

# SHENZHEN FIYTA HOLDINGS LTD.

## 2003 ANNUAL REPORT

### (Summary)

## §1 Important

1.1 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 truthfulness reality, accuracy and completion of the whole contents herein. This summary is cited from the full text of the annual report. An investor who wants to know the detail, should read the full text of the annual report. 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.

1.2 No director has expressed that he/she is not sure for the truthfulness, accuracy or completeness of this annual report or has any different opinion on the same.

1.3 Mr. Wang Xinkuo, a director, was absent from the board meeting due to other work engagement.

1.4 Pricewaterhouse Coopers Zhongtian Certified Public Accountants produced a standard unqualified auditors' report without any explanatory notice for the Company.

1.5 Mr. Wu Guangquan, the Chairman of the Board, Mr. Xu Dongsheng, the General Manager, Mr. Li Dehua, the Deputy General Manager and Chief Accountant, and Mr. Liu Biao, the Financial Manager hereby guarantee the accuracy and completeness of the financial report enclosed in this annual report. Except that the Financial Report (§9) 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.

## §2 Company Information

### 2.1 Basic Information

|                            |                                                                              |
|----------------------------|------------------------------------------------------------------------------|
| Short form of the stock    | FIYTA A , FIYTA B                                                            |
| Stock code                 | 000026, 200026                                                               |
| Stock Exchange listed with | Shenzhen Stock Exchange                                                      |
| Registered Address         | FIYTA Technology Building, Gaoxin Nanyi Road                                 |
| Office Address:            | FIYTA Building, 163 Zhenhua Rd., Shenzhen                                    |
| Post Code                  | 518031                                                                       |
| Internet Website           | <a href="http://www.fiyta.com.cn">http:// www. fiyta.com.cn</a>              |
| E-mail                     | <a href="mailto:szfiyta@public.szptt.net.cn">szfiyta@public.szptt.net.cn</a> |

## 2.2 Communication Information

|         | Secretary of the Board                    | Security Affairs Representative |
|---------|-------------------------------------------|---------------------------------|
| Name    | Hao Huiwen                                | Chen Zhuo                       |
| Address | FIYTA Building, 163 Zhenhua Rd., Shenzhen |                                 |
| Tel     | 0755-83217888-8218 83259702               |                                 |
| Fax     | 0755-83348369                             |                                 |
| E-mail  | security@fiyta.com.cn                     |                                 |

## §3 Financial Highlights

## 3.1 Accounting Data Summary

In RMB

|                                                                | 2003<br>(Report Year)               | 2002<br>(Previous Year)               | Increase/decrease<br>over the previous year<br>(%) | 2001           |
|----------------------------------------------------------------|-------------------------------------|---------------------------------------|----------------------------------------------------|----------------|
| Income from principal business                                 | 228,133,082.00                      | 219,492,686.00                        | 3.94%                                              | 219,813,846.00 |
| Total profit                                                   | 5,708,012.00                        | -76,162,958.00                        | --                                                 | 16,000,180.00  |
| Net profit                                                     | 5,088,057.00                        | -78,173,441.00                        | --                                                 | 11,322,807.00  |
| Net profit, less nonrecurring gains/losses                     | -6,775,168.00                       | -77,958,917.00                        | --                                                 | 3,751,042.00   |
|                                                                | End of 2003<br>(end of report year) | End of 2002<br>(end of previous year) | Increase/decrease<br>over end of previous year (%) | End of 2001    |
| Total assets                                                   | 572,847,496.00                      | 566,681,393.00                        | 1.09%                                              | 725,845,783.00 |
| Shareholders' interests (excluding the minority shareholders') | 515,456,362.00                      | 510,368,305.00                        | 1.00%                                              | 587,802,989.00 |
| Net cash flow from operation activities                        | -11,746,162.00                      | 23,354,487.00                         | -150.30%                                           | 64,028,448.00  |

## 3.2 Financial Data Summary

In RMB

|                                                                                           | 2003<br>(Report Year)               | 2002<br>(Previous Year)               | Increase/decrease<br>over the previous year (%)    | 2001        |
|-------------------------------------------------------------------------------------------|-------------------------------------|---------------------------------------|----------------------------------------------------|-------------|
| Earning per share                                                                         | 0.02                                | -0.31                                 | --                                                 | 0.05        |
| Earning per share (based on the new share capital in case of change in the share capital) | 0.02                                | --                                    | --                                                 | --          |
| Net assets-income ratio                                                                   | 0.99%                               | -15.32%                               | --                                                 | 1.93%       |
| Net assets-income ratio based on the net profit less nonrecurring gains/losses            | -1.31%                              | -15.27%                               | -108.57%                                           | 0.64%       |
| Net cash flow arising from operation activities per share                                 | -0.05                               | 0.09                                  | -150.30%                                           | 0.26        |
|                                                                                           | End of 2003<br>(end of report year) | End of 2002<br>(end of previous year) | Increase/decrease<br>over end of previous year (%) | End of 2001 |
| Net assets per share                                                                      | 2.07                                | 2.05                                  | 1.00%                                              | 2.36        |
| Net assets per share, after adjustment                                                    | 2.03                                | 1.98                                  | 3.21%                                              | 2.25        |

## 3.3 Differences between Domestic and International Accounting Standards

√ applicable    □ inapplicable

In RMB '000

|            | Domestic Accounting Standards | International Accounting Standards |
|------------|-------------------------------|------------------------------------|
| Net profit | 5,088.00                      | 6,132.00                           |

|      |                                                                                                          |        |
|------|----------------------------------------------------------------------------------------------------------|--------|
| Note | Net profit audited by Pricewaterhouse Coopers Zhongtian Certified Public Accountants Co., Ltd.: 5,088.00 |        |
|      | Adjustment for deferred tax assets                                                                       | 606.00 |
|      | Adjustment on fair value for trading investments                                                         | 438.00 |
|      | Net profit audited by Pricewaterhouse Coopers China Limited: 6,132.00                                    |        |

## §4 Changes in Share Capital and Particulars about Shareholders

### 4.1 Change in Shares

|                                         | Before change | Increase/ Decrease<br>(+ / -) 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       |
| 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      |

### 4.2 Top 10 shareholders and Shares Held by Top 10 Shareholders of Circulating Shares

|                                            |                                               |                                                                               |       |                                       |                          |                                                                                    |
|--------------------------------------------|-----------------------------------------------|-------------------------------------------------------------------------------|-------|---------------------------------------|--------------------------|------------------------------------------------------------------------------------|
| Total shareholders ended the report period |                                               | 15,645                                                                        |       |                                       |                          |                                                                                    |
| Shares Held by Top 10 Shareholders         |                                               |                                                                               |       |                                       |                          |                                                                                    |
| Shareholders (full names)                  | Increase/decrease in the report year (shares) | Shares held at the year end                                                   | (%)   | Types (circulating/non - circulating) | Shares pledged or frozen | Ownership of shareholders (state owned shareholder or foreign capital shareholder) |
| CATIC SHENZHEN HOLDINGS LTDS.              | 0                                             | 130,248,000                                                                   | 52.24 | <u>non-circulating</u>                | 0                        | Domestic legal person shares                                                       |
| Lin Zhihua                                 | unknown                                       | 530,000                                                                       | 0.21  | <u>circulating</u>                    | unknown                  | foreign capital shareholder                                                        |
| Wang Zihua                                 | unknown                                       | 529,929                                                                       | 0.21  | <u>circulating</u>                    | unknown                  | foreign capital shareholder                                                        |
| KO,LING HON                                | unknown                                       | 389,900                                                                       | 0.16  | <u>circulating</u>                    | unknown                  | foreign capital shareholder                                                        |
| CHINA PINGAN INSURANCE (HK) CO., LTD.      | unknown                                       | 384,960                                                                       | 0.15  | circulating                           | unknown                  | foreign capital shareholder                                                        |
| Lin Hongbo                                 | unknown                                       | 362,880                                                                       | 0.15  | circulating                           | unknown                  | foreign capital shareholder                                                        |
| Yang Yuanzhou                              | unknown                                       | 285,900                                                                       | 0.11  | circulating                           | unknown                  | foreign capital shareholder                                                        |
| JiangXi Ganyue Expressway Co.,Ltd.         | unknown                                       | 275,800                                                                       | 0.11  | circulating                           | unknown                  | Listed A shares                                                                    |
| CHAN KEUNG                                 | unknown                                       | 275,600                                                                       | 0.11  | circulating                           | unknown                  | foreign capital shareholder                                                        |
| Huihang Shipping Co.                       | unknown                                       | 241,200                                                                       | 0.10  | circulating                           | unknown                  | foreign capital shareholder                                                        |
| Description of relationship or concerted   |                                               | The shareholder holding over 5% of the Company's total share capital is CATIC |       |                                       |                          |                                                                                    |

|                                          |                                                                                                                                                                                                                                                                                                                                     |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| actions between the top 10 shareholders. | SHENZHEN HOLDINGS LTD. and there was no change in its shareholding in the report year. Among the top ten shareholders, the Company has never found any business relations among them or they belong to the persons of concerted action as specified in the Measures on Listed Companies on Disclosing the Shareholding Information. |
|------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

#### 4.3 About the Controlling Shareholder and the Actual Controller

##### 4.3.1 Change in the Controlling Shareholder and the Actual Controller

☐ applicable    ☒ inapplicable

#### 4.3 About the Controlling Shareholder and the Other Actual Controller(s)

About the controlling shareholder:

CATIC SHENZHEN HOLDINGS LTD. was founded in June, 1997, with total share capital: RMB 642 million, the legal representative: Wu Guangquan, 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.

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 motor vehicles, equipment and machinery made within the Group.

## §5 Directors, Supervisors and Senior Executives

#### 5.1 Change in shares held by Directors, supervisors and senior executives

| Name          | Title                             | Sex  | Age | Office Term          | Shares held at year beginning | Shares held at year end | Reason of change |
|---------------|-----------------------------------|------|-----|----------------------|-------------------------------|-------------------------|------------------|
| Wu Guangquan  | Chairman of the Board             | male | 41  | May 2003 to May 2006 | 0                             | 0                       |                  |
| Wang Xinkuo   | Director                          | male | 55  | May 2003 to May 2006 | 0                             | 0                       |                  |
| Sui Yong      | Director                          | male | 45  | May 2003 to May 2006 | 0                             | 0                       |                  |
| You Lei       | Director                          | male | 34  | May 2003 to May 2006 | 0                             | 0                       |                  |
| Xu Dongsheng  | Director and general manager      | male | 37  | May 2003 to May 2006 | 0                             | 0                       |                  |
| Zhu Gensen    | Director                          | male | 55  | May 2003 to May 2006 | 0                             | 0                       |                  |
| Cai Zheng     | Independent Director              | male | 62  | May 2003 to May 2006 | 0                             | 0                       |                  |
| Diao Weicheng | Independent Director              | male | 40  | May 2003 to May 2006 | 0                             | 0                       |                  |
| Hua Xiaoning  | Independent Director              | male | 40  | May 2003 to May 2006 | 0                             | 0                       |                  |
| Shao Kexiong  | Chairman of Supervisory Committee | male | 53  | May 2003 to May 2006 | 0                             | 0                       |                  |
| Zhang Songhua | Supervisor                        | male | 50  | May 2003 to May 2006 | 0                             | 0                       |                  |
| Hu Xinglong   | Supervisor                        | male | 39  | May 2003 to May 2006 | 0                             | 0                       |                  |

|             |                                             |        |    |                          |        |        |  |
|-------------|---------------------------------------------|--------|----|--------------------------|--------|--------|--|
| Lu Binqiang | Deputy General Manager                      | male   | 42 | May 2003 to May 2006     | 48,210 | 48,210 |  |
| Li Dehua    | Deputy General Manager and Chief Accountant | male   | 43 | May 2003 to May 2006     | 0      | 0      |  |
| Li Bei      | Deputy General Manager                      | male   | 48 | May 2003 to May 2006     | 0      | 0      |  |
| Fang Juan   | Deputy General Manager                      | female | 43 | January 2004 to May 2006 | 0      | 0      |  |
| Hao Huiwen  | Secretary of the Board of Directors         | male   | 35 | May 2003 to May 2006     | 0      | 0      |  |

## 5.2. Engagement of Directors and Supervisors in the Shareholders

☒ applicable    ☐ inapplicable

| Names        | Shareholders | Titles                                | Office term         | Any remuneration or allowance? (Y/N) |
|--------------|--------------|---------------------------------------|---------------------|--------------------------------------|
| Wu Guangquan | CATIC        | Chairman of Board                     | May 2003 - May 2006 | N                                    |
| Wang Xinkuo  | CATIC        | Director                              | May 2003 - May 2006 | N                                    |
| Sui Yong     | CATIC        | Director                              | May 2003 - May 2006 | N                                    |
| You Lei      | CATIC        | Director & Secretary of the Board     | May 2003 - May 2006 | N                                    |
| Xu Dongsheng | CATIC        | Director                              | May 2003 - May 2006 | Y                                    |
| Shao Kexiong | CATIC        | Chairman of the Supervisory Committee | May 2003 - May 2006 | N                                    |

## 5.3 Annual Emolument to Directors, Supervisors and Senior Executives

In RMB '000

|                                                                                    |                                                                                                                                                                                                                                                                 |
|------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Total Annual Emolument                                                             | 1,893.10                                                                                                                                                                                                                                                        |
| The total emolument to the three directors enjoying the highest pays (only two)    | 523.70                                                                                                                                                                                                                                                          |
| The total emolument to the three senior executives enjoying the highest pays       | 730.70                                                                                                                                                                                                                                                          |
| Allowance to Independent Directors                                                 | 30.0/person/year                                                                                                                                                                                                                                                |
| Other Financial Interests to Independent Directors                                 | Nil                                                                                                                                                                                                                                                             |
| Directors and supervisors who do not receive any pay or allowance from the Company | 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. |
| Pay intervals                                                                      | Persons                                                                                                                                                                                                                                                         |
| RMB 300 thousand                                                                   | 1                                                                                                                                                                                                                                                               |
| RMB 200 –250 thousand                                                              | 4                                                                                                                                                                                                                                                               |
| RMB 150-200 thousand                                                               | 2                                                                                                                                                                                                                                                               |
| RMB 100 –150 thousand                                                              | 2                                                                                                                                                                                                                                                               |
| Below RMB 30 thousand                                                              | 3                                                                                                                                                                                                                                                               |

## §6 Report of the Board of Directors

### 6.1 Overall Operation Discussion and Analysis

In 2003, the Company, based on the work principle of “Inspiring the morale, stimulating the confidence, making breakthrough with focus, Rising again after a fall” as determined at the year beginning, enhanced the research on the customers, took a positive attitude towards the sustained and intensified competition of the domestic timepiece industry, adjusted the Company's industrial structure and resource deployment, increased investment in R & D and marketing, insisted on the top brand strategy and professional development, and concentrated resources for developing the principal business of timepiece. The specific details are summarized as follows:

1. FIYTA Watch The Company tided over the unfavorable impacts from intensified market competition and SARS, based on the research on the customers and the market, reinforced the brand promotion and advertisement, enthusiastically developed new products and adopted flexible promotion approaches. As a result, the sales falling trend stopped. In the report period, the Company realized sales of FIYTA watches amounting to RMB 107,962 thousand, a 12.28% growth over the previous year. In addition, the product honorably ranked “the first in sales among the products of the same kind in China” for successively nine years granted by the Industrial Information Statistics Center of the State Statistical Bureau.

In addition, in the report period, Guangdong Province, Shenzhen City and Futian District Governments rewarded RMB 3.8 million cash for honoring FIYTA being “China Top Brand Product” and “China Renowned Trademark”. The Company produced first pilot watches for fighter pilots of China Air Force. On October 15, 2003, China's first spaceflight watch developed by the Company traveled in the universe together with Shenzhou-5 Manned Spacecraft and fulfilled successfully the mission. Therefore, FIYTA has become the third spaceflight watch following OMEAG and FORTIS made in Switzerland. This historical event shall greatly promote FIYTA Brand to be upgraded unceasingly.

The Company has further laid a sound foundation for sustainable and healthy development of the Company's watch industry by enhancing the assets management, regulating work process, upgrading the front service quality and practicing overall training of the whole staff.

2. Harmony World Watches Center The Company enhanced the investment and management of the chain shops of Harmony World Watches Center, timely regulated the shop management throughout the country, and tried best to create a world top brand watches marketing platform. Ended the report period, the Company had opened 18 chain shops in different big and medium cities of the country. In the report period, the Company realized sales of top brand watches amounting to RMB 99,683 thousand, a 46.48% growth over the same period of the previous year; and realized a net profit amounting to RMB 1,908 thousand.

3. Property Operation In 2003, FIYTA Building adjusted tenants, from which, the Company realized a income amounting to RMB 14,768 thousand, a 11.45% growth over the previous year. It is predicted that after the Company moves into the newly constructed Hi-tech Building in 2004, the vacated property shall surely bring about more income to the Company.

4. Hi-tech Building FIYTA Hi-tech Industrial Building located in Shenzhen Hi-tech Park passed the completion examination on December 25, 2003. The indoor decoration is still going on. The investment invitation and project verification work is in process in an orderly way. It is predicted that the building shall contribute certain profit to the Company in 2004.

5. Industrial Restructuring According to the Company's business plan at the beginning of the year with the principle of “tidying out the non-principal businesses and putting emphasis on the specialization strategy”, the Company has decided to remove some subsidiaries with bad operation situation and weak earning capacity. By the end of the report period, the Company had finished the disposal and transfer of three catering subsidiaries, namely Xi'an Fine Food and Entertainment City Co., Ltd. (restaurant business), Shenzhen Pengmen Restaurant Co., Ltd. and Shanghai Xianmen Restaurant Co., Ltd. The Company has completely withdrawn from the catering sector. In addition, the Company has also sorted out two industrial enterprises - Shenzhen Tianfu Electronics Co., Ltd. and Shenzhen Feitu New Technology Development Co.

This work shall be helpful to the Company in focusing on the principal business.

In the report period, the income from the principal businesses was RMB 228,133 thousand, a 3.94% growth over the same period of the previous year. The main reason is that the Company had wound-up and transferred its catering subsidiaries; as a result, the income from the catering sector was only 5,063 thousand, decreased by 31,134 thousand, or dropped by 86.01% over the same period of the previous year; while the income from the retail of top brand watches increased by RMB 31,632 thousand, or increased by 46.48% over the same period of the previous period. In comparison to the year 2002, as the overall disposal of the potential deficit-making assets caused big losses, the total profit realized in 2003 was RMB 5,708 and net profit was RMB 5,088 thousand. However, the increase of reserve provided for devaluation of partial subsidiaries caused the profit of the whole year lower than the amount disclosed in the 3<sup>d</sup> quarter. In addition, the big increase of sales costs and overhead expenses arising from marketing and personnel training caused loss in operation profit and the net profit less the incidental losses/gains in the year 2003.

Affected by increase of the operation expenditures, the net cash flow arising from the business activities was RMB-11,746 thousand. Due to increase of earnings in the report period, the Company's total assets at the end of the report period was RMB 572,847 thousand and shareholders' equity was RMB 515,456 thousand which increased slightly by 1.09% and 1.00% respectively over the same period of the previous year.

## 6.2 Principal Businesses Classified Based on Sectors and Products

In RMB '000

| Based on sectors or products                      | Income from principal business                                                                                                                                        | Costs of principal business | Gross interest rate (%) | Increase/decrease Growth of income from principal business over the previous year (%) | Increase/decrease of costs of principal business over the previous year (%) | Increase/decrease of gross profit rate over the previous year (%) |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-------------------------|---------------------------------------------------------------------------------------|-----------------------------------------------------------------------------|-------------------------------------------------------------------|
| Industry                                          | 108,618.50                                                                                                                                                            | 52,014.70                   | 52.11                   | 6.50                                                                                  | -5.81                                                                       | 13.65                                                             |
| Trading                                           | 99,683.30                                                                                                                                                             | 80,726.30                   | 19.02                   | 46.48                                                                                 | 41.17                                                                       | 19.09                                                             |
| Management of real estate                         | 14,768.10                                                                                                                                                             | 2,266.00                    | 84.66                   | 11.45                                                                                 | 16.38                                                                       | -0.76                                                             |
| Catering                                          | 5,063.20                                                                                                                                                              | 2,439.40                    | 51.82                   | -86.01                                                                                | -85.63                                                                      | -2.43                                                             |
| Incl.: related transactions                       | 0.00                                                                                                                                                                  | 662.30                      | --                      | 0.00                                                                                  | 0.00                                                                        | 0.00                                                              |
| sales of FIYTA watches                            | 107,961.90                                                                                                                                                            | 56,796.50                   | 47.39                   | 12.28                                                                                 | -1.45                                                                       | 18.29                                                             |
| Sales of foreign top brand watches                | 92,839.60                                                                                                                                                             | 76,678.10                   | 17.41                   | 63.36                                                                                 | 58.89                                                                       | 15.38                                                             |
| Incl.: related transactions                       | 0.00                                                                                                                                                                  | 0.00                        | --                      |                                                                                       |                                                                             |                                                                   |
| Pricing principle for related transactions        | based on fair market pricing                                                                                                                                          |                             |                         |                                                                                       |                                                                             |                                                                   |
| Necessity and continuance of related transactions | FIYTA Building received the management services from Shenzhen CATIC Property Management Co., Ltd., for which the Company paid RMB 662.30 thousand in the report year. |                             |                         |                                                                                       |                                                                             |                                                                   |

## 6.3 Principal Businesses Based on Regions

In RMB '000 thousand

| Regions         | principal business income | Increase/decrease of revenue from the principal businesses over the previous year (%) |
|-----------------|---------------------------|---------------------------------------------------------------------------------------|
| Northeast China | 28,356.60                 | -33.24                                                                                |
| North China     | 38,032.70                 | 36.97                                                                                 |
| Northwest China | 45,299.70                 | 37.11                                                                                 |
| East China      | 19,770.40                 | 34.72                                                                                 |
| Southwest China | 11,308.50                 | 2.54                                                                                  |
| East China      | 58,033.60                 | 100.17                                                                                |

|       |            |       |
|-------|------------|-------|
| Total | 200,801.50 | 31.25 |
|-------|------------|-------|

## 6.4 Suppliers and Customers

In RMB '000

|                                               |           |                                 |        |
|-----------------------------------------------|-----------|---------------------------------|--------|
| total procurement from the top five suppliers | 49,812.80 | Proportion in total procurement | 88.00% |
| total sales to the top five customers         | 28,187.00 | Proportion in total sales       | 12.00% |

## 6.5 Associates (applicable to the investment income taking over 10% of the net profit)

☐ applicable ☒ inapplicable

## 6.6 Big Change in the Principal Business or its Structure

☒ applicable ☐ inapplicable

In the report period, there was some change in the principal business or its structure, and the earning capacity in the principal business in comparison with the previous report period.

Firstly, the Company cleared up and transferred all the three restaurant subsidiaries and has completely withdrawn from the catering industry;

Secondly, with the expansion of sales income from Harmony World Watches Center, the income from the retail of timepieces increased to RMB 99,683 thousand, which took 43.70% of the total income from the principal business while it was only 31% last year.

Thirdly, according to the practical operation of the principal business, the Company has put the income from the property management into the income from the principal business for accounting instead of other businesses.

## 6.7 Big Change in the Earning Capacity (Gross Profit Rate) of the Principal Business over the Previous Year

☐ applicable ☒ inapplicable

## 6.8 Reasons of Big Change in the Operation Result and Profit Composition over the Previous Year

☒ applicable ☐ inapplicable

The Company disposed all the potential deficits-making assets in 2002. Additional reserve for devaluation of fixed assets was provided by RMB 78.25 thousand, which cause big deficits in the previous year. In the report year, the Company realized normal profit amounting to RMB 5.088 million.

| Items                               | Amount in the report year (RMB) | Amount in the same period of previous year (RMB) | Growth/drop rate (%) | Causes of Change                                                                                                                                                                                                 |
|-------------------------------------|---------------------------------|--------------------------------------------------|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Profit from principal business      | 88,698,251                      | 85,310,072                                       | 3.97                 | It mainly due to some growth of income from principal businesses                                                                                                                                                 |
| Overheads                           | 40,800,580                      | 108,711,799                                      | -62.47               | It mainly due to increase of reserve for devaluation to RMB 78.25 million in the same period of the previous year.                                                                                               |
| Financial expenses                  | -553,273                        | 1,195,168                                        | -146.29              | It is mainly due to decrease in interest payment for bank loans.                                                                                                                                                 |
| Non-operating income/ Expenses, net | -1,201,229                      | 754,990                                          | -259.11              | It is mainly due to the preferential policy of canceling output VAT in Shenzhen.                                                                                                                                 |
| Net profit                          | 5,088,057                       | -78,173,441                                      | 106.51               | It is mainly due to that the Company suffered loss from overall disposal of potential deficit-making elements in the same period of the previous year while the Company achieved normal profit-making this year. |
| Net increase/                       | -19,103,338                     | -226,463,876                                     | 91.56                | It is mainly due recovery of short term                                                                                                                                                                          |

|                                     |  |  |  |                                |
|-------------------------------------|--|--|--|--------------------------------|
| decrease of cash & cash equivalents |  |  |  | investment by RMB 125 million. |
|-------------------------------------|--|--|--|--------------------------------|

## Reasons of Big Change in Overall Financial Position over the Previous Year

☒ applicable    ☐ inapplicable

| Items                       | Amount in the report year (RMB) | Amount in the same period of previous year (RMB) | Growth/ drop rate (%) | Causes of Change                                                                                         |
|-----------------------------|---------------------------------|--------------------------------------------------|-----------------------|----------------------------------------------------------------------------------------------------------|
| Short-term investment       | 54,879,747                      | 131,121,176                                      | -58.15                | It is due to recovery of short term investment.                                                          |
| Accounts receivable         | 19,548,777                      | 28,285,813                                       | -30.89                | It is mainly due to recovery of the accounts receivable and disposal of subsidiaries.                    |
| Deferred expenses           | 646,996                         | 2,455,750                                        | -73.65                | It was mainly due to amortization of expenses in the report period.                                      |
| Long-term equity investment | 4,885,000                       | 7,684,188                                        | -36.43                | It is mainly due to that Shenzhen Harmony World Watches Center was put in the consolidated statements.   |
| Construction in process     | 125,227,493                     | 61,317,987                                       | 104.23                | In the report period, RMB 63.96 million was invested in the hi-tech park.                                |
| Short-term Loan:            | 100,000                         | 4,000,000                                        | -97.50                | It was mainly due to repayment of bank loans in the report period.                                       |
| Total assets                | 572,847,496                     | 566,681,393                                      | 1.09                  | It was mainly due to that the Company earned profit amounting to RMB 5.088 million in the report period. |
| Shareholders' interests     | 515,456,362                     | 510,368,305                                      | 1.00                  | It was mainly due to that the Company earned profit amounting to RMB 5.088 million in the report period. |

6.9 Notes to significant changes taken place in the production and operation environment, macro-policies, laws and regulations which have produced, are producing or shall produce material influence upon the Company's financial position and operation results.

☒ applicable    ☐ inapplicable

1. Since implementation of CEPA between Mainland China and Hong Kong, timepieces made in Hong Kong can enjoy zero tariff treatment in the domestic market, which shall cause impact upon the timepiece industry of Mainland China. On the other hand, however, this policy shall also be favorable for the Company to make full use of the marketing platform of Harmony Top Brand Watches Chain Shops, enhance external exchange and cooperation, share the advantages of Hong Kong timepiece industry in terms of design, marketing and information and realize the Company's operation strategy. Therefore, the impact from this policy upon the Company's operation is quite limited.

2. Pursuant to the regulations of the state and Shenzhen concerning adjustment of tax policy, commencing January 1, 2003, the preferential policy on output VAT for the products made in Shenzhen Special Economic Zone was terminated, which has produced some impact upon the Company's net profit. The net amount stated in the non-operating income of the Company's subsidiaries resulted from the said preferential VAT policy on the output VAT in 2002 was RMB 4.95 million. The net profit impacted by termination of the said preferential VAT policy in the year 2003 is predicted to be RMB 6.46 million.

## 6.10 Realization of profit estimation

☐ applicable    ☒ inapplicable

## 6.11. Fulfillment of Business Plan

☐ applicable    ☒ inapplicable

## 6.12. Application of the Proceeds Raised through Share Offering

√ applicable    □ inapplicable

In RMB '000

|                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                        |                   |                                    |                                                               |
|--------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-------------------|------------------------------------|---------------------------------------------------------------|
| Total proceeds raised through share offering                                   | 209,718.00                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Total proceeds used in the report year | 77,525.00         | Total proceeds accumulatively used | 193,787.00                                                    |
| Committed projects                                                             | planned investment amount                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | change of project (Y/N)                | Actual investment | resulted revenue                   | compliance with planned progress and predicted earnings (Y/N) |
| establishment of chain shops of Harmony World Watches Center in China          | 112,000.00                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Y                                      | 68,560.00         | 1,099.00                           | N                                                             |
| Construction of FIYTA Hi-tech Park                                             | 55,000.00                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | N                                      | 125,230.00        | 0.00                               | N                                                             |
| establishment of chain shops of Harmony World Watches Center in Southeast Asia | 41,480.00                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Y                                      | 0.00              | 0.00                               | N                                                             |
| Total                                                                          | 208,480.00                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | —                                      | 193,790.00        | 1,099.00                           | —                                                             |
| Note to failure to comply with the planned progress and earnings               | <p>(1) Ended the report period, 18 chain shops of Harmony World Watches Center had been set up in Shenzhen, Harbin, Urumqi, Wuhan, Datong, Changsha, Lanzhou, Kunming, Xi'an, Ningbo, Xuzhou, Qingdao, Shanghai, etc. with total investment of RMB 68,560 thousand; additional investment by RMB 13,570 thousand was made in the report period. In 2003, the Company realized a turnover amounting to RMB 99,683 thousand and net profit amounting to RMB 1,099 thousand.</p> <p>(2) Ended the report period, FIYTA Hi-tech Industrial Park had been completed and passed the acceptance inspection. At the moment, the indoor fitment is in process of preparation. In the report period, the Company made additional investment amounting to RMB 63,955 thousand, and the accumulated investment on this project is RMB 125,227 thousand. The building is going to be put into application in 2004. The year 2003 was the construction period and no investment yield would be produced.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                        |                   |                                    |                                                               |
| Reason of Change and Change Procedures (based on specific projects)            | <p>(1) The Board of Directors 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.</p> <p>(2) The aforesaid investment improvement was reviewed and approved at the 9<sup>th</sup> meeting of the 3<sup>rd</sup> Board and the 5<sup>th</sup> meeting of the 3<sup>rd</sup> 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 <a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a> on the next day following the meeting.</p> |                                        |                   |                                    |                                                               |

## Change of Projects

√ applicable    □ inapplicable

In RMB '000

|                                                              |           |
|--------------------------------------------------------------|-----------|
| Total investment involved in the investment projects changed | 84,720.00 |
|--------------------------------------------------------------|-----------|

| Project after change                                             | Originally committed projects                                                                                                                                                                                                                                                                                                  | planned investment amount | Actual investment | resulted revenue | compliance with planned progress and predicted earnings (Y/N) |
|------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|-------------------|------------------|---------------------------------------------------------------|
| FIYTA Hi-tech Park                                               | establishment of chain shops of Harmony World Watches Center in China                                                                                                                                                                                                                                                          | 43,240.00                 | 43,240.00         | 0.00             | Y                                                             |
| FIYTA Hi-tech Park                                               | establishment of chain shops of Harmony World Watches Center in Southeast Asia                                                                                                                                                                                                                                                 | 41,480.00                 | 26,987.00         | 0.00             | Y                                                             |
| Total                                                            | —                                                                                                                                                                                                                                                                                                                              | 84,720.00                 | 70,227.00         | 0.00             | —                                                             |
| Note to failure to comply with the planned progress and earnings | Ended the report period, FIYTA Hi-tech Industrial Park had been completed and passed the acceptance inspection. At the moment, the indoor fitment is in process of preparation. The building is going to be put into application in 2004. The year 2003 was the construction period and no investment yield would be produced. |                           |                   |                  |                                                               |

## 6.13. Investment with the Funds not Raised by Share Offering

☐ applicable    ☒ inapplicable

## 6.14 Explanation of the Board to the “Non-standard Opinion” Presented by the Certified Public Accountants

☐ applicable    ☒ inapplicable

## 6.15 Business Plan of New Year (if any)

☒ applicable    ☐ inapplicable

For 2004, the Company shall seize the opportunity of improving macro economy, positively meet the competition in the timepiece industry, insist on the work principle of “promoting development of the principal industry, enhancing brand promotion, constructing high-efficiency team and improving overall performances”, further concentrate the teamwork force, pool the wisdom and efforts of everyone, focus on the principal business with the two brands FIYTA and HARMONY, and improve the operating income and profit-making ability.

1. Attach importance on upgrading the value of FIYTA brand, reinforce the marketing and service network, make full use of the advantages of various serial products, represented by Spaceflight Watch, reinforce research and development of products, improve the sales information management system based on the distribution system.

2. Speed up the construction of HARMONY sales network, further optimize the network structure, strengthen the advantages of the region, practice big scale operation, further develop cooperation with top brands of Switzerland and leading brands and strengthen the international cooperation platform.

3. Reinforce the final construction and investment invitation work of FIYTA Hi-tech Park, take reasonable consideration of the short term and long term interests, timely regulate and optimize configuration of the resources of industrial projects, speed up development of the profit growth channels and construct the platform of sustainable development.

4. Enhance development of human resource and construction of corporate culture, introduce highly qualified personnel, continue to carry out whole-staff training program for the purpose of improving qualification of the whole staff.

## Profit-making Prediction in the New Year (if any)

☐ applicable    ☒ inapplicable

### 6.16 Profit Distribution or Converting Capital Public Reserve into Share Capital

As audited by Pricewaterhouse Coopers Zhongtian Certified Public Accountants according to the Chinese Accounting Standards (CAS) and Pricewaterhouse Coopers China Limited according to the International Accounting Standards (IAS), the Company's net profit in the year 2003 was RMB 5,088,057 and RMB 6,132 thousand respectively. In accordance with the relevant provisions of the PRC Company Law and the Articles of Association, based on the net profit as audited and confirmed by Pricewaterhouse Coopers Zhongtian Certified Public Accountants for the year 2003 amounting to RMB 5,088,057, plus the undistributed profit at the year beginning amounting to RMB -61,264,720, the accumulative loss at the settlement was RMB 56,176,663. The Company has decided not to provide statutory surplus public reserve and the statutory public welfare fund, not to conduct profit distribution or convert the public reserve into share capital for the year 2003. This proposal is subject to the approval by 2003 Shareholders' General Meeting.

## §7 Important Events

### 7.1 Assets Acquisition

☐ applicable    ☒ non-applicable

### 7.2 Sales of Assets

☒ applicable    ☐ inapplicable

In RMB '000

| counterpart and assets sold                                                                                                                         | Date of sale  | Price    | net profit contributed to the Company from the beginning of the report year to the date of sales | Gains/losses from the sales | Related transaction (Y/N) (If yes, specify the pricing principle) |
|-----------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------|--------------------------------------------------------------------------------------------------|-----------------------------|-------------------------------------------------------------------|
| Transferring 66% equity in Shenzhen Tianfu Electronics Co., Ltd. to Shenzhen Zhongti Enterprise Planning Co. Ltd.                                   | Dec. 12, 2003 | 50.00    | -81.50                                                                                           | -403.40                     | N                                                                 |
| Transferring 91% equity in Shanghai Tianlin Xianmen Restaurant Co., Ltd. to Shaanxi Huayi Industry Co., Ltd., Jiang Wei, Zhang Zhenda and Chen Jian | Aug. 26, 2003 | 2,300.00 | -415.50                                                                                          | 960.20                      | N                                                                 |
| Transferring 99% equity in Shenzhen Pengmen Restaurant Co., Ltd. to Zhou Xiaogeng and Yu Haifeng                                                    | Apr. 30, 2003 | 500.00   | -269.60                                                                                          | -183.20                     | N                                                                 |
| Transferring restaurant business of Xi'an Fine Food and Entertainment City Co., Ltd. to Xi'an Tiangong Building Decoration Engineering Co.          | May 28, 2003  | 2,300.00 | 0                                                                                                | 0                           | N                                                                 |

Impact from acquisition, sales and the matters involved upon the continuity of the business and stability of the management of the Company

No impact was produced upon the continuity of the business and stability of the management of the Company

### 7.3. Material Guarantees

☐ applicable    ☒ non-applicable

## 7.4 Related Credits and Debts

√ applicable    □ inapplicable

In RMB '000

| Related Parties                             | Funds supplied to the related parties |          | Funds supplied to the Company by the related parties |         |
|---------------------------------------------|---------------------------------------|----------|------------------------------------------------------|---------|
|                                             | Amount incurred                       | Balance  | Amount incurred                                      | Balance |
| Shenzhen Feiyu Artistic Timepiece Co., Ltd. | 0.00                                  | 5,472.50 | 0.00                                                 | 0.00    |
| Shenzhen Feitu New-Tech Development Co.     | 1,884.00                              | 1,884.00 | 0.00                                                 | 0.00    |
| CATIC Shenzhen Corporation                  | 0.00                                  | 1,500.00 | 0.00                                                 | 0.00    |
| Total                                       | 1,884.00                              | 8,856.50 | 0.00                                                 | 0.00    |

## 7.5 Assets Management on Commission

√ applicable    □ inapplicable

In RMB '000

| Mandatory                           | Amount     | Term                     | Contractual earning | Actual earning | Amount recovered |
|-------------------------------------|------------|--------------------------|---------------------|----------------|------------------|
| Xinhua Trust & Investment Co., Ltd. | 45,000.00  | Oct. 8, 02 - Oct. 7, 03  | 3,600.00            | 3,600.00       | 48,600.00        |
| Xinhua Trust & Investment Co., Ltd. | 80,000.00  | Nov. 1, 02 - Oct. 31, 03 | 6,400.00            | 6,400.00       | 86,400.00        |
| Total                               | 125,000.00 | —                        | 10,000.00           | 10,000.00      | 135,000.00       |

## 7.6. Events of Commitment

□ applicable    √ inapplicable

## 7.7 Material Suits and Arbitration

□ applicable    √ inapplicable

## 7.8. Performance of Independent Directors

The Company has engaged three independent directors, taking one third of the members of the Board. In the report period, the independent directors exercised their powers authorized to them specified in the law and regulations of the state as well as the Articles of Association of the Company, brought their professional advantages into full play and expressed independent opinions on such significant events of the Company as replacing senior executives and important decision making which promoted the decisions and decision-making procedures of the Board more scientific and rational and protected the investors', especially the public investors' interests.

## §8 Report of the Supervisory Committee

### I. Work Summary

In the report year, the Supervisory Committee conducted supervision over the Company's operation according to the law, the work of directors, managers and other senior executives, as well as financial inspection in accordance with the RPC Company Law, the PRC Securities Law and the Articles of Association of the Company.

### 2. In the report year, the Supervisory Committee had held three meetings

(1) The 1<sup>st</sup> meeting of the 4<sup>th</sup> Supervisory Committee was held on the 9<sup>th</sup> floor meeting room of FIYTA dated May 22, 2003.

The meeting elected Mr. Shao Kexiong Chairman of the Supervisory Committee. The

relevant public notice was published on Securities Times and Hong Kong Commercial Daily respectively on May 24, 2003.

(2) The 2<sup>nd</sup> meeting of the 4<sup>th</sup> Supervisory Committee was held on the 9<sup>th</sup> floor meeting room of FIYTA dated August 6, 2003.

The meeting reviewed and approved 2003 Semi-Annual Report and the Summary. The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated August 8 2003.

(3) The 3<sup>rd</sup> meeting of the 4<sup>th</sup> Supervisory Committee was held at the 3<sup>rd</sup> floor meeting room of FIYTA on November 20, 2003. The meeting reviewed and approved the Correction and Improvement Report based on the Routine Tour Inspections. The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated November 24, 2003.

3. Supervisors of the Supervisory Committee attended all the Board meetings held in 2003 as non-voting delegates, heard the relevant proposals and reports and learned the operation and significant decision-making process of the Company.

4. Supervisors of the Supervisory Committee also attended 2002 Shareholders' General Meeting, addressed 2002 Work Report of the Supervisory Committee and expressed independent opinions on the Company's production, operation, financial status and implementation of the duties of members of the Board and senior executives.

## II. Independent Opinion of the Supervisory Committee

In 2003, the Supervisory Committee exercised fully the powers authorized according to the relevant laws and regulations of the state and the Articles of Association, conducted sustainable and effective supervisions over such issues as Company's operation according to the law, work of the senior executives, application of the proceeds raised through share offering. Our independent opinions are summarized as follows:

1. The Board of Directors carried out the work carefully and with responsibility; decisions were made on scientific and reasonable ways. All the managerial systems were complete and implemented in a realistic way. The Board of Directors, the management and all the senior executives worked with due diligence, implemented resolutions of the Shareholders' General Meeting and the Board meetings carefully, and 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. 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 2003.

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 9<sup>th</sup> meeting of the 3<sup>rd</sup> Board and the 5<sup>th</sup> meeting of the 3<sup>rd</sup> Supervisory Committee, and reviewed and approved by all the rights bearing votes at 2001 Shareholders'

General Meeting. The application in 2003 complied with the relevant resolutions.

4. The Company carried out external transactions based on reasonable prices, had never been found involved in insider transaction. The related transactions were carried out in compliance with the legal procedures and the principle of market price, caused no harm to the minority shareholders' equity or loss of the Company's assets.

## **§ 9 Financial Report (attached hereafter)**

9.3 Change in accounting policy, accounting estimation and way of accounting in comparison with the latest annual report

1. Change in the Accounting Policy.

Commencing July 1, 2003, the Company has been using the revised the Enterprise Accounting Standard – Post Balance Sheet Events. Before using the said standard, cash dividend was stated as liability when it was transferred out from shareholders' interests during preparation of the profit distribution proposal by the Board of Directors. Since July 1, 2003, the cash dividend has been stated as liability during approval of the profit distribution proposal by the shareholders' general meeting. The change in the accounting policy arising from use of the said standard is adjusted in a retroactive way. As a result, the undistributed profit amounting to RMB 12,465,900 as of December 31, 2001 was adjusted.

2. There was no change in the accounting estimation.

3. There was no change in the accounting methods.

4 . Correction of Material Accounting Errors

In the report period, the Company found that the interest income amounting to MRB 2.3184 million from the fund deposited with the Financial Clearing Center of CATIC Shenzhen Corporation in 2002 exceeded the interest income from the 1-year term bank deposit by RMB 738,757 which was all used to offset the financial expenses of the very period instead of being stated in the capital public reserve. The Company has made correction of this accounting error and made retroactive adjustment of the relevant data in the report year. As a result of the said correction, the net loss as of the year 2002 increased by RMB 738,757 and the accumulative loss and the capital public reserve as of January 1, 2003 increased by RMB 738,757 after the retroactive adjustment.

9.4 Note to change in the consolidation range in comparison with the latest annual report.

1. In the report period, Shenzhen Feitu New-Tech Development Co., Shenzhen Pengmen Restaurant Co., Ltd., Shanghai Xianmen Restaurant Co., Ltd. and Shenzhen Tianfu Electronics Co., Ltd., four subsidiaries of the Company, were not consolidated due to liquidation or transfer;

2. In the report period, the Company controlled the financial and operation management of Shenzhen World Watches Center Co., Ltd. Therefore, commencing from the year 2003, this joint venture was consolidated as a subsidiary.

**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 2003**

|                                                | Notes | 2003<br>RMB'000       | 2002<br>RMB'000         |
|------------------------------------------------|-------|-----------------------|-------------------------|
| Turnover                                       | 4     | 228,133               | 219,493                 |
| Cost of sales                                  |       | <u>(139,435)</u>      | <u>(134,183)</u>        |
| Gross profit                                   |       | 88,698                | 85,310                  |
| Other operating income                         | 7     | 16,272                | 7,985                   |
| Selling expenses                               |       | (57,173)              | (56,046)                |
| Administrative expenses                        |       | (42,578)              | (112,461)               |
| Gain on disposal of an associate               |       | -                     | 650                     |
| Gain on sale of discontinuing operation        | 33    | 777                   | -                       |
| Loss on disposal of a subsidiary               | 34    | <u>(403)</u>          | <u>-</u>                |
| Profit / (loss) from operations                | 5     | 5,593                 | (74,562)                |
| Finance income /(costs) – net                  | 8     | <u>553</u>            | <u>(456)</u>            |
| Group profit / (loss) before tax               |       | 6,146                 | (75,018)                |
| Share of results of a joint venture before tax | 15    | <u>-</u>              | <u>319</u>              |
| Profit / (loss) before taxation                |       | 6,146                 | (74,699)                |
| Taxation (charge) / credit                     | 9     | <u>(859)</u>          | <u>5,315</u>            |
| Profit / (loss) after taxation                 |       | 5,287                 | (69,384)                |
| Minority interests                             |       | <u>845</u>            | <u>382</u>              |
| Net profit / (loss) for the year               |       | <u><u>6,132</u></u>   | <u><u>(69,002)</u></u>  |
| Dividends                                      | 28    | <u>-</u>              | <u>12,466</u>           |
| Earnings / (loss) per share                    | 10    | <u><u>RMB0.02</u></u> | <u><u>RMB(0.28)</u></u> |

**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 DECEMBER 2003**

|                                        | Notes | 2003<br>RMB'000       | 2002<br>RMB'000       |
|----------------------------------------|-------|-----------------------|-----------------------|
| <b>ASSETS</b>                          |       |                       |                       |
| <b>NON-CURRENT ASSETS</b>              |       |                       |                       |
| Fixed assets                           | 11    | 40,142                | 45,725                |
| Investment properties                  | 12    | 16,492                | 17,534                |
| Construction in progress               | 13    | 125,227               | 61,318                |
| Leasehold land payments                | 14    | 16,464                | 16,925                |
| Investment in joint venture            | 15    | -                     | 2,799                 |
| Available-for-sale investments         | 16    | 4,885                 | 4,885                 |
| Deferred tax assets                    | 17    | 16,731                | 16,125                |
| Other non-current assets               |       | 2,507                 | 2,904                 |
| Total non-current assets               |       | <u>222,448</u>        | <u>168,215</u>        |
| <b>CURRENT ASSETS</b>                  |       |                       |                       |
| Inventories                            | 18    | 152,649               | 118,230               |
| Trade receivables                      | 19    | 19,549                | 28,286                |
| Due from related companies             | 20    | 1,500                 | 4,049                 |
| Prepayments and other receivables      | 21    | 33,984                | 32,212                |
| Trading investments                    | 22    | 4,314                 | 6,121                 |
| Designated deposits                    | 23    | 51,004                | 125,000               |
| Cash and cash equivalents              |       | 117,527               | 111,302               |
| Total current assets                   |       | <u>380,527</u>        | <u>425,200</u>        |
| <b>TOTAL ASSETS</b>                    |       | <u><u>602,975</u></u> | <u><u>593,415</u></u> |
| <b>EQUITY AND LIABILITIES</b>          |       |                       |                       |
| <b>CAPITAL AND RESERVES</b>            |       |                       |                       |
| Share capital                          | 24    | 249,318               | 249,318               |
| Reserves                               | 25    | 305,627               | 305,627               |
| Accumulated losses                     |       | (36,975)              | (43,107)              |
| Total shareholders' equity             |       | <u>517,970</u>        | <u>511,838</u>        |
| <b>MINORITY INTERESTS</b>              |       | <u>7,273</u>          | <u>6,718</u>          |
| <b>NON-CURRENT LIABILITIES</b>         |       |                       |                       |
| Deferred income                        | 26    | <u>3,000</u>          | <u>-</u>              |
| <b>CURRENT LIABILITIES</b>             |       |                       |                       |
| Trade payables                         |       | 34,505                | 28,603                |
| Staff welfare payable                  |       | 18,677                | 18,839                |
| Tax payable                            |       | 311                   | (359)                 |
| Accruals and other current liabilities |       | 21,139                | 23,776                |
| Short-term loans                       | 27    | <u>100</u>            | <u>4,000</u>          |
| Total current liabilities              |       | <u>74,732</u>         | <u>74,859</u>         |
| <b>TOTAL EQUITY AND LIABILITIES</b>    |       | <u><u>602,975</u></u> | <u><u>593,415</u></u> |

**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2003**

|                            | Note | Reserves         |                    |                       |                | Retained<br>earnings/<br>(accumulated<br>losses) | Total          |
|----------------------------|------|------------------|--------------------|-----------------------|----------------|--------------------------------------------------|----------------|
|                            |      | Share<br>capital | Capital<br>reserve | Statutory<br>reserves | Sub-total      |                                                  |                |
|                            |      | RMB'000          | RMB'000            | RMB'000               | RMB'000        | RMB'000                                          | RMB'000        |
| At 1 January 2002          |      | 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 1 January 2003          |      | 249,318          | 191,108            | 114,519               | 305,627        | (43,107)                                         | 511,838        |
| Net profit for the year    |      | -                | -                  | -                     | -              | 6,132                                            | 6,132          |
| At 31 December 2003        |      | <u>249,318</u>   | <u>191,108</u>     | <u>114,519</u>        | <u>305,627</u> | <u>(36,975)</u>                                  | <u>517,970</u> |

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2003**

|                                                          | Notes | 2003<br>RMB'000 | 2002<br>RMB'000  |
|----------------------------------------------------------|-------|-----------------|------------------|
| <b>Cash flows from operating activities</b>              |       |                 |                  |
| Cash (used in ) / generated from operations              | 29    | (11,010)        | 33,069           |
| Interest paid                                            |       | -               | (3,218)          |
| Tax paid                                                 |       | (795)           | (3,643)          |
| Net cash flows (used in) / from operating activities     |       | <u>(11,805)</u> | <u>26,208</u>    |
| <b>Cash flows from investing activities</b>              |       |                 |                  |
| Purchases of fixed assets                                |       | (8,048)         | (4,768)          |
| Additions to construction in progress                    |       | (63,955)        | (46,754)         |
| Sales proceeds from disposals of fixed assets            |       | 1,327           | 1,807            |
| Proceeds from disposal of leasehold land payments        |       | -               | 6,402            |
| Proceeds from sale of discontinuing operation            | 33    | 2,800           | -                |
| Disposal of subsidiaries, net of cash disposed           | 34    | 22              | -                |
| Disposal of an associate                                 |       | -               | 4,000            |
| Dividends received from non-current investments          |       | 138             | 138              |
| Proceeds from sale of trading investments                |       | 2,690           | 6,337            |
| Purchase of trading investments                          |       | -               | (7,677)          |
| Purchase of available-for-sale investments               |       | -               | (1,500)          |
| Investment income from designated deposit                |       | 10,000          | -                |
| Increase of designated deposits                          |       | 73,996          | (125,000)        |
| Subsidiary in voluntary liquidation and not consolidated |       | (842)           | -                |
| Interest received                                        |       | 802             | 2,882            |
| Government grants received                               |       | 3,000           | -                |
| Net cash flows from / (used in) investing activities     |       | <u>21,930</u>   | <u>(164,133)</u> |
| <b>Cash flows from financing activities</b>              |       |                 |                  |
| Proceeds from borrowings                                 |       | 100             | 100,000          |
| Repayments of borrowings                                 |       | (4,000)         | (170,000)        |
| Dividends paid to group shareholders                     |       | -               | (12,466)         |
| Net cash flows used in financing activities              |       | <u>(3,900)</u>  | <u>(82,466)</u>  |
| Increase / (decrease) in cash and cash equivalents       |       | 6,225           | (220,391)        |
| At start of year                                         |       | <u>111,302</u>  | <u>331,693</u>   |
| At end of year                                           |       | <u>117,527</u>  | <u>111,302</u>   |