

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, 2006

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, 2006

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INDEPENDENT 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 financial statements of Shenzhen Fiyta Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 2 to 38, which comprise of the consolidated balance sheet as at December 31, 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and the summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2006, and of its profit 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: April 24, 2007

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, 2006

	<u>Notes</u>	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Turnover	6	487,241	341,505
Cost of sales		<u>(311,853)</u>	<u>(212,332)</u>
Gross profit		175,388	129,173
Other revenue	6	4,762	4,266
Selling expenses		(78,499)	(59,041)
Administrative expenses		(59,928)	(50,512)
Other operating expenses		<u>(1,446)</u>	<u>(4,720)</u>
Profit from operations	7	40,277	19,166
Finance costs	9	<u>(4,978)</u>	<u>(1,056)</u>
Profit before taxation		35,299	18,110
Income tax	11	<u>(9,058)</u>	<u>(2,712)</u>
Profit for the year		<u>26,241</u>	<u>15,398</u>
Attributable to:			
Equity holders of the parent		26,169	15,553
Minority interests		<u>72</u>	<u>(155)</u>
		<u>26,241</u>	<u>15,398</u>
Earnings per share			
Basic	12	<u>RMB0.105</u>	<u>RMB0.062</u>

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

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2006

	<u>Notes</u>	<u>2006</u> RMB'000	<u>2005</u> RMB'000
ASSETS			
Non-currents assets			
Property, plant and equipment	13	84,978	77,182
Investment properties	14	181,624	181,174
Construction in progress	15	151	135
Prepaid lease payments	16	10,658	15,081
Available-for-sale financial assets	17	10,386	10,386
Deferred tax assets	19	11,918	15,466
Intangible assets	20	<u>1,243</u>	<u>1,554</u>
		<u>300,958</u>	<u>300,978</u>
Current assets			
Inventories	21	371,196	233,861
Trade receivables	22	25,017	27,205
Bills receivable		-	550
Other receivables and prepayments	23	32,781	32,551
Dividend receivable		244	-
Tax recoverable		8,413	1,403
Financial assets at fair value through profit or loss	24	2,139	4,949
Amounts due from related companies	26	313	-
Bank balances and cash		<u>60,226</u>	<u>47,711</u>
		<u>500,329</u>	<u>348,230</u>
Total assets		<u>801,287</u>	<u>649,208</u>

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, 2006

	<u>Notes</u>	<u>2006</u> RMB'000	<u>2005</u> RMB'000
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Registered capital	28	249,318	249,318
Reserves	29	<u>310,579</u>	<u>284,410</u>
Equity attributable to equity holders of the parent		559,897	533,728
Minority interests		<u>7,580</u>	<u>7,503</u>
Total equity		<u>567,477</u>	<u>541,231</u>
Non-current liabilities			
Loan from a related company	25	5,000	-
Deferred income		<u>3,000</u>	<u>3,000</u>
		<u>8,000</u>	<u>3,000</u>
Current liabilities			
Trade payables		39,300	28,992
Staff welfare payable		19,284	18,820
Other payables and accruals		16,800	24,641
Amounts due to related companies	26	427	215
Amount due to an invested company	26	9,999	12,309
Bank loan - secured	27	<u>140,000</u>	<u>20,000</u>
		<u>225,810</u>	<u>104,977</u>
Total liabilities		<u>233,810</u>	<u>107,977</u>
Total assets less current liabilities		<u>801,287</u>	<u>649,208</u>

Approved by the Board of Directors on April 24, 2007

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, 2006

	Share <u>capital</u> RMB'000	Capital <u>reserves</u> RMB'000	Statutory <u>reserves</u> RMB'000	(Accumulated losses)/ <u>Retained profits</u> RMB'000	<u>Total</u> RMB'000
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	<u>-</u>	<u>-</u>	<u>(31,813)</u>	<u>31,813</u>	<u>-</u>
Balance at December 31, 2005	249,318	191,108	82,706	10,596	533,728
Net profit for the year	-	-	-	26,169	26,169
Transfer to statutory reserve	<u>-</u>	<u>-</u>	<u>2,887</u>	<u>(2,887)</u>	<u>-</u>
Balance at December 31, 2006	<u>249,318</u>	<u>191,108</u>	<u>85,593</u>	<u>33,878</u>	<u>559,897</u>

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, 2006**

	2006 RMB'000	2005 RMB'000
Cash flows from operating activities		
Profit before taxation	35,299	18,110
Adjustment for:		
Amortisation of prepaid lease payments	422	461
Amortisation of intangible assets	375	393
Depreciation of investment properties	6,953	6,426
Depreciation of property, plant and equipment	15,320	9,319
Dividend income	(244)	(110)
Loss/(Gain) on disposal of property, plant and equipment	84	(296)
Gain on disposal of financial assets at fair value through profit or loss	(1,017)	(1,104)
Fair value (gain)/loss on financial assets at fair value through profit or loss	(340)	2,058
Reversal of provision for doubtful debts	(5,334)	-
Reversal of inventory obsolescence	(14,967)	-
Interest paid	4,978	1,056
Interest income	(647)	(600)
Provision for impairment loss on available-for-sale financial assets	-	5,539
Provision for obsolescent inventory	-	1,538
Provision for doubtful debts	<u>3,160</u>	<u>420</u>
Operating profit before working capital changes	44,042	43,210
Increase in inventories	(122,368)	(31,416)
Increase in trade receivables	(1,574)	(9,663)
Decrease/(Increase) in bills receivable	550	(550)
Decrease in other receivables and prepayments	5,589	4,891
Decrease in amount due from holding company	-	1,500
Increase in amounts due from related companies	(313)	-
Increase in amounts due to related companies	212	215
Increase/(Decrease) in trade payables	10,308	(36,272)
Increase in staff welfare payable	464	107
(Decrease)/Increase in other payables and accruals	(7,841)	3,059
(Decrease)/Increase in amount due to an invested company	<u>(2,310)</u>	<u>12,309</u>
Cash used in operations	(73,241)	(12,610)
Interest paid	(4,978)	(1,056)
Tax paid	<u>(12,520)</u>	<u>(4,564)</u>
Net cash used in operating activities	<u>(90,739)</u>	<u>(18,230)</u>

SHENZHEN FIYTA HOLDINGS LIMITED
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CONSOLIDATED CASH FLOW STATEMENT – (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Cash flows from investing activities		
Interest received	647	600
Proceeds on disposal of property, plant and equipment	1,390	1,868
Purchase of property, plant and equipment	(24,330)	(15,342)
Purchase for intangible assets	(113)	-
Payments for construction in progress	(3,507)	(963)
Acquisition of available-for-sale financial assets	-	(11,040)
Proceeds on sale of financial assets at fair value through profit or loss	4,167	5,916
Dividend income from available-for-sale financial assets	-	110
	<u> </u>	<u> </u>
Net cash used in investing activities	<u>(21,746)</u>	<u>(18,851)</u>
Cash flows from financing activities		
Proceeds from loan from a related company	5,000	-
Proceeds from borrowings	200,000	20,000
Repayments of borrowings	<u>(80,000)</u>	<u>(20,000)</u>
	<u> </u>	<u> </u>
Net cash from financing activities	<u>125,000</u>	<u>-</u>
Net increase/(decrease) in cash and cash equivalents	12,515	(37,081)
Cash and cash equivalents at the beginning of the year	<u>47,711</u>	<u>84,792</u>
Cash and cash equivalents at the end of the year	<u><u>60,226</u></u>	<u><u>47,711</u></u>
Analysis of cash and cash equivalents at the end of the year		
Bank balances and cash	<u>60,226</u>	<u>47,711</u>

SHENZHEN FIYTA HOLDINGS LIMITED

深圳市飛亞達(集團)股份有限公司

NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”). This basis of accounting differs from that used in the statutory financial statements of the Group which are prepared in accordance with generally accepted accounting principles and relevant financial regulations applicable to enterprises in the PRC (“PRC GAAP”).

Adoption of new and revised standards

In the current year, the Group has adopted all of the new and revised standards and interpretations issue by the International Accounting Standards Board (the “IASB”) and the International Financial Reporting Interpretations Committee (the “IFRIC”) of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and review standards and interpretations had no material effect on how the results for the current or prior years have been prepared and presented.

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

NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Statement of compliance – (continued)

At the date of authorisation of these consolidated financial statements, the following standards and interpretations were in issue but not yet effective:

IAS 1	(Amendment) Capital Disclosures	Effective for annual periods beginning on or after 1 January 2007
IFRS 7	Financial Instruments Disclosures	Effective for annual periods beginning on or after 1 January 2007
IFRS 8	Operating segments	Effective for annual periods beginning on or after January 1, 2009
IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economics	Effective for annual periods beginning on or after 1 March 2006
IFRIC 8	Scope of IFRS 2	Effective for annual periods beginning on or after 1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	Effective for annual periods beginning on or after 1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	Effective for annual periods beginning on or after 1 November 2006
IFRIC 11 IFRS 2	Group and Treasury Share Transactions	Effective for annual periods beginning on or after March 1, 2007
IFRIC 12	Service Concession Arrangements	Effective for annual periods beginning on or after January 1, 2008

The management anticipates that the adoption of these standards and interpretations in future periods will have no material financial impact on the consolidated financial statements of the Group.

Basis of preparation

The consolidated financial statements are prepared under the historical cost basis, except for the revaluation of certain available-for-sale financial assets and financial assets at fair value through profit or loss. The principal accounting policies are set out below.

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

NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

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.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

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

NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

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.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

SHENZHEN FIYTA HOLDINGS LIMITED
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NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Prepaid lease payments

Prepaid lease payments relating to buildings of the Group are stated at cost and are amortised over the year of the lease on the straight-line basis to the profit and loss account. Prepaid lease payments relating to investment properties and properties developed for sale are not amortised and included as part of the cost of such properties.

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.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

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.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

SHENZHEN FIYTA HOLDINGS LIMITED
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NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimated or its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

SHENZHEN FIYTA HOLDINGS LIMITED
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NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Financial assets

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on settlement date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

a. Financial assets at fair value through profit or loss

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

b. Available-for-sale financial assets

Available-for-sale financial assets are carried at fair value except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less impairment loss, if any. Unrealised gains and losses arising from changes in the fair value are recognised directly in the investment revaluation reserve, except for foreign exchange gains and losses on monetary items such as debt securities which are recognised in the profit and loss account. When the available-for-sale financial assets are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the equity are treated as gains and losses on disposal.

SHENZHEN FIYTA HOLDINGS LIMITED
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NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Financial assets - (continued)

c. Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. For financial assets carried at amortised cost, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in income statement of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statement of the period in which the reversal occurs.

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.

SHENZHEN FIYTA HOLDINGS LIMITED
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NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

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

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

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NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Renminbi, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Renminbi using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit and loss in the period in which the foreign operation is disposed of.

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.

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2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

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 in profit or loss in the period in which they are 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.

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3. FINANCE RISK MANAGERMENTS

a) Financial risk factors

The Group's activities expose it to a variety of financial risks: interest-rate risk, credit risk, foreign exchange risk and liquidity risk.

Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from borrowings. The interest rates and repayment terms of borrowings are disclosed in note 27. Borrowings issued at variable rates expose the Group to Cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has not hedged its cash flow and fair value 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 exchange risk

The directors consider the foreign exchange risk is not significant as the operating income and expenses are denominated in RMB.

Liquidity risk

The Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

b) Fair value estimation

The fair value of financial assets at fair value through profit or loss is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying amounts of other significant financial assets and financial liabilities approximate their fair values as at December 31, 2006.

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NOTES TO THE FINANCIAL STATEMENT
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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

b) Impairment of receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision on each of the balance sheet date.

c) Impairment of property, plant and equipment and available-for-sale financial assets

Property, plant and equipment and available-for-sale financial assets 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 financial assets have been determined based on value-in-use calculations. These calculation and valuations require the use of judgment and estimates.

d) 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.

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NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

5. BUSINESS SEGMENTS INFORMATION OF THE GROUP

For management purposes, the Group is organized into two major operating divisions – clocks and watches and property rental. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Clocks and watches – design, manufacture, assembly and sale of quartz analog watches, clocks, watch casings.

Property rental – the leasing of investment properties to generate rental income.

Segment information about these businesses for the year ended December 31, 2006 is presented below.

	Clocks and <u>watches</u> RMB'000	Property <u>rental</u> RMB'000	<u>Total</u> RMB'000
Turnover	<u>441,474</u>	<u>45,767</u>	<u>487,241</u>
Segment results	<u>140,512</u>	<u>38,112</u>	178,624
Unallocated expense			<u>(138,347)</u>
Operating profits			40,277
Finance costs			<u>(4,978)</u>
Profit before taxation			35,299
Taxation			<u>(9,058)</u>
Profit after taxation			26,241
Minority interest			<u>(72)</u>
Net profit			<u>26,169</u>
Segment assets	584,218	192,626	776,844
Unallocated assets			<u>24,443</u>
Total assets			<u>801,287</u>
Segment liabilities	93,810	-	93,810
Unallocated liabilities			<u>140,000</u>
Total liabilities			<u>233,810</u>
Depreciation and amortization:			
- property, plant and equipment	<u>15,320</u>	<u>-</u>	<u>15,320</u>
- investment properties	<u>-</u>	<u>6,953</u>	<u>6,953</u>
- prepaid lease payments	<u>-</u>	<u>422</u>	<u>422</u>

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FOR THE YEAR ENDED DECEMBER 31, 2006

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

For the year ended December 31, 2005

	Clocks and <u>watches</u> RMB'000	Property <u>rental</u> RMB'000	<u>Total</u> RMB'000
Turnover	<u>300,373</u>	<u>41,132</u>	<u>341,505</u>
Segment results	100,171	32,212	132,383
Unallocated expense			<u>(113,217)</u>
Operating profits			19,166
Finance costs			<u>(1,056)</u>
Profit before taxation			18,110
Taxation			<u>(2,712)</u>
Profit after taxation			15,398
Minority interest			<u>155</u>
Net profit			<u>15,553</u>
Segment assets	421,691	196,716	618,407
Unallocated assets			<u>30,801</u>
Total assets			<u>649,208</u>
Segment liabilities	87,977	-	87,977
Unallocated liabilities			<u>20,000</u>
Total liabilities			<u>107,977</u>
Depreciation and amortization:			
- property, plant and equipment	<u>9,319</u>	<u>-</u>	<u>9,319</u>
- investment properties	<u>-</u>	<u>6,426</u>	<u>6,426</u>
- prepaid lease payments	<u>-</u>	<u>461</u>	<u>461</u>

There are no sales or other transactions between the business segments. Segment assets comprise operating assets and mainly exclude deferred tax assets, available-for-sale financial assets and financial assets at fair value through profit or loss. Segment liabilities comprise operating liabilities and mainly exclude minority interests and borrowings. All assets and operations of the Group are located in the PRC.

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NOTES TO THE FINANCIAL STATEMENT
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6. TURNOVER AND REVENUE

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

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Turnover		
Rental income	45,767	41,132
Sales of goods	<u>441,474</u>	<u>300,373</u>
	<u>487,241</u>	<u>341,505</u>
Other revenue		
Bank interest income	647	600
Dividend income	-	110
Repairs and maintenance income	1,599	1,253
Gain on disposal of financial assets at fair value through profit or loss	1,017	1,104
Fair value gain on financial assets at fair value through profit or loss	340	-
Gain on disposal of property, plant and equipment	8	426
Others	<u>1,151</u>	<u>773</u>
	<u>4,762</u>	<u>4,266</u>
Total revenue	<u><u>492,003</u></u>	<u><u>345,771</u></u>

7. PROFIT FOR OPERATIONS

Profit for operations had been arrived at after charging:

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Depreciation and amortisation:		
Amortisation of prepaid lease payments	422	461
Amortisation of intangible assets	375	393
Depreciation of property, plant and equipment	15,320	9,319
Depreciation of investment properties	<u>6,953</u>	<u>6,426</u>
Total depreciation and amortisation expenses	<u>23,070</u>	<u>16,599</u>
Impairment loss for available-for-sale investment	<u>-</u>	<u>5,539</u>
Staff costs (including directors' remuneration – note 10)	<u><u>60,122</u></u>	<u><u>46,473</u></u>

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NOTES TO THE FINANCIAL STATEMENT
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8. STAFF COSTS

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Wages and salaries	51,626	38,101
Staff welfare	6,561	2,644
Social insurance expenses	<u>1,935</u>	<u>3,165</u>
	<u>60,122</u>	<u>43,910</u>

9. FINANCE COSTS

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Interest on bank borrowings	<u>4,978</u>	<u>1,056</u>

10. DIRECTORS' REMUNERATION

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

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Fees	-	-
Other emoluments	<u>3,436</u>	<u>2,563</u>
	<u>3,436</u>	<u>2,563</u>

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11. INCOME TAX

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Current tax	5,510	2,712
Deferred tax (note 19)	<u>3,548</u>	<u>-</u>
	<u>9,058</u>	<u>2,712</u>

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

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Profit before taxation	<u>35,299</u>	<u>18,110</u>
Tax at the applicable income tax rate (15%)	5,295	2,716
Tax effect of expenses not deductible for tax purposes	6,767	2,383
Tax effect of income not taxable for tax purposes	(2,710)	(2,734)
Tax effect of a subsidiary which has 50% reduction from income tax	(506)	(735)
Tax effect in tax losses of subsidiaries	<u>212</u>	<u>1,082</u>
Taxation charge	<u>9,058</u>	<u>2,712</u>

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

12. EARNINGS PER SHARE

	<u>2006</u> Cents per share	<u>2005</u> Cents per share
Basic earnings per share	<u>RMB10.5</u>	<u>RMB6.2</u>

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NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

12. EARNINGS PER SHARE – (continued)

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Profit for the year attributable to equity holders of the parent	<u>26,169</u>	<u>15,553</u>
	<u>2006</u> '000	<u>2005</u> '000
Weighted average number of ordinary shares for the purpose of basic earnings per share (all measures)	<u>249,318</u>	<u>249,318</u>

13. PROPERTY, PLANT AND EQUIPMENT

	<u>Buildings</u> RMB'000	Equipment and <u>machinery</u> RMB'000	Leasehold <u>improvements</u> RMB'000	<u>Total</u> RMB'000
COST OR VALUATION				
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	1,413	-	705	2,118
Disposals	<u>-</u>	<u>(4,295)</u>	<u>(1,152)</u>	<u>(5,447)</u>
At January 1, 2006	61,833	35,219	25,303	122,355
Additions	7,359	2,456	14,515	24,330
Transferred from construction in progress (note 15)	-	-	206	206
Written off	-	(3,283)	(37)	(3,320)
Disposals	<u>(425)</u>	<u>(2,506)</u>	<u>-</u>	<u>(2,931)</u>
At December 31, 2006	<u>68,767</u>	<u>31,886</u>	<u>39,987</u>	<u>140,640</u>

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NOTES TO THE FINANCIAL STATEMENT
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13. PROPERTY, PLANT AND EQUIPMENT – (continued)

	<u>Buildings</u> RMB'000	Equipment and <u>machinery</u> RMB'000	Leasehold <u>improvements</u> RMB'000	<u>Total</u> RMB'000
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
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 January 1, 2006	13,788	19,222	12,163	45,173
Charge for the year	1,092	4,827	9,401	15,320
Eliminated on written off	-	(2,347)	(9)	(2,356)
Eliminated on disposals	(62)	(2,413)	-	(2,475)
At December 31, 2006	<u>14,818</u>	<u>19,289</u>	<u>21,555</u>	<u>55,662</u>
NET BOOK VALUE				
At December 31, 2006	<u>53,949</u>	<u>12,597</u>	<u>18,432</u>	<u>84,978</u>
At December 31, 2005	<u>48,045</u>	<u>15,997</u>	<u>13,140</u>	<u>77,182</u>

The Group is in the process of applying for property certificates in respect of buildings with a net book value amounting to RMB7,383,000 at December 31, 2006 (2005: RMB 7,618,000).

At December 31, 2006, the Company's future aggregate minimum lease rental receivables under non-cancellable leases are as follows:

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Within one year	<u>7,325</u>	<u>5,886</u>

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14. INVESTMENT PROPERTIES

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Carrying amount at the beginning of the year	181,174	187,600
Transfer from construction in progress (note 15)	3,285	-
Transfer from prepaid lease payments (note 16)	4,118	-
Charge for the year	<u>(6,953)</u>	<u>(6,426)</u>
Carrying amount at the end of the year	<u>181,624</u>	<u>181,174</u>
Directors' valuation		
- including prepaid lease payments	<u>450,000</u>	<u>330,932</u>

The investment properties of the Group are situated in the PRC. 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, 2006 and December 31, 2005 were determined by the directors on an open market value basis.

15. CONSTRUCTION IN PROGRESS

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Net book value at the beginning of the year	135	1,290
Additions	3,507	963
Transfer to property, plant and equipment (note 13)	(206)	(2,118)
Transfer to investment properties (note 14)	<u>(3,285)</u>	<u>-</u>
Net book value at the end of the year	<u>151</u>	<u>135</u>

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16. PREPAID LEASE PAYMENTS

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
COST		
At January 1	20,037	20,037
Transfer to investment properties (note 14)	<u>(5,249)</u>	<u>-</u>
At December 31	<u>14,788</u>	<u>20,037</u>
ACCUMULATED AMORTISATION		
At January 1	4,495	4,034
Charge for the year	422	461
Transfer to investment properties (note 14)	<u>(1,131)</u>	<u>-</u>
At December 31	<u>3,786</u>	<u>4,495</u>
NET BOOK VALUE		
At December 31	11,002	15,542
Current portion included in other receivables and prepayments	<u>(344)</u>	<u>(461)</u>
Non-current portion	<u>10,658</u>	<u>15,081</u>

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.

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17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Listed shares, at cost	3,000	3,000
Unlisted shares, at cost	<u>12,925</u>	<u>12,925</u>
	15,925	15,925
<u>Less: impairment loss</u>	<u>(5,539)</u>	<u>(5,539)</u>
	<u>10,386</u>	<u>10,386</u>

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

18. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Unlisted shares, at cost	6,300	-
<u>Less: Impairment loss</u>	<u>(6,300)</u>	<u>-</u>
	<u>-</u>	<u>-</u>

Details of the Group's unconsolidated subsidiary as at December 31, 2006 are as follows:

<u>Name of subsidiary</u>	<u>Registered capital</u>	<u>Principal activities</u>	<u>Attributable equity interest held</u>	
			<u>Direct</u>	<u>Indirect</u>
Shenzhen Feijing Precision Optical Device Manufacture Co., Ltd	RMB7,000,000	Ceased business	90%	9.879%

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19. DEFERRED TAX ASSETS

RMB'000

At January 1, 2005 and January 1, 2006	15,466
Charge to income statement	<u>(3,548)</u>
At December 31, 2006	<u><u>11,918</u></u>

20. INTANGIBLE ASSETS

RMB'000

COST	
At January 1, 2005 and January 1, 2006	3,816
Additions	113
Written off	<u>(66)</u>
At December 31, 2006	<u>3,863</u>
ACCUMULATED AMORTISATION	
At January 1, 2005	1,869
Charge for the year	<u>393</u>
At January 1, 2006	2,262
Charge for the year	375
Eliminated on written off	<u>(17)</u>
At December 31, 2006	<u>2,620</u>
NET BOOK VALUE	
At December 31, 2006	<u><u>1,243</u></u>
At December 31, 2005	<u><u>1,554</u></u>

The intangible assets included above have finite useful lives, over which the assets are amortised.

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21. INVENTORIES

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Raw materials	43,411	47,291
Work in progress	1,931	5,323
Finished goods	<u>372,047</u>	<u>242,407</u>
	417,389	295,021
<u>Less:</u> provision for obsolescent inventories	<u>(46,193)</u>	<u>(61,160)</u>
	<u><u>371,196</u></u>	<u><u>233,861</u></u>

The cost of inventories recognised as an expense during the year was RMB268,195,000 (2005: RMB187,730,000).

22. TRADE RECEIVABLES

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Trade receivables	71,086	69,512
<u>Less:</u> provision for doubtful debts	<u>(46,069)</u>	<u>(42,307)</u>
Trade receivables, net	<u><u>25,017</u></u>	<u><u>27,205</u></u>

Movement in the provision for doubtful debts:

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
At the beginning of the year	42,307	41,119
Increase in provision recognised in profit or loss	<u>3,762</u>	<u>1,188</u>
At the end of the year	<u><u>46,069</u></u>	<u><u>42,307</u></u>

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23. OTHER RECEIVABLES AND PREPAYMENTS

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Prepayments	9,914	1,677
Other receivables	29,897	43,840
<u>Less: provision for doubtful debts</u>	<u>(7,030)</u>	<u>(12,966)</u>
	<u>32,781</u>	<u>32,551</u>

Movement in the provision for doubtful debts:

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
At beginning of year	12,966	13,734
Decrease in provision recognised in profit or loss	<u>(5,936)</u>	<u>(768)</u>
At end of year	<u>7,030</u>	<u>12,966</u>

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Market value of listed investments		
- equity shares	<u>2,139</u>	<u>4,949</u>

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.

25. LOAN FROM A RELATED COMPANY

The loan due is unsecured, interest-free and with no fixed terms of repayment.

26. AMOUNTS DUE FROM/TO RELATED COMPANIES AND AMOUNT DUE TO AN INVESTED COMPANY

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

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27. BANK LOAN - SECURED

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Repayable within one year	<u>140,000</u>	<u>20,000</u>

The bank loan was interest bearing at rates ranging from 5.58% to 6.12% per annum (2005: 5.58%) and guaranteed by the holding company, CATIC Shenzhen Holdings Limited.

28. SHARE CAPITAL

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

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Promoters' shares	130,248	130,248
A shares	60,750	60,750
B shares	<u>58,320</u>	<u>58,320</u>
	<u>249,318</u>	<u>249,318</u>

29. 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.

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30. CAPITAL COMMITMENTS

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Contracted but not provided for:		
- acquisition of property, plant and equipment	<u>-</u>	<u>2,259</u>

31. OPERATING LEASE COMMITMENTS

At December 31, 2006, the Group had total future minimum lease payments under an non-cancellable operating lease in respect of land and buildings as follows:

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Within one year	7,345	3,730
In the second to fifth years inclusive	<u>13,255</u>	<u>7,875</u>
	<u>20,600</u>	<u>11,605</u>

32. RELATED PARTY TRANSACTIONS

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

	<u>2006</u> RMB'000	<u>2005</u> RMB'000
Rental income received from:		
Shenzhen CATIC Property Management Co., Ltd	<u>805</u>	<u>805</u>
Property management fee paid to:		
Shenzhen CATIC Property Management Co., Ltd	<u>2,505</u>	<u>1,947</u>
Construction fee paid to:		
Shenzhen CATIC Property Management Co., Ltd	<u>-</u>	<u>2,208</u>
Commission paid to:		
Shenzhen Rainbow Department Store Co., Ltd	<u>2,667</u>	<u>970</u>

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33. SUBSIDIARIES

At December 31, 2006, the Company had the following major subsidiaries (all incorporated in the PRC):

<u>Name of subsidiaries</u>	<u>Registered capital</u>	<u>Principal activities</u>	<u>Attributable equity interest held</u>	
			<u>Direct</u>	<u>Indirect</u>
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 (note a)	RMB7,000,000	Ceased business	90%	9.879%
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 b)	HKD16,000,000	Ceased business	62%	-
Shenzhen World Famous Watch Centre Co., Ltd. (note c)	RMB2,800,000	Retailing of advanced watch, glasses and jewellery	50%	-

Note: a) This subsidiary has sold out its assets related to manufacture of precision optical device and watch surfaces business and ceased its operations since 2005.

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

c) 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.

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34. REPORTING CURRENCY

The Group's financial statements are expressed in Renminbi.

35. ULTIMATE HOLDING COMPANY

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

36. COMPARATIVE FIGURES

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

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

	<u>Net profit for the year</u>		<u>Shareholders' equity</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	RMB'000	RMB'000	RMB' 000	RMB'000
As report under PRC statutory financial statements	29,263	16,007	562,634	533,371
IFRS adjustments:				
- Adjustment on deferred tax assets	(3,548)	-	11,918	15,466
- Reclassification of prior year profit appropriation to staff welfare payable	-	-	(15,949)	(15,949)
- Adjustment on provision for bad debt	454	(454)	-	(454)
- Others	<u>-</u>	<u>-</u>	<u>1,294</u>	<u>1,294</u>
As restated after IFRS adjustments	<u>26,169</u>	<u>15,553</u>	<u>559,897</u>	<u>533,728</u>