SHENZHEN FIYTA HOLDINGS LTD.
2004 ANNUAL REPORT
(Summary)

§1 Important

1.1 The Board of Directors and all the directors of the Company hereby confirm that there are no important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individually and/or jointly, for the truthfulness, accuracy and completion of the whole contents herein.This summary is cited from the full text of the annual report. An investor who wants to know the detail, should read the full text of the annual report. This annual report is prepared in both Chinese and English. Should there be any difference in understanding of the two versions, the Chinese version shall prevail.

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

1.3 All directors attended the board meeting.

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

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

1.6 Except that the Financial Report (§9.2) of the English version is drawn up according to the Auditors' Report as prepared in accordance with International Financial Report Standards, all financial data are based on Chinese Accounting Standards.

§2 Company Information

2.1 Basic Information

Short form of the stock	FIYTA A , FIYTA B
Stock code	000026, 200026
Stock Exchange listed with	Shenzhen Stock Exchange
Registered Address	FIYTA Technology Building, Gaoxin S. Road 1, Nanshan District
Office Address:	20th Floor, FIYTA Technology Building, Gaoxin S. Road 1, Nanshan District
Post Code	518057
Internet Website	http:// www. fiyta.com.cn

E-mail	szfiyta@public.szptt.net.cn

2.2 Communication Information

	Secretary of the Board	Securities Affairs Representative
Name	Hao Huiwen	Chen Zhuo
Address	20th Floor, FIYTA Technology Building, Gaoxin S. Road 1, Nanshan District	
Tel	0755－83217888（operator） 86013669	
Fax	0755-83348369	
E-mail	investor@fiyta.com.cn	

§3 Financial Highlights

3.1 Accounting Data Summary

In RMB

Items	2004 (current year)	2003 (previous year)	Increase/decrease of current year over previous year (%)	2002	
				before adjustment	after adjustment
Income from principal businesses	278,246,963	228,133,082	21.97	206,241,298	219,492,686
Total profit	3,523,936	5,708,012	-38.26	-75,424,201	-76,162,958
Net profit	1,907,880	5,088,057	-62.50	-77,434,684	-78,173,441
Net profit after deduction of non-recurring loss/gain	2,473,894	-6,775,168	136.51	-77,958,917	-78,697,674
Net cash flows arising from operating activities	-24,942,143	-11,746,162	-112.34	23,354,487	23,354,487
	End of 2004 (end of current year)	End of 2003 (end of previous year)	Increase of end of current year over end of previous year (%)	End of 2002	
				before adjustment	after adjustment
Total assets	627,537,297	572,847,496	9.55	566,681,393	566,681,393
Shareholders' equity(Excluding Minority Shareholders') equity)	517,364,242	515,456,362	0.37	510,368,305	510,368,305

3.2 Financial Data Summary

In RMB

Items	2004 (current year)	2003 (previous year)	Increase/decrease of current year over previous year (%)	2002	
				before adjustment	after adjustment
Net assets per share	0.008	0.020	-62.50%	-0.311	-0.314
Net assets-income ratio	0.37%	0.99%	0.62	-15.17%	-15.32%
Net assets-income ratio based on the net profit after deducting non-recurring gains/ loss	0.48%	-1.31%	1.79	-15.28%	-15.42%
Cash flow arising from business activities per share, net	-0.100	-0.047	112.34%	0.094	0.094

	End of 2004 (end of current year)	End of 2003 (end of previous year)	Increase of end of current year over end of previous year (%)	End of 2002	
				Before adjustment	After adjustment
Net assets per share	2.075	2.067	0.37	2.047	2.047
Net assets per share after adjustment	2.03	2.03	0.00	1.96	1.98

non-recurring gain/loss items

√ applicable ☐ inapplicable

Non-recurring gain/loss items	Amount In RMB
Carry-back of the reserve for various devaluations provided in previous years.	8,046,795
Income from disposal of fixed assets	72,722
Earnings from short term investment	-8,809,002
non-operating income	477,814
non-operating expenses	-354,506
Impact of income tax	163
Total	-566,014

3.3 Differences between Domestic and International Accounting Standards

√ applicable ☐ inapplicable

In RMB '000

	Domestic Accounting Standard (CAS)	International Accounting Standard (IAS)
Net profit	1,908	205
Note to the discrepancies	Net profit as audited by Pricewaterhouse Coopers Zhongtian Certified Public Accountants 1,908 Provision of deferred taxes 1,265 Earnings from short term investment upon adjustment 438 Net profit as audited by Pricewaterhouse Coopers China Limited according to the international accounting standard 205	

§4 Changes in Share Capital and Particulars about Shareholders

4.1 Change in Shares

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	48,211	0	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

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

Total shareholders ended the report period					18,740
Shares Held by Top 10 Shareholders					
Shareholders	Increase/Decrease in the year	Number of shares held at year end	Shareholding proportion (%)	Type (negotiable/non-negotiable)	Shares pledged or frozen
CATIC SHENZHEN HOLDINGS LTD.	0	130,248,000	52.24	Domestic legal person shares	0
CHAN KEUNG	493,383	768983	0.31	Listed B shares	unknown
Ou Yanping	231,401	451301	0.18	Listed B shares	unknown
KO,LING HON	49,200	439100	0.18	Listed B shares	unknown
Lin Hongbo	0	362880	0.15	Listed B shares	unknown
China Pingan Insurance (Hong Kong)	-25,890	359070	0.14	Listed B shares	unknown
Xue Peiming	233,500	336800	0.14	Listed B shares	unknown
Lin Zhihua	-200,000	330000	0.13	Listed B shares	unknown
Lihuang Shunjin	104,100	288000	0.12	Listed B shares	unknown
Yang Yuanzhou	0	285900	0.11	Listed B shares	unknown

Shares held by the top ten shareholders		
Shareholders (in full name)	Quantity of negotiable shares held at the end of the period	Types (A-, B- or H-shares, or others)
CHAN KEUNG	768983	Negotiable B-shares
Ou Yanping	451301	Negotiable B-shares
KO,LING HON	439100	Negotiable B-shares
Lin Hongbo	362880	Negotiable B-shares
China Pingan Insurance (Hong Kong)	359070	Negotiable B-shares
Xue Peiming	336800	Negotiable B-shares
Lin Zhihua	330000	Negotiable B-shares
Lihuang Shunjin	288000	Negotiable B-shares
Yang Yuanzhou	285900	Negotiable B-shares
Zeng Ying	255000	Negotiable B-shares
Relationship/concerted action among the above shareholders	The Company has never found any business relations among the top ten shareholders or they belong to the persons of concerted action as specified in the Measures on Listed Companies on Disclosing the Shareholding Information.	

4.3 About the Controlling Shareholder and the Actual Controller

4.3.1 Change in the Controlling Shareholder and the Actual Controller

□ applicable √ inapplicable

4.3.2 About the Controlling Shareholder and the Other Actual Controller(s)

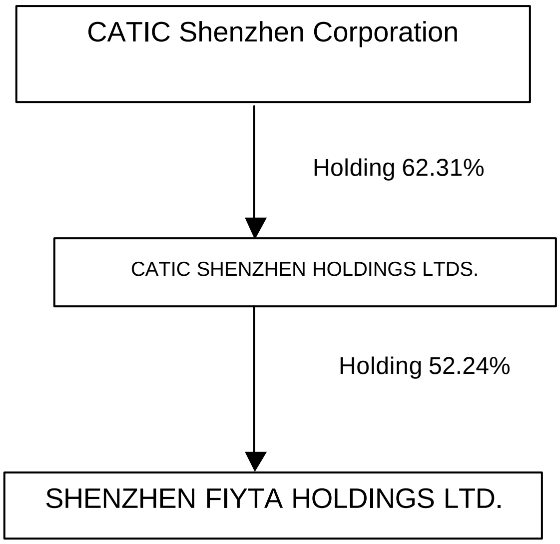
About the controlling shareholder:

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

Actual controller of the controlled shareholder

CATIC Shenzhen Corporation is a state enterprise founded in April, 1982, with the registered capital: RMB 80 million, and legal representative: Wu Guangquan; Principal businesses:Import and export of motor vehicles, equipment and machinery made within the Group.

4.3.3 Diagram of the controlling relationship between the Company and actual controller



§5 Directors, Supervisors and Senior Executives

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

Name	Title	Sex	Age	Office Term	Shares held at year beginning	Shares held at the year end	Causes of change
Wu Guangquan	Chairman of Board	male	42	May, 03 - May, 06	0	0	—
Lai Weixuan	Vice Chairman of Board (Note ①)	male	40	May,04-May.06	0	0	—
Wang Xinkuo	Director（Note①）	male	56	May, 03 - May, 04	0	0	—
Sui Yong	Director	male	46	May, 03 - May, 06	0	0	—
You Lei	Director（Note②）	male	35	May, 03 - Dec, 04	0	0	—
Xu Dongsheng	Director & General Manager	male	38	May, 03 - May, 06	0	0	—
Zhu Gensen	Director	male	56	May, 03 - May, 06	0	0	—
Cai Zheng	Independent Director	male	63	May, 03 - May, 06	0	0	—
Diao Weicheng	Independent Director（Note②）	male	41	May, 03 - Dec, 04	0	0	—
Hua Xiaoning	Independent Director	male	41	May, 03 - May, 06	0	0	—
Shao Kexiong	Chairman of Supervisory Committee	male	54	May, 03 - May, 06	0	0	—
Zhang Songhua	Supervisor	male	51	May, 03 - May, 06	0	0	—
Hu Xinglong	Supervisor	male	40	May, 03 - May, 06	0	0	—
Lu Bingqiang	Deputy General Manager	male	43	May, 03 - May, 06	48210	48210	frozen
Li Dehua	Deputy General Manager and Chief Accountant	male	44	May, 03 - May, 06	0	0	—

Li Bei	Deputy General Manager	male	49	May, 03 - May, 06	0	0	—
Fang Juan	Deputy General Manager	female	45	Jan,04- May, 06	0	0	—
Hao Huiwen	Secretary of the Board of Directors	male	36	May, 03 - May, 06	0	0	—

5.2. Engagement of Directors and Supervisors in the Shareholders

√ applicable □ inapplicable

Name	Shareholders	Titles engaged in the shareholders	Office term
Wu Guangquan	CATIC SHENZHEN HOLDINGS LTD.	Chairman of the Board	May, 03 - May, 06
Lai Weixuan	CATIC SHENZHEN HOLDINGS LTD.	Director	May, 04 - May, 06
Wang Xinkuo	CATIC SHENZHEN HOLDINGS LTD.	Director	May, 03 - May, 04
Sui Yong	CATIC SHENZHEN HOLDINGS LTD.	Director	May, 03 - May, 06
You Lei	CATIC SHENZHEN HOLDINGS LTD.	Director	May, 03 - May, 06
Xu Dongsheng	CATIC SHENZHEN HOLDINGS LTD.	Director	May, 03 - May, 06
Shao Kexiong	CATIC SHENZHEN HOLDINGS LTD.	Chairman of Supervisory Committee	May, 03 - May, 06

5.3 Annual Emolument to Directors, Supervisors and Senior Executives

In RMB '000

Total Annual Emolument	2,296.30
The total emolument to the three directors enjoying the highest pays (only two)	602.90
The total emolument to the three senior executives enjoying the highest pays	888.10
Allowance to Independent Directors	30.0/person/year
Other Financial Interests to Independent Directors	Nil
Directors and supervisors who do not receive any pay or allowance from the Company	Mr. Wu Guangquan, the Chairman of the Board, Mr. Lai Weixuan, Mr. Sui Yong and Mr. You Lei, three directors, and Mr. Shao Kexiong, the Chairman of the Supervisory Committee receive their remuneration from the Company's shareholders instead of the Company.
Pay intervals	Persons
RMB 300 thousand	1
RMB 200 –250 thousand	6
RMB 150-200 thousand	2
Below RMB 30 thousand	3

§6 Report of the Board of Directors

6.I Overall Operation Discussion and Analysis

In the report period, the Company implemented the work principle of "promoting development of the principal industry, enhancing brand promotion, constructing high-efficiency team and improving overall performances" worked out at the beginning of the year, further concentrated the teamwork force, pooled the wisdom and efforts of everyone, focused on the principal business with the two brands FIYTA and HARMONY, enhanced the management and operation of the Company's property business, deepened various management work, and tried every means to improve the operating income and profit-making ability.

Through deepened survey over the customers and the market, the management made careful research on the competition situation of the watch industry, with the result of the first survey on the watch market in the PRC territory conducted by some domestic famous survey company and the relevant management theory as reference, the management made overall analysis on the business of FIYTA watch and Harmony World Watches Center, clarified the Company's strategy basis and competition strategy as well as its competition position and status of resources.

Meanwhile, through three turns of discussion, collection and refining among all the staff over the past two years at various levels, the Company determined the FIYTA Philosophy in the report period, and defined the Company's mission of "focusing on the timepiece industry, helping customers in realizing high quality life, providing stage for staff and creating returns to the shareholders'; proposed the Company's wish of "molding international brand and becoming a globalized enterprise". The establishment of the philosophy and strategy has laid a strategic foundation for the Company to further mold the brand and establish the core competitiveness.

1. FIYTA Watch The Company has taken several favorable measures and further upgraded the brand superiority of FIYTA watches and improved the sales of the market. In respect of new product research and development, the Company, based on the customers' demand and the market survey information, further increased the investment in the research and development and the technology, carried out "the research and development of the three sources", reinforced the innovation superiority of FIYTA Brand and stressed the brand core value of "innovation". The Company has launched over 50 varieties of new products and achieved good sales results. The "1st FIYTA Cup Watch Design Contest" jointly held by the Company and the Fine Arts School of Tsinghua University has been honored as "Waking up the Sense of Innovation and Developing Inexhaustible Innovation Source of Watch Industry" in the sector. In respect of marketing, the Company had conducted continuous promotion for all the 365 days, conducted several large-scale promotion activities, such as "Expressing Feeling of Friendship at the Time of Strong Affection", "Paying Close Attention to the Future" by contributing donations to the Hope Project. As a result, inventories were effectively absorbed and sales volume increased. In respect of organization management, the Company established FIYTA watch sales department based on the market demand for the purpose of better promoting the FIYTA brand development and marketing management. The Company has also upgraded the product quality by optimizing the supply chain management.

In the report period, the income from FIYTA watches kept a growth trend since last year and the sales income reached RMB 121,535 thousand, a 12.57% growth over the same period of the previous year. FIYTA Watch has been honorably rewarded as "No. 1 Product of the Same Kind in the National Market" issued by China Industrial Information Statistic Information Delivery Center of the State Bureau of Statistics successively for 10 years.

2. Retails of Top Brand Watches The Company further increased the investment in Shenzhen Harmony World Watches Center (HARMONY). HARMONY is experiencing a high speed expansion stage and has achieved unprecedented development in construction of the network. In the report period, the Company established another 18 chain shops in Beijing, Shenzhen, Nanning, Luoyang, Dongguan, etc. So far, the Company has 36 chain shops all over big and medium cities in China. It is estimated that in 2005, the number of chain shop s shall be 50 and a situation of being regional flagship store as the core and a big scale and specialized famous watch chain sales network throughout the country shall form. HARMONY shall become one of the famous watch suppliers with biggest scale and power force in China. In the report period, the Company, including Shenzhen Harmony World Watches Center Co., Ltd., realized a turnover from the retail sale of top brand watches amounting to RMB 129,272 thousand, a 39.24% growth over the same period of the previous year.

3. Property Operation FIYTA Technology Building, located in Shenzhen Hi-tech Park, has been successfully completed in construction and put into use after 26 months of construction. At the end of the report year, such main businesses as the Company's head office, its manufacture subsidiaries and HARMONY have successively moved in and the Company's overall identity is further manifested. At the end of the report period, the rent invitation of FIYTA Technology Building had been carried out successfully. So far, such famous companies as TENCENT QQ have moved in. The overall utilization rate of the building is over 90%. It shall become an important income and profit growth point in 2005. FIYTA Building, located in CATIC Estate are, is in good operation and the operating income has been kept stable. The property lease income of the Company's two buildings in the report year amounted to RMB 27,345 thousand, a big growth over the same period of the previous year. It is estimated that in the next year, as FIYTA Technology Building is fully put into operation, income from this business shall further increase.

4. Other important influential factors At the beginning of 2004, based on the good estimation of the policies and macro economic situation and approved by the Board of Directors, the Company increased in a certain degree the short term investment. By the end of the report period, the investment amount was RMB 22,143 thousand. Affected by various factors such as macro adjustment and control, the stock market experienced big falling and the Company's short term investment suffered some paper loss. By the end of the report period, the balance of the short term investment was RMB 11,819 thousand; in addition to the reserve for price falling of short term investment at the beginning of the year amounting to RMB 905 thousand, the Company provided RMB 9,419thousand more in the report period, which directly impacted the total profit of the period.

Generally speaking, in the report period, the income form the principal businesses was RMB 278,247 thousand, a 21.97% growth over the same period of the previous year. The main reason is that the retail sale income of FIYTA and world top brand watches and the property lease income grew by a big margin. The Company realized a total profit amounting to RMB 3,524 and net profit amounting to RMB 1,908 thousand, dropping respectively by 38.26% and 68.50% over the same period of the previous year. The main reason is that the Company's short term investment experienced a big loss in book. In the report period, affected by the increase of investment in expansion of the marketing network of FIYTA watches and Harmony Chain Shops and increase of inventories, the net cash flow arising from the business activities was RMB-24,942 thousand. At the end of the report period, the Company's total assets was RMB 627,537 thousand and shareholders' equity was RMB 517,364 thousand which increased respectively by 9.55% and 0.37% over the same period of the previous year.

6.2 Principal Businesses Classified Based on Sectors and Products

In RMB '000

Based on sectors or products	Income from principal business	Costs of principal business	Gross interest rate (%)	Increase/decrease Growth of income from principal business over the previous year（%）	Increase/decrease of costs of principal business over the previous year（%）	Increase/decrease of gross profit rate over the previous year (%)
Industry	121,630,119	64,168,669	47.24	11.98	23.37	4.87
Trading	129,271,502	105,318,152	18.53	29.68	30.46	0.49
Property management	27,345,342	5,577,923	79.60	85.16	146.16	5.06
Incl.: related transactions	–	–	–	–	–	–
Sales of FIYTA watches	121,534,988	64,149,227	47.22	12.57	12.95	0.17
Sales of foreign famous watches	129,271,502	105,318,152	18.53	39.24	37.35	1.12
Incl.: related transactions	–	–	–	–	–	–

6.3 Principal Businesses Based on Regions

In RMB '000

Regions	principal business income	Increase/decrease of revenue from the principal businesses over the previous year (%)
Northeast China	34,280,260	20.89
North China	29,280,936	-23.01
Northwest China	48,101,543	6.19

East China	35,073,898	77.41
Southwest China	14,209,704	25.66
South China	89,860,149	54.84
Total	250,806,490	24.90

6.4 Suppliers and Customers

In RMB '000

Total procurement from the top five suppliers	49,817,787	Proportion in total procurement	81.66%
Total sales to the top five customers	20,776,425	Proportion in total sales	7.50%

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

6.6 Big Change in the Principal Business or its Structure
√ applicable ☐ inapplicable

First, the Company cleared up and transferred all the three restaurant subsidiaries in 2003 and has completely withdrawn from the catering industry in 2004;

Secondly, with the expansion of sales income from Harmony World Watches Center, the income from the retail of famous watches increased to RMB 129,272 thousand, which took 46.46% of the total income from the principal business while it was only 43.7% last year;

Thirdly, utilization of FIYTA Technology Building shall further increase the Company's income and total profit from the principal business.

6.7 Big Change in the Earning Capacity (Gross Profit Rate) of the Principal Business over the Previous Year
☐ applicable √ inapplicable

6.8 Reasons of Big Change in the Operation Result and Profit Composition over the Previous Year
√ applicable ☐ inapplicable

In comparison with the previous year, the change in the Company's total profit composition was mainly due to that the Company earned RMB 10 million of profit from entrusted finance management in the previous year while there was no such income in the report year; moreover, there existed book loss of short term investment amounting to RMB 9.4 million.

Reasons of Big Change in Overall Financial Position over the Previous Year
☐applicable √ inapplicable

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

6.10 Realization of profit estimation
☐ applicable √ inapplicable

6.11. Fulfillment of Business Plan
☐ applicable √ inapplicable

6.12. Application of the Proceeds Raised through Share Offering
√ applicable ☐ inapplicable

In RMB '000

<table>
<tr><td colspan="2">Total proceeds raised through share offering</td><td rowspan="2">209,718.00</td><td colspan="2">Total proceeds used in the year</td><td colspan="2">15,931.00</td></tr>
<tr><td colspan="2"></td><td colspan="2">Total proceeds used accumulatively</td><td colspan="2">209,718.00</td></tr>
<tr><td colspan="2">Committed projects</td><td>Planned investment</td><td>Change of project (Y/N)</td><td>Actual Investment</td><td>Proceeds invested and progress of completion</td><td>Income produced in the report period</td></tr>
<tr><td>1</td><td>Set up chain shops of Harmony World Watches Center in China</td><td>112,000.00</td><td>Y (partial proceeds transferred to the project of the technology park)</td><td>70,000.00</td><td>100%</td><td>302.00</td></tr>
<tr><td>2</td><td>Set up FIYTA Hi-tech Park</td><td>55,000.00</td><td>N (additional investment)</td><td>139,718.00</td><td>100%</td><td>9,130.00</td></tr>
<tr><td>3</td><td>Set up chain shops of Harmony World Watches Center in Southeast Asia</td><td>41,480.00</td><td>Y (transferred to the project of the technology park)</td><td>0.00</td><td>all transferred to the project of the technology park</td><td>0.00</td></tr>
<tr><td colspan="2">Total</td><td>208,480.00</td><td>—</td><td>209,718.00</td><td>—</td><td>9,432.00</td></tr>
<tr><td colspan="2">Note to the actual investment</td><td colspan="5">(1) Ended the report period, 36 chain shops of Harmony World Watches Center had been set up in Shenzhen, Harbin, Urumqi, Wuhan, Datong, Changsha, Lanzhou, Kunming, Xi'an, Nanjing, Ningbo, Qingdao, Shanghai, Beijing, Nanning, Nanchang, Fuzhou, Luoyang, Changchun, Chongqing, Dongguan, etc. with total investment of RMB 111,055 thousand (including RMB 70,000 thousand from the proceeds raised through share offering), of which the investment in the report period increased by RMB 42,495 thousand. In 2004, the Company realized a turnover amounting to RMB 108,333 thousand and net profit amounting to RMB 302 thousand.
(2) Ended the report period, FIYTA Hi-tech Building was completed in construction, passed the acceptance inspection and put into application. In the report period, the Company made additional investment amounting to RMB 49,630 thousand, and the accumulated investment on this project is RMB 174,857 thousand (including RMB 139,718 thousand from the proceeds raised through share offering). In the report period, the earnings realized amounting to RMB 9,130 thousand.</td></tr>
</table>

Notes to Reason of Change and Change Procedures	Reasons of Change: (1) Several years ago, the Board of Directors of the Company took the beneficial result being of priority as the principle, put the work focus on the operation of the existing chain shops of Harmony World Watches Center, and decided to reduce the investment on establishment of the chain shop project at home. On the other hand, with consideration of the safety of the capital operation and assurance of the shareholders' interests, the Board of Directors decided to cancel the investment plan of establishing the world famous brand watch center chain shops in Southeast Asia. (2) Meanwhile, FIYTA Technology Park project, which had been financed with the proceeds from the share allotment at the same time as the aforesaid two projects enjoys good development prospects due to its favorable location. The Company decided to make effective allocation of resources and increased investment in that project. Changes: (1) The total investment in establishment of Harmony world famous brand watch center chain shops in China was reduced to RMB 70,000 thousand and the balance of this project amounting to RMB 43,240 thousand was transferred to the project of FIYTA Hi-tech Park; (2) The total amount from the proceeds amounting to RMB41,480 thousand planned to be invested in establishment of world famous brand watch center chain shops in Southeast Asia was transferred to the project of FIYTA Hi-tech Park; (3) The total additional investment of the proceeds in the project of FIYTA Hi-tech Park was RMB 84,718 thousand; the planned accumulative investment of the proceeds was RMB 139,718 thousand. Procedures: The aforesaid changes were reviewed and approved by the 9th meeting of the 3rd Board of Directors and the 5th meeting of the 3rd Supervisory Committee on April 16, 2002 and approved by 2001 Shareholders' General Meeting with all votes for on May 22, 2002. Information Disclosure: The public notice on the aforesaid meetings was published on Securities Times, Hong Kong Commercial Daily and http://www.cninfo.com.cn

6.13. Investment with the Funds not Raised by Share Offering

□ applicable √ inapplicable

6.14 Explanation of the Board to the "Non-standard Opinion" Presented by the Certified Public Accountants

□ applicable √ inapplicable

6.15 Business Plan of New Year (if any)

√ applicable □ inapplicable

Looking into the year 2005, the external environment the Company is going to face involves coexistence of opportunities and challenges. On the one hand, the domestic economy shall continue to be favorable and the people's income shall grow steadily; the development trend of consumers' focus on watches with famous brand and symbolization is turning more obvious; on the other hand, there has no fundamental change in the excessive competition situation of the domestic timepiece industry. Facing with such a situation, the Company has established the work policy of "focusing on brand molding, making closer teamwork, enhancing system operation, realizing increase of income and creation of good operation result", shall continue to insist on the brand operation strategy, further condense the teamwork force, attach importance upon the two principal business lines of FIYTA Watches and Harmony Top Brand Watch Chain Shops, develop the property operation in a steady way and try to bring about better operation result to the shareholders.

1. Push ahead the brand strategy of "3-Color Violet" FIYTA watches, take the customers' demand as the starting point, exercise the assembling tactic and differentiation strategy in marketing, and upgrade the brand value. Insist on application of new materials, new process and new technology in a creative way; try every means to improve the earning power in the marketing link through brand competition.

2. Construct and optimize Harmony sales network on overall basis by opening new shops, merger and acquisition, put forth effort on constructing flagship shop, enlarge development of resources of Harmony brand and expand the exchange and cooperation with the world famous brand watch groups.

3. Further improve the management and service levels of FIYTA Building and FIYTA Technology Building, ensure steady growth of the property lease income and develop profit sources for the Company.

4. Enhance personnel deployment and training work in respect of marketing, improve the encouragement mechanism, absorb and train senior professionals of brand popularization, marketing, R & D and design, study on customers, make timely adjustment of the organizational structure and improve the efficiency of the management and operation of the Company.

Profit-making Prediction in the New Year (if any)
□ applicable √ inapplicable

6.16 Profit Distribution or Converting Capital Public Reserve into Share Capital

As audited by Pricewaterhouse Coopers Zhongtian Certified Public Accountants according to the Chinese Accounting Standards (CAS) and Pricewaterhouse Coopers according to the International Accounting Standards (IAS), the Company's net profit in the year 2004 was RMB 1,907,880 and RMB 205 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 2004 amounting to RMB 1,907,880, plus the undistributed profit at the year beginning amounting to RMB -56,176,661, the accumulative loss at the settlement was RMB 54,268,783.

As the Company constructed FIYTA Technology Building and expanded investment in Harmony world famous brand chain shops in the past years, a big sum of cash was paid; the Company's net profit was small, and in addition, had to make up losses of previous years with the profit continuously. Therefore, the Company has decided not to provide statutory surplus public reserve and the statutory public welfare fund, not to conduct profit distribution in cash/bonus shares or convert the public reserve into share capital for the year 2004.

The independent directors of the Company approved the above proposal of the Board of Directors. In their opinion, the proposal complies with the Company's actual development conditions; the proposal needs to be approved by 2004 Shareholders' General Meeting.

The company is making profit in the report term but not yet have any dividend plan.
□applicable √inapplicable

§7 Important Events

7.1 Assets Acquisition
□ applicable √ inapplicable

7.2 Sales of Assets
□ applicable √ inapplicable

7.3. Material Guarantees
□ applicable √ inapplicable

7.4 Significant Related Transaction
7.4.1 Related Sales And Purchasing

√ applicable ☐ inapplicable

Related Parties	Relationship with the Related Parties	Products sold and labor services provided to the related parties		Products purchased and labor services received from the related parties	
		Amount in transaction	Proportion in the amount of the similar transactions	Amount in transaction	Proportion in the amount of the similar transactions
Shenzhen CATIC Property Management Co., Ltd.	A subsidiary of the Company's actual controller	–	–	RMB 3.087 million	100%
Principle of pricing of the related transactions		Contract executed based on the fair market pricing principle			
note to necessity/duration of related transactions		Both FIYTA Building and FIYTA Technology Building received property management service from Shenzhen CATIC Property Management Co., Ltd. which is favorable for improvement of the professional service level.			

7.4.2 Credits and Debts Interchange

√ applicable ☐ inapplicable

In RMB '000

Related Parties	Funds supplied to the related parties		Funds supplied to the Company by the related parties	
	Amount incurred	Balance	Amount incurred	Balance
Shenzhen Feiyu Artistic Timepiece Co., Ltd.	0.00	547.00	0.00	0.00
Shenzhen Feitu New-Tech Development Co.	2.00	190.00	0.00	0.00
CATIC Shenzhen Corporation	0.00	150.00	0.00	0.00
Total	2.00	887.00	0.00	0.00

7.5 Assets Management on Commission

☐applicable √inapplicable

7.6. Events of Commitment

√ applicable ☐inapplicable

On September 14, 2004, CATIC SHENZHEN HOLDINGS LTD., the Company's controlling shareholder, offered guarantee for the Contract of Comprehensive Credit Line executed between the Company and Shenzhen Development Bank Shenzhen Jiangsu Building Sub-branch amounting to RMB 50 million; as well as the Loan Contract executed between the Company and Shenzhen Development Bank Shenzhen Jiangsu Building Sub-branch for the working capital loan amounting to RMB 20 million under the above comprehensive credit line on the same day. The announcement of the aforesaid information was published on Securities Times, Hong Kong Commercial Daily and http://www.cninfo.com.cn.

7.7 Material Suits and Arbitration

☐ applicable √ inapplicable

7.8.Performance of Independent Directors

Presenting the Board Meetings

Names	Number of attendances	Number of personal attendances	Number of entrusted attendances	Number of absences	Remarks
Cai Zheng	8	7	0	1	Absence from the 5th meeting of the 4th Board of Directors due to business trip
Diao Weicheng	8	7	0	1	Absence from the 9th meeting of the

					4th Board of Directors due to business trip
Hua Xiaoning	8	8	0	0	

Objection opinion raised by the independent directors on the business of the Company

☐ applicable √ inapplicable

§8 Report of the Supervisory Committee

I. Work Summary of the Supervisory Committee

1. 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, application of the proceeds raised through share offering and related transactions in accordance with the RPC Company Law and the Articles of Association of the Company.

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

(1) The 4th meeting of the 4th Supervisory Committee was held on April 6, 2004. The meeting adopted the following resolutions: ① 2003 Work Report of the Supervisory Committee;② Proposal of 2003 Profit Distribution and Converting the Capital Public Reserve into Share Capital; ③Proposal on Provision of Reserve for Devaluation of Assets in 2003;④Proposal on Change of Important Accounting Policies;⑤Proposal on Correction of the Accounting Errors in 2002;⑥2003 Annual Report.

(2) The 5th meeting of the 4th Supervisory Committee was held on August 6, 2004. The meeting examined and approved 2003 Semi-annual Report of the Company.

3. Supervisors of the Supervisory Committee attended all the Board meetings held in 2004 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 2003 Shareholders' General Meeting, addressed 2003 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 2004, 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 worked carefully with responsibility and the Company made decisions in a scientific and rational way. The Company had complete and sound internal control regulations and implemented these regulations in a practical way. Directors, the management and all 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 doing their duties and had done nothing harmful to the Company's interests or the shareholders' right and interests.

2. Both Pricewaterhouse Coopers Zhongtian Certified Public Accountants and Pricewaterhouse Coopers China Limited produced a standard and unqualified auditors' report for the Company, which truly and objectively reflected the Company's financial position and operation result of the year 2004.

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 2004 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 without any harm to the minority shareholders' equity or caused loss of the Company's assets.

§ 9 Financial Report

9.1 Auditors' Opinion
Standard Unqualified Auditors' Report

9.2 Financial Statement (attached hereafter)

9.3 In comparison with the latest annual report, there is no change in the accounting policy and accounting estimation or correction of accounting error in the report period.

9.4 There is no material accounting error in the report period.

9.5 In comparison with the latest annual report, there is no significant change in the consolidation range in the report period.

9.2 Financial Statement

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 2004

	Notes	2004 RMB'000	2003 RMB'000
Turnover	4	278,247	228,133
Cost of sales		(177,105)	(139,435)
Gross profit		101,142	88,698
Other operating (expense) / income	7	(7,116)	16,272
Selling expenses		(55,225)	(57,173)
Administrative expenses		(35,617)	(42,578)
Gain on sale of discontinuing operation	30	-	777
Loss on disposal of a subsidiary		-	(403)
Profit from operations	5	3,184	5,593
Finance (costs) / income - net	8	(98)	553
Profit before taxation		3,086	6,146
Taxation charge	9	(2,818)	(859)
Profit after taxation		268	5,287
Minority interests		(63)	845
Net profit for the year		205	6,132
Dividends	25	-	-
Earnings per share	10	RMB0.001	RMB0.02

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2004

	Notes	2004 RMB'000	2003 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Fixed assets	11	70,291	40,142
Investment properties	12	187,600	16,492
Construction in progress	13	1,290	125,227
Leasehold land payments	14	16,003	16,464
Available-for-sale investments	15	4,885	4,885
Deferred tax assets	16	15,466	16,731
Other non-current assets		1,947	2,507
Total non-current assets		297,482	222,448
CURRENT ASSETS			
Inventories	17	203,983	152,649
Trade receivables	18	18,730	19,549
Due from a related company	29	1,500	1,500
Prepayments and other receivables	19	36,213	33,984
Trading investments	20	11,819	4,314
Designated deposits	21	-	51,004
Cash and cash equivalents		84,792	117,527
Total current assets		357,037	380,527
TOTAL ASSETS		654,519	602,975
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	22	249,318	249,318
Reserves	23	305,627	305,627
Accumulated losses		(36,770)	(36,975)
Total shareholders' equity		518,175	517,970
MINORITY INTERESTS		7,336	7,273
NON-CURRENT LIABAILITIES			
Deferred income		3,000	3,000
CURRENT LIABILITIES			
Trade payables		65,264	34,505
Staff welfare payable		18,713	18,677
Tax payable		449	311
Accruals and other current liabilities		21,582	21,139
Short-term loans	24	20,000	100
Total current liabilities		126,008	74,732
TOTAL EQUITY AND LIABILITIES		654,519	602,975

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2004

		Reserves				
	Share capital	Capital reserve	Statutory reserves	Sub-total	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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	249,318	191,108	114,519	305,627	(36,975)	517,970
Net profit for the year	- -	-	-	-	205	205
At 31 December 2004	249,318	191,108	114,519	305,627	(36,770)	518,175

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Notes	2004 RMB'000	2003 RMB'000
Cash flows from operating activities			
Cash used in from operations	26	(40,630)	(8,320)
Interest paid		(323)	-
Tax paid		(1,415)	(795)
Net cash flows used in operating activities		(42,368)	(9,115)
Cash flows from investing activities			
Purchases of fixed assets		(39,053)	(8,048)
Additions to construction in progress		(24,221)	(63,955)
Sales proceeds from disposals of fixed assets		1,002	1,327
Proceeds from sale of discontinuing operation	30	-	2,800
Disposal of a subsidiary, net of cash disposed		-	22
Dividends received from available-for-sale investments		-	138
Investment income from designated deposit		351	10,000
Decrease in designated deposits		51,004	73,996
Subsidiary in voluntary liquidation and not consolidated		-	(842)
Interest received		650	802
Government grants received		-	3,000
Net cash flows (used in) / generated from investing activities		(10,267)	19,240
Cash flows from financing activities			
Proceeds from borrowings		20,000	100
Repayments of borrowings		(100)	(4,000)
Net cash flows generated from / (used in) financing activities		19,900	(3,900)
(Decrease) / increase in cash and cash equivalents		(32,735)	6,225
At start of year		117,527	111,302
At end of year		84,792	117,527