



SHENZHEN FIYTA HOLDINGS LTD.
2003 ANNUAL REPORT

April 8, 2003

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Chapter 1 Important

I. 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 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.

II. 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.

III. Mr. Wang Xinkuo, director, failed to be present at the Board meeting due to work requirement..

IV. Both Pricewaterhouse Coopers Zhongtian Certified Public Accountants and Pricewaterhouse Coopers China Limited produced unqualified auditors' report without any explanatory notice for the Company.

V. 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 (Chapter 11) 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.

Chapter 2 Company Profile

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

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

Chapter 3 Financial and Business Highlights

I. Financial Highlights

Items	Amount In RMB
Total profit	5,708,012
Net profit	5,088,057
Net profit, less the non-recurring gains and loss	-6,775,168
Profit from principal businesses	88,698,251
Profit from other business lines	876,022
Operating profit	-7,846,458
Investment income	10,955,699
Subsidy income	3,800,000
Net amount of non-operating income and expenses	-1,201,229
Net cash flows arising from operating activities	-11,746,162
Net decrease of cash and cash equivalents	19,103,338

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

Items	Amount In RMB
Income from disposal of long-term equity investment	373,589
Governmental subsidy	3,800,000
Earnings from short term investment	9,793,611
Net amount of non-operating income and expenses	-1,201,229
Carry-back of the reserve for various devaluations provided in previous years.	1,074,017
Affect from income tax	-1,976,763
Total	11,863,225

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

As audited by Pricewaterhouse Coopers China Limited according to the international accounting standards (IAS), the Company's net profit in the year 2003 was RMB 6,132 thousand. The items involved in the adjustment for the differences as audited by Pricewaterhouse Coopers Zhongtian Certified Public Accountants are as follows:

In RMB '000

Net profit as audited by Pricewaterhouse Coopers Zhongtian Certified Public Accountants	5,088
Ajustment for deferred tax assets	606
Ajustment on fair value for trading investments	438
Net profit as audited by Pricewaterhouse Coopers China Limited according to the IAS	6,132

III. Financial highlights over the past three years: (In RMB)

Items	2003	2002		2001
		before adjustment	after adjustment	
Income from principal businesses	228,133,082	206,241,298	219,492,686	219,813,846
Net profit	5,088,057	-77,434,684	-78,173,441	11,322,807
Total assets	572,847,496	566,681,393	566,681,393	725,845,783
Shareholders' equity(Excluding Minority Shareholders' equity)	515,456,362	510,368,305	510,368,305	587,802,989
Earnings per share	0.020	-0.311	-0.314	0.045
Net assets per share	2.067	2.047	2.047	2.358
Net assets per share after adjustment	2.03	1.96	1.98	2.25
Cash flow arising from business activities per share, net	-0.047	0.094	0.094	0.257
Net assets-income ratio	0.99%	-15.17%	-15.32%	1.93%

Notes: The reasons of adjustment of the financial data in 2002 are as follows:

(1) Based on the operation and development trend of the principal businesses, the Company has charged the income from property on the income statement of principal businesses instead of that of other businesses.

(2) The Company deposited fund with the Financial Clearing Center of CATIC Shenzhen Corporation from January to October, 2002. The interest income amounting to MRB 2.3184 million included the earning amounting to RMB 738,800 resulted from the interest rate higher than that of bank deposit in the same term which was all stated in the financial expenses of the same period. According to the relevant regulations of the Ministry of Finance, the said RMB 738,800 should be stated in "Capital Public Reserve". Therefore, adjustment was made.

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

Profit of report year	Net assets-income ratio (%)		earnings per share (RMB/share)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal businesses	17.21	17.29	0.356	0.356
Operating profit	-1.52	-1.53	-0.031	-0.031
Net profit	0.987	0.992	0.020	0.020
Net profit after deduction of non-recurring loss/gain	-1.31	-1.32	-0.027	-0.027

V. Changes in Shareholders' Equity in the Report Period (In RMB)

Items	Share Capital	Capital public reserve	Surplus public reserve	Statutory public welfare fund	Retained profit	Total Shareholders' Equity
Year beginning	249,317,999	191,847,234	130,467,792	25,036,994	-61,264,720	510,368,305
Increase in the report year	0	0	0	0	5,088,057	5,088,057
Decrease in the report year	0	0	0	0	0	0
Year end	249,317,999	191,847,234	130,467,792	25,036,994	-56,176,663	515,456,362
Causes of change	—	—	—	—	Due to the profit earned in the report year amounting to RMB 5.088 million.	

Chapter 4 Changes in Share Capital and Particulars about Shareholders

I. Change in the Company's Shares

1. Changes in the Company's share capital ended December 31, 2003 are as follows:

	In Shares		
	Before change	Increase/ Decrease (+ / -) as of the year	After the change
1. Circulating Shares not Listed			
Promoters' shares	130,248,000	0	130,248,000
Including: domestic legal person shares	130,248,000	0	130,248,000
Total	130,248,000	0	130,248,000
2. Circulating Shares Listed			
1) RMB ordinary shares	60,749,999	0	60,749,999
Including: senior executives' shares	276,307	-228,096	48,211
2) Foreign shares listed domestically	58,320,000	0	58,320,000
Total	119,069,999	0	119,069,999
3. Total shares	249,317,999	0	249,317,999

Note: Shares held by Mr. Li Zhizheng, the former Chairman of Board and Mr. Lu Xianbin, a former director, were unfrozen in June , 2003 and have become circulating shares.

2. Issuing and Listing

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

(2) In 2003, the Company had neither been involved in any activities of distributing bonus shares, converting public reserve into share capital, share allotment, issuing new shares, absorption and merger, capital reduction, listing of employees' or staff shares, nor issued any convertible company bonds. There existed no event which may cause change in total shares and the stock structure of the Company.

(3) The Company has no employees' shares.

II. Shareholders

1. Ended Dec. 31, 2003, the Company had totally 15,645 shareholders including 5,446 shareholders of A-shares (1 of them are senior executives) and 10,199 shareholders of B-shares.

2. Top 10 shareholders

Shareholders	Shares held at year end	Proportion	Types
CATIC SHENZHEN HOLDINGS LTDS.	130,248,000	52.24	Domestic legal person shares

Lin Zihua	530,000	0.21	Listed B shares
Wang Zihua	529,929	0.21	Listed B shares
KO,LING HON	389,900	0.16	Listed B shares
CHINA PINGAN INSURANCE (HK) CO., LTD.	384,960	0.15	Listed B shares
Lin Hongbo	362,880	0.15	Listed B shares
Yang Yuanzhou	285,900	0.11	Listed B shares
JiangXi Ganyue Expressway Co.,Ltd.	275,800	0.11	Listed A shares
CHAN KEUNG	275,600	0.11	Listed B shares
Huihang Shipping Co.	241,200	0.10	Listed B shares

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

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.

3. 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.

4. Actual controller of the controlled shareholder

CATIC Shenzhen Corporation is a state enterprise founded in April, 1982, with the registered capital: RMB 80 million, and legal representative: Wu Guangquan; Principal businesses:

Import and export of motor vehicles, equipment and machinery made within the Group.

5. Top Ten Shareholders of Circulating Shares

Shareholders	Quantity of shares held at the year end	Types of shares	Shareholding Proportions (%)
Lin Zihua	530,000	negotiable B-shares	0.21
Wang Zihua	529,929	negotiable B-shares	0.21
KO, LING HON	389,900	negotiable B-shares	0.16
China Pingan Insurance (Hong Kong)	384,960	negotiable B-shares	0.15

Li Hongbo	362,880	negotiable B-shares	0.14
Yang Yuanzhou	285,900	negotiable B-shares	0.11
Jiangxi Gan-Yue Expressway	275,800	negotiable A-shares	0.11
CHAN KEUNG	275,600	negotiable B-shares	0.11
Huihang Shipping Company	241,200	negotiable B-shares	0.10
Yu Siyang	233,840	negotiable B-shares	0.09
Notes to business relations among top ten shareholders of circulating shares	The Company has never found any business relation among the top ten shareholders.		

Chapter 5 Directors, Supervisors, Senior Executives and Employees

I. Directors, supervisors and senior executives

Name	Title	Sex	Age	Office Term	Shares held at the year end	Office taking in shareholder companies
Wu Guangquan	Chairman of the Board	male	41	May 2003 to May 2006	0	Chairman of the Board of CATIC(May 2003 to May 2006)
Wang Xinkuo	Director	male	55	May 2003 to May 2006	0	Director of CATIC (May 2003 to May 2006)
Sui Yong	Director	male	45	May 2003 to May 2006	0	Director of CATIC (May 2003 to May 2006)
You Lei	Director	male	34	May 2003 to May 2006	0	Secretary of the Board of Director of CATIC (May 2003 to May 2006)
Xu Dongsheng	Director and general manager	male	37	May 2003 to May 2006	0	Director of CATIC (May 2003 to May 2006)
Zhu Gensen	Director	male	55	May 2003 to May 2006	0	
Cai Zheng	Independent Director	male	62	May 2003 to May 2006	0	
Diao Weicheng	Independent Director	male	40	May 2003 to May 2006	0	
Hua Xiaoning	Independent Director	male	40	May 2003 to May 2006	0	
Shao Kexiong	Chairman of Supervisory Committee	male	53	May 2003 to May 2006	0	Chairman of Supervisory Committee Of CATIC (May 2003 to May 2006)
Zhang Songhua	Supervisor	male	50	May 2003 to May 2006	0	
Hu Xinglong	Supervisor	male	39	May 2003 to May 2006	0	
Lu Bingqiang	Deputy General Manager	male	42	May 2003 to May 2006	48210	
Li Dehua	Deputy General Manager and Chief Accountant	male	43	May 2003 to May 2006	0	
Li Bei	Deputy General Manager	male	48	May 2003 to May 2006	0	
Fang Juan	Deputy General Manager	female	43	January 2004 to May 2006	0	
Hao Huiwen	Secretary of the Board of Directors	male	35	May 2003 to May 2006	0	

Notes: 1. There were no changes in the shares held by Mr. Lu Bingqiang, one of the senior executives of the Company, in the report year.

2. Approved at the 4th meeting of the 3rd Board of Directors dated January 14, 2004, Ms. Fang Juan was engaged as deputy general manager.

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

1. Annual remuneration to senior executives was paid by the Board of Directors based on the offices one took and the inspection of the work performances.

2. Of the 17 directors, supervisors and senior executives (including independent directors) in current office, 12 received pays from the Company with total remuneration in the year amounting to RMB 1.89 million. The total remuneration to the three directors(only two) enjoying highest salaries was RMB 523,700 and the total remuneration to the three senior executives enjoying the highest salaries was RMB 730,700.

In the report period, 1 enjoyed annual remuneration RMB300,000, 4 enjoyed annual remuneration within the range of RMB200,000 to RMB250,000, 2 enjoyed annual remuneration within the range of RMB 150,000 to 200,000, 2 enjoyed annual remuneration within the range of RMB 100,000 to 150,000, and 3 enjoying below RMB 100,000.

3. Mr. Wu Guangquan, Chairman of the Board, Mr. Wang Xinkuo, Mr. Sui Yong and Mr. You Lei, three directors and Mr. Shao Kexiong, Chairman of the Supervisory Committee, received no pay or allowance from the Company.

4. There are 3 independent directors in current office and each of them received sole allowance amounting to RMB 30,000 per person per year.

III. Changes in directors, supervisors and senior executives in the report period

1. The office term of the members of the Company's 3rd Board of Directors including Mr. Wu Guangquan, Mr. Wang Xinkuo, Mr. Sui Yong, Mr. You Lei, Mr. Zhu Gensen, Mr. Lu Bingqiang, Mr. Cai Zheng and Mr. Diao Weicheng was expired. At 2002 Shareholders' General Meeting dated May 22, 2003, Mr. Wu Guangquan, Mr. Wang Xinkuo, Mr. Sui Yong, Mr. You Lei, Mr. Xu Dongsheng, Mr. Zhu Gensen, Mr. Cai Zheng, Mr. Diao Weicheng and Mr. Hua Xiaoning were elected members of the 4th Board of Directors.

2. The office term of the 3rd Supervisory Committee with the members including Mr. Shao Kexiong, Ms. Zhang Meitong and Mr. Zhang Songhua expired. Through election, Mr. Shao Kexiong, Mr. Zhang Songhua and Mr. Hu Xinglong formed the membership of the 4th Supervisory Committee.

3. At the first meeting of the fourth Board of Directors dated May 22, 2003, Mr. Wu Guangquan was elected Chairman of the 4th Board of Directors; Mr. Xu Dongsheng was engaged as General Manager, Mr. Lu Bingqiang, Mr. Li Dehua and Mr. Li Bei were engaged as Deputy General Managers and Mr. Li Dehua was engaged as Chief Accountant concurrently and Mr. Hao Huiwen was elected Secretary of the Board.

IV. Employees:

Ended the report period, there were totally 1106 employees in the Company. Of them 236 persons held college degrees or higher, taking 21% of the total. Of the employees, there were 93 administrative personnel, 68 financial personnel, 754 salespersons, 55 technical personnel and 136 production workers. The Company has no retired personnel to pay pension to.

Chapter 6 Administrative Structure

I. Actual Situation and Discrepancy from the Standards

In 2003, the Company was improving its legal person based administrative structure, standardizing its business operation strictly in accordance with the PRC Company Law and the PRC Securities Law as well as the regulations of China Securities Regulatory Commission (CSRC) concerning administration of listed companies.

In the report period, CSRC Shenzhen Securities Regulatory Office conducted regular touring inspection over the Company and addressed good instructive opinions against the existing problems. The Company conducted positive follow-up inspection. The Board of Directors and the Supervisory Committee conveyed special meetings correspondingly and conducted careful and overall correction and improvement of the operation of the “three meetings” (General Meeting, Board Meeting and the Meeting of the Supervisory Committee), information disclosure and financial management, etc. according to the relevant laws, regulations, and the instructive opinions of the aforesaid authority aiming at ensuring the Company to keep development in a sustainable, healthy and steady way.

II. 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.

III. Separation between the Company and its Controlling Shareholder in terms of Business, Personnel, Assets, Organization and Finance.

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

Business: The Company has independent production, auxiliary production system and complementary facilities, and possesses its own procurement and sales systems. There exists no competition in the same sector between the Company and its controlling shareholder.

Personnel: The Company is completely independent organizations and sound systems in labor, personnel and salaries management. Except Mr. Wu Guangquan, Chairman of the Board, Mr. Wang Xinkuo, Mr. Sui Yong, Mr. You Lei, Mr. Xu Dongsheng, the four directors, and Mr. Shao Kexiong, Chairman of the Supervisory Committee, who take offices in the controlling shareholder concurrently, no other senior executives hold any other offices in shareholders or financial staff take concurrent job in the related companies.

Assets: The assets of the Company and its controlling shareholder are highly distinct. The Company enjoys the corporate ownership over its assets and the assets are completely independent from its controlling shareholder. In addition, the Company enjoys sole ownership of the Trademark FIYTA.

Organization: The Company has established its own intra-company organizations independent from the controlling shareholder. The Board, the Supervisory Committee and the other internal departments and offices work independently. There exist neither subordinate relations between the controlling shareholder/its functional departments nor doing joint office work. The controlling shareholder exercises its rights and assumes its corresponding obligations, and has never performed any direct or indirect interference with the Company's operation activities.

Finance: The Company has established independent financial department, accounting system and financial management system and independently opened bank accounts. The controlling shareholder has never interfered the Company in its financial and accounting activities.

IV. Assessment and Encouragement Mechanism for Senior Executives

In the report period, the Board excised the system of performance presentation and assessment for senior executives and distributed salaries and remuneration and decided office renewal according to the results of such assessment. The Company has not established the equity (option) based encouragement system.

Chapter 7 Shareholders' General Meeting

I. Shareholders' General Meetings in the Report Period

The Company published the announcement for 2003 Shareholders' General Meeting on Securities Times and Hong Kong Commercial Daily dated April 16, 2003. The meeting was held on May 22, 2003 at the 9th floor meeting room of the Company's office building. There were 6 shareholders and shareholders' representatives present at the meeting, representing 130,557,050 shares, taking 52.37% of the Company's total share capital.

II. About the resolutions of the Shareholders' General Meeting and the information disclosure

The shareholders present at the meeting examined and adopted the following proposals through voting:

- (1) 2002 Work Report of the Board of Directors;
- (2) 2002 Work Report of the Supervisory Committee;
- (3) 2002 Financial Settlement Report;
- (4) 2002 Profit Distribution Proposal;
- (5) 2002 Annual Report;
- (6) Proposal on Renewing the Engagement of Certified Public Accountants;
- (7) Proposal on Revision of the Articles of Association of the Company;
- (8) Proposal for Adjustment of Allowance to Independent Directors;
- (9) Proposal on Election for the New Board of Directors;
- (10) Proposal on Election for the New Supervisory Committee.

Zhao Fei, a lawyer from Guangdong New Orient Law Office produced a written legal opinion on the site to confirm the legality and validness of the meeting. The public notice on the resolutions of the said Shareholders' General Meeting and the written legal opinions were published on Securities Times and Hong Kong Commercial Daily dated May 24, 2003.

III. Election for Directors and Supervisors

1. At the shareholders' general meeting, Mr. Wu Guangquan, Mr. Wang Xinkuo, Mr. Sui Yong, Mr. You Lei, Mr. Xu Dongsheng, Mr. Zhu Gensen, Mr. Cai Zheng, Mr. Diao Weicheng and Mr. Wang Xiaoning were elected directors, forming the 4th Board of Directors with the office term of three years.

2. At the said shareholders' general meeting, Mr. Shao Kexiong was elected a member of the 4th Supervisory Committee. Mr. Zhang Songhua and Mr. Hu Xinglong, the two staff representatives were elected members of the 4th Supervisory Committee through democratic election by staff.

Chapter 8 Report of the Board of Directors

I. Operation Summary

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 3rd 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.

II. Operation Summary

1. Business Scope and Operation Status

(1) Principal Business

The Company is mainly engaged in design, development, manufacture, sales and repairing of timepieces and components, including operation of FIYTA watch products and train shops for the world top brand watches. In addition, there was income from lease for FIYTA Building. All the assets of catering sector were transferred in 2003.

(2) Operation

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

Sectors	2003				2002			
	Income from principal businesses (In RMB)	Proportion(%)	Profit from principal businesses (In RMB)	Proportion(%)	Income from principal businesses (In RMB)	Proportion(%)	Profit from principal businesses (In RMB)	Proportion(%)
Industry	108,618,476	47.61	56,603,774	62.42	101,992,507	46.47	46,768,212	53.05
Trading	99,683,297	43.70	18,957,005	20.90	68,051,628	31.00	10,867,028	12.33
Property management	14,768,125	6.47	12,502,137	13.79	13,251,388	6.04	11,304,274	12.82
Catering and recreation	5,063,184	2.22%	2,623,791	2.89	36,197,163	16.49	19,225,081	21.81
Total	228,133,082	100.00	90,686,707	100.00	219,492,686	100.00	88,164,595	100.00

In 2003, the business activities which take over 10% of the revenue and profit from the principal businesses were sales of FIYTA watches and foreign top brand watches. The sales income and sales cost of such products are listed as follows:

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

Items	Product sales income (In RMB)	Product sales cost (In RMB)	Gross profit rate
sales of FIYTA watches	107,961,855.00	56,796,543.00	47.39%
Sales of foreign top brand watches	92,839,598.00	76,678,054.00	17.41%
Total	200,801,453.00	133,474,597.00	33.53%

Table 2: To be presented based on regions

Items	Product sales income (In RMB)	Proportion	Product sales cost (In RMB)	Proportion
Northeast China	28,356,561.00	14.12%	19,279,895.00	14.44%
North China	38,032,685.00	18.94%	24,562,825.00	18.38%
Northwest China	45,299,748.00	22.56%	35,005,109.00	25.94%
East China	19,770,388.00	9.85%	12,452,505.00	9.33%
Southwest China	11,308,505.00	5.63%	6,329,126.00	4.74%
South China	58,033,566.00	28.90%	35,845,137.00	26.86%
Total	200,801,453.00	100.00%	133,474,597.00	100.00%

In addition, the profit from property operation also took over 10% of the profit from the principal business. All the income and profit were from lease of Shenzhen FIYTA Building.

. 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.

2. Operation and Performances of the Principal Subsidiaries and Associates

(1) Principal Subsidiaries

Shenzhen FIYTA Sophisticated Manufacture Co., Ltd., with registered capital of RMB 10 million, mainly engaged in producing and repairing services of watches and movements, components and parts, and sophisticated timepieces; the Company holds 99% of its equity. At the end of 2003, its total assets amounted to RMB 46,259 thousand, net assets: RMB 26,685 and net profit realized in 2003: RMB 15,543 thousand.

Shenzhen Feijing Sophisticated Optical Instruments Manufacture Co., Ltd., with registered capital of RMB 7 million, mainly engaged in producing and processing, production and marketing of sophisticated optical instruments; the Company holds 99% of its equity. At the end of 2003, its total assets amounted to RMB 9,459 thousand, net assets: RMB -1,309 and net profit realized in 2003: RMB -611 thousand.

Shenzhen Harmony World Watches Center Co., Ltd., with registered capital of RMB 15 million, mainly engaged in purchase and sales of watches and components and accessories as well as repairing services; the Company holds 90% of its equity. At the end of 2003, its total assets amounted to RMB 87,142 thousand, net assets: RMB 8,069 thousand and net profit realized in 2003: RMB1,099 thousand.

Shenzhen World Watches Center Co., Ltd., with registered capital of RMB 2.8 million, mainly engaged in marketing high grade watches, glasses, ornaments, gifts, general merchandise and arts and crafts (excluding jewelry); the Company holds 50% of its equity. At the end of 2003, its total assets amounted to RMB 9,883 thousand, net assets: RMB 3,859 thousand and net profit realized in 2003: RMB 809 thousand.

3. Major Suppliers and Customers

In the report year, the total purchase amount from the top five suppliers was RMB 49,812,835, taking 88% of the total annual purchase amount; the total sales amount to the top five customers was RMB 28,186,954, taking 12% of the annual turnover.

4. Problems and difficulties occurred in operation and their solutions

(1) China's timepiece production capacity exceeds the market demand and great quantity of imported watches are increasingly entering the Chinese market. The competition of this sector is extraordinarily intense. Meanwhile, watches of different brands are approaching the similar quality. As a result, the Company's watch sales

income has not grown at a big margin and the operation on the short term basis is not highly profitable.

(2) For the purpose of reversing the falling trend of sales over the past years and reinforcing the brand construction, in the report period, the Company increased the promotion expenses, which somewhat impacted the short term profit. Meanwhile, the Company carried out such fundamental work as investigation on customers, which caused increase on expenditure on short term basis.

To deal with the principal problems and difficulties in 2003, the Company took a series of powerful measures:

(1) Through cooperation with domestic renowned consulting companies, the Company conducted the first systematic customer investigation in China's watch industry. The research results became reliable basis for the Company in determining the brand strategy, reinforcing product research and development, management of product varieties, and exploring the way of improving the Company's marketing model.

(2) The Company took positive attitude in dealing with the market, itemized the management measures, established trans-department teams, such as quick-action team, improved the quality and efficiency of information communication, reinforced the support of the marketing work and made quick correspondence to the market.

(3) The Company insisted on the guideline of meeting the customers' requirements. Reinforced the R & D work of new products, and made full use of the fund rewarded by the government for encouragement and brought it into full in the Company's technology center. In the report year, the Company completed the development of the pilot watches and China's first spaceflight watch, and successfully held "FIYTA Cup Watch Design" among several ten universities and colleges throughout China jointly with Tsinghua University.

(4) The Company updated FIYTA Brand Identity by means of strategic advertisement launching, improved the promotion model and developed new sales channels, including TVSN, e-commerce, which have all proved successful progressively.

(5) The Company reinforced the general mood of learning, carried out all-staff training and assigned circuit training team to conduct training by turns in different places; encouraged employees to participate in enterprise management and contribute new ideas to development of the Company; used every means to strengthen the teamwork, established new corporate culture and updated the corporate philosophy.

III. Investment

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

Way of raising proceeds	Investment projects as committed	Actual investment projects and amount involved	Investment plans after change
Allotment of shares A	To set up chain shops of Harmony World Watches Center in China with planned investment of RMB	18 chain shops of Harmony World Watches Center have been set up at large and medium cities all over China with total investment	The total investment has been decrease to RMB 70,000 thousand million and the balance amounting to RMB 43,240 thousand has

	112,000 thousand.	of RMB 68,560 thousand.	been changed to invest FIYTA Hi-tech Industrial Park Project.
Allotment of A shares	To set up FIYTA Hi-tech Industrial Park with planned investment of RMB 55,000 thousand.	The principal part of FIYTA Hi-tech Industrial Park has been completed with total fund invested amounting to RMB 125,227 thousand.	Amount of the increased proceeds was RMB 84,720 thousand and the planned accumulative investment amounted to RMB 139,720 thousand.
Allotment of B shares	To set up chain shops of World Watches Center in Southeast Asia with investment of HKD 40,500 thousand.	The proceeds not yet invested now has been changed to invest FIYTA Hi-tech Industrial Park project.	The total proceeds planned for this project amounted to RMB 41,480 thousand and now has been changed to invest FIYTA Hi-tech Industrial Park project.

For the aforesaid two projects, proceeds amounting to RMB 193,787 thousand have been used, of which RMB 77,525 has been additionally invested in the report period. The balance amounting to RMB 15,931 thousand has been deposited in the bank and shall be applied progressively with the progress of the projects.

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

(1) The Board 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.

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

3. Progress and Earnings of the Projects:

(1) Ended the report period, 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.

(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.

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

IV. Financial Position

1) Both Pricewaterhouse Coopers Zhongtian Certified Public Accountants and Pricewaterhouse Coopers China Limited produced unqualified 2003 auditors' report for the Company, which truly reflected the Company's financial position and operation result of the year 2003.

Table 1:

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/decrease of cash & cash equivalents	-19,103,338	-226,463,876	91.56	It is mainly due recovery of short term investment by RMB 125 million.

Table 2:

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	100,000	4,000,000	-97.50	It was mainly due to repayment of bank loans in the report period.

Loan:				
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.

(2) Accounting Policies, Change in Accounting Estimation and Correction of Material Accounting Errors

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.

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.

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

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.

V. Business Development Plan of New Year

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.

VII. Routine Work of the Board

1. Board meetings and resolutions in the report year

(1) The 18th meeting of the 3rd Board of Directors was held at the 3rd floor meeting room of FIYTA on January 21, 2003. The meeting elected Wu Guagnquan Chairman of the Board, approved Mr. Zhu Gensen’s application for resigning the General Manager, engaged Mr. Xu Dongsheng as the General Manager, approved Mr. Lu Bingqiang’s application for resigning director and nominated Mr. Xu Dongsheng as director candidate.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated January 23, 2003.

(2) 2003 1st extraordinary meeting of the 3rd Board of Directors was held at the 3rd floor meeting room of FIYTA on March 13, 2003. The meeting decided to treat the potential deficit-making factors on overall basis and published indicative notice for deficit-making warning.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated March 15, 2003.

(3) The 19th meeting of the 3rd Board was held on the 3rd floor meeting room of FIYTA on April 14, 2003. The meeting reviewed and adopted the following proposals:

- 2002 Work Report of the Board;
- 2002 Financial Settlement Report;
- 2002 Profit Distribution Proposal;
- 2002 Annual Report and Summary;
- Proposal on Election for the New Board of Directors;
- Proposal on Amendment of the Articles of Association;
- Proposal for Adjustment of Allowance to Independent Directors;
- Proposal on Renewing Engagement of the Certified Public Accountants;
- Decision on holding 2002 Shareholders' General Meeting on May 22, 2003.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated April 16, 2003.

(4) The 20th meeting of the 3rd Board was held on the 3rd floor meeting room of FIYTA on April 23, 2003. The meeting reviewed and adopted 2003 1st Quarterly Report.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated April 25, 2003.

(5) The 1st meeting of the 4th Board of Directors was held at the 3rd floor meeting room of FIYTA on May 22, 2003. At the meeting, Mr. Wu Guangquan was elected Chairman of the 4th Board of Directors; Mr. Xu Dongsheng was engaged as General Manager, Mr. Lu Bingqiang, Mr. Li Dehua and Mr. Li Bei were engaged as Deputy General Managers and Mr. Li Dehua was engaged as Chief Accountant concurrently and Mr. Hao Huiwen was elected Secretary of the Board.

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

(6) The 2nd meeting of the 4th Board of Directors was held on the 3rd floor meeting room of FIYTA on August 6, 2003. The meeting reviewed and adopted 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.

(7) The 3rd meeting of the 4th Board of Directors was held at the 3rd floor meeting room of FIYTA on October 21, 2003. The meeting reviewed and approved 2003 3rd Quarterly Report.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated October 23, 2003.

(8) The 4th meeting of the 4th Board of Directors was held at the 3rd floor meeting room of FIYTA on November 20, 2003. The meeting Reviewed and approved the Report on Correction and Improvement in Compliance with the Tour Inspection and Proposal for Revising Company's Articles of Association.

The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated November 22, 2003.

(9) 2003 2nd extraordinary meeting of the 4th Board of Directors was held on November 6, 2003. The meeting decided to make use of the own idle funds not exceeding 10% of the net assets and deposit them in a way of open-end bond buy-back with Bank of China.

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

In the report year, the Board carried out the work strictly according to the Articles of Association and the resolutions of Shareholders' General Meeting and seriously implemented all the resolutions of 2002 Shareholders' General Meeting.

VIII. Profit Distribution Proposal and Proposal for Capitalizing the Capital Reserve

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.

IX. Special notice of the certified public accountants on the funds occupied by the controlling shareholder and the related parties (refer to Attachment II).

(II) Special statement and independent opinions of independent directors on the Company's external guarantees offered previously and in the report period and the implementation of Document of CSRC (2003) No. 56.

In accordance with the Circular of China Securities Regulatory Commission on Several Issues in Normalizing Fund Dealings between Listed Companies and their Related Parties and External Guarantees Offered by Listed Companies (CSRC [2003] No. 56), we, as independent directors of the Company, have inspected and supervised the external guarantees offered by the Company in the report year in objective way. Our opinions on the some relevant issues are summarized as follows:

Through careful inspection, we found the Company strictly observed the relevant provisions of the Articles of Association, strictly controlled the risk arising from external guarantee. In the report period, the Company had never offered guarantee to the controlling shareholder or its related parties, or any other external guarantee.

Independent Directors: Cai Zheng, Diao Weicheng, Hua Xiaoning

XI. In the report year, the newspapers chosen by the Company for disclosing its information remain unchanged, namely Securities Times and Hong Kong Commercial

Daily.

Chapter 9 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 1st meeting of the 4th Supervisory Committee was held on the 9th 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 2nd meeting of the 4th Supervisory Committee was held on the 9th 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 3rd meeting of the 4th Supervisory Committee was held at the 3rd 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 9th meeting of the 3rd Board and the 5th meeting of the 3rd Supervisory Committee, and reviewed and approved by all the rights bearing votes at 2001 Shareholders' General Meeting. 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.

Chapter 10 Significant Events

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

II. Assets Acquisition, Sales, Absorption or Consolidation

1. Assets Acquisition and Sales

In the report year, the Company enhanced the sorting out of non-principal businesses, completed the liquidation and transfer of Xi'an Fine Food and Entertainment City Co., Ltd., Shenzhen Pengmen Restaurant Co., Ltd., Shanghai Xianmen Restaurant Co., Ltd. and Shenzhen Tianfu Electronics Co., Ltd., received a transfer fee amounting to RMB 5.15 million.

2. In the report year, the Company had been involved in no activities of acquisition or merger.

III. In the report year, the Company had no material related transactions.

IV. Material Contracts and Implementation

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

2. In the report year, the Company had never offered any external guarantee.

3. Recovery of the Assets Entrusted for Management

(1) Reviewed and approved at the 14th meeting of the 3rd Board, the Company signed the Fund Trust Contract with Xinhua Trust and Investment Co., Ltd. (Xinhua Trust) dated October 8, 2002 and entrusted Xinhua Trust to operate the Company's own fund amounting to RMB 45 million on commission. Authorized at 2002 2nd Extraordinary Shareholders' Meeting and with the resolution of the 16th meeting of the 3rd Board, the Company signed the Fund Trust Contract with Xinhua Trust dated November 1, 2002 and entrusted Xinhua Trust to operate the Company's own fund amounting to RMB 80 million on commission with valid term of one year.

In the report period, the Company had recovered all the principal amounting to RMB 125 million under the assets management on commission and the receivable income amounting to RMB 10 million.

4. Other Important Contracts and Implementation

In February, 2002, No. 1 Construction Company of China Railway No. 2 Bureau Shenzhen Branch signed "Building Construction Contract" with the Company through open bidding for contracting the construction of FIYTA Hi-tech Industrial Building with the contract term from February, 2002 to August, 2003 and contract amount of RMB 104,789 thousand. The building was completed in construction, qualified in the final inspection and handed over to the Company by December, 2003.

V. In the report year, the Company or any shareholder holding over 5% of the share capital had not been involved in any commitments.

VI. Engagement of Certified Public Accountants and Remuneration

Share Type	Name	Annual Remuneration (RMB'000)		Years of continuous services
		2003	2002	
A Shares	Pricewaterhouse Coopers Zhongtian Certified Public Accountants	225	225	3
B Shares	Pricewaterhouse Coopers China Limited	225	225	4

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

VIII. Tour Inspection and Correction and Improvement

In September, 2003, CSRC Shenzhen Securities Regulatory Office conducted regular tour inspection over the Company. In November, 2003, the authority issued notice on correction and improvement with deadline which addressed opinions for correction and improvement against the existing problems in connection with the administration, information disclosure and financial management. The Company held special board meeting and meeting of the Supervisory Committee and worked out feasible correction and improvement plan and measures based on the Company's practical situation. (The relevant public notice was published on Securities Times and Hong Kong Commercial Daily dated November 22, 2003.) The relevant correction and improvement work was substantially completed. The Company submitted a summary report on correction and improvement to CSRC Shenzhen Office in February, 2004.

IX. Other important matters

The Company purchased Huashun Building from Sichuan Real Estate Development (Group) Co. in October, 1996. Due to the land payment and engineering fee payable by the developer still remain outstanding, the ownership of the building is still in process of confirmation. Therefore, the Company has not yet obtained the ownership certificate yet. In recent years, the Company has made full use of the resource of Huashun Building and obtained income from the partial property. Meanwhile, the Company has been trying hard in the procedures for finalizing the ownership of the said property.

Chapter 11 Financial Report (Attachment I)

Chapter 12 Documents Available for Inspection

- I. Financial Statements signed by and under the seal of the legal representative, chief accountant and accounting supervisors.
- II. Original copy of the Auditors' Report under the seal of the accounting firm and signed by and under the seal of certified accountants.
- III. All the originals of the Company's documents and public notices disclosed in the newspapers (Securities Times and Hong Kong Commercial Daily) designated by China Securities Regulatory Commission.

SHENZHEN FIYTA HOLDINGS LTD.
Board of Directors
April 6, 2004

Attachment I:

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF SHENZHEN FIYTA HOLDINGS LIMITED

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

We have audited the accompanying consolidated balance sheet of Shenzhen Fiyta Holdings Limited (the "Company") and its subsidiaries (the "Group") as of 31 December 2003 and the related consolidated income and consolidated cash flow statements for the year then ended. These consolidated financial statements set out on page 2 to 28 are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of 31 December 2003 and of the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

6 April 2004

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 RMB'000	2002 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>6,132</u>	<u>(69,002)</u>
Dividends	28	<u>-</u>	<u>12,466</u>
Earnings / (loss) per share	10	<u>RMB0.02</u>	<u>RMB(0.28)</u>

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

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

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2003

	Notes	2003 RMB'000	2002 RMB'000
ASSETS			
NON-CURRENT ASSETS			
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>
CURRENT ASSETS			
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>
TOTAL ASSETS		<u><u>602,975</u></u>	<u><u>593,415</u></u>
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
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>
MINORITY INTERESTS		<u>7,273</u>	<u>6,718</u>
NON-CURRENT LIABILITIES			
Deferred income	26	<u>3,000</u>	<u>-</u>
CURRENT LIABILITIES			
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>
TOTAL EQUITY AND LIABILITIES		<u><u>602,975</u></u>	<u><u>593,415</u></u>

On 6 April 2004, Shenzhen Fiyta Holdings Limited's Board of Directors approved these financial statements for issue.

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

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

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

	Note	Reserves				Retained earnings/ (accumulated losses)	Total
		Share capital	Capital reserve	Statutory reserves	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 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>

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

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

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2003

	Notes	2003 RMB'000	2002 RMB'000
Cash flows from operating activities			
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>
Cash flows from investing activities			
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>
Cash flows from financing activities			
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><u>117,527</u></u>	<u><u>111,302</u></u>

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

SHENZHEN FIYTA HOLDINGS LIMITED**(Joint stock limited company incorporated in the People's Republic of China)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****1. CORPORATE INFORMATION**

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

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

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

At 31 December 2003, the Company had the following major subsidiaries (all incorporated in the PRC):

Name of the subsidiaries	Registered capital	Attributable equity interest		Principal activities
		Direct	Indirect	
Shenzhen Fiyta Precision Timing Manufacture Co., Ltd.	RMB10,000,000	90%	9%	Design, manufacture and assembly of quartz watches and watch components
Shenzhen Feijing Precision Optical Device Manufacture Co., Ltd.	RMB7,000,000	90%	9%	Manufacture of precision optical device and watch surfaces
Shenzhen Feiyu Art Clock Co., Ltd.	HKD3,000,000	75%	-	Design, manufacture and distribution of clocks
Shenzhen Tianfu Electronics Co., Ltd.	HKD3,000,000	66%	-	Design, manufacture and distribution of digital quartz timers
Shenzhen Feitu New Technology Development Company	RMB3,080,000	60%	-	Electroplating of watch straps, casing and jewellery
Shenzhen Harmony World Watch Centre Co., Ltd.	RMB15,000,000	90%	-	Distribution of watches and watch components and provision for repair services
Xian Haomen Food & Recreation City Co., Ltd. (a)	HKD16,000,000	62%	-	Catering and entertainment
Shenzhen World Famous Watch Centre Co., Ltd. (b)	RMB2,800,000	50%	-	Retailing of advanced watch, glasses and jewellery

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION (Cont'd)

- (a) This subsidiary sold out all assets related to catering and entertainment business during the year and ceased the operations before year end.
- (b) Effective from 1 January 2003, the Company has obtained substantial control over the joint venture's operation (Note15). As a result, its results and assets have been consolidated in the Group's financial statement since 2003.
- (c) Three subsidiaries, Shanghai Tian Lin Xianmen Restaurant Co., Ltd., Shenzhen Pengmen Restaurant Co., Ltd. and Shenzhen Tianfu Electronics Co., Ltd., were sold during the year (Notes 33 and 34).

2. BASIS OF PREPARATION

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

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

3. PRINCIPAL ACCOUNTING POLICIES

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

(a) Consolidation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(b) Investments in joint ventures

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

A listing of the Group's joint venture is shown in Note 15.

(c) Related party

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

(d) Foreign currency translation

(1) Measurement currency

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

(2) Transactions and balances

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

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

(e) Financial assets and financial liabilities

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

SHENZHEN FIYTA HOLDINGS LIMITED

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Investments

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

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

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

Purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and non-current investments are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments are included in the income statement in the period in which they arise. For the held-to-maturity investments, the gain or loss shall be amortised to income statement over the remaining life of the held-to-maturity investment using the effective interest method. Unrealised gains and losses arising from changes in the fair value of available for sale are recognized in equity.

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

(g) Investment properties

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(h) Fixed assets and depreciation

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

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

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

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

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

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

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

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

(i) Leasehold land payments

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

(j) Construction in progress

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(k) Impairment of long lived assets

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

(l) Operating leases

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

(1) Where the Group is the lessee

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

(2) Where the Group is the lessor

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

The Group has no finance leases.

(m) Inventories

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

(n) Trade receivables

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(o) Cash and cash equivalents

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

(p) Borrowings

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

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

(q) Revenue recognition

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

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

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

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

Rental income is recognised on an accrual basis.

(r) Employee social insurance schemes

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

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

(s) Government grants relating to purchase of property, plant and equipment

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as other liabilities and are credited to the income statement on a straight line basis over the expected lives of the related assets.

SHENZHEN FIYTA HOLDINGS LIMITED

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(t) Taxation

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

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

(u) Dividends

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

(v) Segment reporting

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

(w) Comparatives

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

SHENZHEN FIYTA HOLDINGS LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. BUSINESS SEGMENTS INFORMATION OF THE GROUP

For the year ended 31 December 2003	Clocks and watches RMB'000	Catering, entertainment and others RMB'000	Property rental RMB'000	Total RMB'000
Turnover	<u>208,302</u>	<u>5,063</u>	<u>14,768</u>	<u>228,133</u>
Segment results	(7,905)	(684)	12,925	4,336
Other revenue				<u>883</u>
Operating profit				5,219
Finance income - net				553
Gain on sale of discontinuing operation				777
Loss on disposal of a subsidiary				<u>(403)</u>
Profit before taxation				6,146
Taxation				<u>(859)</u>
Profit after taxation				5,287
Minority interests				<u>845</u>
Net profit				<u><u>6,132</u></u>
Segment assets	497,471	-	28,570	526,041
Unallocated assets				<u>76,934</u>
				<u><u>602,975</u></u>
Segment liabilities	77,051	-	270	77,321
Unallocated liabilities				<u>411</u>
				<u><u>77,732</u></u>
Capital expenditure	<u>72,047</u>	<u>-</u>	<u>-</u>	<u>72,047</u>
Depreciation and amortisation				
- fixed assets	<u>6,478</u>	<u>2,469</u>	<u>-</u>	<u>8,947</u>
- investment properties	<u>-</u>	<u>-</u>	<u>1,042</u>	<u>1,042</u>
Amortisation of leasehold land payments	<u>151</u>	<u>-</u>	<u>310</u>	<u>461</u>
Provision for doubtful debts	<u>7,910</u>	<u>-</u>	<u>-</u>	<u>7,910</u>
(Reversal) of / provision for inventory obsolescence	<u>(423)</u>	<u>-</u>	<u>-</u>	<u>(423)</u>

SHENZHEN FIYTA HOLDINGS LIMITED
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

For the year ended 31 December 2002	Clocks and watches RMB'000	Catering, entertainment and others RMB'000	Property rental RMB'000	Total RMB'000
Turnover	<u>151,524</u>	<u>54,717</u>	<u>13,251</u>	<u>219,492</u>
Segment results	(81,794)	(5,325)	11,547	(75,572)
Other revenue				<u>1,010</u>
Operating profit				(74,562)
Finance income - net				(456)
Share of results of a joint venture				<u>319</u>
Profit before taxation				(74,699)
Taxation				<u>5,315</u>
Loss after taxation				(69,384)
Minority interests				<u>382</u>
Net loss				<u>(69,002)</u>
Segment assets	381,063	27,500	29,922	438,485
Unallocated assets				<u>154,930</u>
				<u>593,415</u>
Segment liabilities	53,337	17,718	163	71,218
Unallocated liabilities				<u>3,641</u>
				<u>74,859</u>
Capital expenditure	<u>48,752</u>	<u>2,770</u>	<u>-</u>	<u>51,522</u>
Depreciation and amortisation				
- fixed assets	<u>6,010</u>	<u>7,599</u>	<u>-</u>	<u>13,609</u>
- investment properties	<u>-</u>	<u>-</u>	<u>1,041</u>	<u>1,041</u>
Amortisation of leasehold land payments	<u>184</u>	<u>-</u>	<u>310</u>	<u>494</u>
Provision for doubtful debts	<u>27,303</u>	<u>-</u>	<u>-</u>	<u>27,303</u>
Provision for inventory obsolescence	<u>47,195</u>	<u>-</u>	<u>-</u>	<u>47,195</u>
Impairment charge for fixed assets	<u>3,749</u>	<u>-</u>	<u>-</u>	<u>3,749</u>

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. PROFIT / (LOSS) FROM OPERATIONS

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

	2003 RMB'000	2002 RMB'000
Depreciation on fixed assets	8,947	13,609
Depreciation on investment property	1,042	1,041
Impairment charge for fixed assets	-	3,749
Amortisation of leasehold land payments	461	494
Amortisation of other non-current assets	397	730
Loss on disposals of fixed assets	536	1,337
Gain on disposal of leasehold land payments	-	(757)
Loss / (gain) on disposal of trading investments	206	(1,150)
Fair value (gain) / losses on trading investments	(1,089)	140
Provision for doubtful debts	7,910	27,303
(Reversal) of / provision for inventory obsolescence	(423)	47,195
Gain on disposal of an associate	-	(650)
Gain on sale of discontinuing operation	(777)	-
Loss on disposal of a subsidiary	403	-
Operating lease rental expense	5,147	7,929
Cost of inventories recognised as an expense	138,210	133,277
Repairs and maintenance expenditure on fixed assets	193	390
Staff costs (Note 6)	33,887	25,396
Advertising expenses	13,522	3,589
Directors' emoluments	352	342

6. STAFF COSTS

	2003 RMB'000	2002 RMB'000
Staff salaries	28,519	19,982
Staff welfare	2,605	2,561
Social insurance expenses	2,763	2,853
	<u>33,887</u>	<u>25,396</u>

The number of employees at 31 December 2003 was 1,068 (2002: 1,555).

7. OTHER OPERATING INCOME

	2003 RMB'000	2002 RMB'000
Investment income from designated deposits	10,000	-
Government subsidies (a)	3,800	-
Repair and maintenance income	513	1,748
Gain from trading investments		
- (loss) / profit on sales	(206)	1,150
- fair value gain / (losses)	1,089	(140)
Value added tax special income (b)	-	4,947
Others	1,076	280
	<u>16,272</u>	<u>7,985</u>

SHENZHEN FIYTA HOLDINGS LIMITED**(Joint stock limited company incorporated in the People's Republic of China)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****7. OTHER OPERATING INCOME (Cont'd)**

- (a) This government subsidies were rewarded from local government, as the brand of "Fiyta" was qualified as "China Famous Product" in 2003.
- (b) Pursuant to the relevant tax laws and regulations, the Group was entitled to retain value added tax ("VAT") collected from sales to entities established in Shenzhen Special Economic Zone. VAT Special income represents the retained output VAT after netting off the corresponding non-creditable input VAT. This tax incentive has been ceased effective from 1 January 2003.

8. FINANCE INCOME / (COSTS) - NET

	2003 RMB'000	2002 RMB'000
Interest income		
- bank deposits	802	564
- related parties (Note 32)	-	2,318
Interest expenses		
- bank loans	-	(3,218)
Net exchange gain / (losses)	32	(53)
Others	(281)	(67)
	<u>553</u>	<u>(456)</u>

9. TAXATION CHARGE / (CREDIT)

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

	2003 RMB'000	2002 RMB'000
Current taxation	1,465	2,391
Deferred taxation (Note 17)	(606)	(7,781)
Share of tax of a joint venture	-	75
	<u>859</u>	<u>(5,315)</u>

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

	2003 RMB'000	2002 RMB'000
Profit / (loss) before taxation	<u>6,146</u>	<u>(74,699)</u>
Tax calculated at the tax rates applicable to the Company and its subsidiaries ranging from 15% to 33%	1,046	(13,186)
Tax effect of a subsidiary which was exempted from income tax	(1,445)	(1,589)
Tax effect in tax losses of subsidiaries	866	6,032
Expenses not deductible for tax purpose	478	3,485
Income not subject to tax	(86)	(57)
Tax charge / (credit)	<u>859</u>	<u>(5,315)</u>

Pursuant to the relevant income tax laws of the PRC, group companies established in the Shenzhen Special Economic Zone are subject to income tax at a rate of 15% while those established in other areas are subject to income tax at a rate of 33%. In addition, as approved by the local Tax Bureau, a subsidiary is entitled to full exemption from PRC income tax for two years starting from the first profit making year and a 50% reduction in the next three years.

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10. EARNINGS / (LOSS) PER SHARE

The calculation of earnings / (loss) per share is based on the consolidated profit/(loss) for the year of RMB6,942,000(2002: loss of RMB69,002,000) and 249,318,000 shares (2002: 249,318,000 shares) on issue.

11. FIXED ASSETS

	2003				2002
	Buildings	Equipment and machinery	Leasehold improvements	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost / valuation					
At beginning of year	34,968	49,081	23,759	107,808	106,592
Additions	-	4,408	3,640	8,048	7,336
Disposals	(332)	(10,757)	(289)	(11,378)	(6,120)
Disposal of subsidiaries	(36)	(6,548)	(3,388)	(9,972)	-
Voluntary liquidation of a subsidiary	-	(3,510)	(41)	(3,551)	-
At end of year	34,600	32,674	23,681	90,955	107,808
Representing					
At cost	-	4,408	23,681	28,089	23,759
At valuation	34,600	28,266	-	62,866	84,049
	34,600	32,674	23,681	90,955	107,808
Accumulated depreciation and impairment					
At beginning of year	11,327	33,251	17,505	62,083	47,701
Charge for the year	1,054	3,546	4,347	8,947	13,609
Disposals	(111)	(9,230)	(174)	(9,515)	(2,976)
Impairment charge	-	-	-	-	3,749
Disposal of subsidiaries	(20)	(4,485)	(3,213)	(7,718)	-
Voluntary liquidation of a subsidiary	-	(2,974)	(10)	(2,984)	-
At end of year	12,250	20,108	18,455	50,813	62,083
Net book value					
At end of year	22,350	12,566	5,226	40,142	45,725
At beginning of year	23,641	15,830	6,254	45,725	58,891

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11. FIXED ASSETS (Cont'd)

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

	2003			2002
	Buildings	Equipment and machinery	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost	28,565	32,674	23,681	84,920
Accumulated depreciation	(10,368)	(20,108)	(18,455)	(59,259)
	<u>18,197</u>	<u>12,566</u>	<u>5,226</u>	<u>42,864</u>

The Group is in the process of applying for property certificates in respect of buildings with a net book value amounting to RMB9,227,209 at 31 December 2003.

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

12. INVESTMENT PROPERTIES

	2003 RMB'000	2002 RMB'000
Net book value at beginning of year	17,534	18,575
Depreciation for the year	<u>(1,042)</u>	<u>(1,041)</u>
Net book value at end of year	<u>16,492</u>	<u>17,534</u>
Independent valuer's valuation		
- Including leasehold land payments	<u>-</u>	<u>73,302</u>
- Excluding leasehold land payments	<u>-</u>	<u>33,939</u>
Directors' valuation	<u>100,000</u>	<u>-</u>

Investment properties were valued on an open market basis at 31 December 2003 by directors (2002: valued by Shenzhen Peng Xing Real Estate Valuation Co., Ltd, an independent valuer registered in PRC).

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13. CONSTRUCTION IN PROGRESS

	2003 RMB'000	2002 RMB'000
At beginning of year	61,318	17,132
Additions	63,954	45,058
Effect of subsidiary in voluntary liquidation and not consolidated	(45)	-
Transfer to fixed assets	-	(872)
At end of year	<u>125,227</u>	<u>61,318</u>

14. LEASEHOLD LAND PAYMENTS

	2003 RMB'000	2002 RMB'000
Cost		
Balance at beginning of year	20,037	26,439
Disposal	-	(6,402)
Balance at end of year	<u>20,037</u>	<u>20,037</u>
Accumulated amortisation		
Balance at beginning of year	3,112	3,375
Amortisation for the year	461	494
Disposal	-	(757)
Balance at end of year	<u>3,573</u>	<u>3,112</u>
Net book value		
Balance at end of year	<u>16,464</u>	<u>16,925</u>
Balance at beginning of year	<u>16,925</u>	<u>23,064</u>

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

	2003 RMB'000	2002 RMB'000
By nature		
- Investment properties	12,078	12,388
- Other properties	4,386	4,537
	<u>16,464</u>	<u>16,925</u>

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15. INVESTMENT IN JOINT VENTURE

	2003 RMB'000	2002 RMB'000
Balance at beginning of year	2,799	2,555
Reclassification (a)	(2,799)	-
Share of results before tax	-	319
Share of tax	-	(75)
Balance at end of year	<u>-</u>	<u>2,799</u>

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

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

Pursuant to a resolution of Famous Watch Centre's board of directors on 23 January 2003, the Company has obtained the power to govern the financial and operating policies in Famous Watch Centre. Management concluded that Famous Watch Centre was deemed as a subsidiary and its results have been consolidated since the date of acquisition of substantial control.

16. AVAILABLE-FOR-SALES INVESTMENT

	2003 RMB'000	2002 RMB'000
Investment in promoters' shares of a listed company, at cost	3,000	3,000
Investment in shares of unlisted companies, at cost	<u>1,885</u>	<u>1,885</u>
	<u>4,885</u>	<u>4,885</u>

Promoters' shares of a listed company are transferable subject to approvals from relevant local authorities. There are no quoted market prices for shares in unlisted companies. Both types of shares have neither an active market nor a fixed maturity and are therefore carried at cost less accumulated impairment losses, if any. The directors of the Company are of the opinion that the carrying value of the long-term investments approximated their recoverable amount as of year end.

17. DEFERRED TAXATION

	2003 RMB'000	2002 RMB'000
Balance at beginning of year	16,125	8,344
Transfer from income statement (Note 9)	<u>606</u>	<u>7,781</u>
Balance at end of year	<u>16,731</u>	<u>16,125</u>

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

	2003 RMB'000	2002 RMB'000
Provision for doubtful debts, provision for inventory obsolescence and other expenses	<u>16,731</u>	<u>16,125</u>

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18. INVENTORIES

	2003 RMB'000	2002 RMB'000
Raw materials (at cost)	17,270	19,090
Raw materials (at net realisable value)	4,000	4,608
Work-in-progress (at cost)	4,162	1,844
Finished goods (at cost)	111,616	74,895
Finished goods (at net realisable value)	<u>15,601</u>	<u>17,793</u>
	<u>152,649</u>	<u>118,230</u>

19. TRADE RECEIVABLES

	2003 RMB'000	2002 RMB'000
Trade receivables	62,314	70,182
Less: provision for doubtful debts	<u>(42,765)</u>	<u>(41,896)</u>
	<u>19,549</u>	<u>28,286</u>

20. DUE FROM RELATED COMPANIES

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

21. PREPAYMENTS AND OTHER RECEIVABLES

	2003 RMB'000	2002 RMB'000
Prepayments	1,023	2,472
Other receivables	46,355	43,898
Less: provision for doubtful debts	<u>(13,394)</u>	<u>(14,158)</u>
	<u>33,984</u>	<u>32,212</u>

22. TRADING INVESTMENTS

	2003 RMB'000	2002 RMB'000
Market value of listed investments		
- Equity shares	<u>4,314</u>	<u>6,121</u>

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

SHENZHEN FIYTA HOLDINGS LIMITED**(Joint stock limited company incorporated in the People's Republic of China)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****23. DESIGNATED DEPOSITS**

	2003 RMB'000	2002 RMB'000
Deposits		
- in a bank (a)	51,004	-
- in a trust investment company (b)	-	125,000
	<u>51,004</u>	<u>125,000</u>

(a) The deposits was placed with Bank of China with maturity within 3 months for the purpose of bonds repurchase.

(b) The deposit were placed with the Xinhua Trust Investment Company Ltd., of which the major authorised scope of business is conducting general investment and related activities. The deposits placed have been redeemed in 2003.

24. SHARE CAPITAL

	2003		2002	
	Thousand shares	RMB'000	Thousand shares	RMB'000
Registered capital (Par value of RMB1 each)	<u>249,318</u>	<u>249,318</u>	<u>249,318</u>	<u>249,318</u>
Shares in issue (Par value of RMB1 each)				
Promoters' shares	130,248	130,248	130,248	130,248
A Shares	60,750	60,750	60,750	60,750
B Shares	<u>58,320</u>	<u>58,320</u>	<u>58,320</u>	<u>58,320</u>
	<u>249,318</u>	<u>249,318</u>	<u>249,318</u>	<u>249,318</u>

25. RESERVES

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

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

No appropriations to the statutory common reserve fund and statutory public welfare fund were proposed for the year ended 31 December 2003 as the statutory accounts of the Company has no distributable profit at year end.

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26. DEFERRED INCOME

	2003 RMB'000
Balance at beginning of year	-
Government grants received	3,000
Balance at end of year	<u>3,000</u>

During the year ended 31 December 2003, the Company obtained government grants in relation to the purchase of machine and equipment amounting to Rmb3,000,000 from the local municipal government.

The grants were recorded as deferred income in the balance sheet and to be credited to the income statement on a straight-line basis over the expected useful lives of the related assets. Because these grants will be recorded in the capital reserve under PRC accounting regulation in the statutory financial statements, when the related assets are purchased, the amount equivalent to amortisation of deferred income would be transferred from retained earnings to capital reserve in the same year the deferred income is recognised. As at 31 December 2003, the grants have not been used for purchase of machine and equipment by the Company.

27. SHORT-TERM LOANS

	2003 RMB'000	2002 RMB'000
Bank loan – unsecured	100	-
Other loans	-	4,000
	<u>100</u>	<u>4,000</u>

The bank loan was guaranteed by the holding company, CATIC.

28. DIVIDENDS

Pursuant to a resolution of the Board of Directors, the Company would not declare any cash dividend for 2002 in 2003 (2002:RMB0.05 per share for 2001, total of RMB 12,466,000)

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29. CASH GENERATED FROM OPERATIONS

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

	2003 RMB'000	2002 RMB'000
Profit / (loss) before taxation	6,146	(74,699)
Adjustments for:		
Depreciation		
- fixed assets	8,947	13,609
- investment properties	1,042	1,041
Amortisation of leasehold land payments	461	494
Amortisation of non-current assets	397	730
Loss on disposals of fixed assets	536	1,337
Gain on disposal of leasehold land payments	-	(757)
Losses / (gain) on disposal of trading investments	206	(1,150)
Fair value (gain) / losses on trading investments	(1,089)	140
Provision for doubtful debts	7,910	27,303
(Reversal of) / provision for inventory obsolescence	(423)	47,195
Impairment charge for fixed assets	-	3,749
Gain of sale of discontinuing operation	(777)	-
Gain on disposal of a subsidiary	403	-
Gain on disposal of an associate	-	(650)
Investment income from designated deposit	(10,000)	-
Share of profits of a joint venture	-	(319)
Interest expense	-	3,218
Interest income	(802)	(2,882)
Others	(138)	(138)
Increase in accounts receivable	(4,137)	(1,823)
Decrease in amounts due from related companies	2,549	3,793
Increase in inventories	(27,939)	(1,339)
(Increase) / decrease in prepayments and other receivables	(282)	8,452
Increase in accounts payable	6,864	10,556
(Increase) / decrease in staff welfare payable	145	212
Decrease in accruals and other current liabilities	(1,029)	(5,003)
Cash (used in) / generated from operations	<u>(11,010)</u>	<u>33,069</u>

30. FINANCIAL RISK MANAGEMENT

(a) Interest rate risk

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

(b) Credit risk

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

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

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30. FINANCIAL RISK MANAGEMENT (Cont'd)

(c) Foreign currency risk

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

(d) Fair value

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

31. COMMITMENTS

(a) Operating lease commitments

- where the Group is the lessee

	2003 RMB'000	2002 RMB'000
The future minimum lease payments under non-cancellable operating leases are as follows:		
Not later than 1 year	2,100	8,642
Later than 1 year and not later than 5 years	3,063	26,372
Later than 5 years	450	3,911
	<u>5,613</u>	<u>38,925</u>

- where the Group is the lessor

	2003 RMB'000	2002 RMB'000
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Not later than 1 year	15,261	13,900
Later than 1 year and not later than 5 years	28,389	35,778
Later than 5 years	-	1,081
	<u>43,650</u>	<u>50,759</u>

(b) Capital commitments

	2003 RMB'000	2002 RMB'000
Contracted but not provided for		
Buildings	<u>63,961</u>	<u>89,905</u>

SHENZHEN FIYTA HOLDINGS LIMITED**(Joint stock limited company incorporated in the People's Republic of China)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****32. SIGNIFICANT RELATED PARTY TRANSACTIONS**

	2003 RMB'000	2002 RMB'000
(i) Interest income		
- CATIC Shenzhen Company	<u>-</u>	<u>2,318</u>
(ii) Property management fee		
- Shenzhen CATIC Property Management Co., Ltd.	<u>662</u>	<u>-</u>

33. DISCONTINUING OPERATION

On 15 March 2003, the Group publicly announced its intention to sell the catering and entertainment segment. The subsidiaries comprising this segment are Xian Haomen Food & Recreation City Co., Ltd., Shenzhen Pengmen Restaurant Co., Ltd. and Shanghai Tian Lin Xianmen Restaurant Co., Ltd.. Shenzhen Pengmen Restaurant Co., Ltd. and Shanghai Tian Lin Xianmen Restaurant Co., Ltd. were sold on 30 April 2003 and 26 August 2003, respectively. Xian Haomen Food & Recreation City Co., Ltd. has suspended its operation in 2003. The above two subsidiaries sold during the year are reported in the financial statements as a discontinuing operation. The sales, results, cash flows and net assets were as follows:

	2003 RMB'000	2002 RMB'000
Sales	5,063	19,524
Operating cost	<u>(5,747)</u>	<u>(23,947)</u>
Loss from operations	(684)	(4,423)
Finance cost	<u>(1)</u>	<u>(2)</u>
Loss before tax	(685)	(4,425)
Tax	<u>-</u>	<u>-</u>
Loss after tax	<u>(685)</u>	<u>(4,425)</u>
Net operating cash flows	(1,848)	377
Net investing cash flows	<u>-</u>	<u>(11)</u>
Total cash flows	<u>(1,848)</u>	<u>366</u>
	At disposal dates	At 31 December 2002
	RMB'000	RMB'000
Fixed assets	2,023	2,607
Current assets	<u>-</u>	<u>2,746</u>
Total assets	2,023	5,353
Total liabilities	<u>-</u>	<u>(877)</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Net assets	<u>2,023</u>	<u>4,476</u>
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

33. DISCONTINUING OPERATION (Cont'd)

The gain on disposal was determined as follows: RMB'000

Proceeds from sales	2,800
Net assets sold	(2,023)
Gain on disposal	<u>777</u>

The net cash inflow on sale is determined as follows: RMB'000

Proceeds from sales	2,800
Less: Cash and cash equivalents in subsidiaries sold	-
Net cash inflow on sale	<u><u>2,800</u></u>

34. DISPOSAL OF A SUBSIDIARY

The assets, liabilities and results of disposed subsidiary, Shenzhen Tianfu Electronics Co., Ltd. as at the date of disposal were as follows:

	RMB'000
Fixed assets	231
Current assets	<u>1,569</u>
Total assets	1,800
Total liabilities	<u>(1,347)</u>
Net assets	<u><u>453</u></u>
Share of net assets attributable to the Group	<u><u>453</u></u>
Loss for the period	<u><u>(82)</u></u>

The loss on disposal was determined as follows:

	RMB'000
Attributable share of net assets sold	453
Proceeds from disposal	<u>(50)</u>
Loss on disposal	<u><u>403</u></u>

The net cash flow on disposal was determined as follows:

	RMB'000
Proceeds from sales	50
Less: cash and bank in subsidiaries disposed	<u>(28)</u>
Net cash inflow on disposal	<u><u>22</u></u>

35. ULTIMATE HOLDING COMPANY

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

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

	Net profit / (loss) for the year		Shareholders' equity	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
As reported in the statutory accounts	5,088	(78,173)	515,456	510,368
Impact of major IFRS adjustments:				
- adjustment on deferred tax assets	606	7,781	16,731	16,125
- reclassification of prior year profit appropriation to staff welfare payable	-	-	(15,949)	(15,949)
- adjustment on fair value for trading investments	438	-	438	-
- reclassification of interest income from related parties recorded in capital reserve	-	738	-	-
- others	-	652	1,294	1,294
As restated for IFRS	<u>6,132</u>	<u>(69,002)</u>	<u>517,970</u>	<u>511,838</u>

Attachment II

Auditor's Opinion on the Fund Occupancy by Principal Shareholder and Related Parties and Guarantee against the Regulations Practiced in Shenzhen FIYTA Holdings Ltd.

To: The Board of Directors of Shenzhen FIYTA Holdings Ltd.

We have audited the balance sheet of Shenzhen FIYTA Holdings Ltd. (the Company), the 2003 profit distribution statement and the Cash Flow Statement of the Company ended December 31, 2001 according to the Standards of Independent Auditing for Chinese Certified Public Accountants, and produced unqualified auditor's report (Pricewaterhouse Coopers Auditing (2004) No. 1313 on April 6, 2003.

In accordance with the Circular of the Listed Company Supervision Department of China Securities Regulatory Commission on Submitting Report on the Fund Occupancy by Principal Shareholder and Related Parties and Guarantee against the Regulations Practiced in Listed Companies to the Authority and the additional provisions, as well as the Circular of CSRC Shenzhen Securities Regulatory Commission on Producing Special Auditor's Opinion on the Fund Occupancy by Principal Shareholder and Related Parties and Guarantee against the Regulations Practiced in Listed Companies, the Company has prepared the questionnaire on external guarantees and fund occupancy ended December 31, 2003 (the Questionnaire) as attached hereinafter.

Truly preparing and disclosing the questionnaire and assurance of the truthfulness, legality and completeness are your responsibility. We have checked the information carried in the questionnaire, the accounting information rechecked while we were auditing your 2003 financial report and the relevant details of the audited financial report and found no significant incompliance.

This document is furnished exclusively for summary, analysis and report to be submitted to Listed Company Supervision Department of China Securities Regulatory Commission concerning the Fund Occupancy by Principal Shareholder and Related Parties and Guarantee against the Regulations Practiced in Shenzhen FIYTA Holdings Ltd. in the year 2003 as demanded by CSRC Shenzhen Securities Regulatory Office, and must not be used for any other purpose.

Attachment I: Questionnaire on External Guarantee Offered by Shenzhen FIYTA Holdings Ltd.

Attachment II: Questionnaire on Fund Occupancy in Shenzhen FIYTA Holdings Ltd.

Pricewaterhouse Coopers Zhongtian Certified Public Accountants

April 6, 2004

Attachment 1

In RMB 10,000

	Parties Guaranteed	Amount	Type	Term	Expiry time	Overdue ? (Y/N)	Proceeding ? (Y/N)	Joint responsibility? (Y/N)	Counter- guarantee? (Y/N)	Being disclosed? (Y/N)	Disclosure	Implementation of correction & improvement
Guarantee offered to controlling shareholder & subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-
Guarantee offered by the controlled subsidiaries to the controlling shareholder and subsidiaries.	-	-	-	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-	-	-	-	-

Attachment 2

In RMB 10,000

	Way of occupancy	Occupier	Relationship	Amount as of Jan 1, 2003	Amount as of Dec 31 2003	Accu. debit amount in 2003	Accu. credit amount in 2003	Reason of occupancy	Repayment in 2003	Way repayment (cash/non-cash)	Disclosure	Correction and improvement
Fund occupied by principal shareholder	Other receivables	CATIC Shenzhen Corporation	Controlling shareholder	405	150	-	255	Advance current	255	Cash	Disclosed in the annual report	-
Fund Occupied by other related parties	Other receivables	Shenzhen Feiyu Artistic Timepiece Co., Ltd.	Unconsolidated but liquidated subsidiary	547	547	-	-	Advance current	-	-	Disclosed in the annual report	-
	Other receivables	Shenzhen Feitu New Tech Development Co., Ltd.	Unconsolidated but liquidated subsidiary	-	188	188	-	Advance current	-	-	Disclosed in the annual report	-
Total	-	-	-	952	885	188	255	-	255	-	-	-
New occupancy in 2003	-	-	-	-	-	-	-	-	-	-	-	-