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

Report and Financial Statements
For the year ended December 31, 2005

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

REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2005

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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	Equipment and machinery	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	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 RMB'000	Equipment and machinery RMB'000	Leasehold improvements RMB'000	Total 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 RMB'000	2004 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	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