Economic and Trade Commission, CSRC Shenzhen Securities Regulatory Office and Shenzhen Municipal Economic and Trade Bureau formed a joint inspection team and made joint inspection over the Company and its controlling shareholder CATIC Shenzhen Corporation from August 7 to 9, 2002. CSRC Shenzhen Securities Regulatory Office issued the Circular on Making Improvement within the

Deadline to the Company dated August 23, 2002. The Company immediately delivered the circular to each director and supervisor and held repective special meeting of the Board and the Supervisory Committee on September 27, 2002 and carefully worked out and implemented the improvement measures. The Company earnestly summarized the early stage work in constructing the modern enterprise system, further standardized the operation, enhanced the independence of the Company, promoted the healthy development of the Company in compliance with the modern enterprise system. The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated September 28, 2002.

IX. Other important matters

On July 6, 2002, the Company published the Announcement on Material Events such as Equity Transfer on Securities Times, Hong Kong Commercial Daily and <http://www.cninfo.com.cn>. However, which disclosed that the implementation of the Agreement on Equity Transfer signed between CATIC SHENZHEN HOLDINGS LTD., the Company's control shareholder and Beijing Peking University Founder Group Corp. (Founder Group) on December 7, 2001 was terminated; in addition, the Frame Agreement on Establishing of a Joint Venture signed between the Company and Founder (Hong Kong) Limited was terminated also.

Chapter 10 Financial Statements (attached hereafter)

Chapter 11 Documents Available for Inspection

- I. Financial statements signed by and under the seals of the legal representative, chief accountant and accounting supervisors.
- II. Original copy of the Auditors' Report under the seal of the accounting firm and signed by and under the seals of certified public accountants.
- III. All the originals of the Company's documents and public notices disclosed in the newspapers designated by China Securities Regulatory Commission in the report period.

SHENZHEN FIYTA HOLDINGS LTD.
Board of Directors

April 16, 2003

Attachment:

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF
SHENZHEN FIYTA HOLDINGS LIMITED

(Joint stock limited company incorporated in the People's Republic of China)

We have audited the accompanying consolidated balance sheet of Shenzhen Fiyta Holdings Limited (the "Company") and its subsidiaries (the "Group") as of 31 December 2002 and the related consolidated income and consolidated cash flow statements for the year then ended. These financial statements set out on page 26 to 53 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2002 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

14 April 2003

SHENZHEN FIYTA HOLDINGS LIMITED
(Joint stock limited company incorporated in the People's Republic of China)

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 RMB'000	2001 RMB'000
Turnover	4	206,241	219,814
Cost of sales		<u>(131,573)</u>	<u>(138,396)</u>
Gross profit		74,668	81,418
Other operating income	7	20,574	24,164
Selling expenses		(56,046)	(58,843)
Administrative expenses		(114,408)	(34,674)
Gain on disposal of an associate		650	-
Loss on disposal of a subsidiary		<u>-</u>	<u>(1,003)</u>
(Loss) / profit from operations	5	(74,562)	11,062
Finance (costs) / income - net	8	<u>(456)</u>	<u>8,131</u>
Group (loss) / profit before tax		(75,018)	19,193
Shares of results of a joint venture before tax	16	<u>319</u>	<u>387</u>
(Loss) / profit before taxation		(74,699)	19,580
Taxation credit / (charge)	9	<u>5,315</u>	<u>(5,579)</u>
(Loss) / profit after taxation		(69,384)	14,001
Minority interests		<u>382</u>	<u>(1,285)</u>
Net (loss) / profit for the year		<u>(69,002)</u>	<u>12,716</u>
Dividends	28	<u>12,466</u>	<u>-</u>
(Loss) / earnings per share	10	<u>RMB(0.28)</u>	<u>RMB0.05</u>

The accompanying notes form an integral part of these consolidated financial statements.

SHENZHEN FIYTA HOLDINGS LIMITED
(Joint stock limited company incorporated in the People's Republic of China)

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2002

	Notes	2002 RMB'000	2001 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Fixed assets	11	45,725	58,891
Investment properties	12	17,534	18,575
Construction in progress	13	61,318	17,132
Leasehold land payments	14	16,925	23,064
Investment in associate	15	-	3,350
Investment in joint venture	16	2,799	2,555
Non-current investments	17	4,885	3,385
Deferred tax assets	18	16,125	8,344
Other non-current assets		2,904	3,634
Total non-current assets		<u>168,215</u>	<u>138,930</u>
CURRENT ASSETS			
Inventories	19	118,230	164,086
Trade receivables	20	28,286	45,589
Due from related companies	21	2,549	7,842
Prepayments and other receivables	22	33,712	48,841
Trading investments	23	6,121	3,771
Designated deposits	24	125,000	-
Cash and cash equivalents		111,302	331,693
Total current assets		<u>425,200</u>	<u>601,822</u>
TOTAL ASSETS		<u><u>593,415</u></u>	<u><u>740,752</u></u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	25	249,318	249,318
Reserves	26	305,627	305,627
(Accumulated losses) / retained earnings		(43,107)	38,361
Total shareholders' equity		<u>511,838</u>	<u>593,306</u>
MINORITY INTERESTS		<u>6,718</u>	<u>7,100</u>
CURRENT LIABILITIES			
Trade payables		28,603	18,047
Staff welfare payable		18,839	18,627
Tax payable		(359)	893
Accruals and other current liabilities		23,776	28,779
Short-term loans	27	4,000	74,000
Total current liabilities		<u>74,859</u>	<u>140,346</u>
TOTAL EQUITY AND LIABILITIES		<u><u>593,415</u></u>	<u><u>740,752</u></u>

On [14] April 2003, Shenzhen Fiyta Holdings Limited's Board of Directors approved these financial statements for issue.

The accompanying notes form an integral part of these consolidated financial statements.

SHENZHEN FIYTA HOLDINGS LIMITED
(Joint stock limited company incorporated in the People's Republic of China)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	Reserves				Retained earnings/ (accumulated losses)	Total
		Share capital	Capital reserve	Statutory reserves	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2001		249,318	191,108	113,463	304,571	26,701	580,590
Net profit for the year		-	-	-	-	12,716	12,716
Appropriation to reserves	26	-	-	1,698	1,698	(1,698)	-
Adjustment on statutory reserves	26	-	-	(642)	(642)	642	-
At 31 December 2001		249,318	191,108	114,519	305,627	38,361	593,306
Dividends relating to 2001	28	-	-	-	-	(12,466)	(12,466)
Net loss for the year		-	-	-	-	(69,002)	(69,002)
At 31 December 2002		<u>249,318</u>	<u>191,108</u>	<u>114,519</u>	<u>305,627</u>	<u>(43,107)</u>	<u>511,838</u>

The accompanying notes form an integral part of these consolidated financial statements.

SHENZHEN FIYTA HOLDINGS LIMITED
(Joint stock limited company incorporated in the People's Republic of China)

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2002

	Notes	2002 RMB'000	2001 RMB'000
Cash flows from operating activities			
Cash generated from operations	29	33,069	85,365
Interest paid		(3,218)	(2,169)
Tax paid		(3,643)	(6,745)
Net cash flows from operating activities		<u>26,208</u>	<u>76,451</u>
Cash flows from investing activities			
Purchases of fixed assets		(4,768)	(17,568)
Additions to construction in progress		(46,754)	(11,789)
Sales proceeds from disposals of fixed assets		1,807	220
Proceeds from disposal of leasehold land payments		6,402	-
Disposal of a subsidiary, net of cash disposed		-	1,578
Disposal of an associate		4,000	-
Dividends received from non-current investments		138	220
Proceeds from sale of trading investments		6,337	42,770
Purchase of trading investments		(7,677)	(5,187)
Purchase of non-current investments		(1,500)	-
Increase in designated deposits		(125,000)	-
Increase in other non-current assets		-	(580)
Subsidiary in voluntary liquidation and not consolidated		-	(664)
Interest received		<u>2,882</u>	<u>10,476</u>
Net cash flows (used in) / from investing activities		<u>(164,133)</u>	<u>19,476</u>
Cash flows from financing activities			
Proceeds from borrowings		100,000	94,000
Repayments of borrowings		(170,000)	(131,000)
Dividends paid to group shareholders		(12,466)	-
Net cash flows used in financing activities		<u>(82,466)</u>	<u>(37,000)</u>
(Decrease) / increase in cash and cash equivalents		(220,391)	58,927
At start of year		<u>331,693</u>	<u>272,766</u>
At end of year		<u><u>111,302</u></u>	<u><u>331,693</u></u>

The accompanying notes form an integral part of these consolidated financial statements.

1. CORPORATE INFORMATION

Shenzhen Fiyta Holdings Limited (the “Company”) was established in the People’s Republic of China (the “PRC”) as a joint stock limited company following a reorganisation of its predecessor company, Shenzhen Fiyta Timing Industry Company, in December 1992. The Company’s Renminbi Ordinary Shares (“A Shares”) and Domestically Listed Foreign Shares (“B Shares”) were listed on the Shenzhen Stock Exchange in March 1993.

The Company’s holding company is CATIC Shenzhen Holdings Limited (“CATIC”) which holds 52.24% of its equity interest. CATIC’s H Shares were listed on The Stock Exchange of Hong Kong in September 1997.

The Company and its subsidiaries (the “Group”) are principally engaged in the design, manufacture, assembly and sale of quartz analog watches, clocks, watch straps and watch casings, and catering and entertainment businesses.

At 31 December 2002, the Company had the following major subsidiaries (all incorporated in the PRC):

Name of the subsidiaries	Registered capital	Attributable equity interest		Principal activities
		Direct	Indirect	
Shenzhen Fiyta Precision Timing Manufacture Co., Ltd.	RMB10,000,000	90%	9%	Design, manufacture and assembly of quartz watches and watch components
Shenzhen Feijing Precision Optical Device Manufacture Co., Ltd.	RMB7,000,000	90%	9%	Manufacture of precision optical device and watch surfaces
Shenzhen Feiyu Art Clock Co., Ltd. (note a)	HKD3,000,000	75%	-	Design, manufacture and distribution of clocks
Shenzhen Tianfu Electronics Co., Ltd.	HKD3,000,000	66%	-	Design, manufacture and distribution of digital quartz timers
Shenzhen Feitu New Technology Development Company	RMB3,080,000	60%	-	Electroplating of watch straps, casing and jewellery
Shenzhen Harmony World Watch Centre Co., Ltd.	RMB15,000,000	90%	-	Distribution of watches and watch components and provision of repair services

1. CORPORATE INFORMATION (Cont'd)

Name of the subsidiaries	Registered capital	Attributable equity interest		Principal activities
		Direct	Indirect	
Xian Haomen Food & Recreation City Co., Ltd. (note b)	HKD16,000,000	62%	-	Catering and entertainment
Shenzhen Pengmen Restaurant Co., Ltd.	RMB1,000,000	90%	9%	Catering and entertainment
Shanghai Tian Lin Xianmen Restaurant Co., Ltd.	RMB1,000,000	10%	81%	Catering and entertainment

Note: (a) This subsidiary has been in the process of voluntary liquidation due to the expiry of its specified operating period. Its results and assets have not been consolidated in the Group's financial statements since 2001.

(b) According to an equity transfer agreement signed on 18 December 2001, the Company and Shenzhen Harmony World Watch Centre Co., Ltd. ("Shenzhen Harmony") will purchase the equity interest held by a joint venture partner of the subsidiary. The transfer is still in progress at 31 December 2002. After the completion of the equity interest transfer, the Company and Shenzhen Harmony will hold 75% and 25% of the equity interest in Xian Haomen Food & Recreation Co., Ltd. respectively.

2. BASIS OF PREPARATION

The consolidated financial statements are prepared in conformity with International Financial Reporting Standards ("IFRS") and under the historical cost convention as modified by the revaluation of certain fixed assets, non-current investments and trading investments. This basis of accounting differs from that used in the statutory accounts of the PRC Group companies which are prepared in accordance with the accounting principles and the relevant financial regulations applicable to enterprises in the PRC. The differences arising from the restatement of the results of operations for compliance with IFRS are reflected in these consolidated financial statements.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current event and actions, actual results ultimately may differ from those estimates.

The Group adopted International Accounting Standards ("IAS") 39 – "Financial Instruments: Recognition and Measurement" and IAS 40 – "Investment Property" in 2001. The financial effects of adopting these standards were reported in the previous year's consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

(a) Consolidation

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated. The existence and effect of potential voting rights that are presently exercise are considered when assessing whether the Group controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases or when liquidation commences. Intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Minority interests represent the interests of outside members in the operating results and net assets of subsidiaries.

(b) Investments in associates

Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group has significant influence, but which it does not control. Investments in associates are accounted for by the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of associates is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the associates.

A listing of the Group's associate is shown in note 15.

(c) Investments in joint ventures

Joint ventures are entities over which the Group has joint control. Investments in jointly controlled entities are accounted for by the equity method of accounting. Under this method, the Group's share of the post-acquisition profits or losses of joint ventures is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the cost of the investment. Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The Group's investment in joint ventures includes goodwill (net of accumulated amortisation) on acquisition. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, the Group does not recognise further losses, unless the Group has incurred obligations or made payments on behalf of the joint ventures.

A listing of the Group's joint venture is shown in note 16.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(d) Related party

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(e) Foreign currency translation

(1) Measurement currency

Items included in the financial statements of each entity in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the measurement currency of the Company.

(2) Transactions and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement.

Translation differences on debt securities and other monetary financial assets measured at fair value are included in foreign exchange gains and losses. Translation differences on non-monetary items are reported as part of the fair value gain or loss.

(f) Financial assets and financial liabilities

Financial assets and financial liabilities carried on the balance sheet include cash and bank balances, investments, trade receivables, prepayments and other receivables, amount due from related companies, trade payables, accruals and other current liabilities, amount due to related companies and borrowings. Investments and trade receivables are stated at carrying amounts determined in accordance with note 3(g) and note 3(o) respectively. Other financial assets and financial liabilities are stated at cost.

Disclosures about financial assets and financial liabilities of the Group are provided in note 30.

(g) Investments

The Group classified its investments into the following categories: trading, held-to-maturity and available-for sale. The classification is dependent on the purpose for which the investment were acquired. Management determines the classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets; for the purpose of these financial statements, short-term is defined as three months. Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, except for maturities within 12 months from the balance sheet date which are classified as current assets.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Investments (Cont'd)

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are regarded as available-for-sale and are classified as non-current investments unless management has the express intention of holding the investment for less than twelve months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and non-current investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and non-current investments are included in the income statement in the period in which they arise.

The fair value of investments is based on quoted market prices or amounts derived from cash flow models. Fair values for unlisted equity securities are estimated using applicable price/earnings or price/cash flow ratios refined to reflect the specific circumstances of the issuer. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

(h) Investment properties

Investment properties, principally comprising office buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are treated as long-term investments and are carried at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight-line method to write off the cost of the investment properties over their estimated useful lives which are between 20 and 35 years, after deducting the estimated residual value. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The cost of maintenance, repairs and minor equipment is charged to the income statement as incurred; the cost of major renovations and improvements is capitalised. The gain or loss on disposal of an investment property is recognised with reference to its carrying value.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(i) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Independent valuations are performed periodically. The latest valuation was conducted on buildings on an open market value basis and equipment and machinery on a replacement cost basis at 31 December 2002. In the intervening period, the directors review the carrying value of the fixed assets and adjustment is made where in the director's opinion there has been a material change in value. Increases in valuation are credited to revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same fixed asset and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Depreciation is calculated using the straight-line method to write off the cost of each asset, or its revalued amount, to its estimated residual value over its estimated useful life as follows:

Buildings	20 - 35 years
Equipment and machinery	5 - 10 years

Leasehold improvements are depreciated over the remaining period of the lease or beneficial period.

Where the carrying amount of a fixed asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains or losses on disposals are determined by comparing proceeds and the carrying amount and are included in the income statement.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that the future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

(j) Leasehold land payments

Leasehold land payments are up-front payments to acquire a long term interest in land. These payments are stated at cost and amortised over the period of lease on a straight-line basis.

(k) Construction in progress

Construction in progress represents properties under construction and plant and equipment under installation or testing, is stated at cost, which includes the costs of construction, the costs of buildings, machinery and equipment and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. When the assets concerned are brought into use, the costs are transferred to fixed assets and depreciated in accordance with the policy as stated above.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(l) Impairment of long lived assets

Fixed assets and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(m) Operating leases

Leases where substantially all of the risks and rewards of ownership of the assets remain with the lessors are accounted for as operating leases.

(1) Where the Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(2) Where the Group is the lessor

Assets leased out under operating bases are included in fixed assets or investment properties in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets or investment properties. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

The Group has no finance leases.

(n) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

(o) Trade receivables

Trade receivables are carried at original invoiced amount less provision made for impairment of these receivables.

A provision for impairments of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

(p) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(q) Borrowings

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred.

Borrowings are subsequently stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

(r) Revenue recognition

Revenue comprises substantially sales of goods which are recognised when the significant risks and rewards of ownership of the goods have been transferred to customers. Sales amounts are shown at invoiced amounts net of discounts and value-added tax.

Service revenue is recognised when the service has been rendered and the entitlement to the service consideration has been established.

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Dividend income is recognised when the Group's right to receive payment is established.

Rental income is recognised on an accrual basis.

(s) Employee social insurance schemes

The Group participates in certain employee social insurance schemes in respect of pension, and medical and other insurance managed by governmental organisations. According to the relevant provisions, the Group and its employees are required to make contributions to Social Security Administration Bureau at specified amounts. The proportion of insurance expenses borne by the Group is included in the consolidated operating results when incurred.

The Group has no further liabilities other than the above defined contribution. The Group's contributions to the defined contribution schemes are charged to income statement as when incurred.

(t) Taxation

PRC income taxes are provided for based on the estimated assessable profit and tax rates applicable to the Company and its subsidiaries. Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Currently enacted tax rates are used to determine deferred income tax.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilised.

(u) Dividends

Dividends are recorded in the Group's financial statements in the period in which they are approved by the Group's shareholders.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(v) Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments. Geographical segments provide products or services within a particular economic environment that is subject to risks and returns that are different from those of components operating in other economic environments.

(w) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

4. BUSINESS SEGMENTS INFORMATION OF THE GROUP

For the year ended 31 December 2002

	Clocks and watches RMB'000	Catering, entertainment and others RMB'000	Total RMB'000
Turnover	<u>151,524</u>	<u>54,717</u>	<u>206,241</u>
Segment results	(70,247)	(5,325)	(75,572)
Other revenue			<u>1,010</u>
Operating loss			(74,562)
Finance costs - net			(456)
Share of results of a joint venture			<u>319</u>
Loss before taxation			(74,699)
Taxation			<u>5,315</u>
Loss after taxation			(69,384)
Minority interests			<u>382</u>
Net loss			<u>(69,002)</u>
Segment assets	410,985	27,500	438,485
Unallocated assets			<u>154,930</u>
			<u>593,415</u>
Segment liabilities	53,500	17,718	71,218
Unallocated liabilities			<u>3,641</u>
			<u>74,859</u>
Capital expenditure	<u>48,752</u>	<u>4,376</u>	<u>53,128</u>
Depreciation and amortisation			
- fixed assets	<u>6,010</u>	<u>7,599</u>	<u>13,609</u>
- investment properties	<u>1,041</u>	<u>-</u>	<u>1,041</u>
Amortisation of leasehold land payments	<u>494</u>	<u>-</u>	<u>494</u>
Provision for doubtful debts	<u>27,303</u>	<u>-</u>	<u>27,303</u>
Provision for inventory obsolescence	<u>47,195</u>	<u>-</u>	<u>47,195</u>
Impairment charge for fixed assets	<u>3,749</u>	<u>-</u>	<u>3,749</u>

4. BUSINESS SEGMENTS INFORMATION OF THE GROUP (Cont'd)

For the year ended 31 December 2001

	Clocks and watches RMB'000	Catering, entertainment and others RMB'000	Total RMB'000
Turnover	<u>161,594</u>	<u>58,220</u>	<u>219,814</u>
Segment results	10,415	(3,391)	7,024
Other revenue			<u>4,038</u>
Operating profit			11,062
Finance income - net			8,131
Share of results of a joint venture			<u>387</u>
Profit before taxation			19,580
Taxation			<u>(5,579)</u>
Profit after taxation			14,001
Minority interests			<u>(1,285)</u>
Net profit			<u>12,716</u>
Segment assets	689,678	29,669	719,347
Unallocated assets			<u>21,405</u>
			<u>740,752</u>
Segment liabilities	51,956	13,497	65,453
Unallocated liabilities			<u>74,893</u>
			<u>140,346</u>
Capital expenditure	<u>27,203</u>	<u>2,677</u>	<u>29,880</u>
Depreciation and amortisation			
- fixed assets	<u>11,991</u>	<u>1,167</u>	<u>13,158</u>
- investment properties	<u>1,042</u>	<u>-</u>	<u>1,042</u>
Amortisation of leasehold land payments	<u>514</u>	<u>-</u>	<u>514</u>
Provision for doubtful debts	<u>4,669</u>	<u>-</u>	<u>4,669</u>
Provision for inventory obsolescence	<u>(6,420)</u>	<u>43</u>	<u>(6,377)</u>

There are no sales or other transactions between the business segments. Segment assets comprise operating assets and mainly exclude deferred tax assets, designated deposits and investments. Segment liabilities comprise operating liabilities and mainly exclude minority interests, certain borrowings and tax payable. All assets and operations of the Group are located in the PRC.

5. (LOSS) / PROFIT FROM OPERATIONS

The following items have been included in arriving at operating (loss) / profit:

	2002 RMB'000	2001 RMB'000
Operating lease rental income in respect of investment properties	(13,251)	(13,112)
Gain on disposal of leasehold land payments	(757)	-
Gain on disposal of trading investments	(1,150)	-
Gain on disposal of an associate	(650)	-
Direct operating expenses arising from investment properties that generated rental income	662	656
Loss on disposals of fixed assets	1,337	753
Provision for doubtful debts	27,303	4,669
Provision for inventory obsolescence	47,195	(6,377)
Impairment charge for fixed assets	3,749	-
Depreciation on fixed assets	13,609	13,158
Depreciation on investment properties	1,041	1,042
Fair value losses on trading investments	140	1,416
Amortisation of leasehold land payments	494	514
Amortisation of other non-current assets	730	673
Operating lease rental expense	7,929	9,225
Cost of inventories recognised as an expense	131,573	138,396
Repairs and maintenance expenditure on fixed assets	390	1,408
Staff costs (note 6)	25,396	29,139
Advertising expenses	3,589	8,508
Loss on disposal of a subsidiary	-	1,003
Directors' emoluments	312	312

6. STAFF COSTS

	2002 RMB'000	2001 RMB'000
Staff salaries	19,982	23,807
Staff welfare	2,561	2,740
Social insurance expenses	2,853	2,592
	<u>25,396</u>	<u>29,139</u>

The number of employees at 31 December 2002 was 1,555 (2001: 1,618).

7. OTHER OPERATING INCOME

	2002 RMB'000	2001 RMB'000
Operating lease rental income in respect of investment properties, net	12,589	12,456
Repair and maintenance income	1,748	5,304
Gain from trading investments		
- profit on sales	1,150	5,454
- fair value losses	(140)	(1,416)
Others	5,227	2,366
	<u>20,574</u>	<u>24,164</u>

8. FINANCE (COSTS) / INCOME - NET

	2002 RMB'000	2001 RMB'000
Interest income		
- bank deposits	564	386
- related parties (note 32)	2,318	10,090
Interest expenses		
- bank loans	(3,218)	(2,029)
- other loans	-	(140)
Net exchange (losses) / gain	(53)	8
Others	(67)	(184)
	<u>(456)</u>	<u>8,131</u>

9. TAXATION CREDIT / (CHARGE)

Taxation (credit) / (charge) for the year are as follows:

	2002 RMB'000	2001 RMB'000
Current taxation	2,391	3,477
Deferred taxation (note 18)	(7,781)	2,022
Share of tax of a joint venture	75	80
	<u>(5,315)</u>	<u>5,579</u>

The tax on the Group's (loss)/profit before tax differs from the theoretical amount that could arise using the basic tax rates applicable to the Company and its subsidiaries as follows:

	2002 RMB'000	2001 RMB'000
(Loss) / profit before taxation	<u>(74,699)</u>	<u>19,580</u>
Tax calculated at the tax rates applicable to the Company and its subsidiaries ranging from 15% to 33%	(13,186)	3,702
Tax effect of a subsidiary which was exempted from income tax	(1,589)	-
Tax effect in tax losses of subsidiaries	6,032	1,956
Expenses not deductible for tax purpose	3,485	-
Income not subject to tax	(57)	(79)
Tax (credit) / charge	<u>(5,315)</u>	<u>5,579</u>

Pursuant to the relevant income tax laws of the PRC, group companies established in the Shenzhen Special Economic Zone are subject to income tax at a rate of 15% while those established in other areas are subject to income tax at a rate of 33%. Further, certain group companies are Sino-foreign joint ventures which are entitled to full exemption from PRC income tax for two years starting from the first profit making year and a 50% reduction in the next three years after offsetting available tax losses carried forward from prior years. In addition, as approved by the local Tax Bureau, a subsidiary is entitled to full exemption from PRC income tax for two years starting from the first profit making year and a 50% reduction in the next three years.

10. (LOSS) / EARNINGS PER SHARE

The calculation of (loss) / earnings per share is based on the consolidated loss for the year of RMB69,002,000(2001: profit of RMB12,716,000) and 249,318,000 shares (2001: 249,318,000 shares) on issue.

11. FIXED ASSETS

	2002				2001
	Buildings	Equipment and machinery	Leasehold improvements	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost / valuation					
At beginning of year	36,149	52,005	18,438	106,592	135,527
Reclassified as investment properties	-	-	-	-	(38,364)
Additions	872	1,143	5,321	7,336	30,185
Disposals	(2,403)	(3,717)	-	(6,120)	(16,085)
Disposal of a subsidiary	-	-	-	-	(3,769)
Voluntary liquidation of a subsidiary	-	-	-	-	(902)
At end of year	34,618	49,431	23,759	107,808	106,592
Representing					
At cost	-	-	23,759	23,759	82,759
At valuation	34,618	49,431	-	84,049	23,833
	34,618	49,431	23,759	107,808	106,592
Accumulated depreciation and impairment					
At beginning of year	9,360	28,828	9,513	47,701	70,900
Reclassified as investment properties	-	-	-	-	(18,747)
Charge for the year	1,020	4,297	8,292	13,609	13,158
Disposals	(529)	(2,447)	-	(2,976)	(15,112)
Impairment charge	2,600	1,149	-	3,749	-
Disposal of a subsidiary	-	-	-	-	(1,753)
Voluntary liquidation of a subsidiary	-	-	-	-	(745)
At end of year	12,451	31,827	17,805	62,083	47,701
Net book value					
At end of year	22,167	17,604	5,954	45,725	58,891
At beginning of year	26,789	23,177	8,925	58,891	64,627

11. FIXED ASSETS (Cont'd)

Had the fixed assets been carried at cost less accumulated depreciation, the carrying amounts of each category of fixed assets would have been as follows:

	2002			2001
	Buildings	Equipment and machinery	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost	28,933	49,431	23,759	102,123
Accumulated depreciation	(9,627)	(31,827)	(17,805)	(44,986)
	<u>19,306</u>	<u>17,604</u>	<u>5,954</u>	<u>55,921</u>

The Group is in the process of applying for property certificates in respect of buildings with a net book value amounting to RMB12,614,000 at 31 December 2002.

The buildings and equipment and machinery were revalued by Shenzhen Assets Valuation Office in February 1992. Revaluation surplus amounting to RMB4,514,000 in aggregate has been reflected in the consolidated balance sheet as of 31 December 2002.

The buildings and equipment and machinery were valued on an open market value and a replacement basis respectively at 31 December 2002 by Shenzhen Peng Xing Real Estate Valuation Co., Ltd, an independent valuer registered in the PRC. The revalued amounts are not materially different from the carrying values of buildings and equipment and machinery. Accordingly, these buildings and equipment and machinery are stated at their carrying values in the consolidated financial statements as of 31 December 2002.

12. INVESTMENT PROPERTIES

	2002 RMB'000	2001 RMB'000
Net book value at beginning of year	18,575	19,617
Depreciation for the year	<u>(1,041)</u>	<u>(1,042)</u>
Net book value at end of year	<u>17,534</u>	<u>18,575</u>
Independent valuer's valuation		
- Including leasehold payments	<u>73,302</u>	<u>-</u>
- Excluding leasehold payments	<u>33,939</u>	<u>-</u>
Directors' valuation	<u>-</u>	<u>100,000</u>

Investment properties were valued on an open market basis at 31 December 2002 by Shenzhen Peng Xing Real Estate Valuation Co., Ltd, an independent valuer registered in PRC (2001: valued by directors).

13. CONSTRUCTION IN PROGRESS

	2002 RMB'000	2001 RMB'000
At beginning of year	17,132	28,105
Additions	45,058	1,644
Transfer to fixed assets	<u>(872)</u>	<u>(12,617)</u>
At end of year	<u>61,318</u>	<u>17,132</u>

14. LEASEHOLD LAND PAYMENTS

	2002 RMB'000	2001 RMB'000
Cost		
Balance at beginning of year	26,439	26,439
Disposal	<u>(6,402)</u>	<u>-</u>
Balance at end of year	<u>20,037</u>	<u>26,439</u>
Accumulated amortisation		
Balance at beginning of year	3,375	2,861
Amortisation for the year	494	514
Disposal	<u>(757)</u>	<u>-</u>
Balance at end of year	<u>3,112</u>	<u>3,375</u>
Net book value		
Balance at end of year	<u>16,925</u>	<u>23,064</u>
Balance at beginning of year	<u>23,064</u>	<u>23,578</u>

All the Group's leasehold land payments were granted by Town Planning and Land Administration Bureau of Shenzhen for a period of 50 years.

	2002 RMB'000	2001 RMB'000
By nature		
- Investment properties	12,388	12,697
- Other properties	<u>4,537</u>	<u>10,367</u>
	<u>16,925</u>	<u>23,064</u>

15. INVESTMENT IN ASSOCIATE

	2002 RMB'000	2001 RMB'000
Balance at beginning of year	3,350	3,350
Disposal of an associate	<u>(3,350)</u>	<u>-</u>
Balance at end of year	<u>-</u>	<u>3,350</u>

The associate, which is unlisted, was disposed of in 2002. The particulars of it are as follows:

Name	Country of incorporation	% interest held by the Group (prior to disposal)
Shenzhen South China Network Co., Ltd.	People's Republic of China	40%

16. INVESTMENT IN JOINT VENTURE

	2002 RMB'000	2001 RMB'000
Balance at beginning of year	2,555	2,248
Share of results before tax	319	387
Share of tax	(75)	(80)
Balance at end of year	<u>2,799</u>	<u>2,555</u>

Particulars of the jointly controlled entity, which is unlisted, are as follows:

Name	Country of incorporation	% interest held
Shenzhen World Famous Watch Centre Co., Ltd (a)	People's Republic of China	50%

17. NON-CURRENT INVESTMENTS

	2002 RMB'000	2001 RMB'000
Investment in promoters' shares of a listed company, at cost	3,000	3,000
Investment in shares of unlisted companies, at cost	<u>1,885</u>	<u>385</u>
	<u>4,885</u>	<u>3,385</u>

Promoters' shares of a listed company are transferable subject to approvals from relevant local authorities. There are no quoted market prices for shares in unlisted companies. Both types of shares have neither an active market nor a fixed maturity and are therefore carried at cost less accumulated impairment losses, if any.

18. DEFERRED TAXATION

	2002 RMB'000	2001 RMB'000
Balance at beginning of year	8,344	10,366
Transfer from / (to) income statement (note 9)	<u>7,781</u>	<u>(2,022)</u>
Balance at end of year	<u>16,125</u>	<u>8,344</u>

Deferred taxation assets arose from temporary differences in respect of the following:

	2002 RMB'000	2001 RMB'000
Provision for doubtful debts, provision for inventory obsolescence and other expenses	<u>16,125</u>	<u>8,344</u>

19. INVENTORIES

	2002 RMB'000	2001 RMB'000
Raw materials (at cost)	19,090	38,534
Raw materials (at net realisable value)	4,608	7,502
Work-in-progress (at cost)	1,844	1,810
Finished goods (at cost)	74,895	104,205
Finished goods (at net realisable value)	<u>17,793</u>	<u>12,035</u>
	<u>118,230</u>	<u>164,086</u>

20. TRADE RECEIVABLES

	2002 RMB'000	2001 RMB'000
Trade receivables	70,182	68,359
Less: provision for doubtful debts	<u>(41,896)</u>	<u>(22,770)</u>
	<u>28,286</u>	<u>45,589</u>

21. DUE FROM RELATED COMPANIES

All the balances with related parties were non-interest bearing and had no fixed terms of repayments at the year end.

22. PREPAYMENTS AND OTHER RECEIVABLES

	2002 RMB'000	2001 RMB'000
Prepayments	2,472	534
Other receivables	45,398	54,288
Less: provision for doubtful debts	<u>(14,158)</u>	<u>(5,981)</u>
	<u>33,712</u>	<u>48,841</u>

23. TRADING INVESTMENTS

	2002 RMB'000	2001 RMB'000
Market value of listed investments		
- Equity shares	<u>6,121</u>	<u>3,771</u>

The trading investment are traded in active markets and are valued at market prices at the close of business on 31 December by reference to Stock Exchange quoted prices.

24. DESIGNATED DEPOSITS

These deposits have been placed with Xinhua Trust Investment Company Ltd., of which the major authorised scope of business is conducting general investment and related activities. The deposits placed are redeemable within 1 year from the dates of placements.

25. SHARE CAPITAL

	2002		2001	
	Thousand shares	RMB'000	Thousand shares	RMB'000
Registered capital (Par value of RMB1 each)	<u>249,318</u>	<u>249,318</u>	<u>249,318</u>	<u>249,318</u>
Shares in issue (Par value of RMB1 each)				
Promoters' shares	130,248	130,248	130,248	130,248
A Shares	60,750	60,750	60,750	60,750
B Shares	<u>58,320</u>	<u>58,320</u>	<u>58,320</u>	<u>58,320</u>
	<u>249,318</u>	<u>249,318</u>	<u>249,318</u>	<u>249,318</u>

26. RESERVES

According to the Company Laws of the PRC and the Company's Articles of Association, the Company is required to provide certain statutory reserves, which are appropriated from the net profit as reported in the statutory accounts. The Company shall set aside 10% of its net profit for statutory common reserve fund (until it has reached 50% of the Company's registered capital) and 5% to 10% for the statutory public welfare fund. Further appropriations from the net profit may be made to the discretionary common reserve fund upon approval by shareholders. The common reserve funds cannot be used for purposes other than those for which they are created without the prior approval by shareholders under certain conditions and are not distributed as cash dividends. The statutory public welfare fund is designated for collective welfare of the employees.

The statutory common reserve fund, discretionary common reserve fund and capital reserve fund as approved by shareholders can be converted into share capital provided that the balance of the statutory common reserve fund does not fall below 25% of the registered share capital after conversion.

No appropriations to the statutory common reserve fund and statutory public welfare fund were proposed for the year ended 31 December 2002 as the statutory accounts of the Company show a loss for the year.

In 2001, the Group changed its accounting policies in respect of pre-operating expenses, impairment of properties, plant and equipment and construction in progress in the preparation of its statutory accounts in order to comply with the requirements of the Accounting Systems for Business Enterprises as promulgated by the Ministry of Finance of the PRC. These changes in accounting policies did not have an impact on the financial statements of the Group which have been prepared under IFRS except that there was a reallocation of approximately RMB642,000 from statutory reserves to retained earnings as at 31 December 2001.

27. SHORT-TERM LOANS

	2002 RMB'000	2001 RMB'000
Bank loans – unsecured	-	70,000
Other loans	4,000	4,000
	<u>4,000</u>	<u>74,000</u>

28. DIVIDENDS

Pursuant to a resolution of the Board of Directors, the Company declared cash dividends for 2001 of RMB0.05 per share, totalling RMB12,466,000 in 2002.

29. CASH GENERATED FROM OPERATIONS

Reconciliation of (loss) / profit before taxation to cash generated from operations

	2002 RMB'000	2001 RMB'000
(Loss) / profit before taxation	(74,699)	19,580
Adjustments for:		
Depreciation		
- fixed assets	13,609	13,158
- investment properties	1,041	1,042
Amortisation of leasehold land payments	494	514
Amortisation of non-current assets	730	673
Loss on disposals of fixed assets	1,337	753
Gain on disposal of leasehold land payments	(757)	-
Gain on disposal of trading investments	(1,150)	(5,454)
Fair value losses on trading investments	140	1,416
Provision for doubtful debts	27,303	4,669
Provision for inventory obsolescence	47,195	(6,377)
Impairment charge for fixed assets	3,749	-
Loss on disposal of a subsidiary	-	1,003
Gain on disposal of an associate	(650)	-
Share of profits of a joint venture	(319)	(387)
Interest expense	3,218	2,169
Interest income	(2,882)	(10,476)
Others	(138)	(220)
Increase in accounts receivable	(1,823)	(4,808)
Decrease in amounts due from related companies	5,293	15,535
(Increase) / decrease in inventories	(1,339)	43,369
Decrease in prepayments and other receivables	6,952	20,989
Increase / (decrease) in accounts payable	10,556	(10,028)
Increase / (decrease) in staff welfare payable	212	(2,470)
(Decrease) / increase in accruals and other current liabilities	(5,003)	715
Cash generated from operations	<u>33,069</u>	<u>85,365</u>

30. FINANCIAL RISK MANAGEMENT

(a) Interest rate risk

In the opinion of the directors, other financial assets and financial liabilities do not have material interest rate risk.

(b) Credit risk

The carrying amount of cash and cash equivalents and receivables represented the Group's maximum exposure to credit risk in relation to financial assets. Cash are deposited with registered banks in the PRC. Majority of the Group's receivables relate to sales of goods to third parties in the PRC. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on receivables. The Group maintains a provision for doubtful debts.

No other financial assets carry a significant exposure to credit risk.

(c) Foreign currency risk

Most of the transactions of the Group were settled in Renminbi. In the opinion of the Directors, the Group would not have significant foreign currency risk exposure.

(d) Fair value

The carrying amounts of the following financial assets and the financial liabilities approximate their fair values: cash and bank balances, investments, trade receivables, amounts due from related parties, prepayments and other receivables, trade payables, other payables, accruals and other current liabilities and borrowings.

31. COMMITMENTS

(a) Operating lease commitments

- where the Group is the lessee

	2002 RMB'000	2001 RMB'000
The future minimum lease payments under non-cancellable operating leases are as follows:		
Not later than 1 year	8,642	8,309
Later than 1 year and not later than 5 years	26,372	26,342
Later than 5 years	3,911	2,311
	<u>38,925</u>	<u>36,962</u>

31. COMMITMENTS (Cont'd)

(a) Operating lease commitments

- where the Group is the lessor

	2002 RMB'000	2001 RMB'000
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Not later than 1 year	13,900	17,840
Later than 1 year and not later than 5 years	35,778	29,050
Later than 5 years	1,081	24,891
	<u>50,759</u>	<u>71,781</u>

(b) Capital commitments

	2002 RMB'000	2001 RMB'000
Contracted but not provided for		
Buildings	89,905	-
Investments	-	90,000
	<u>89,905</u>	<u>90,000</u>

32. SIGNIFICANT RELATED PARTY TRANSACTIONS

	2002 RMB'000	2001 RMB'000
Interest income		
CATIC Shenzhen Company (a)	2,318	7,395
Shenzhen Kai De Investment Management Co., Ltd. (b)	-	2,695
	<u>2,318</u>	<u>10,090</u>

(a) Interest was charged at 0.72% (2001: 5%) per annum. All related deposits and interest income were withdrawn before 31 December 2002.

(b) In 2001, deposits placed bore interest at rate of about 6.4% per annum.

33. SUBSEQUENT EVENTS

On 8 March, 2003, the Company's subsidiary, Shenzhen Pengmen Restaurant Co., Ltd. suspended its operation and is pending to be sold.

34. DISCONTINUING OPERATION

On 15 March 2003, the Group publicly announced its intention to sell the catering and entertainment segment. The subsidiaries comprising this segment are Xian Haomen Food & Recreation City Co., Ltd., Shenzhen Pengmen Restaurant Co., Ltd. and Shanghai Tian Lin Xianmen Restaurant Co., Ltd. They are expected to be sold or closed in 2003. The sales, results and cash flows for the year ended 31 December 2002 and net assets of the catering and entertainment segment as of 31 December 2002 were as follows:

	Year ended 31 December 2002 RMB'000
Turnover	54,717
Operating costs	<u>(60,166)</u>
Operating loss	(5,449)
Finance costs	<u>(30)</u>
Loss before taxation	(5,479)
Taxation	<u>-</u>
Net loss	<u>(5,479)</u>
Net operating cash inflow	2,186
Net investing cash outflow	<u>(298)</u>
Total net cash inflow	<u>1,888</u>
	31 December 2002 RMB'000
Fixed assets	5,830
Current assets	<u>21,670</u>
Total assets	27,500
Total liabilities	<u>(17,718)</u>
Net assets	<u>9,782</u>

35. ULTIMATE HOLDING COMPANY

The directors regard CATIC Shenzhen Company, a company established in the PRC, as the ultimate holding company.

IMPACT OF IFRS AND OTHER ADJUSTMENTS ON NET (LOSS) / PROFIT AND SHAREHOLDERS' EQUITY

	Net (loss) / profit for the year		Shareholders' equity	
	2002 RMB'000	2001 RMB'000	2002 RMB'000	2001 RMB'000
As reported in the statutory accounts	(77,435)	11,323	510,368	587,803
Impact of major IFRS and other adjustments:				
- adjustment on deferred tax assets	7,781	(2,022)	16,125	8,344
- adjustment on provision for doubtful debts	-	3,500	-	-
- adjustment on minority interest	-	(2,041)	-	-
- reclassification of prior year profit appropriation to staff welfare payable	-	-	(15,949)	(15,949)
- reversal of dividends proposed after year end in accordance with IAS 10	-	-	-	12,466
- others	652	1,956	1,294	642
As restated for IFRS	<u>(69,002)</u>	<u>12,716</u>	<u>511,838</u>	<u>593,306</u>