



SHENZHEN FIYTA HOLDINGS LTD.
2004 ANNUAL REPORT

April 15, 2005

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, 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. All directors attended the board meeting.

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

Table of Contents

Chapter 1	Company Information
Chapter 2	Financial and Business Highlights
Chapter 3	Changes in Share Capital and Particulars about Shareholders
Chapter 4	Directors, Supervisors, Senior Executives and Employees
Chapter 5	Administrative Structure
Chapter 6	Shareholders' General Meeting
Chapter 7	Report of the Board of Directors
Chapter 8	Report of the Supervisory Committee
Chapter 9	Significant Events
Chapter 10	Financial Report
Chapter 11	Documents Available for Inspection

Chapter 1 Company Profile

1. Legal Name in Chinese and English and Short Form:

In Chinese: 深圳市飞亚达 (集团) 股份有限公司

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

Contact address: 20th Floor, FIYTA Technology Building, Gaoxin S. Road 1, Nanshan District, Shenzhen

Tel : 0755 - 83217888 (operator) 86013669

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E-mail : investor@fiyta.com.cn

4. Registered / Office Address: FIYTA Technology Building, Gaoxin Nanyi Road, Nanshan District, Shenzhen

Office Add: 20th Floor, FIYTA Technology Building, Gaoxin S. Road 1, Nanshan District, Shenzhen

Post Code:518057

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: FIYTA A 000026

FIYTA B 200026

7. Other Relevant Information

1) Date of first registration: March 30, 1990

Date of registration updating: January 30, 1997

Registration with: Shenzhen Municipal Administration for Industry and Commerce.

2) Business License No.: 4403011001583

3) Taxation Registration No.: 440301192189783

4) Certified public accountant engaged

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 2 Financial and Business Highlights

I. Financial Highlights

Items	Amount In RMB
Total profit	3,523,936
Net profit	1,907,880
Net profit, less the non-recurring gains and loss	2,473,894
Profit from principal businesses	101,141,752
Profit from other business lines	1,659,560
Operating profit	11,861,908
Investment income	-8,534,002
Subsidy income	0
Net amount of non-operating income and expenses	196,030
Net cash flows arising from operating activities	-24,942,143
Net increase of cash and cash equivalents	-32,735,498

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

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

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

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

III. Financial highlights over the past three years:

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

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

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	19.55	19.59	0.406	0.406
Operating profit	2.29	2.30	0.048	0.048
Net profit	0.37	0.37	0.008	0.008
Net profit after deduction of non-recurring loss/gain	0.48	0.48	0.010	0.010

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	-56,176,663	515,456,362
Increase in the report year	0	0	0	0	1,907,880	1,907,880
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	-54,268,783	517,364,242
Causes of change	—	—	—	—	Due to the profit of the current year amounting to RMB 1,907,880.	

Chapter 3 Changes in Share Capital and Particulars about Shareholders

I. Change in the Company's Shares

1. Changes in the Company's share capital ended December 31, 2004 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	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

2. Issuing and Listing

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

(2) In the year 2004, the Company never conducted such activities as distributing bonus shares, converting public reserve into share capital, share allotment, new issuing, stock absorption and combination, converting convertible bonds into shares, capital reduction, issuing or listing employee shares or shares of the Company's employees or any other activity which caused change in total shares and the structure.

(3) The Company has no employees' shares.

II. Shareholders

1. Ended Dec. 31, 2004, the Company had totally 18,740 shareholders including 9,036 shareholders of A-shares (1 of them are senior executives) and 9,704 shareholders of B-shares.

2. Top 10 shareholders

Shareholders	Increase/ Decrease in the year	Number of shares held at year end	Shareholding proportion (%)	Type (negotiable/non-neg otiable)	Shares pledged or frozen
CATIC SHENZHEN HOLDINGS LTD.	0	130,248,000	52.24	Domestic legal person shares	0
CHAN KEUNG	493,383	768,983	0.31	Listed B shares	unknown
Ou Yanping	231,401	451,301	0.18	Listed B shares	unknown
KO,LING HON	49,200	439,100	0.18	Listed B shares	unknown
Lin Hongbo	0	362,880	0.15	Listed B shares	unknown
China Insurance Pingan (Hong	-25,890	359,070	0.14	Listed B shares	unknown

Kong)					
Xue Peiming	233,500	336,800	0.14	Listed B shares	unknown
Lin Zhihua	-200,000	330,000	0.13	Listed B shares	unknown
Lihuang Shunjin	104,100	288,000	0.12	Listed B shares	unknown
Yang Yuanzhou	0	285,900	0.11	Listed B shares	unknown

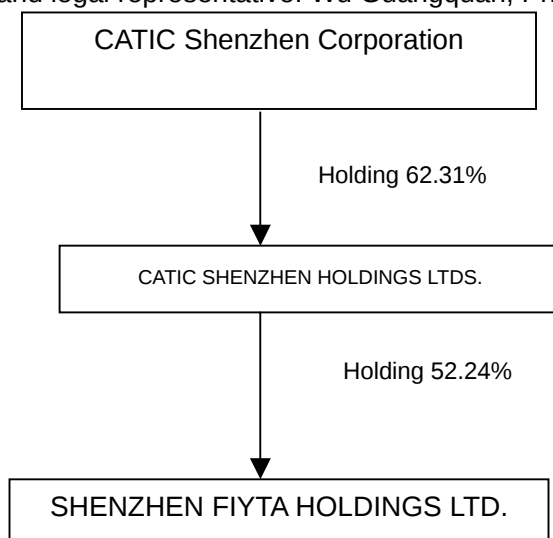
The shareholder holding over 5% of the Company's total share capital is CATIC SHENZHEN HOLDINGS LTD. and there was no change in its shareholding in the report year. Among the top ten shareholders, the Company has never found any business relations among them or they belong to the persons of concerted 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:



5. Top Ten Shareholders of Negotiable Shares

Shareholders	Quantity of shares held at the year end	Types of shares	Shareholding Proportions (%)
CHAN KEUNG	768983	Negotiable B-shares	0.31
Ou Yanping	451301	Negotiable B-shares	0.18
KO,LING HON	439100	Negotiable B-shares	0.18
Lin Hongbo	362880	Negotiable B-shares	0.15
China Pingan Insurance (Hong Kong)	359070	Negotiable B-shares	0.14

Xue Peiming	336800	Negotiable B-shares	0.14
Lin Zihua	330000	Negotiable B-shares	0.13
Lihuang Shunjin	288000	Negotiable B-shares	0.12
Yang Yuanzhou	285900	Negotiable B-shares	0.11
Zeng Ying	255000	Negotiable B-shares	0.10
Relationship among the top ten shareholders of negotiable shares	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.		

Chapter 4 Directors, Supervisors, Senior Executives and Employees

I. Directors, Supervisors and Senior Executives

1. 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)	male	40	May,04-May.06	0	0	—
Wang Xinkuo	Director (Note)	male	56	May, 03 - May, 04	0	0	—
Sui Yong	Director	male	46	May, 03 - May, 06	0	0	—
You Lei	Director (Note)	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 (Note)	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	—

Notes: On May 12, 2004, Mr. Wang Xinkuo resigned director of the 4th Board of Directors due to new job assignment and Mr. Lai Weixuan was elected director of the 4th Board of Directors;

On December 30, 2004, Mr. You Lei and Mr. Diao Weicheng respectively resigned director and independent director of the 4th Board of Directors due to new job assignment; Mr. Wang Baoying and Mr. Guo Wanda were nominated as director candidates of the Company.

2. Engagement of Directors and Supervisors in the Shareholders

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

3. Curriculum Vitae of Directors, Supervisors and Senior Executives and the Offices Taken or Part Time Jobs Engaged by them in other Organizations except Shareholders

(1) Directors

Mr. Wu Guangquan, 42, senior accountant and MBA of Tongji University. Mr. Wu is the Chairman of the Board of the Company, general manager of CATIC Shenzhen Corporation and the president of CATIC SHENZHEN HOLDINGS LTD.. He used to be vice chief accountant & financial manager of CATIC SHENZHEN HOLDINGS LTD, chairman of the board of Jiangxi Jiangnan Trust & Investment Co., Ltd.

Mr. Lai Weixuan, 40, senior accountant, MBA of (USA) IVY UNIVERSITY. Mr. Lai is now Vice Chairman of the Board of the Company, vice president of CATIC SHENZHEN HOLDINGS LTD., general manager of Shenzhen Rainbow Supermarket Co., Ltd. He used to be assistant general manager of CATIC Commercial & Trading Co. and deputy general manager of Shenzhen Rainbow Supermarket Co., Ltd.

Mr. Sui Yong, 46, senior accountant. Mr. Sui graduated from Beijing University of Aeronautics & Astronautics. He is a director of the Company and chief accountant of CATIC Shenzhen Corporation. He used to be deputy section-chief of Financial Section of Shenyang Liming Engine Company, deputy section-chief of Financial Section of CATIC, assistant general manager of CATIC Property Beihai CATIC Associated Development Co., manager and vice chief accountant of Financial Dept. of CATIC Shenzhen Corporation.

Mr. Xu Dongsheng, 38, senior economist, MBA of Tongji University and General Manager of the Company. He used to be the secretary of the Youth League Committee of CATIC SHENZHEN HOLDINGS LTD., general manager of the life service company of CATIC SHENZHEN HOLDINGS LTD., vice secretary of the discipline committee of CATIC SHENZHEN HOLDINGS LTD. and assistant president of CATIC SHENZHEN HOLDINGS LTD.

Mr. Zhu Gensen, 56, Class-I senior economist, postgraduate of Party School of Guangdong Provincial Committee of the CPC, director of the Company. He used to be secretary of Youth League Committee of Xi'an Qingan Company, deputy chief engineer of Xi'an 113 plant and factory director of the branch of Xi'an 113 plant, general manager of CATIC Tianshi Electrical Co., Ltd. and Shenzhen Shanghai Hotel, general manager of Shenzhen Fiyta Holdings Ltd.

Mr. Cai Zheng, 63, senior engineer, part-time professor of Northwestern Polytechnic University. Mr. Cai graduated from the Military Engineering Institute of the PLA. He is now an independent director the Company, adviser of foreign economic and trade of Beijing Municipal People's Government, chairman of the board of Beijing Weiyujie Technology Co., Ltd., chairman of the board of Beijing Tongfang Zhilin Technology Co., Ltd. He used to be a staff officer of the engineering soldiers department of Jinan Military Region, deputy director of the office of Beijing Municipal Commission of Science and Technology, deputy director of material events office of the State Council, president of China Space and Aviation Hi-tech Investment Co., vice president of CATIC SHENZHEN HOLDINGS LTD., chairman of the board and general manager of Shenzhen Guolianfa International Investment Co.

Mr. Hua Xiaoning, 41, Chinese certified public accountant, holding master's degree of Hangzhou Institute of Engineering Electronics. He is now an independent director of the Company/ShenTianMa/HangQiLun, general manager of Shenzhen Dianlue Investment Co., Ltd. and executive director of Shenzhen Youlian Shijun Enterprise Management Consulting Co., Ltd. He used to be senior staff of Ernst&young and Andersen.

(2) Supervisors

Mr. Shao Kexiong, 54, senior economist, postgraduate of the Party School of Guangdong Provincial Committee of the CPC. He now is Chairman of the Supervisory Committee of the Company, vice secretary of the Party Committee and secretary of Discipline Committee of CATIC SHENZHEN HOLDINGS LTD. He used to be deputy chief of Secretarial Section of Xi'an Aircraft Factory under the Ministry of Aviation Industry, deputy general manager of Shenzhen Grand Skylight Hotel and assistant president and manager of Human Resources Section of CATIC SHENZHEN HOLDINGS LTD.

Mr. Zhang Songhua, 51, senior engineer, undergraduate degree. Mr. Zhang is a supervisory of the Company and deputy general manager of Shenzhen FIYTA Sophisticated Manufacture Co., Ltd. Mr. Zhang used to be technician of Inspection Section, director, deputy chief and chief of Technology Office of Hongtu Aircraft Factory of China Aviation Industry Corporation, department manager of Shenzhen Flydart Watch Industry Co., Ltd. and manager of Operation Dept. of Shenzhen Fei'ou Precision Timepiece Manufacture Co., Ltd., the general manager of Shenzhen Feitu New Technology Development Co.

Mr. Hu Xinglong, 40, Chinese certified public accountant, accountant, international certified internal auditor, supervisor & deputy manager of the financial and auditing department of the Company. He used to be deputy section-chief of Jiangxi Yichun Municipal Bureau of Finance, director staff of Yichun Prefecture Supervision Bureau, director staff of the Organization Department of the CPC Committee of Yichun Prefecture, deputy manager of the audit department of Shenzhen FIYTA Holdings Ltd.

(3) Senior Executives

Mr. Lu Bingqiang, 43, senior economist, graduated from Guangzhou Jinan University. Mr. Lu is deputy general manager of the Company. He used to be the president secretary of CATIC SHENZHEN HOLDINGS LTD., assistant general manager of the Company, director and deputy general manager of the Company and chairman of the board of Harmony World Watches Center.

Mr. Li Dehua, 44, senior accountant, graduated from Beijing University of Aeronautics & Astronautics. He is deputy general manager & chief accountant of the Company. He used to be cost accountant of Shenyang Liming Engine Manufacture Co., Ltd., financial supervisor of Shenzhen Baohang Aluminum Co., Ltd., accounting supervisor of CATIC SHENZHEN HOLDINGS LTD., manager of the financial department and chief financial officer of the Company.

Mr. Li Bei, 49, senior engineer at research fellow level, graduated from Shenyang Liming Polytechnic College. He is deputy general manager of the Company. He used to be department manager of Shenzhen Feida Watch Co., Ltd. and Shenzhen Feibiao Watch Appearance Pieces Co., Ltd.

Ms. Fang Juan, 45, administrator, graduated from the English Department of Jiangxi Normal University. She is deputy general manager of the Company and general manager of Shenzhen Harmony World Watches Center Co., Ltd. She used to be a translator of Jiangxi Ceramics Co., director of the scientific information office of Jingdezhen City, Jiangxi Province, manager of the personnel department and assistant general manager of the Company.

Mr. Hao Huiwen, 36, senior economist, master's degree of economics of Beijing Institute of Economics. He is the secretary of the Board and assistant general manager of the Company. He used to be a teacher of market science of Shanxi University of Finance and Economy, assistant manager of Personnel Dept. and secretary of the general manager of Shenzhen

Hongchang Industrial Co., Ltd., director of Human Resource Dept. of CATIC SHENZHEN HOLDINGS LTD., and manager of the administrative management department of the Company.

4. Annual Emolument to Directors, Supervisors and Senior Executives

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

(2) In the report period, of the 18 directors, supervisors and senior executives (excluding independent directors) in current office, 9 received pays from the Company with total remuneration in the year amounting to RMB 2.2963 million. The total remuneration to the three directors enjoying highest salaries was RMB 602,900 (only two) and the total remuneration to the three senior executives enjoying the highest salaries was RMB 888,100.

In the report period, 1 enjoyed annual remuneration amounting to RMB 300,000, 6 enjoyed annual remuneration within the range of RMB 200,000 to 250,000, and 2 enjoying from 150,000 to RMB 200,000.

(3) Mr. Wu Guangquan, Chairman of the Board, Mr. Wang Xinkuan, Mr. Lai Weixuan, Mr. Sui Yong and Mr. You Lei, four directors and Mr. Shao Kexiong, Chairman of the Supervisory Committee, received their pays from the Company's shareholder.

(4) There are 3 independent directors in current office and each of them received allowance amounting to RMB 30,000 per person per year and enjoyed no other financial interests.

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

(1) Approved at the 5th meeting of the 4th Board of Directors dated January 14, 2004, Ms. Fang Juan was engaged as deputy general manager of the Company.

(2) On May 12, 2004, Mr. Wang Xinkuo resigned director of the 4th Board of Directors due to new job assignment. At 2003 Shareholders' General Meeting, Mr. Lai Weixuan was elected member of the 4th Board of Directors.

(3) On December 30, 2004, the 10th meeting of the 4th Board of Directors approved Mr. You Lei and Mr. Diao Weicheng to respectively resign director and independent director of the 4th Board of Directors due to new job assignment.

II. Employees:

Ended the report period, the Company had totally 1195 employees, 247 of whom had college degrees or higher, taking 21% of the total.

Of the employees, there were 91 administrative personnel, 85 financial personnel, 833 salespersons, 69 technical personnel and 117 production workers. The Company has no retired personnel to pay pension to.

Chapter 5 Administrative Structure

I. Actual Situation and Discrepancy from the Standards

In the report period, the Company was improving its legal person based administrative structure, establishing modern enterprise system, improving standardized operation level of the Company 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. The Company has been continuously improving its management rules and regulations, including the Articles of Association, the Rules of Procedures of the Shareholders' General Meeting, the Rules of Procedures of the Board of Directors, the Rules of Procedures of the Supervisory Committee, Detailed Rules for the Work of the General Manager, the Regulation on Control over Information Disclosure and the Regulations on Management of Relations with Investors, etc., which have provided assurance in system for standardized operation of the Company; meanwhile, the Company has positively enhanced the management of information disclosure and relations with the investors for the purpose of conducting administrative operation in a standard way so as to substantially ensure the shareholders' rights and interests.

At the end of the report period, due to resignation of Mr. Diao Weicheng, one of the independent directors, the number of independent directors of the Board of Directors in current office is less than one third of the total members of the Board. The Board of Directors has nominated new candidate of independent director and submitted the candidate to 2004 Shareholders' General Meeting for voting. Despite of this, the Company is basically in compliance with the Rules for Administating Listed Companies promulgated by China Securities Regulatory Commission (CSRC) in terms of corporate administration.

II. Performance of Independent Directors

In the report period, Mr. Cai Zheng, Mr. Diao Weicheng and Mr. Hua Xiaoning, the three independent directors of the Company fully exercised the powers endowed in the state rules and regulations as well as the Articles of Association of the Company, brought their professional expertise into full play, made independent, objective and fair judgment on such events as replacement of the Company's senior executives and important decisions; stated special presentation of and expressed their independent opinions on the current amounts with the related parties and external guarantees, promoted the Board of Directors to make decisions and adopt decision making procedures in a scientific way, and substantially safeguard the Company's and shareholders' interests.

1. Board meetings attended by independent directors

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 5 th meeting of the 4 th Board of Directors due to business trip
Diao Weicheng	8	7	0	1	Absence from the 9 th meeting of the 4 th Board of Directors due to business trip
Hua Xiaoning	8	8	0	0	

2. Objection of independent directors on some relevant issues

In the report period, the independent directors made no objection on various proposals of the Board of Directors and other relevant issues of the Company.

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 is mainly engaged in timepiece businesses and 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. Lai Weixuan, Vice Chairman of the Board, Mr. Sui Yong, Mr. Xu Dongsheng, two 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 shall further improve the encouragement mechanism, establish the achievement assessment system with the objective management as the basis and fully mobilize the enthusiasm of the executives.

Chapter 6 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 8, 2004. The meeting was held on May 12, 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 130,659,823 shares, taking 52.41% 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) 2003 Work Report of the Board of Directors; (2) 2003 Work Report of the Supervisory Committee; (3) 2003 Financial Settlement Report; (4) Proposal of 2003 Profit Distribution and Converting the Capital Public Reserve into Share Capital; (5) Proposal on Provision and Write-off of Reserve for Devaluation of Assets; (6) 2003 Annual Report; (7) Proposal on Renewing the Engagement of Certified Public Accountants in 2004; (8) Proposal on Replacement of Part of the Directors; (9) Proposal on Revision of the Articles of Association of the Company.

Zhao Fei, a lawyer from Guangdong Yaerde Law Office produced a written legal opinion on the site to confirm the legality and validness of the meeting. The aforesaid resolutions of the Shareholders' General Meeting were published on Securities Times and Hong Kong Commercial Daily respectively dated May 14, 2004.

III. Election for Directors and Supervisors

Mr. Wang Xinkuo resigned director of the 4th Board of Directors due to new job assignment. At 2003 Shareholders' General Meeting, Mr. Lai Weixuan was elected member of the 4th Board of Directors.

Chapter 7 Report of the Board of Directors

I. Discussion and Analysis of the Overall Operation in the Report Period

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.

II. Operation Summary

1. Business Scope and Operation Status

(1) Scope of the Company's 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, the Company has property lease income from FIYTA Building and FIYTA Technology Building.

(2) Operation Status

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

In RMB						
Sectors	Principal business income	Principal business cost	Gross profit rate (%)	Increase/decrease of revenue from	Increase/decrease of principal	Increase/decrease of gross profit

				principal businesses over the previous year (%)	business cost over the previous year (%)	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
Including: Related transactions	-	-	-	-	-	-

In 2004, the business activities whose turnover and profit taking over 10% of the total include watch industry and property lease.

A. Watches The sales income and sales cost of FIYTA watches and foreign famous watches are listed as follows:

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

In RMB						
Products	Principal business income	Principal business cost	Gross profit rate (%)	Increase/decrease of revenue from principal businesses over the previous year (%)	Increase/decrease of principal business cost over the previous year (%)	Increase/decrease of gross profit rate over the previous year (%)
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	-	-	-	-	-	-

Table 2: Listed according to regions

In RMB		
Regions	Principal business income	Increase/decrease of revenue from 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

B Property The profit from the property operation took over 10% of the total profit from the principal business. The said operating income and profit were mainly from the lease of FIYTA building and FIYTA Technology Building.

In the report period, some change took place in the Company's principal business or its structure, and earning power of the principal business in comparison with the previous year, which are summarized as follows:

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.

2. Operation and Performances of the Principal Subsidiaries and Associates

(1) 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 2004, its total assets amounted to RMB 71,276,760, net assets: RMB 24,157,009 and net profit realized in 2004: RMB 11,558,034.

(2) 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 2004, its total assets amounted to RMB 8,546,972, net assets: RMB -1,394,683 and net profit realized in 2004: RMB -85,362.

(3) 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 2004, its total assets amounted to RMB 138,350,128, net assets: RMB 8,371,311 and net profit realized in 2004: RMB 302,036.

(4) 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 2004, its total assets amounted to RMB 10,888,640, net assets: RMB 4,631,187 and net profit realized in 2004: RMB 1,421,884.

3. Major Suppliers and Customers

In RMB			
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%

4. Problems and difficulties occurred in operation and their solutions

(1) The market of timepiece industry the Company is engaged in is very severe and the rising trend of imported watches is still enhanced. The quality likeness of domestic watches of various brands is further enhanced.

To deal with the development trend of consumers' focus on watches with famous brand and symbolization, the Company, on the one hand, enhanced the R & D and technology platform, innovation and new product R & D, carried out the brand strategy of "3-source R & D" and "3-color violet", reinforced the quality management and conducted international competition in a positive way. On the other hand, the Company enhanced product sales management and brand marketing and promotion, carried out sustainable marketing, enriched the brand culture, upgraded the brand influence force and good fame and reinforced the sustainable development capability of the Company.

(2) In order to expand the market share, the Company increased the investment in R & D, popularization and promotion and the quantity of shop stocks increased to a certain level. As a result, the income from sales of watches increased by a big margin, but it may also cause a certain pressure upon the Company's short term profit.

The Company actively adjusted and improved the sales management system, establish FIYTA watch sales department, itemized the management measures, gradually controlled the cost and cost expenditure in an affective way, improved the investment in marketing and promotion, positively developed new sales channels, including TVSN TV direct sales and e-commerce, etc.; sustainably carried out whole staff training, enhanced the atmosphere of learning, constructed new corporate culture and improved the operation efficiency of the Company.

(3) With continuous development and change of the domestic marketing models, the sales channels and terminals produced extremely big influence upon sales of watches. Therefore, it is extraordinarily important to establish and operate sound sales network.

The Company, on the one hand, further optimized the marketing network structure of FIYTA in big and medium cities throughout the country and improved effective sales capacity; accelerated expansion and construction of HARMONY sales network channels on the other hand. The Company realized big scale operation, established and consolidated the brand position of HARMONY in the famous watch sales field; expanded the cooperation of Swiss top brands and main force brands, and compacted the international top brand watch exchange platform.

III. Investment

1. In the report period, the Company had no newly increased proceeds raised through share offering. The investment and application of the proceeds raised from the latest share offering are as follows:

With approval by China Securities Regulatory Commission (CSRC) with the Official Reply on the Application of Shenzhen FIYTA Holdings Ltd. on Share Allotment (Document of CSRC on Listing Zi (1997) No. 72), the Company placed shares on 2-for-10 basis in 1997. After deduction of the issuing expenses, the actual amount of proceeds raised was RMB 209,718 thousand. By the end of the report period, all the proceeds were invested the corresponding projects and there existed no more balance.

In RMB '000

Total proceeds raised through share offering		209,718.00	Total proceeds used in the year		15,931.00	
			Total proceeds used accumulatively		209,718.00	
Committed projects		Planned investment	Change of project (Y/N)	Actual Investment	Proceeds invested and progress of completion	Income produced in the report period
1	Set up chain shops of Harmony World Watches Center in China	112,000.00	Y (partial proceeds transferred to the project of the technology park)	70,000.00	100%	302.00
2	Set up FIYTA Hi-tech Park	55,000.00	N (additional investment)	139,718.00	100%	9,130.00

3	Set up chain shops of Harmony World Watches Center in Southeast Asia	41,480.00	Y (transferred to the project of the technology park)	0.00	all transferred to the project of the technology park	0.00
Total		208,480.00	—	209,718.00	—	9,432.00
Note to the actual investment		(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.				
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				

2. Investments with the Funds not Raised by Share Offering

In the report period, except the investment with funds not raised by share offering amounting to RMB 35,139 thousand in FIYTA Technology Building and amounting to RMB 41,055 thousand in Harmony Chain Shop, the Company had no other big investment projects with funds not raised by share offering.

IV. Financial Position

(I) Financial Position and Operation Results

Table 1

Items	Amount in report year (RMB)	Amount in same period of the previous year (RMB)	Increase/Decrease rate (%)	Reason of Change:
Profit from principal businesses	101,141,752	88,698,251	14.03	It mainly due to growth of the income from the principal business
Investment income	-8,534,002	10,955,699	-177.90	It is mainly due to provision of the reserve amounting to RMB 9.42 million for price falling of short term investment in the report period while the income from the entrusted management of finances was RMB 10 million in the same period of the previous year.
Subsidy income	0	3,800,000	-100.00	As the government rewarded the Company for FIYTA watches being honorably elected top brand product and famous trademark in the same period of the previous year while there was no subsidy income in the report period.
Net profit	1,907,880	5,088,057	-62.50	It is mainly affected by the loss of the short term investment
Net increase/decrease of cash and cash equivalents	-32,735,498	-19,103,338	-71.36	It is mainly due to increased investment on the. FIYTA Technology Building and Harmony Chain Shops

Table 2

Items	Amount at the year end (RMB)	Amount at the year beginning (RMB)	Increase/Decrease rate (%)	Reason of Change:
Inventories:	203,983,820	152,648,834	33.63	It was mainly due to expansion of Harmony Chain Shops and increase of inventories
Fixed assets, net	253,123,101	53,581,869	372.40	It is mainly due to that as FIYTA Technology Building was completed in construction and put into application, and the whole construction was transferred to fixed assets.
Short-term Loan:	20,000,000	100,000	19900	The short term bank loan increased by RMB 20 million
Accounts payable	65,263,798	34,504,530	89.15	It is mainly due to the accounts payable by Harmony to the suppliers
Total assets	627,537,297	572,847,496	9.55	It is mainly due to the short term bank loan amounting to RMB 20 million obtained in the report period and the increase of the payments for goods payable by Harmony to its suppliers.
Shareholders' interests	517,364,242	515,456,362	0.37	It is mainly due to the profit earned in the report period amounting to RMB 1,907,880.

(2) Reasons of Change in Profit Composition

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.

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

In the report period, there was no change in the accounting policy and accounting estimation or correction of material accounting errors.

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

In the report period, there was no significant changes in the production and operation

environment, macro policy, laws and regulations which may produce important influence upon the Company.

VI. Notice to the issues involved in the auditors' report with the issues emphasized, reservations, disclaimers or negative opinion produced by the certified public accountants.

Both Pricewaterhouse Coopers Zhongtian Certified Public Accountants and Pricewaterhouse Coopers China Limited produced unqualified 2004 auditors' report for the Company; and the Company had no issue necessary to be clarified.

VII. Business Development Plan of New Year

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.

VIII. Routine Work of the Board of Directors

1. In the report period, the Company held 8 board meetings, which all complied with the PRC Company Law and the Articles of Association of the Company in terms of procedures and proposals. The board meetings are summarized as follows:

(1) The 4th meeting of the 3rd Board of Directors was held on January 14, 2004. At the meeting, Ms. Fang Juan was engaged as deputy general manager of the Company.

(2) 2004 1st Extraordinary Meeting of the 4th Board of Directors was held on February 9, 2004. The meeting decided that the Company may increase short term investment with the amount not exceeding RMB 50 million.

(3) 2004 2nd Extraordinary Meeting of the 4th Board of Directors was held on February 17, 2004. The meeting decided to change the Company's registered address and business scope and the resolution was submitted to the Shareholders' General Meeting for review and the Articles of Association was revised accordingly.

(4)The 6th meeting of the 4th Board of Directors was held on April 6, 2004. The meeting adopted the following proposals:

2003 Work Report of the Board; 2003 Financial Settlement Report; Proposal of 2003 Profit Distribution and Converting the Capital Public Reserve into Share Capital; Proposal on Provision of Reserve for Devaluation of Assets in 2003; Proposal on Change of Important Accounting Policies; Proposal on Correction of the Accounting Errors in 2002; 2003 Annual Report and Summary; Proposal on Renewing the Engagement of Certified Public Accountants in 2004; System of Management of the Relations between the Company and Investors; Proposal on Replacement of the Company's Directors; decision on holding 2003 Shareholders' General Meeting on May 12, 2004.

The 7th meeting of the 4th Board of Directors was held on April 22, 2004. The meeting examined and approved 2004 1st Quarterly Report of the Company.

(6) The 8th meeting of the 4th Board of Directors was held on August 6, 2004. The meeting reviewed and approved 2004 Semi-annual Report and the Summary and Mr. Lai Weixuan was elected the Vice Chairman of the Board.

(7)The 9th meeting of the 4th Board of Directors was held on October 20, 2004. The meeting examined and approved 2004 3rd Quarterly Report of the Company.

(8) The 10th meeting of the 4th Board of Directors was held on December 30, 2004. The meeting reviewed and approved the Proposal of Replacement of the Directors and Independent Directors of the Company, the Proposal on Addition of Registered Capital to Shenzhen Shenzhen Harmony World Watches Center Co., Ltd. and the Proposal on Improvement of the Company's Internal Control Work.

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 2003 Shareholders' General Meeting. The shareholders' general meeting approved the proposals of change of the Company's registered address and revision of the Articles of Association. All the proposals had been implemented in implementation in the report period.

IX. Profit Distribution Proposal and Proposal for Converting the Capital 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.

X. Special Statement of the Certified Public Accountants on the Occupancy of the Company's Funds by its Controlling Shareholder and other Related Parties (Refer to Attachment 2)

XI. Mr. Cai Zheng and Mr. Hua Xiaoning, two independent directors, expressed special statement and independent opinion on the Company's accumulative and current external guarantee and implementation of the Document of CSRC (2003) No. 56.

Pursuant to the Circular of China Securities Regulatory Commission on Standardizing the Relations between Listed Companies and the Related Parties and some Issues concerning External Guarantees Offered by Listed Companies (CSRC Doc. [2003] No. 56), we carefully checked and finalized the external guarantees offered by Shenzhen FIYTA Holdings Ltd. in a realistic and down-to-earth way and hereby present our opinion on this issue as follows:

Through careful verification, we have found that the Company has strictly observed the relevant provisions of the Articles of Association, made strict control over the external guarantee risk. In 2004, the Company offered no guarantee to the controlling shareholder or the related parties or any other party. There existed no accumulated guarantee at the end of the report period.

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

Chapter 8 Report of the Supervisory Committee

I. 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: 2003 Work Report of the Supervisory Committee; Proposal of 2003 Profit Distribution and Converting the Capital Public Reserve into Share Capital; Proposal on Provision of Reserve for Devaluation of Assets in 2003; Proposal on Change of Important Accounting Policies; Proposal on Correction of the Accounting Errors in 2002; 2003 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.

Chapter 9 Significant Events

I. In the report period, the Company has not been involved in any material lawsuit or arbitration.

II. In the report period, the Company had conducted no such activities as assets acquisition, sales, absorption or consolidation.

III. In the report period, the Company was not involved in any material related transactions.

1.Regular Related Transactions

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	
Shenzhen CATIC Property Management Co., Ltd.	A subsidiary of the Company's actual controller	Amount in transaction	Proportion in the amount of the similar transactions	Amount in transaction	Proportion in the amount of the similar transactions
		-	-	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.			

2. For the other related transactions, refer to the Note IX (6) to the accounting statements "Related Transactions".

IV. Important Contracts and Implementation

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

2. In the report period, the Company offered no material guarantee to any other company.

3. In the report year, the Company had not entrusted any other company for managing assets.

4. Implementation of other Material Contracts

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>.

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

In the report period or its extension to the report period, the Company or the shareholders holding over 5% of the Company's total shares made no commitments.

VI. Engagement of Certified Public Accountants and Remuneration

The Company has renewed engagement of Pricewaterhouse Coopers Zhongtian Certified Public Accountants and Pricewaterhouse Coopers China Limited as the Company's domestic and international auditors for the year 2005.

Types	Description	Annual Emolument (in RMB '000)		Continuous service years
		2004	2003	
A-shares	Pricewaterhouse Coopers Zhongtian Certified Public Accountants	240	225	4
B-shares	PRICEWATERHOUSECOOPERS CHINA LTD.	240	225	5

VII. Penalties to and the Remedies from the Company, the Board of Directors and Directors
In the report year, there existed no such event resulted in inspection, administrative penalties or circulating notice of criticism from China Securities Regulatory Commission or public blame from the Stock Exchange against the Company, the Board of Directors or any directors.

VIII. Other important matters

The Company purchased Huashun Building from Sichuan Real Estate Development (Group) Co. with book value of RMB 9.28 million 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. Over the past years, the Company has made full use of the resource of Huashun Building and obtained income from the partial property externally while the Company's marketing office stationed there used part of the property. Meanwhile, the Company has been trying hard in the procedures for finalizing the ownership of the said property.

Chapter 10 Financial Report
(Pages 32 to 67 of Attachment I)

Chapter 11 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 15, 2005

Attachment I

INDEPENDENT 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 (collectively the "Group") as of 31 December 2004 and the related consolidated income and consolidated cash flow statements for the year then ended. These financial statements 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 2004 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 Zhong Tian CPAs Co., Ltd.

13 April 2005

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		<u>(177,105)</u>	<u>(139,435)</u>
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		<u>-</u>	<u>(403)</u>
Profit from operations	5	3,184	5,593
Finance (costs) / income - net	8	<u>(98)</u>	<u>553</u>
Profit before taxation		3,086	6,146
Taxation charge	9	<u>(2,818)</u>	<u>(859)</u>
Profit after taxation		268	5,287
Minority interests		<u>(63)</u>	<u>845</u>
Net profit for the year		<u>205</u>	<u>6,132</u>
Dividends	25	<u>-</u>	<u>-</u>
Earnings per share	10	<u>RMB0.001</u>	<u>RMB0.02</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 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		<u>297,482</u>	<u>222,448</u>
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		<u>357,037</u>	<u>380,527</u>
TOTAL ASSETS		<u><u>654,519</u></u>	<u><u>602,975</u></u>
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		<u>518,175</u>	<u>517,970</u>
MINORITY INTERESTS		<u>7,336</u>	<u>7,273</u>
NON-CURRENT LIABILITIES			
Deferred income		<u>3,000</u>	<u>3,000</u>
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		<u>126,008</u>	<u>74,732</u>
TOTAL EQUITY AND LIABILITIES		<u><u>654,519</u></u>	<u><u>602,975</u></u>

On 13 April 2005, 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 2004**

	Share capital	Reserves			Accumulated losses	Total
		Capital reserve	Statutory reserves	Sub-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	<u>249,318</u>	<u>191,108</u>	<u>114,519</u>	<u>305,627</u>	<u>(36,770)</u>	<u>518,175</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 2004

	Notes	2004 RMB'000	2003 RMB'000
Cash flows from operating activities			
Cash used in operations	26	(40,630)	(8,320)
Interest paid		(323)	-
Tax paid		<u>(1,415)</u>	<u>(795)</u>
Net cash flows used in operating activities		<u>(42,368)</u>	<u>(9,115)</u>
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		<u>-</u>	<u>3,000</u>
Net cash flows (used in) / generated from investing activities		<u>(10,267)</u>	<u>19,240</u>
Cash flows from financing activities			
Proceeds from borrowings		20,000	100
Repayments of borrowings		<u>(100)</u>	<u>(4,000)</u>
Net cash flows generated from / (used in) financing activities		<u>19,900</u>	<u>(3,900)</u>
(Decrease) / increase in cash and cash equivalents		(32,735)	6,225
At start of year		<u>117,527</u>	<u>111,302</u>
At end of year		<u><u>84,792</u></u>	<u><u>117,527</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 2004, 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 Feitu New Technology Development Company	RMB3,080,000	60%	-	Electroplating of watch straps, casing and jewellery
Shenzhen Harmony World Watch Centre Co., Ltd.	RMB15,000,000	90%	-	Distribution of watches and watch components and provision of repair services

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)**

Name of the subsidiaries	Registered capital	Attributable equity interest		Principal activities
		Direct	Indirect	
Xian Haomen Food & Recreation City Co., Ltd. (note a)	HKD16,000,000	62%	-	Catering and entertainment
Shenzhen World Famous Watch Centre Co., Ltd. (note b)	RMB 2,800,000	50%	-	Retailing of advanced watch, glasses and jewellery

Note: (a) This subsidiary has sold out all its assets related to catering and entertainment business and ceased its operations since 2003.

(b) The Company has obtained substantial control over the joint venture's operation since 2003. As a result, its results and assets have been consolidated in the Group's financial statements.

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.

During the year ended 31 December 2004, certain changes were introduced to IAS 36 - "Impairment of Assets" and IAS 38 - "Intangible Assets", and a new standard, IFRS 3 - "Business Combinations", became effective. There were no material effects of these revised standards to the financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES

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

(a) Consolidation

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

(b) 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.

(c) 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.

(d) 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, amounts 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(e) and note 3(m) respectively. Other financial assets and financial liabilities are stated at cost.

Disclosures about financial assets and financial liabilities of the Group are provided in note 27.

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)

(e) 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 and non-current 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.

(f) 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 when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. 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)

(g) 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. 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.

(h) 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.

(i) 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)

(j) 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.

(k) 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.

(l) 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.

(m) 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.

(n) 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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

less.

3. **PRINCIPAL ACCOUNTING POLICIES (Cont'd)**

(o) **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.

(p) **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.

(q) **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.

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

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(s) 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.

(t) Dividends

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

(u) 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.

(v) Comparatives

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. BUSINESS SEGMENTS INFORMATION OF THE GROUP

For the year ended 31 December 2004	Clocks and watches RMB'000	Property rental RMB'000	Catering, entertainment and others RMB'000	Total RMB'000
Turnover	<u>250,902</u>	<u>27,345</u>	<u>-</u>	<u>278,247</u>
Segment results	(7,313)	20,096	-	12,783
Other expense				<u>(9,599)</u>
Operating profits				3,184
Finance costs - net				<u>(98)</u>
Profit before taxation				3,086
Taxation				<u>(2,818)</u>
Profit after taxation				268
Minority interests				<u>(63)</u>
Net profit				<u>205</u>
Segment assets	418,746	203,603	-	622,349
Unallocated assets				<u>32,170</u>
				<u>654,519</u>
Segment liabilities	108,559	-	-	108,559
Unallocated liabilities				<u>20,449</u>
				<u>129,008</u>
Capital expenditure	<u>39,053</u>	<u>50,921</u>	<u>-</u>	<u>89,974</u>
Depreciation and amortisation				
- fixed assets	<u>7,358</u>	<u>-</u>	<u>-</u>	<u>7,358</u>
- investment properties	<u>-</u>	<u>4,367</u>	<u>-</u>	<u>4,367</u>
Amortisation of leasehold land	<u>-</u>	<u>461</u>	<u>-</u>	<u>461</u>
Provision for doubtful debts	<u>443</u>	<u>-</u>	<u>-</u>	<u>443</u>
Reversal of inventory obsolescence	<u>(3,386)</u>	<u>-</u>	<u>-</u>	<u>(3,386)</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

For the year ended 31 December 2003	Clocks and watches RMB'000	Property rental RMB'000	Catering, entertainment and others RMB'000	Total RMB'000
Turnover	<u>208,302</u>	<u>14,768</u>	<u>5,063</u>	<u>228,133</u>
Segment results	(7,905)	12,925	(684)	4,336
Other revenue				883
Gain on sale of discontinuing operation				777
Loss on disposal of a subsidiary				<u>(403)</u>
Profit before taxation				5,593
Finance income – net				<u>553</u>
Profit before taxation				6,146
Taxation				<u>(859)</u>
Profit after taxation				5,287
Minority interests				<u>845</u>
Net profit				<u>6,132</u>
Segment assets	497,471	28,570	-	526,041
Unallocated assets				<u>76,934</u>
				<u>602,975</u>
Segment liabilities	77,051	270	-	77,321
Unallocated liabilities				<u>411</u>
				<u>77,732</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>-</u>	<u>2,469</u>	<u>8,947</u>
- investment properties	<u>-</u>	<u>1,042</u>	<u>-</u>	<u>1,042</u>
Amortisation of leasehold land payments	<u>151</u>	<u>310</u>	<u>-</u>	<u>461</u>
Provision for doubtful debts	<u>7,910</u>	<u>-</u>	<u>-</u>	<u>7,910</u>
Reversal of inventory obsolescence	<u>(423)</u>	<u>-</u>	<u>-</u>	<u>(423)</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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. PROFIT FROM OPERATIONS

The following items have been included in arriving at operating profit:

	2004 RMB'000	2003 RMB'000
Fair value losses / (gain) on trading investments	9,857	(1,089)
(Gain) / loss on disposal of trading investments	(258)	206
Gain on sale of discontinuing operation	-	(777)
(Gain) / loss on disposals of fixed assets	(73)	536
Provision for doubtful debts	443	7,910
Reversal of inventory obsolescence	(3,386)	(423)
Depreciation on fixed assets	7,358	8,947
Depreciation on investment properties	4,367	1,042
Amortisation of leasehold land payments	461	461
Amortisation of other non-current assets	560	397
Operating lease rental expense	6,205	5,147
Cost of inventories recognised as an expense	169,487	132,741
Repairs and maintenance expenditure on fixed assets	133	193
Staff costs (note 6)	38,987	33,887
Advertising expenses	11,046	13,522
Loss on disposal of a subsidiary	-	403
Directors' emoluments	2,296	352

6. STAFF COSTS

	2004 RMB'000	2003 RMB'000
Staff salaries	33,641	28,519
Staff welfare	2,348	2,605
Social insurance expenses	2,998	2,763
	38,987	33,887

The number of employees at 31 December 2004 was 1,195 (2003: 1,068).

7. OTHER OPERATING (EXPENSES) / INCOME

	2004 RMB'000	2003 RMB'000
Investment income from designated deposits	351	10,000
Repair and maintenance income	671	513
Government subsidies	-	3,800
(Loss) / gain from trading investments		
- profit / (loss) on sales	258	(206)
- Fair value (loss) / gain	(9,857)	1,089
Others	1,461	1,076
	(7,116)	16,272

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. FINANCE (COSTS) / INCOME - NET

	2004 RMB'000	2003 RMB'000
Interest income		
- bank deposits	650	802
Interest expenses		
- bank loans	(323)	-
Net exchange (losses) / gain	(13)	32
Others	(412)	(281)
	<u>(98)</u>	<u>553</u>

9. TAXATION CHARGE

Taxation charge for the year are as follows:

	2004 RMB'000	2003 RMB'000
Current taxation	1,553	1,465
Deferred taxation (note 16)	1,265	(606)
	<u>2,818</u>	<u>859</u>

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

	2004 RMB'000	2003 RMB'000
Profit before taxation	<u>3,086</u>	<u>6,146</u>
Tax calculated at the tax rates applicable to the Company and its subsidiaries ranging from 15% to 33%	463	1,046
Tax effect of a subsidiary which was exempted from income tax	(936)	(1,445)
Tax effect in tax losses of subsidiaries	1,289	866
Expenses not deductible for tax purpose	2,043	478
Income not subject to tax	(41)	(86)
Tax charge	<u>2,818</u>	<u>859</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.

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the consolidated profit for the year of RMB205,000 (2003: RMB6,132,000) and 249,318,000 shares (2003: 249,318,000 shares) on issue.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

11. FIXED ASSETS

	2004				2003
	Buildings	Equipment and machinery	Leasehold improvements	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost / valuation					
At beginning of year	34,600	32,674	23,681	90,955	107,808
Reclassification to investment properties (Note 12)	(918)	-	-	(918)	-
Additions	26,699	8,124	4,230	39,053	8,048
Disposals	-	(6,016)	(12,732)	(18,748)	(11,378)
Disposal of a subsidiary	-	-	-	-	(9,972)
Voluntary liquidation of subsidiary	-	-	-	-	(3,551)
At end of year	60,381	34,782	15,179	110,342	90,955
Representing					
At cost	26,699	12,532	15,179	54,410	28,089
At valuation	33,682	22,250	-	55,932	62,866
	60,381	34,782	15,179	110,342	90,955
Accumulated depreciation and impairment					
At beginning of year	12,250	20,108	18,455	50,813	62,083
Reclassification to investment properties (Note 12)	(301)	-	-	(301)	-
Charge for the year	1,075	3,250	3,033	7,358	8,947
Disposals	-	(5,087)	(12,732)	(17,819)	(9,515)
Disposal of a subsidiary	-	-	-	-	(7,718)
Voluntary liquidation of subsidiary	-	-	-	-	(2,984)
At end of year	13,024	18,271	8,756	40,051	50,813
Net book value					
At end of year	47,357	16,511	6,423	70,291	40,142
At beginning of year	22,350	12,566	5,226	40,142	45,725

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

	2004			2003
	Buildings	Equipment and machinery	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost	54,346	34,782	15,179	104,307
Accumulated depreciation	(11,142)	(18,271)	(8,756)	(38,169)
	<u>43,204</u>	<u>16,511</u>	<u>6,423</u>	<u>66,138</u>
				<u>35,989</u>

The Group is in the process of applying for property certificates in respect of buildings with a net book value amounting to RMB26,343,000 at 31 December 2004 (2003: RMB 9,227,209).

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. ("Shenzhen Peng Xing"), 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

	2004	2003
	RMB'000	RMB'000
Net book value at beginning of year	16,492	17,534
Transfer from construction in process (note 13)	174,858	-
Transfer from fixed assets (note 11)	617	-
Depreciation for the year	(4,367)	(1,042)
Net book value at end of year	<u>187,600</u>	<u>16,492</u>
Directors' valuation		
-Including leasehold land payments	<u>346,019</u>	<u>100,000</u>

The investment properties of the Group are situated in the PRC and the related leasehold land was granted by Town Planning and Land Administration Bureau of Shenzhen for a period of 50 years. The valuation for the investment properties at 31st December 2004 and 2003 were determined by the directors on an open market value basis. While the valuation for 2002 was performed by an independent valuer, Shenzhen Peng Xing, on an open market value basis.

The Group is in the process of applying for property certificates in respect of buildings with a net book value amounting to RMB171,789,000 at 31 December 2004 (2003: nil).

13. CONSTRUCTION IN PROGRESS

	2004	2003
	RMB'000	RMB'000
At beginning of year	125,227	61,318
Additions	50,921	63,955
Transfer to investment properties (note 12)	(174,858)	-
Effect of subsidiary in voluntary liquidation and not consolidated	-	(46)
At end of year	<u>1,290</u>	<u>125,227</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. LEASEHOLD LAND PAYMENTS

	2004 RMB'000	2003 RMB'000
Cost		
Balance at beginning and end of year	<u>20,037</u>	<u>20,037</u>
Accumulated amortisation		
Balance at beginning of year	3,573	3,112
Amortisation for the year	<u>461</u>	<u>461</u>
Balance at end of year	<u>4,034</u>	<u>3,573</u>
Net book value		
Balance at end of year	<u>16,003</u>	<u>16,464</u>
Balance at beginning of year	<u>16,464</u>	<u>16,925</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.

	2004 RMB'000	2003 RMB'000
By nature		
- Investment properties	16,003	12,078
- Other properties	<u>-</u>	<u>4,386</u>
	<u>16,003</u>	<u>16,464</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

15. AVAILABLE-FOR-SALE INVESTMENTS

	2004 RMB'000	2003 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 amounts at the year end.

16. DEFERRED TAXATION

	2004 RMB'000	2003 RMB'000
Balance at beginning of year	16,731	16,125
Transfer (to) / from income statement (note 9)	<u>(1,265)</u>	<u>606</u>
Balance at end of year	<u>15,466</u>	<u>16,731</u>

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

	2004 RMB'000	2003 RMB'000
Provision for doubtful debts, provision for inventory obsolescence, provision for diminution in value of trading investment and other expenses	<u>15,466</u>	<u>16,731</u>

17. INVENTORIES

	2004 RMB'000	2003 RMB'000
Raw materials (at cost)	14,836	17,270
Raw materials (at net realisable value)	7,429	4,000
Work-in-progress (at cost)	1,730	4,162
Finished goods (at cost)	166,299	111,616
Finished goods (at net realisable value)	<u>13,689</u>	<u>15,601</u>
	<u>203,983</u>	<u>152,649</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

18. TRADE RECEIVABLES

	2004 RMB'000	2003 RMB'000
Trade receivables	59,849	62,314
Less: provision for doubtful debts	<u>(41,119)</u>	<u>(42,765)</u>
	<u>18,730</u>	<u>19,549</u>

19. PREPAYMENTS AND OTHER RECEIVABLES

	2004 RMB'000	2003 RMB'000
Prepayments	2,772	1,023
Other receivables	47,175	46,355
Less: provision for doubtful debts	<u>(13,734)</u>	<u>(13,394)</u>
	<u>36,213</u>	<u>33,984</u>

20. TRADING INVESTMENTS

	2004 RMB'000	2003 RMB'000
Market value of listed investments		
- Equity shares	<u>11,819</u>	<u>4,314</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.

21. DESIGNATED DEPOSITS

	2004 RMB'000	2003 RMB'000
Deposits in a bank (Note)	<u>-</u>	<u>51,004</u>

Note:

The deposits were placed with Bank of China for the purpose of investment in government bonds. The deposits have been uplifted in February 2004.

SHENZHEN FIYTA HOLDINGS LIMITED**(Joint stock limited company incorporated in the People's Republic of China)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****22. SHARE CAPITAL**

	2004		2003	
	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>

23. 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 2004 as there is no distributable profit in the statutory accounts of the Company.

24. SHORT-TERM LOANS

	2004 RMB'000	2003 RMB'000
Bank loans – unsecured	<u>20,000</u>	<u>100</u>

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

SHENZHEN FIYTA HOLDINGS LIMITED**(Joint stock limited company incorporated in the People's Republic of China)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****25. DIVIDENDS**

Pursuant to a resolution of the Board of Directors, the Company did not declare any cash dividend for 2003 in 2004 (2003: nil).

26. CASH GENERATED FROM OPERATIONS

Reconciliation of profit before taxation to cash generated from operations

	2004 RMB'000	2003 RMB'000
Profit before taxation	3,086	6,146
Adjustments for:		
Depreciation		
- fixed assets	7,358	8,947
- investment properties	4,367	1,042
Amortisation of leasehold land payments	461	461
Amortisation of non-current assets	560	397
(Gain) / Loss on disposals of fixed assets	(73)	536
Gain of sale of discontinuing operating	-	(777)
(Gain) / loss on disposal of trading investments	(258)	206
Fair value losses on trading investments	9,857	(1,089)
Provision for doubtful debts	443	7,910
Reversal of inventory obsolescence	(3,386)	(423)
Loss on disposal of a subsidiary	-	403
Investment income from designated deposits	(351)	(10,000)
Interest expense	323	-
Interest income	(650)	(802)
Others	-	(138)
Decrease / (increase) in accounts receivable	716	(4,137)
Decrease in amounts due from related companies	-	2,549
Increase in inventories	(47,948)	(27,939)
Increase in prepayments and other receivables	(2,569)	(282)
(Increase) / decrease in trading investments	(17,104)	2,690
Increase in accounts payable	4,059	6,864
Increase in staff welfare payable	36	145
(Decrease) / increase in accruals and other current liabilities	443	(1,029)
Cash used in operations	<u>(40,630)</u>	<u>(8,320)</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

27. FINANCIAL RISK MANAGEMENT

(a) Interest rate risk

In the opinion of the directors, financial assets and financial liabilities, other than the bank borrowings disclosed in note 24, 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 is deposited with registered banks in the PRC. Majority of the Group's receivables relate to sales of goods to third parties in the PRC. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on receivables. The Group maintains a provision for doubtful debts.

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

(c) Foreign currency risk

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

(d) Fair value

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

28. COMMITMENTS

(a) Operating lease commitments

- where the Group is the lessee

	2004 RMB'000	2003 RMB'000
The future minimum lease payments under non-cancellable operating leases are as follows:		
Not later than 1 year	3,720	2,100
Later than 1 year and not later than 5 years	10,077	3,063
Later than 5 years	-	450
	<u>13,797</u>	<u>5,613</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. COMMITMENTS (Cont'd)

(a) Operating lease commitments (cont'd)

- where the Group is the lessor

	2004 RMB'000	2003 RMB'000
The future minimum lease payments receivable under non-cancellable operating leases are as follows:		
Not later than 1 year	28,686	15,261
Later than 1 year and not later than 5 years	51,854	28,389
	<u>80,540</u>	<u>43,650</u>

(b) Capital commitments

	2004 RMB'000	2003 RMB'000
Contracted but not provided for		
Buildings	<u>357</u>	<u>63,961</u>

29. SIGNIFICANT RELATED PARTY TRANSACTIONS

(a) Property management fee

	2004 RMB'000	2003 RMB'000
Shenzhen CATIC Property Management Co.,Ltd	<u>3,087</u>	<u>662</u>

(b) Amount due from a related company

The amount due from a related company is non-interest bearing and repayable on demand.

	2004 RMB'000	2003 RMB'000
CATIC Shenzhen Company	<u>1,500</u>	<u>1,500</u>

(c) Loan guaranteed by holding company

	2004 RMB'000	2003 RMB'000
CATIC	<u>20,000</u>	<u>100</u>

SHENZHEN FIYTA HOLDINGS LIMITED**(Joint stock limited company incorporated in the People's Republic of China)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****30. 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. 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 were reported in the last year's financial statements as a discontinuing operation. The sales, results, cash flow and net assets were as follows:

	2004 RMB'000	2003 RMB'000
Turnover	-	5,063
Operating costs	-	(5,747)
Operating loss	-	(684)
Finance costs	-	(1)
Loss before taxation	-	(685)
Taxation	-	-
Net loss	-	(685)
Net operating cash inflow	-	(1,848)
Net investing cash outflow	-	-
Total net cash inflow	-	(1,848)
	RMB'000	At disposal dates RMB'000
Fixed assets	-	2,023
Current assets	-	-
Total assets	-	2,023
Total liabilities	-	-
Net assets	-	2,023

The gain on disposal was determined as follows:

	RMB'000	RMB'000
Proceed from sales	-	2,800
Net assets sold	-	(2,023)
Gain on disposal	-	777

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

30. DISCONTINUING OPERATION (Cont'd)

The net cash inflow on sale was determined as follows:

	2004 RMB'000	2003 RMB'000
Proceed from sale	-	2,800
Less: Cash and cash equivalents in subsidiaries sold	-	-
Net cash inflow on sale	<u>-</u>	<u>2,800</u>

31. ULTIMATE HOLDING COMPANY

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

IMPACT OF IFRS AND OTHER ADJUSTMENTS ON NET PROFIT AND SHAREHOLDERS' EQUITY

	Net profit for the year		Shareholders' equity	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
As reported in the statutory accounts	1,908	5,088	517,364	515,456
Impact of major IFRS and other adjustments:				
- adjustment on deferred tax assets	(1,265)	606	15,466	16,731
- reclassification of prior year profit appropriation to staff welfare payable	-	-	(15,949)	(15,949)
- adjustment on fair value for trading investment	(438)	438	-	438
- others	-	-	1,294	1,294
	<u>205</u>	<u>6,132</u>	<u>518,175</u>	<u>517,970</u>
As restated for IFRS				

Attachment II. SHENZHEN FIYTA HOLDINGS LTD.

Statement of the Company's Funds Occupied by the Related Parties

Ended Dec. 31, 2004 (in RMB '000)

Related party	Relationship between the Company and the related parties	Items in the Accounting Statements	Opening balance	Amount incurred to the debit side	Amount incurred to the credit side	Ending balance	Reserve for bad debt provided	Way of occupancy and the reason	Way of Repayment	Does it belong to the fund occupancy against regulations as specified on the Document No. 56? (Y/N)	Remarks
A	B	C	D	E	F	G	H	I	J	K	J
CATIC Shenzhen Corporation	Controlling shareholder of the Company's parent company	Other receivables	150	-	-	150	-	Operative fund occupancy; reimbursed expenses paid by the Company	Not applicable	N	
Shenzhen Feiyu Artistic Timepiece Co., Ltd.	The Company's subsidiary liquidated but not consolidated	Other receivables	547	-	-	547	547	Operative fund occupancy; reimbursed expenses paid by the Company	Not applicable	N	
Shenzhen Feitu New Technology Development Co., Ltd.	The Company's subsidiary liquidated but not consolidated	Other receivables	188	2	-	190	152	Operative fund occupancy; reimbursed expenses paid by the Company	Not applicable	N	

Note: The Company's funds occupied its subsidiaries were totally offset at the time of consolidation and were not reflected on the above statements. As at December 31, 2004, the amount of the Company's funds occupied by the subsidiaries was RMB 124 million.

SHENZHEN FIYTA HOLDINGS LTD.
Statement of External Guarantee Offered by the Company against the Regulations
Year Ended December 31, 2004

Guarantor (the Company/the Company's Subsidiaries)	Guarantees	Relationship between the Guarantee and the Company	Amount in guarantee, in RMB '000	Date of Starting Guarantee	Date of Guarantee Expiry	Does there exist responsibility of guarantee	Way of guarantee	Type of guarantee against regulations	Remarks
A	B	C	D	E	F	G	H	I	J
Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil

Note: The Company offered no guarantee to its controlled subsidiaries ended December 31, 2004.