深圳市飞亚达（集团）股份有限公司

SHENZHEN FIYTA HOLDINGS LTD.

2005 Annual Report

April 20, 2006

Important

I. The Board of Directors, the Supervisory Committee, directors, supervisors and senior executives 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 authenticity, accuracy and completion of the whole contents.

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, director or any senior executive has expressed that he/she is not sure for the genuineness, accuracy or completeness of this annual report or has any different opinion on the same.

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

IV. Yuehua Certified Public Accountants Co., Ltd. and Morison International produced a standard unqualified auditor's report for the Company.

V. Mr. Wu Guangquan, the Chairman of the Board, Mr. Xu Dongsheng, the Managing Director, Mr. Li Dehua, Deputy General Manager and Chief Financial Officer and Mr. Hu Xinglong, Manager of the Financial Department, hereby ensure 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.

Contents

Chapter 1 Company Profile

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

Company Name in Chinese: 深圳市飞亚达（集团）股份有限公司
Short Form in Chinese: 飞亚达公司
In English: SHENZHEN FIYTA HOLDINGS LTD
Short Form in English: FIYTA

II. Legal Representative: Mr. Wu Guangquan

III. Secretary of the Board: Mr. Hao Huiwen

Securities Affairs Representative: Mr. Chen Zhuo
Liaison Address: 20th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen
Tel : 0755－86013992 86013669
Fax: 0755 - 83348369
E-mail: investor@fiyta.com.cn

IV. Registered Office Address: FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen

Office Address: 20th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen
Post Code: 518057
Internet Website: http:// www.fiyta.com.cn

V. Newspapers Designated for Disclosing the Information: Securities Times, Hong Kong Commercial Daily

Internet Website for publishing this annual report: http://www.cninfo.com.cn
Place Where the Annual Report is Prepared and Placed: Securities Department of the Company

VI. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form & Code of the Stock: FIYTA A 0026
FIYTA B 200026

VII. Other Relevant Information

1. Date of first registration: March 30, 1990
   Date of change in registration: 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

Types	Name	Office Address
A-shares	Yuehua Certified Public Accountants	Room B01-03, Pengrun Building, 26 Road Xiaoyun,District Chaoyang ,Beijing
B-share	Morison International	17/F.,One Hysan Avenue,Causeway Bay, Hongkong

Chapter 2 Financial and Business Highlights

I. Financial Highlights of the Year 2005

Items	Amount In RMB
Total profit	18,563,592.41
Net profit	16,006,999.87
Net profit after deduction of non-recurring loss/gain*	17,181,233.23
Principal business profit	129,173,020.42
Profit from other business lines	744,145.09
Operating profit	19,313,504.99
Investment income	-1,144,477.69
Subsidy income	0.00
Net amount of non-operating income and expenses	394,565.11
Net cash flows arising from operating activities	-14,006,618.19
Net increase/ decrease of cash and cash equivalents	-37,081,328.89

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

Non-recurring gain and loss items	Amount In RMB
Income from disposal of fixed assets	296,008.09
Carry-back of the reserves for devaluation provided in the previous years.	430,222.22
Losses from short term investments	-2,058,204.69
Non-operating revenue & expenditure	98,557.02
Amount affected by the income tax	59,184.00
Total	-1,174,233.36

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	16,007	15,553
Note to the discrepancies	Net profit as audited by Yuehua Certified Public Accountants Co., Ltd. 16,007 Adjustment on provision for bad debt -454 Net profit audited by Morison International according to IAS. 15,553	

III Financial Highlights Over the Past Three Years Ended the Report Period

1. Accounting Data Summary

In RMB

Items	2005 (report year)	2004 (previous year)	Year-on-year increase/ decrease (%)	2003
Principal business income	341,504,786.91	278,246,963.00	22.73%	228,133,082
Total profit	18,563,592.41	3,523,936.00	426.79%	5,708,012
Net profit	16,006,999.87	1,907,880.00	738.99%	5,088,057
Net profit after deduction of non-recurring loss/gain	17,181,233.23	2,473,894.00	594.50%	-6,775,168
Net cash flows arising from operating activities	-14,006,618.19	-24,942,143.00	43.84%	-11,746,162
	End of 2005 (End of the report year)	End of 2004 (End of the previous year)	Year end -on-year end increase/ decrease (%)	End of 2003
Total assets	621,275,547.20	627,537,297.71	-1.00%	572,847,496
Shareholders' equity (excluding minority equity)	533,371,239.36	517,364,239.49	3.09%	515,456,362

2. Financial Data Summary

In RMB

Items	2005 (report year)	2004 (previous year)	Year-on-year increase/ decrease (%)	2003
Earnings per share	0.064	0.008	738.99%	0.020
Net assets-income ratio	3.00%	0.37%	Decrease by2.63 percentage	0.99%
Net assets-income ratio based on the net profit after deducting non-recurring gains/ loss	3.22%	0.48%	Increase by 2.74 percentage	-1.31%
Net cash flows per share arising from operating activities	-0.056	-0.100	43.84%	-0.047
	End of 2005 (End of the report year)	End of 2004 (End of the previous year)	Year end -on-year end increase/ decrease (%)	End of 2003
Net assets per share	2.139	2.075	3.09%	2.067
Net assets per share after adjustment	2.087	2.030	2.81%	2.030

IV. Net assets calculated Earning Rate and Earnings per Share in accordance with the Rules for Public Companies to Disclose Information and Prepare Statements (No. 9)

promulgated by China Securities Regulatory Commission :

Profit of the report period	Net assets-income ratio (%)		Earnings per share (RMB/share)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Principal business profit	24.22%	24.59%	0.518	0.518
Operating profit	3.62%	3.68%	0.077	0.077
Net profit	3.00%	3.05%	0.064	0.064
Net profit after deduction of non-recurring loss/gain	3.22%	3.27%	0.069	0.069

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 earnings	Total Shareholders' Equity
Opening Balance	249317999	191847232.65	130467791.5	25036994.11	-54268783.68	517,364,239.49
Increase in the report period	0	0	0	0	47820490.37	47,820,490.37
Decrease in the report period	0	0	31813490.5	0	0	31,813,490.50
Ending Balance	249317999	191847232.65	98654301.02	25036994.11	-6448293.31	533,371,239.36
Reason of Change	Resulted from making up for Losses with Surplus Public Reserve for 31813490.50, and profit-making for 16006999.87 in the report period					

Chapter 3 Share Capital and Shareholders

I. Change in Shares

1. Changes in the Company's share capital ended December 31, 2005 are as follows:

In shares

	Before the change	Increase/ Decrease (+ / -) as of the year	After the change
I. Shares Unlisted			
Promoters' shares	130,248,000	0	130,248,000
Including: domestic legal person shares	130,248,000	0	130,248,000
Total non-listed negotiable shares	130,248,000	0	130,248,000
II. Negotiable shares listed			
RMB ordinary shares	60,749,999	0	60,749,999
Incl.: senior executives' shares	48,210	0	48,210
2. Foreign shares listed domestically	58,320,000	0	58,320,000

Total listed negotiable shares	119,069,999	0	119,069,999
III. Total Shares	249,317,999	0	249,317,999

2. Issuing and Listing

(1) The Company had not issued any shares and derivatives in the previous three years ended the report period.

(2) In the year 2005, 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 now.

II. Shareholders

1. Ended December 31, 2005, the Company had totally 20,895 shareholders, including 11,610 shareholders of A-shares including 1 senior executive and 9,285 shareholders of B-shares.

2. Shares held by the top ten shareholders

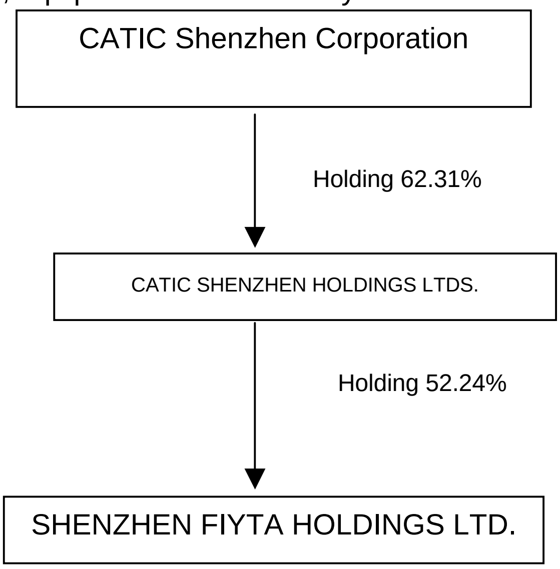
Shareholders	Increase/Decrease in the year	Number of shares held at year end	Shareholding Proportion (%)	Type (negotiable/non-negotiable)	Shares pledged or frozen
CATIC SHENZHEN HOLDINGS LTDS.	0	130,248,000	52.24	Domestic legal person shares	0
Wu Minghong	unknown	815,300	0.33	Negotiable A-shares	unknown
Zeng Ying	537,490	792,490	0.32	Negotiable B-shares	unknown
CHAN KEUNG	5,900	774,883	0.31	Negotiable B-shares	unknown
KUNG NGAI HIN	522,200	629,820	0.25	Negotiable B-shares	unknown
Ou Yanping	49,157	500,458	0.20	Negotiable B-shares	unknown
Zhang Jiansheng	unknown	457,400	0.18	Negotiable B-shares	unknown
Lin Hongbo	0	362,880	0.15	Negotiable B-shares	unknown
China Pingan Insurance (HK) Co., Ltd.	0	359,070	0.14	Negotiable B-shares	unknown
Xue Peiming	0	336,800	0.14	Negotiable B-shares	unknown

The shareholder that holds over 5% (including 5%) of the total share capital is CATIC SHENZHEN HOLDINGS LTD. In the report period there was no change in the shareholding and there were no shares held by it pledged or frozen. 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 Control Shareholder:
CATIC Shenzhen Holdings Ltd. was founded in June, 1997, with total share capital of RMB 642 million, its legal representative was: Wu Guangquan Principal businesses: Design, manufacture and sales of printed circuit board, LCD, mechanical and quartz timepieces. On the date of incorporation, the company issued 400 million domestic shares to CATIC Shenzhen Corporation, taking 62.31% of the total share capital; In 1997, the company successfully issued 242 million H-shares in Hong Kong, taking 37.69% of the total share capital. The company was listed with Hong Kong Stock Exchange in September, 1997.

Actual Controller of the Company’s Controlling Shareholder

CATIC Shenzhen Corporation was founded in April, 1982, with total share capital of RMB 80 million, and its legal representative was: Wu Guangquan Principal activities: Import and export of motor vehicles, equipment and machinery made within the Group.



5. Top Ten Shareholders of Circulating Shares

Shareholders	Number of shares held at year end	Share Type	Shareholding Proportion (%)
Wu Minghong	815,300	Negotiable A-shares	0.33
Zeng Ying	792,490	Negotiable B-shares	0.32
CHAN KEUNG	774,883	Negotiable B-shares	0.31
KUNG NGAI HIN	629,820	Negotiable B-shares	0.25
Ou Yanping	500,458	Negotiable B-shares	0.20
Zhang Jiansheng	457,400	Negotiable B-shares	0.18
Lin Hongbo	362,880	Negotiable B-shares	0.15
China Pingan Insurance (HK) Co., Ltd.	359,070	Negotiable B-shares	0.14
Xue Peiming	336,800	Negotiable B-shares	0.14

Lin Zhihua	305,700	Negotiable B-shares	0.12
Connectivity Relations among the top ten shareholders of negotiable shares	The Company has not found any connectivity relations among the top ten shareholders of negotiable shares and between the top ten shareholders of negotiable shares and the top ten shareholders.		

Chapter 4 Directors, Supervisors, Senior Executives and Staff

I. Directors, Supervisors and Senior Executives

1. About Directors, Supervisors, Senior Executives

Name	Title	Sex	Age	Office Term	Number of shares held at year beginning	Number of shares held at year end	Reason of Change
Wu Guangquan	Chairman of the Board	male	43	May, 2003 to May, 2006	0	0	—
Lai Weixuan	Vice-Chairman of the Board	male	41	May, 2004 to May, 2006	0	0	—
Sui Yong	Director	male	47	May, 2003 to May, 2006	0	0	—
Wang Baoying	Director	male	41	May, 2005 to May, 2006	0	0	—
Xu Dongsheng	Director and General Manager	male	39	May, 2003 to May, 2006	0	0	—
Zhu Gensen:	Director	male	57	May, 2003 to May, 2006	0	0	—
Cai Zheng	Independent director	male	64	May, 2003 to May, 2006	0	0	—
Hua Xiaoning	Independent director	male	42	May, 2003 to May, 2006	0	0	—
Guo Wanda	Independent director	male	40	May, 2005 to May, 2006	0	0	—
Shao Kexiong:	Chairman of Supervisory Committee	male	55	May, 2003 to May, 2006	0	0	—
Zhang Songhua:	Supervisor	male	52	May, 2003 to May, 2006	0	0	—
Tang Boxue	Supervisor	male	44	Dec, 2005 to May, 2006	0	0	—
Lu Binqiang:	Deputy General Manager	male	44	May, 2003 to May, 2006	48210	48210	冻结
Li Dehua:	Deputy General Manager and Chief Accountant	male	45	May, 2003 to May, 2006	0	0	—
Li Bei	Deputy General Manager	male	50	May, 2003 to May, 2006	0	0	—
Fang Juan	Deputy General Manager	female	46	Jan, 2004 to May, 2006	0	0	—

Hao Huiwen:	Secretary of the Board	male	37	May, 2003 to May, 2006	0	0	—

2. Engagement of Directors and Supervisors in the Shareholders

Names	Shareholders	Titles engaged in the shareholders	Office term
Wu Guangquan	CATIC SHENZHEN HOLDINGS LTDS.	Chairman of the Board	May, 2003 to May, 2006
Lai Weixuan	CATIC SHENZHEN HOLDINGS LTDS.	Director	May, 2004 to May, 2006
Sui Yong	CATIC SHENZHEN HOLDINGS LTDS.	Director	May, 2003 to May, 2006
Wang Baoying	CATIC SHENZHEN HOLDINGS LTDS.	Director	August, 2005 to May, 2006
Xu Dongsheng	CATIC SHENZHEN HOLDINGS LTDS.	Director	May, 2003 to May, 2006
Shao Kexiong:	CATIC SHENZHEN HOLDINGS LTDS.	Chairman of Supervisory Committee	May, 2003 to May, 2006

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, 43, 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, general manager and chairman of the board of Jiangxi Jiangnan Trust & Investment Co., Ltd.

Mr. Lai Weixuan, 41, 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, 48, 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. Wang Baoying, 41, senior engineer, undergraduate of Beijing University of Aeronautics & Astronautics, graduated from MBA of SCUPS. He is now a director of the Company and manager of the Strategy and Management Department of CATIC Shenzhen Corporation. He used to be a technician, deputy chief of the labor and capital division, chief of comprehensive division and chief of the investment management division of Tianjin State-run No. 105 Factory, assistant general manager and deputy general manager of Shenzhen Rainbow Supermarket Co., Ltd. and deputy general manager of Shenzhen Nanguang (Group) Co., Ltd.

Mr. Xu Dongsheng, 39, senior economist, graduated from MBA of Tongji University. Mr. Xu is now the Managing Director of the Company and Vice-president of CATIC SHENZHEN HOLDINGS LTD.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, 57, 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, 64, senior engineer, part-time professor of Northwestern Polytechnical 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, 42, Chinese certified public accountant, graduated from the master's degree of Hangzhou Electronics College. He used to be an officer of Ernst&Young and Arthur Andersen & Co. He is now an independent director of the Company, general manager of Shenzhen Dianlue Investment Co., Ltd., executive director of Shenzhen Youlian Shijun Business Administration Consulting Co., Ltd.; independent director of Hangzhou Steam Turbine Co., Ltd. and Shenzhen Tianma Microelectronics Co., Ltd.

Mr. Guo Wanda, 40, research fellow, Dr. of economics of Nankai University. He is now an independent director of the Company and vice general secretary of China Development Institute (Shenzhen, China) and the general manager of Think Tank Investment and Management Co., Ltd. He used to be research fellow of Economics Research Institute of Nankai University, director of the Macro Economy Office of the Economy Prediction Department of Shenzhen Information Center, investment manager, secretary of the board of directors and assistant general manager of Shenzhen Guangshun Co., Ltd., and the chairman of the board and general manager of Guangshun Investment Hubei Shashi Company.

(2) Supervisors

Mr. Shao Kexiong, 55, 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, 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, 52, 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. Tang Boxue, 44, undergraduate, accountant. He is a supervisor and assistant manager of the auditing department of the Company. He used to be the project manager of the financial department and general manager of Pengmen Restaurant Co., Ltd.

(3) Senior Executives

Mr. Lu Bingqiang, 44, 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 general manager and chairman of the board of Harmony World Watches Center.

Mr. Li Dehua, 45, 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, 50, senior engineer at research fellow level, graduated from Shenyang Liming Polytechnical 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, 46, 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 human resource department and assistant general manager of the Company.

Mr. Hao Huiwen, 37, 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) The annual remuneration to senior executives of the Company was distributed by the Board of Directors according to the posts and the work performances; allowance to the independent directors was reviewed and approved by the Shareholders' General Meeting.

Name	Title	Total remuneration received from the Company in the report period (RMB ' 000)
Xu Dongsheng	Director and General Manager	57.00
Zhu Gensen:	Director	25.53
Cai Zheng	Independent director	3.00
Hua Xiaoning	Independent director	3.00
Guo Wanda	Independent director	3.00
Zhang Songhua:	Supervisor	19.30
Tang Boxue	Supervisor	13.60
Lu Binqiang:	Deputy General Manager	31.30
Li Dehua:	Deputy General Manager and Chief Accountant	31.30

Li Bei	Deputy General Manager	31.30
Fang Juan	Deputy General Manager	31.30
Hao Huiwen:	Secretary of the Board	25.53
Total	—	275.16

(2) In the report period, the total amount of the remuneration to directors, supervisors and senior executives in the report year was RMB .

(3) 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.

(4) Mr. Wu Guangquan, Chairman of the Board, Mr. Lai Weixuan, vice Chairman of the Board, Mr. Sui Yong and Mr. Wang Baoying, directors, and Mr. Shao Kexiong, Chairman of the Supervisory Committee, received remuneration from the Company's shareholders and enjoyed no pay or allowance from the Company.

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

(1) On May 25, 2005, Mr. You Lei and Mr. Diao Weicheng resigned director and independent director respectively of the Fourth Board of Directors of the Company due to new job assignment. At the Company's 2004 Annual Shareholders' General Meeting, Mr. Wang Baoying and Mr. Guo Wanda were respectively elected director and independent director.

(2) On December 8, 2005, Mr. Hu Xinglong resigned supervisor of the Supervisory Committee of the Company due to new job assignment; and Mr. Tang Boxue was elected staff representative supervisor.

II. Employees:

Ended the report period, there were altogether 1459 employees, 315 of them have education background of college or higher, taking 21.59% of the total. Of the employees, there were 58 administrative personnel, 80 financial personnel, 1141 salespersons, 87 technical personnel and 93 production workers. The Company has no retired personnel to pay pension to.

Chapter 5 Corporate Governance 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 timely updating and improving the Articles of Association, the Regulation on Control over Information Disclosure, 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.

The Company is basically in compliance with the Rules for Administrating 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. Hua Xiaoning and Mr. Guo Wanda, three independent directors of the Company, fully exercised the powers endowed with by the law and regulations of the state and the Articles of Association of the Company, brought their professional knowledge into full play, and made independent, objective and fair judgment over the replacement of senior executives, related transactions, etc. strictly according to the relevant regulations, proposed professional opinions, promoted the decision making of the Board of Directors and scientific way of decision making procedures, and substantially safeguarded the interests of the Company and the shareholders.

1. Independent directors' attendance in the Board of Directors

Names	Board meetings necessary to be attended	Number of personal attendances	Number of entrusted attendances	Number of absences
Cai Zheng	7	6	1	0
Hua Xiaoning	7	7	0	0
Guo Wanda	5	5	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. Wang Baoying and Mr. Xu Dongsheng, the three 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

The Board of Directors worked out directed KPI targets for the senior executives in the report period, exercised the annual work presentation and assessment in the report period. Their total remuneration of renewal of office engagement are decided based on the assessment result and work accomplishment. 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 public notice on holding 2004 Annual Shareholders' General Meeting on Securities Times, Hong Kong Commercial Daily and http://www.cninfo.com.cn. The meeting was held on May 25, 2005 at the 19th floor meeting room of FIYTA Technology Building. There were 5 shareholders and shareholders' representatives present at the meeting, representing 130,455,111 shares, taking 52.32% 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 reviewed and approved the following proposals through voting: (1) 2004 Work Report of the Board of Directors; (2) 2004 Work Report of the Supervisory Committee; (3) 2004 Final Settlement Report; (4) 2004 Annual Profit Distribution Proposal; (5) 2004 Annual Report; (6) Proposal on Renewing the Engagement of Certified Public Accountants in 2005; (7) Proposal on Election of Directors and Independent Directors; (8) 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 26, 2005.

Chapter 7 Report of the Board of Directors

I. Operation Review

(I) General

FIYTA is a domestic renowned timepieces manufacturer and world well-known watches chain retailers. In the year 2005, the Company positively carried forward the strategic program of "Viola tricolor" and lead various businesses wit the brand strategy according to the Company's guiding principle of "focusing on brand molding, intensifying teamwork, reinforcing system operation and increasing revenue and creating profit" and reinforced various managerial work. During the report period, the Company unceasingly improved and cohered the teamwork through information sharing, training reinforcement, business learning, etc. In addition, based on the Company's practical conditions, the Company positively introduced and carried out "Balanced Score Card" and "Six Sigma" Management, devoted great efforts on 5 S management; developed innovative sales channels through development of self-owned brands and unceasingly deepened and developed professional cooperation both at home and abroad.

In the report period, the Company achieved a quite good operation result in various businesses. FIYTA watches and Harmony Famous Brand Watches chain shops have realized brand operation development and earning power upgrading. Meanwhile, the property operation has also brought about and added profit to the Company.

Items	2005	2004	Year-on-year Increase/Decrease (%)
Principal business income	341,504,786.91	278,246,963.00	22.73%
Principal business profit	129,173,020.42	101,141,752.00	27.71%
Total profit	18,563,592.41	3,523,936.00	426.79%
Net profit	16,006,999.87	1,907,880.00	738.99%

In the report period, the income from the principal businesses in the report period was RMB 341,505 thousand, a 22.73% growth over the same period of the previous year, which was mainly due to big growth in income from retails of famous brand watches and properties. The Company realized a total profit amounting to RMB 18,564 thousand and net profit amounting to RMB 16,007 thousand, growing respectively by 426.79% and 738.99% over the same period of the previous year, which was mainly due to big growth of earning power and income from the Company's watch business and properties. At the end of the report period, the Company's total assets was RMB 621,276 thousand and shareholders' equity was RMB 533,371 thousand which respectively decreased by 1.00% and increased 3.09% over the same period of the previous year.

1. FIYTA watches

In the report period, the Company, starting from the brand strategy, continuously enhanced the customer orientation, leaped from the misunderstanding of low level competition of home-made watches, devoted great efforts on carrying out integrated marketing and promotion by means of "Shenzhou Six Spacecraft" space flight watches and thus the brand identity has been further upgraded. Meanwhile, the Company exerted great efforts to push ahead the shift from price promotion to value promotion and achieved a good result by taking various measures in resolute implementation of the sales terminal: FIYTA watch, following the honorable title of "China Made Top Brand Watch" granted in 2002, was again granted the title of "China Made Top Brand Watch by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China in the report period. On October 12, 2005, the Company successfully developed work watch for astronauts of Shenzhou Six Spacecraft which accompanied Shenzhou Six Manned Spacecraft in the space. Through pile upon pile of tests, the watches successfully finished the task. They have further established the international position of FIYTA among the world three principal space flight watches, powerfully consolidated the brand identity of FIYTA watches in terms of leading technology and exquisite quality, which have endowed FIYTA Brand with lofty significance of representing the development level of the Chinese time keeping culture. Afterwards, National museum of China held a collection ceremony in Beijing, and permanently collected "FIYTA Space Flight Watch, China's National Treasure of Timepiece" and "Limited Treasured Up Set of China's National Treasure of Timepiece".

The Company further enhanced the coordinative efficiency improvement in development, production and sales of FIYTA watches, streamlined the research and development process, constructed and expanded the R & D design platform and improved the encouragement of the designers' team. In 2005, the Company successfully held the Second "FIYTA Cup Watch Design Competition" and "China International Summit of Art, Watch and Design. The design competition collected 289 pieces of works for competition from 26 colleges and institutions both at home and abroad. Colani , a world famous design master, Ding Shaoguang, a famous American visiting artist, Lasik, President of the Prospects Department of DaimlerChrysler AG, and other VIPs participated in prizes awarding and achieved extensive effect and good result. The Company took hold of the general trend towards medium and high grade and reinforced the development of medium and high price products and mechanical watches; continued to keep the leading position of technology in the timepiece field. The Company has been frequently involved in preparation and revision of the national timepiece standard and timepiece industrial standard. In terms of sales management, the Company focused on achievements orientation by means of work reporting of the managers and assessment of the salespersons, continuously made personnel adjustment, recruited personnel through various channels and improved the criteria of recruitments; The Company increased investment in key regions, improved the special counters and properties for terminal identity, and upgrade the terminal execution power by means of characteristic activities, such as enhancement of work plan of salespersons and shop patrol record, promotion of personalized services, communications with customers, etc., and realized information share by means of mobile phone message platform, current market price overview, communication with customers and special surveys, etc.; unceasingly carried out sales training management and effectively upgraded the capacity of terminal sales interception.

In the first half year, the Company realized sales income amounting to RMB 117,804 thousand from FIYTA watches, a small drop over the same period of the previous year. However, as the sales volume of medium and high grade watches increased by a big margin and the costs was brought under good control, the Company had not only fulfilled the preset profit earning objective but also further upgraded the brand competitiveness. In 2005, 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 11 years. The retail unit price of FIYTA watch also rose by a big margin.

2. Retail of Famous Brand Watches

In the report period, the Company enthusiastically expanded and optimized the Harmony famous watch sales network, insisted on the operation philosophy of "integrity, warmness, professional and standardization", based on the conception of fanning out from point to area, enhancing regions, by taking the flagship shops in regions as leaders, putting forth effort to develop brand franchised shops and high grade chain shops and developing shops in shop in a proper way, and improved the identity and competitiveness by means of setting up new shops, optimizing the network, reforming the old shops, managing VIP customers, etc. Meanwhile, the Company unceasingly deepened the cooperation with the international brand. The Company has established direct cooperation with Rolex Group. Such top brand groups as Richemont, Swatch Group highly appraised the Company's development and management and offered positive support to the Company; the global and Asia-Pacific presidents of 20 global eminent brands, including Raymond Weil, Girard-Perregaux, IWC, Ulysse Nardin, Omega, Longines, etc. paid visits to the Company in succession, which has not only further richened the resources for development of the Company, but also enhanced the influential force of Harmony Brand.

During the report period, Harmony World Watches Center newly established 5 high grade shops, including Xidan Shop in Beijing, Shanghai Omega Flagship Shop, Hangzhou Lixing Shop, Shanghai Longzhimeng Shop, etc. So far, there have been 41 chain shops in various big and medium shops throughout the country. In 2005, Harmony World Watches Center still kept rapid growth trend. The revenue from retail of famous watches amounted to RMB 180,271 thousand, a 39.45% growth over the same period of the previous year and net profit amounted to RMB 2,446 thousand, a 41.88% growth over the same period of the previous year.

3. Property Management

In the report period, FIYTA Technology Building located in Shenzhen Hi-tech Park and FIYTA Building located within Shenzhen Huaqiangbei Business Zone experienced a good operation status. The housing lease rate of both FIYTA Building and FIYTA Technology Building at the end of the report year was 100% and the total rental income in the report year amounted to RMB 41,132 thousand. In addition, the Company got excellent results in the assessments of the property management work of FIYTA Technology Building at the district, municipal and provincial levels.

(II) Principal Business and Operation

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.

1The 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 principal businesses over the previous year (%)	Increase/decrease of principal business cost over the previous year (%)	Increase/decrease of gross profit over the previous year
Industry	120,102,153.94	58,349,998.11	51.42	-1.26	-9.07	Increase by 4.18 percentage
Trading	180,270,903.17	141,852,326.78	21.31	39.45	34.69	Increase by 2.78percentage
Property management	41,131,729.80	8,919,986.32	78.31	50.42	59.92	Decrease by 1.29 percentage
Incl.: related transactions	—	—	—	—	—	—

2. Watch business and property take over 10% of the Company’s income as well as the profit from the principal business

(1) 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	117,804,005.16	61,867,634.00	47.48	-3.07	-3.56	Increase by 0.26 percentage
Sales of foreign famous watches	180,270,903.17	141,852,326.78	21.31	39.45	34.69	Increase by 2.78 percentage
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	39,947,444.44	16.53%
North China	27,400,107.56	-6.42%
Northwest China	66,815,725.39	38.91%
East China	41,814,876.73	19.22%
Southwest China	12,671,308.47	-10.83%
South China	109,425,445.74	21.77%
Total	298,074,908.33	18.85%

(2) Property The Company's revenue and profit from property operation all came from lease of FIYTA Building and FIYTA Technology Building.

3. Major Suppliers and Customers

In RMB

Total procurement from the top five suppliers	210,109,660.67	Proportion in total procurement	82.07%
Total sales to the top five customers	18,372,760.98	Proportion in total sales	5.3%

4. In the report period, no material 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.

5. Changes in the Asset Composition and Gains and Losses in the Report Period

Items	Ending balance (RMB)	Opening balance (RMB)	Increase/ Decrease Rate (%)	Reason of Change
Monetary funds	47,710,206.11	84,791,535.00	-43.73%	mainly due to increase of the investment in sales of famous brand watches chain shops
Short-term investment	4,949,220.00	11,819,472.00	-58.13%	Reduction and recovery of the short term investments
Inventories	233,861,001.05	192,806,300.23	21.29%	mainly due to some increase of the procurement of famous brand watches
Long-term equity investment	10,385,500.87	4,885,000.00	118.74%	Mainly due to the subsidiary Xi'an Haomeng is not in the consolidation range
Accounts payable	28,992,468.45	65,263,798.00	-55.58%	Mainly due to decrease of engineering fee payable
Long-term expenses to be apportioned	5,277,891.67	2,630,620.34	100.63%	Mainly due to some increase of the expenses for business opening of Harmony chain shops
Shareholders' equity:	533,371,239.36	517,364,239.49	3.09%	Mainly due to increase of the Company's profit in the report period
Items	Amount in report year (RMB)	Amount in the same period of the previous year (RMB)	Increase/ Decrease Rate (%)	Reason of Change
Principal business profit	129,173,020.42	101,141,752.00	27.71%	Mainly due to big growth of the operating income
Overheads	50,057,719.30	36,616,702.00	36.71%	mainly due to some increase of the expenditure of famous brand watches
Net profit	16,006,999.87	1,907,880.00	738.99%	Mainly due to big growth of income from principal business as well as big growth of the profit margin

6. Composition of Cash Flow

In 2005, the net increase of the cash and cash equivalents by RMB -37,081 thousand was mainly due to expansion of the marketing network of Harmony Chain Shops and increase of purchase of famous watches and investment in setting up new shops, which caused big increase of cash flow out from operation activities and investment activities over the previous year. The net cash flow produced from the Company's operation activities being RMB -14,007 which has discrepancy from the Company's net profit in the report year amounting to RMB 16,007 thousand was mainly due to increase fo purchase of famous watches for Harmony which casued corresponding cash flow out.

7. Operation and Performances of the Principal Subsidiaries and Holding Companies

(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 99.879% of its equity. At the end of 2005, its total assets amounted to RMB 82392 thousand, net assets RMB:33217 thousand and net profit realized in 2005: RMB9060 thousand.

(2) Shenzhen Harmony World Watches Center Co., Ltd., with registered capital of RMB 123.80 million, mainly engaged in purchase and sales of watches and components and accessories as well as repairing services; the Company holds 98.79% of its equity. At the end of 2005, its total assets amounted to RMB 185742 thousand, net assets: RMB 118836

thousand and net profit realized in 2005: RMB 2446 thousand.

(3) 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 99.879% of its equity. At the end of 2005, its total assets amounted to RMB 1958 thousand, net assets: RMB -4872 thousand and net profit realized in 2005: RMB -3478 thousand.

(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 2005, its total assets amounted to RMB 12647 thousand, net assets: RMB 5326 thousand and net profit realized in 2005: RMB 1345 thousand, of which RMB695 belonged to the Company.

II. Development Prospect

1. Development Trend of the Industry and the Future Competition Pattern

Over the years, with continuous improvement of China's macro economy, people's disposable income has been growing, which has created a consumption foundation for watch market; meanwhile, consumers' demand of time keeping function of a watch, specially a medium or high grade watch is being weakened while the symbolic characteristic of a watch is more and more outstanding. A medium or high grade watch has progressively become a symbol of life quality and taste. Such good economic environment and consumption demand are helpful to support and consolidate the high and medium grate position of FIYTA watches and development of Harmony famous watch chain sales network.

2. Development Strategy and Operation Plan in 2006

In 2006, the Company shall intensify the cooperation, enhance communication and carry out work in a creative way according the guideline of "carrying through the company's philosophy, improving the quality of manpower, reinforce brand integration and devote efforts to innovative development so as to upgrade the Company's operation efficiency and profit-earning level. On the basis of steadily developing FIYTA Brad and keeping the biggest home-made watch market share position, the Company shall focus on enhancing fostering of high-grade band and starting establishment of fashionable brand. On the basis of consolidating and adjusting Harmony's existing network points, continue to establish 6 to 10 new chain shops in key cities, unceasingly improve the economic beneficial result; on the basis of stablising the existing tenants of the property, reinforce the communication with the customers and control the operation risk in an effective way.

2. Fund for Development Strategy and Application Plan

In 2006, the Company expects to invest RMB 90 million for expanding and newly setting up Harmony Famous Brand Watches chain shops. At present, the Company's asset-liability ratio is quite low and the funds may be raised through short term loan from bank.

3. Risks in Connection with Strategic Operation Objectives

(1) The market competition of the timepiece industry the Company is engaged in is quite intense; the rising trend of sales of imported watches has been continuing; the scale of China-made watches is generally not big and majority of them has been in low level competition. With upgrading of the position of partial high-grade shopping centers, China-made watches have been progressively marginalized. Such products are involved in the risk of shrinkage in their sales channels.

Directing against such development trend, the Company has successfully leaped from the misunderstanding about China-made watches and promoted value based marketing through unceasingly upgrading the brand value and offering value added services satisfactory to the customers and improved FIYTA brand identify. The Company has consolidated the high and medium grade sales channels by using its own advantages, richened and developed the sales channels through Harmony Famous Brand Watches chain shops, Henglianda and other domestic business chain network, and participated in the competition of the domestic famous brand watch market.

(2) In order to comply with the rapid change of the market, the Company has to unceasingly weed through the old and bring forth the new. As a result, the expenses on R & D, promotion and inventories increased somewhat, which has also brought about the risk of the capital in occupancy of funds.

The Company has positively taken countermeasures, reinforced the survey on customers, made deepened analysis on customers' demand improved the successfulness of the products by means of unfolding the quality functions; pushed ahead standardization of products, conducted centralized procurement and reduced the risks; enhanced the control over the service life cycle of products, established and improved the product withdrawal mechanism; adjusted and improved the sales management system, effectively improved the fund utilization efficiency and reduced the risk of business operation.

III. Investment

(I) In the report period, there were no proceeds raised through share offering used for investment.

(II) Other material investments with the funds not raised through share offering.

(1) Harmony Famous Brand Watches chain shop project
In the report period, Harmony Famous Brand Watches Center set up another 5 new chain shops. At the end of the year, there were altogether 41 chain shops through out medium and big cities in China. In 2005, the additional investment was RMB 55920 thousand, the revenue from retail of famous watches hit RMB180,271 thousand and the net profit hit RMB 2,360 thousand.

(2) Beijing Henglianda Timepiece Co., Ltd.
In order to conduct innovative channel development and enhance the mutual compensation and cooperation in the trade so as to expand the watch sales channels throughout China, Shenzhen Harmony World Watches Center and Beijing Huntly Swiss Watch Co., Ltd. respectively contributed RMB 5 million taking 50% of the equity respectively and jointly set up Beijing Henglianda Timepieces Co., Ltd. Henglianda, with registered capital of RMB 10 million, was mainly engaged in contracting the timepieces zones of shopping centers throughout China to sell both imported and China-made watches. In 2005,Henglianda realized retail revenue from sales of famous brand watches RMB 1866 thousand and net profit of RMB -375 thousand.

IV. Opinions of the Certified Public Accountants
Both Yuehua Certified Public Accountants Co., Ltd. and Morison International produced a standard unqualified auditor's report for the Company in the year of 2005 after auditing.

V. Routine Work of the Board of Directors.
1. In the report period, the Company held 7 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 11th meeting of the Fourth Board of Directors was held on April 13, 2005. The meeting reviewed and approved the following proposals: ① 2004 Work Report of the Board of Directors;② 2004 Final Settlement Report;③ 2004 Profit Distribution Proposal;④ 2004 Annual Report;⑤ Proposal on Renewing the Engagement of Certified Public Accountants in 2005; ⑥ Proposal on Amendment of the Articles of Association; ⑦ Proposal on Regular Related Transactions in 2005;⑧ Decision to Hold 2004 Shareholders' General Meeting on

May 25, 2005.The relevant announcements were published on Securities Times and Hong Kong Commercial Daily on April 15, 2005.

(2) The 12th Meeting of the Fourth Board of Directors was held on April 21, 2005. The meeting reviewed and approved 2005 1st Quarterly Report. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on April 22, 2005.

(3) On July 25, 2005, the Company held an extraordinary board meeting. The meeting reviewed and approved an application to Shenzhen Development Bank Jiangsu Building Sub-branch for a composite credit line not exceeding RMB 50 million.

(4) The 13th Meeting of the Fourth Board of Directors was held on April 8, 2005. The meeting reviewed and approved 2005 Semi-Annual Report and the Summary. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on August 10, 2005.

(5) The 14th (Extraordinary) Meeting of the Fourth Board of Directors was held on September 6, 2005. The meeting reviewed and approved the proposal on checking up the fund amounting to RMB 1.50 million occupied by CATIC Shenzhen Corporation, a related party.

(6) The 15th Meeting of the Fourth Board of Directors was held on October 19, 2005. The meeting reviewed and approved 2005 3rd Quarterly Report. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on October 21, 2005.

(7) The 16th meeting of the Fourth Board of Directors was held on December 8, 2005. The meeting reviewed and approved the Proposal on Change of the Engagement of Certified Pubolic Accountants for the Year 2005 and the Proposal on Change of the Engagement of the Internal Auditing Leader of the Company. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on December 9, 2005.

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 2004 Shareholders' General Meeting. The shareholders' general meeting approved the proposals of change of the Company's directors and independent directors, revision of the Articles of Association, etc. All the proposals had been implemented in the report period.

VI. Proposal on 2005 Profit Distribution and Making Up for Losses with Surplus Public Reserve
As audited by Yuehua Certified Public Accountants Co., Ltd. according to the Chinese accounting Standards (CAS) and Morison International according to the International Accounting Standards (IAS), the Company's net profit of the consolidated statement in the year 2005 was RMB 16,006,999.87 and RMB15,553 thousand respectively .
1. Profit Distribution
As the Company earned small net profit in the year 2005 which still has to be used to make up for the losses of previous years. 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 2005.
2. Making up for Losses with Surplus Public Reserve
In accordance with the relevant provisions of the PRC Company Law and the Sources and Procedures for Making Up for Losses and Information Disclosure and based on the Company's profit and practical conditions of business development, the Company plans to make up for the losses with the retained surplus public reserve for the year 2005. As audited by Yuehua Certified Public Accountants, ended December 31, 2005, the Company's consolidated net profit was RMB 16,006,999.87, plus the retained earnings at the year

beginning amounting to RMB -54,268,783.68, the Company's accumulative retained earnings was RMB -38,261,783.81; the parent company's net profit was RMB 15,093,272.59, plus the retained earnings amounting to RMB -46,906,763.09 at the year beginning, the accumulative retained earnings amounted to RMB -31,813,490.50. The Company plans to use the surplus public reserve amounting to RMB 31,813,490.50 to make up for the retained earnings. After making up for the losses, the Company's consolidated retained earnings shall be RMB -6,448,293.31 and the parent company's retained earnings shall be RMB 0.
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 2005 Shareholders' General Meeting.

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

Chapter 8 Report of the Supervisory Committee

I. Work Summary

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 held altogether two meetings.
(1) The 6th meeting of the Fourth Supervisory Committee was held on April 13, 2005. The meeting adopted the following resolutions:
① 2004 Work Report of the Supervisory Committee; ② Proposal on Regular Related Transactions in 2005; ③ 2004 Annual Report.

(2) The 7th meeting of the Fourth Supervisory Committee was held on August 8, 2005. The meeting reviewed and approved 2005 Semi-Annual Report and the Summary.

3. Supervisors of the Supervisory Committee attended all the Board meetings held in 2005 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 2004 Shareholders' General Meeting, addressed 2004 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 2005, 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 and the work of the senior executives. 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 Yuehua Certified Public Accountants Co., Ltd. and Morison International 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 2005.

3. 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. Transactions with Related Parties

1. Related transactions

(1) CATIC Shenzhen Corporation (hereinafter referred to as CATIC Shenzhen) is the Company's actual controller. For the detail, refer to "About Shareholders", II of Chapter 3 of this Report;

(2) Shenzhen Rainbow Supermarket Co., Ltd. (hereinafter referred to Rainbow Supermarket) is a controlled subsidiary of the Company's actual controller. Its legal representative is Wu Guangquan; its registered capital amounts to RMB 88million; its principal business is about commodities wholesale and retail. The Company rented the special counter of the supermarket for selling watch products on commission based on the market prices and make payment settlement by means of credit transfer.

(3) Shenzhen CATIC Property Management Co., Ltd. (hereinafter referred to as CATIC Property) is an indirectly controlled subsidiary of the Company's actual controller; its legal representative is Mr. Chou Shenqian; its registered capital amounts to RMB 20 million; its principal business is property management and services of managing the supplementary facilities. The Company entrusted CATIC Property for property management of FIYTA Building and FIYTA Technology Building based on the market prices and make payment settlement by means of credit transfer.

2. Related Transactions in Terms of Commission Sale and Acceptance of Labor Services

(1) The charge for the property management in the report period was RMB 4.96 million. CATIC Property offered management services for both of the Company's FIYTA Building and FIYTA Technology Building. Both parties executed the contract based on the principle of fairness and market based pricing, which is favorable for improving professional service and shall not do any harm to the Company's interests.

(2) The Company had sales income by selling watches via the specialized counter of Rainbow Supermarket, paid RMB 0.97 million to Rainbow Supermarket, taking 10% of the relevant expenses in the report period. Rainbow Supermarket has established many supermarkets in such big cities as Shenzhen, Xiamen, Nanchang, etc. As Rainbow Supermarket enjoys high market position and good reputation and can provide the Company with superior specialized counters, it has become an excellent channel for the Company to sell watches, which can promote the Company's income from watches to rise without doing any harm to the Company's interests.

3. Related Transactions in Terms of Joint Investment

Shenzhen Harmony World Watches Center Co., Ltd. was established in 1997 jointly by the Company by investing RMB 13.50 million and CATIC SHENZHEN HOLDINGS LTD. by investing RMB 1.50 million, with total registered capital of RMB 15 million. The company is mainly engaged in sales of world top brand watches and repair services.

For the purpose of meeting Harmony's demand on business expansion, the 10th meeting of the Fourth Board of Directors held on December 30, 2004 reviewed and approved the Proposal on Increasing the Registered Capital of Shenzhen Harmony World Watches Center Co., Ltd. (The announcement of the aforesaid information was published on Securities

Times, Hong Kong Commercial Daily and http://www.cninfo.com.cn. On December 31, 2004). The Company planned to unilaterally increase the capital by RMB 108.80 million so that the registered capital would reach RMB 123.80 million and the Company's capital contribution proportion would increase from 90% to 98.79%. Through application, the Company obtained the official reply from Shenzhen Stock Exchange titled Official Reply of the Company Department on Exemption [2005] No. 3. The proposal was exempted from submission to the Shareholders' General Meeting for review.

For the issue of capital increase, the Company had the application approved by Shenzhen Municipal Administration for Industry and Commerce and made corresponding change of registration with the industry and commerce authority. At the end of 2005, the Company's total assets amounted to RMB thousand. In 2005, the Company's revenue from retail of famous watches hit RMB181,990 thousand and the net profit hit RMB 2,360 thousand.

4. Related Liabilities with

Related Parties	Connectivity relations	Fund provided to related parties		Fund provided by related parties to the Company	
		Amount incurred	Balance	Amount incurred	Balance
CATIC Shenzhen Corporation	the Company's actual controller	-1500000.00	0.00	0.00	0.00
Total		-1500000.00	0.00	0.00	0.00

The related liabilities between the Company and Rainbow Supermarket and CATIC Property, two of the Company's related parties were the liabilities to and from resulted from normal sales of goods or expenses for property management.

5. For other material related transactions, refer to the notes to the financial report

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 never entrusted by any other company for managing assets.

4. Other Important Contracts and Implementation

On September 14, 2005, 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 40 million. 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 terminated 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, the Company engaged Yuehua Certified Public Accountants Co., Ltd. and Morison International as the Company's domestic and international auditors respectively.

Types	Description	Annual Emolument (in RMB '000)	Continuous service years
A-share	Yuehua Certified Public Accountants Co., Ltd.	200	1
B-share	Morison International	200	1

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. Reform for Equity Separation

On January 16, 2006, the Company announced the Memorandum of Shenzhen FIYTA Holdings Ltd. for the Equity Separation Reform and the equity separation reform thus started. On April 12, 2006, the Company held the corresponding shareholders' meeting for review and voting. However, the equity separation reform proposal was not approved. The relevant information was announced on Securities Times, China Securities Journal, Shanghai Stock News and http://www.cninfo.com.cn. The Company shall try every means to restart the equity separation reform work three months later according to the Measures on Reform for Equity Separation in Listed Companies.

Chapter 10 Financial Report
(Pages 32 to 62 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 public accountants.

III. All the manuscripts of the Company's documents and announcements 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 20, 2006

INTERNATIONAL AUDITORS’ REPORT
TO THE SHAREHOLDERS OF
SHENZHEN FIYTA HOLDINGS LIMITED
深圳市飛亞達(集團)股份有限公司
(Incorporated in the People’s Republic of China with limited liability)

We have audited the accompanying consolidated balance sheet of Shenzhen Fiyta Holdings Limited (the “Company”) and its subsidiaries (the “Group’) as at December 31, 2005 and the related consolidated statements of income, cash flows and changes in shareholders’ equity for the year then ended. These consolidated financial statements set out on pages 2 to 30 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.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Morison Heng
Chartered Accountants
Certified Public Accountants

Hong Kong:

SHENZHEN FIYTA HOLDINGS LIMITED
深圳市飛亞達(集團)股份有限公司

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2005

	Notes	2005 RMB'000	2004 RMB'000
Turnover	6	341,505	278,247
Cost of sales		(212,332)	(177,105)
Gross profit		129,173	101,142
Other revenue	6	4,266	3,391
Selling expenses		(59,041)	(55,225)
Administrative expenses		(50,512)	(35,617)
Other operating expenses		(4,720)	(10,282)
Profit from operations	7	19,166	3,409
Finance costs	9	(1,056)	(323)
Profit before taxation		18,110	3,086
Income tax	11	(2,712)	(2,818)
Profit for the year		15,398	268
Attributable to:			
Equity holders of the parent		15,553	205
Minority interests		(155)	63
		15,398	268
Earnings per share			
Basic	12	RMB0.062	RMB0.001

SHENZHEN FIYTA HOLDINGS LIMITED
深圳市飛亞達(集團)股份有限公司

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2005

	Notes	2005 RMB'000	2004 RMB'000
ASSETS			
Non-currents assets			
Property, plant and equipment	13	77,182	70,291
Investment properties	14	181,174	187,600
Construction in progress	15	135	1,290
Prepaid lease payments	16	15,081	15,542
Available-for-sale investments	17	10,386	4,885
Deferred tax assets	18	15,466	15,466
Other non-current assets		1,554	1,947
		300,978	297,021
Current assets			
Inventories	19	233,861	203,983
Trade receivables	20	27,205	18,730
Bills receivable		550	-
Other receivables and prepayments	21	32,551	36,674
Amount due from an ultimate company	22	-	1,500
Tax recoverable		1,403	-
Financial assets at fair value through profit or loss	23	4,949	11,819
Bank balances and cash		47,711	84,792
		348,230	357,498
Total assets		649,208	654,519

SHENZHEN FIYTA HOLDINGS LIMITED
深圳市飛亞達(集團)股份有限公司

CONSOLIDATED BALANCE SHEET – (continued)
AT DECEMBER 31, 2005

	Notes	2005 RMB'000	2004 RMB'000
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Registered capital	26	249,318	249,318
Reserves	27	284,410	268,857
Equity attributable to equity holders of the parent		533,728	518,175
Minority interests		7,503	7,336
Total equity		541,231	525,511
Non-current liabilities			
Deferred income		3,000	3,000
Current liabilities			
Trade payables		28,992	65,264
Staff welfare payable		18,820	18,713
Other payables and accruals		24,641	21,582
Amount due to a related company	24	215	-
Amount due to an invested company	24	12,309	-
Tax payable		-	449
Bank loan - secured	25	20,000	20,000
		104,977	126,008
Total liabilities		107,977	129,008
Total assets less current liabilities		649,208	654,519

Approved by the Board of Directors on

DIRECTOR DIRECTOR

SHENZHEN FIYTA HOLDINGS LIMITED
深圳市飛亞達(集團)股份有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2005

	Share capital RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000
Balance at December 31, 2003	249,318	191,108	114,519	(36,975)	517,970
Net profit for the year	-	-	-	205	205
Balance at December 31, 2004	249,318	191,108	114,519	(36,770)	518,175
Net profit for the year	-	-	-	15,553	15,553
Transfer from statutory reserve to accumulated losses	-		(31,813)	31,813	-
Balance at December 31, 2005	249,318	191,108	82,706	10,596	533,728

SHENZHEN FIYTA HOLDINGS LIMITED
深圳市飛亞達(集團)股份有限公司

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 RMB'000	2004 RMB'000
Cash flows from operating activities		
Profit before taxation	18,110	3,086
Adjustment for:		
Amortisation of prepaid lease payments	461	461
Amortisation of non-current assets	393	560
Depreciation of investment properties	6,426	4,367
Depreciation of property, plant and equipment	9,319	7,358
Dividend income	(110)	-
Gain on disposal of property, plant and equipment	(296)	(73)
Gain on disposal of financial assets at fair value through profit or loss	(1,104)	(258)
Fair value loss on financial assets at fair value through profit or loss	2,058	9,857
Reversal of inventory obsolescence	-	(3,386)
Investment income from designated deposits	-	(351)
Interest paid	1,056	323
Interest income	(600)	(650)
Provision for impairment loss on available-for-sale investments	5,539	-
Provision for obsolescent inventory	1,538	-
Provision for doubtful debts	420	443
Operating profit before working capital changes	43,210	21,737
Increase in inventories	(31,416)	(47,948)
(Increase)/Decrease in trade receivables	(9,663)	716
Increase in bill receivable	(550)	-
Decrease/(Increase) in other receivables and prepayments	4,891	(2,569)
Decrease in amount due from a related company	1,500	-
Increase in amount due to a related company	215	-
(Decrease)/Increase in trade payables	(36,272)	4,059
Increase in staff welfare payable	107	36
Increase in other payables and accruals	3,059	443
Increase in amount due to an invested company	12,309	-
Decrease/(Increase) in financial assets at fair value through profit or loss	5,916	(17,104)
Cash used in operations	(6,694)	(40,630)
Interest paid	(1,056)	(323)
Tax paid	(4,564)	(1,415)
Net cash used in operating activities	(12,314)	(42,368)

SHENZHEN FIYTA HOLDINGS LIMITED
深圳市飛亞達(集團)股份有限公司

CONSOLIDATED CASH FLOW STATEMENT – (continued)
FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 RMB'000	2004 RMB'000
Cash flows from investing activities		
Interest received	600	650
Proceeds on disposal of property, plant and equipment	1,546	1,002
Purchase of property, plant and equipment	(15,342)	(39,053)
Acquisition of available-for-sale investments	(11,040)	-
Dividend income from available-for-sale investments	110	-
Investment income from designed deposit	-	351
Payments for construction in progress	(963)	(24,221)
Decrease in designated deposits	-	51,004
Decrease in minority interests	322	-
Net cash used in investing activities	(24,767)	(10,267)
Cash flows from financing activities		
Proceeds from borrowings	20,000	20,000
Repayments of borrowings	(20,000)	(100)
Net cash from financing activities	-	19,900
Net decrease in cash and cash equivalents	(37,081)	(32,735)
Cash and cash equivalents at the beginning of the year	84,792	117,527
Cash and cash equivalents at the end of the year	47,711	84,792
Analysis of cash and cash equivalents at the end of the year		
Bank balances and cash	47,711	84,792

1. GENERAL INFORMATION

Shenzhen Fiyta Holdings Limited (the "Company") was established in the People's Republic of China (the "PRC") as a joint stock limited company 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 casings, and property management.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards and Interpretations issued by the International Accounting Standards Board. The basis of accounting differs from that used in the preparation of the Company's statutory financial statements ("PRC statutory financial statements"). The PRC statutory financial statements of the Company and its subsidiaries comprising the Group have been prepared in accordance with relevant accounting principles and regulations applicable to them, as appropriate in the PRC. Appropriate adjustments have been made to the PRC statutory financial statements to conform to IFRS. Differences arising from the restatement have not been incorporated in the statutory accounting records of the Group.

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investments, non-current investments and financial assets at fair value through profit or loss. The preparation of financial statements 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 events and actions, actual results ultimately may differ from those estimates.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

In 2005, the Group adopted the following revised and newly released IFRSs which are generally effectively for accounting periods beginning on or after 1 January 2005 that are relevant to its operations. The comparatives of prior years have been amended as required, in accordance with the relevant requirements.

IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 7	Cash Flow Statements
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10	Events after the Balance Sheet Date
IAS 11	Construction Contracts
IAS 12	Incomes Taxes
IAS 14	Segment Reporting
IAS 16	Property, Plant and Equipment
IAS 17	Leases
IAS 18	Revenue
IAS 19	Employee Benefits
IAS 20	Accounting for Government Grants and Disclosure of Government Assistance
IAS 21	The Effects of Changes in Foreign Exchange Rates
IAS 23	Borrowing Costs
IAS 24	Related Party Disclosures
IAS 27	Consolidated and Separate Financial Statements
IAS 32	Financial Instruments: Disclosure and Presentation
IAS 33	Earnings per Share
IAS 36	Impairment of Assets
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 40	Investment Property
IFRS 3	Business Combinations

The adoption of new/revised IASs 1, 2, 7, 8, 10, 11, 12, 14, 16, 17, 18, 19, 20, 21, 23, 24, 27, 32, 33, 36, 37, 39 and 40 did not result in substantial changes to the Group's accounting policies. In summary:

- IAS 1 has affected the presentation of minority interests and other disclosures.
- IASs 2, 7, 8, 10, 11, 12, 14, 16, 17, 18, 19, 20, 23, 27, 32, 33, 37, 39 and 40 had no material effect on the Group's policies.
- IAS 21 has no material effect on the Group's policy. All the Group entities have the same functional currency as their measurement currency.
- IAS 24 has affected the identification of related parties and certain related party disclosures.

All changes in the accounting policies have been retrospectively made in accordance with the respective transitional provisions, wherever required or allowed. The accounting policies set out below have been consistently applied throughout the relevant years, other than:

IAS 39 – generally does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis.

IFRS 3 – prospectively after January 1, 2005.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Basis of consolidation

The consolidation financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Company and when the revenue can be measured reliably on the following bases:

Sales of goods are recognised when goods are delivered and title has passed.

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

Rental income is recognised on a straight-line basis over the terms of the relevant lease.

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

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

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Property, plant and equipment

Property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Prepaid lease payments

Prepaid lease 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.

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 property, plant and equipment and depreciated in accordance with the policy as stated above.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are stated at cost less any identified impairment loss. Results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Financial assets at fair value through profit or loss

A financial asset is classified as financial assets at fair value through profit or loss if acquired principally for the purpose of selling in the short term. Financial asset includes derivatives which are not qualified for hedge accounting.

Unrealised gains and losses arising from changes in the fair value are included in the profit and loss account in the period in which they arise. Upon disposal, the difference between the sale proceeds and the carrying value is included in the profit and loss account.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost which comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories and work in progress to their present locations and condition, is calculated using the weighted average basis method. Net realisable value is based on estimated selling prices less estimated selling expenses.

Trade receivables

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

Impairment of assets

At each balance sheet date, the Company reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss is subsequently reversed, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Taxation

PRC income taxes are provided for based on the estimated assessable profits and the applicable tax rates for the Company and other companies comprising the Group.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Leased assets

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 property, plant and equipment or investment properties in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar property, plant and equipment 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.

Foreign currencies

Transactions in foreign currencies are recorded at rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into Renminbi (“RMB”) at the rates of exchange ruling on the balance sheet date. Profits and losses arising on foreign currency translation are dealt with in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Related parties

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.

Employee benefits

The Group participates in employee social security plans, including pension, medical, housing and other welfare benefits, organized by the government authorities in accordance with relevant regulations. Except for the above social security benefits, the Group has no additional commitment to other employee welfare benefits.

According to the relevant regulations, premium and welfare benefit contributions are remitted to the social welfare authorities and are calculated based on percentages of the total salary of employees, subject to a certain ceiling. Contributions to the plans are charged to the income statement as incurred.

Borrowings

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

Deferred income

Deferred income represents 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.

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.

Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments.

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, cash investments with a maturity of three months or less from the date of investment and bank overdraft.

3. FINANCE RISK MANAGEMENTS

Interest rate risk

The interest rates and repayment terms of bank borrowings are disclosed in note 25. Other financial assets and financial liabilities do not have material interest rate risk.

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 to credit risk.

Foreign currency risk

Transactions of the Group are mainly settled in RMB. In the opinion of the Directors of the Company, the Group does not have significant foreign currency risk exposure.

Fair value

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

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of property, plant and equipment and available-for-sale investments

Property, plant and equipment and available-for-sale investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of property, plant and equipment and available-for-sale investments have been determined based on value-in-use calculations. These calculation and valuations require the use of judgment and estimates.

4. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS - (continued)

(b) Current taxation and deferred taxation

The Group is subject to taxation in the PRC. Significant judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the periods in which such determination are made.

5. BUSINESS SEGMENTS INFORMATION OF THE GROUP

For the year ended December 31, 2005

	Clocks and watches RMB'000	Property rental RMB'000	Total RMB'000
Turnover	300,373	41,132	341,505
Segment results	100,171	32,212	132,383
Unallocated expense			(113,217)
Operating profits			19,166
Finance costs			(1,056)
Profit before taxation			18,110
Taxation			(2,712)
Profit after taxation			15,398
Minority interest			155
Net profit			15,553
Segment assets	421,691	196,716	618,407
Unallocated assets			30,801
Total assets			649,208
Segment liabilities	87,977	-	87,977
Unallocated liabilities			20,000
Total liabilities			107,977
Capital expenditure	15,342	963	16,305
Depreciation and amortisation			
- property, plant and equipment	9,319	-	9,319
- investment properties	-	6,426	6,426
Amortisation of prepaid leasehold land	-	461	461
Provision for doubtful debts	420	-	420
Provision for obsolescent inventories	1,538	-	1,538

5. BUSINESS SEGMENTS INFORMATION OF THE GROUP – (continued)

For the year ended December 31, 2004

	Clocks and watches RMB'000	Property rental RMB'000	Total RMB'000
Turnover	250,902	27,345	278,247
Segment results	(7,313)	20,096	12,783
Unallocated expense			(9,374)
Operating profits			3,409
Finance costs			(323)
Profit before taxation			3,086
Taxation			(2,818)
Profit after taxation			268
Minority interests			(63)
Net profit			205
Segment assets	418,746	203,603	622,349
Unallocated assets			32,170
Total assets			654,519
Segment liabilities	108,559	-	108,559
Unallocated liabilities			20,449
Total liabilities			129,008
Capital expenditure	39,053	50,921	89,974
Depreciation and amortisation			
- property, plant and equipment	7,358	-	7,358
- investment properties	-	4,367	4,367
Amortisation of prepaid leasehold land	-	461	461
Provision for doubtful debts	443	-	443
Reversal of inventory obsolescence	(3,386)	-	(3,386)

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.

6. TURNOVER AND REVENUE

The Group in engaged in the design, manufacture, assembly and sale of quartz analog watches, clocks, watch straps and watch casings, and property management. Revenue recognised during the year is as follows:

	2005 RMB'000	2004 RMB'000
Turnover		
Rental income	41,132	27,345
Sales of goods	300,373	250,902
	341,505	278,247
Other revenue		
Bank interest income	600	650
Dividend income	110	-
Investment income from designated deposits	-	351
Repair and maintenance income	1,253	671
Gain on disposal of financial assets at fair value through profit or loss	1,104	258
Gain on disposal of property, plant and equipment	426	-
Others	773	1,461
	4,266	3,391
Total revenue	345,771	281,638

7. PROFIT FROM OPERATIONS

Profit from operations is arrived at:

	2005 RMB'000	2004 RMB'000
After charging:		
Amortisation of prepaid leasehold land	461	461
Amortisation of other non-current assets	393	560
Exchange loss	150	13
Depreciation of property, plant and equipment	9,319	7,358
Depreciation of investment properties	6,426	4,367
Fair value loss on financial assets at fair value through profit or loss	2,058	9,857
Loss on disposal of property, plant and equipment	130	73
Cost of inventories sold	187,730	169,487
Provision for doubtful debts	420	443
Rent paid under operating leases	2,868	6,205
Staff costs (including directors' remuneration – note 10)	46,473	41,283
Provision for obsolescent inventory (note 19)	1,538	-
Impairment loss for available-for-sale investment	5,539	-

8. STAFF COSTS

	2005 RMB'000	2004 RMB'000
Wages and salaries	38,101	33,641
Staff welfare	2,644	2,348
Social insurance expenses	3,165	2,998
	43,910	38,987

9. FINANCE COSTS

	2005 RMB'000	2004 RMB'000
Interest on bank borrowings	1,056	323

10. DIRECTORS' REMUNERATION

Particulars of the emoluments of the directors for the year were as follows:

	2005 RMB'000	2004 RMB'000
Fees	-	-
Other emoluments	2,563	2,296
	2,563	2,296

11. INCOME TAX

	2005 RMB'000	2004 RMB'000
Current tax	2,712	1,553
Deferred tax (note 18)	-	1,265
	2,712	2,818

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005 RMB'000	2004 RMB'000
Profit before taxation	18,110	3,086
Tax at the applicable income tax rate	2,716	463
Tax effect of expenses not deductible for tax purposes	2,383	2,043
Tax effect of income not taxable for tax purposes	(2,734)	(41)
Tax effect of a subsidiary which was exempted from income tax	-	(936)
Tax effect of a subsidiary which has 50% reduction from income tax	(735)	-
Tax effect in tax losses of subsidiaries	1,082	1,289
Taxation charge	2,712	2,818

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.

12. EARNINGS PER SHARE

The calculation of earnings per share is based on the consolidated profit after tax and after minority interests for the year of RMB15,553,000 (2004: RMB205,000) and 249,318,000 shares (2004: 249,318,000 shares) on issue.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Equipment and machinery RMB'000	Leasehold improvements RMB'000	Total RMB'000
COST OR VALUATION				
At January 1, 2004	34,600	32,674	23,681	90,955
Additions	26,699	8,124	4,230	39,053
Reclassification to investment properties (note 14)	(918)	-	-	(918)
Disposals	-	(6,016)	(12,732)	(18,748)
At January 1, 2005	60,381	34,782	15,179	110,342
Additions	39	4,732	10,571	15,342
Transferred from construction in progress (note 15)	1,413	-	705	2,118
Disposals	-	(4,295)	(1,152)	(5,447)
At December 31, 2005	61,833	35,219	25,303	122,355

13. PROPERTY, PLANT AND EQUIPMENT – (continued)

	Buildings	Equipment and machinery	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At January 1, 2004	12,250	20,108	18,455	50,813
Charge for the year	1,075	3,250	3,033	7,358
Reclassification to investment properties (note 14)	(301)	-	-	(301)
Eliminated on disposals	-	(5,087)	(12,732)	(17,819)
At January 1, 2005	13,024	18,271	8,756	40,051
Charge for the year	764	3,997	4,558	9,319
Eliminated on disposals	-	(3,046)	(1,151)	(4,197)
At December 31, 2005	13,788	19,222	12,163	45,173
Carrying amount				
At December 31, 2005	48,045	15,997	13,140	77,182
At December 31, 2004	47,357	16,511	6,423	70,291

The Group is in the process of applying for property certificates in respect of buildings with a net book value amounting to RMB7,618,000 at December 31, 2005 (2004: RMB 26,343,000).

At the balance sheet date, the Company's future aggregate minimum lease rental receivables under non-cancellable leases are as follows:

	2005	2004
	RMB'000	RMB'000
Within one year	5,886	4,489

14. INVESTMENT PROPERTIES

	2005 RMB'000	2004 RMB'000
Carrying amount at January 1	187,600	16,492
Transfer from property, plant and equipment (note 13)	-	617
Transfer from construction in progress (note 15)	-	174,858
Charge for the year	(6,426)	(4,367)
Carrying amount at December 31	181,174	187,600
Directors' valuation - including prepaid lease payments	330,932	346,019

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 December 31, 2005 and 2004 were determined by the directors on an open market value basis.

15. CONSTRUCTION IN PROGRESS

	2005 RMB'000	2004 RMB'000
Opening net book value	1,290	125,227
Additions	963	50,921
Transfer to property, plant and equipment (note 13)	(2,118)	-
Transfer to investment properties (note 14)	-	(174,858)
Closing net book value	135	1,290

16. PREPAID LEASE PAYMENTS

	2005 RMB'000	2004 RMB'000
COST		
At January 1and at December 31	20,037	20,037
ACCUMULATED AMORTISATION		
At January 1	4,034	3,573
Charge for the year	461	461
At December 31	4,495	4,034
NET BOOK VALUE		
At December 31	15,542	16,003
Current portion included in other receivables and prepayments	(461)	(461)
Non-current portion	15,081	15,542

The leasehold land is held under long term lease and is situated in People's Republic of China.

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

17. AVAILABLE-FOR-SALE INVESTMENTS

	2005 RMB'000	2004 RMB'000
Listed investment, at cost	3,000	3,000
Unlisted investment, at cost	12,925	1,885
	15,925	4,885
Less: impairment loss	(5,539)	-
	10,386	4,885

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 available-for-sale investments approximated their recoverable amounts at the year end.

18. DEFERRED TAX ASSETS

	RMB'000
Balance at January 1, 2004	16,731
Charge to income statement	(1,265)
Balance at January 1, 2005	15,466
Credit to income statement	-
Balance at December 31, 2005	15,466

19. INVENTORIES

	2005 RMB'000	2004 RMB'000
Raw materials	47,291	45,076
Work in progress	5,323	1,730
Finished goods	242,407	216,799
	295,021	263,605
Less: provision for obsolescent inventories (note 7)	(61,160)	(59,622)
	233,861	203,983

Included above are raw materials of RMB1,228,000 (2004: RMB7,429,000) and finished goods RMB50,047,000 (2004: RMB13,689,000) carried at net realisable value.

20. TRADE RECEIVABLES

	2005 RMB'000	2004 RMB'000
Trade receivables	69,512	59,849
Less: provision for doubtful debts	(42,307)	(41,119)
Trade receivables, net	27,205	18,730

21. OTHER RECEIVABLES AND PREPAYMENTS

	2005 RMB'000	2004 RMB'000
Prepayments	1,677	2,772
Other receivables	43,840	47,636
Less: provision for doubtful debts	(12,966)	(13,734)
	32,551	36,674

22. AMOUNT DUE FROM AN ULTIMATE COMPANY

Name of company	Balance at 31.12.2005 RMB'000	Balance at 31.12.2004 RMB'000	Maximum amount outstanding during the year RMB'000
CATIC Shenzhen Company	-	1,500	1,500

The amount due is unsecured, interest-free and repayable on demand.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2005 RMB'000	2004 RMB'000
Market value of listed investments		
- equity shares	4,949	11,819

The financial assets at fair value through profit or loss are traded in active markets and are valued at market prices at the close of business on December 31 by reference to Stock Exchange quoted prices.

24. AMOUNT DUE TO A RELATED COMPANY AND AMOUNT DUE TO AN INVESTED COMPANY

The amounts due are unsecured, interest-free and with no fixed terms of repayment.

25. BANK LOAN - SECURED

	2005 RMB'000	2004 RMB'000
Repayable within one year	20,000	20,000

The bank loan was interest bearing at 5.58% per annum (2004: 5.31%) and guaranteed by the holding company, CATIC Shenzhen Holdings Limited.

26. SHARE CAPITAL

Registered, issued and fully paid ordinary shares of RMB1 each:

	2005 RMB'000	2004 RMB'000
Promoters' shares	130,248	130,248
A shares	60,750	60,750
B shares	58,320	58,320
	249,318	249,318

27. 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 capital reserve 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.

According to the Company's and the subsidiaries' Articles of Association, the Board of Directors, after obtaining approval from the shareholders, has the discretion to make up accumulated losses against the discretionary statutory reserve. Upon approval from the authorities, the discretionary statutory reserve can be used to setoff accumulated losses incurred or to increase the par value of the shares currently held by them. The Company appropriated RMB31,813,490 to the accumulated losses in 2005 (2004: Nil).

27. RESERVES – (continued)

No appropriations to the statutory common reserve fund and capital reserve fund were proposed for the year ended 31 December 2005 as there is no distributable profit in the statutory accounts of the Company before the conversion from statutory reserve to accumulated losses.

28. CAPITAL COMMITMENTS

	2005 RMB'000	2004 RMB'000
Contracted but not provided for:		
- acquisition of property, plant and equipment	2,259	357

29. OPERATING LEASE COMMITMENTS

At December 31, 2005, the Company had total future minimum lease payments under an non-cancellable operating lease in respect of land and buildings as follows:

	2005 RMB'000	2004 RMB'000
Within one year	3,730	3,720
In the second to fifth years inclusive	7,875	10,077
	11,605	13,797

30. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties in normal course of its business:

	2005 RMB'000	2004 RMB'000
Property management fee paid to:		
Shenzhen CATIC Property Management Co., Ltd	2,752	3,087
Construction fee paid to:		
Shenzhen CATIC Property Management Co., Ltd	2,208	-
Commission paid to:		
Shenzhen Rainbow Department Store Co., Ltd	970	403

31. SUBSIDIARIES

At December 31, 2005, the Company had the following major subsidiaries (all incorporated in the PRC):

Name of subsidiaries	Registered capital	Principal activities	Attributable equity interest held Direct	Attributable equity interest held Indirect
Shenzhen Fiyta Precision Timing Manufacture Co., Ltd	RMB10,000,000	Design, manufacture and assembly of quartz watches and watch components	90%	9.879%
Shenzhen Feijing Precision Optical Device Manufacture Co., Ltd	RMB7,000,000	Manufacture of precision optical device and watch surfaces	90%	9.879%
Shenzhen Feiyu Art Clock Co., Ltd	HKD3,000,000	Design, manufacture and distribution of clocks	75%	-
Shenzhen Feitu New Technology Development Company	RMB3,080,000	Electroplating of watch straps, casing and jewellery	60%	-
Shenzhen Harmony World Watch Centre Co., Ltd.	RMB123,800,000	Distribution of watches and watch components and provision of repair services	98.79%	-
Xian Haomen Food & Recreation City Co., Ltd. (note a)	HKD16,000,000	Catering and entertainment	62%	-
Shenzhen World Famous Watch Centre Co., Ltd. (note b)	RMB2,800,000	Retailing of advanced watch, glasses and jewellery	50%	-

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.

32. REPORTING CURRENCY

The Company's financial statements are expressed in Renminbi.

33. ULTIMATE HOLDING COMPANY

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

34. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2005

The impact of IFRS adjustments on the PRC statutory financial statements is as follows:

	Net profit for the year		Shareholders' equity	
	2005	2004	2005	2004
	RMB'000	RMB'000	RMB' 000	RMB'000
As report under PRC statutory financial statements	16,007	1,908	533,371	517,364
IFRS adjustments:				
- Adjustment on deferred tax assets	-	(1,265)	15,466	15,466
- Reclassification of prior year profit appropriation to staff welfare payable	-	-	(15,949)	(15,949)
- Adjustment on fair value for financial assets at fair value through profit or loss	-	(438)	-	-
- Adjustment on provision for bad debt	(454)	-	(454)	-
- Others	-	-	1,294	1,294
As restated after IFRS adjustments	15,553	205	533,728	518,175