

**FIYTA Holdings Ltd.**

**2013 Annual Report**

**March, 2014**

## Section 1 Important Notice, Table of Contents and Definitions

The Board of Directors, the Supervisory Committee, directors, supervisors and senior executives hereby individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there exist no mendacious record, misleading statement, or material omissions in the Report.

All the directors attended the board meeting for reviewing the Annual Report.

The profit distribution preplan reviewed and approved at the Board Meeting is summarized as follows: With the Company's total share capital as at December 31, 2013 as the base, the Company is going to distribute cash dividend to all its shareholders at the rate of CNY 1.00 for every 10 shares (with tax inclusive) and bonus share at the rate of 0 share (with tax inclusive). No reserve shall be converted into share capital.

Mr. Lai Weixuan, the Company leader, Mr. Li Dehua, chief financial officer and the Mr. Hu Xinglong, the person in charge of the accounting department (the person in charge of the accounting) hereby confirm the authenticity and completeness of the financial report enclosed in this annual report.

Any perspective description, such as future plan, development strategy, etc. involved in the Annual Report shall not constitute the Company's substantial commitment to the investors and the investors should please pay attention to their investment risks.

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**Definition**

Terms to be defined	Refers to	Definition
This Company, the Company or Fiyta	Refers to	FIYTA Holdings Ltd.
AVIC International Holdings	Refers to	AVIC International Holdings Limited
HARMONY	Refers to	Shenzhen Harmony World Watches Center Co., Ltd.
Rainbow Supermarket	Refers to	Rainbow Supermarket Co., Ltd.
CATIC Real Estate	Refers to	CATIC Real Estate Co., Ltd.
CATIC Property	Refers to	CATIC Property Management Co., Ltd.

### Important Risk Notice

Securities Times, Hong Kong Commercial Daily and [www.cninfo.com.cn](http://www.cninfo.com.cn) are the media designated for disclosing our information for the year 2013. All the Company's information is subject to the information disclosed in the aforesaid media as designated. Investors are requested to pay attention to the risks involved in your investment.

## Section 2 Company Profile

### I. Company Information

Short form of the stock:	FIYTA A, FIYTA B	Stock Codes:	000026 and 200026
Stock Exchange Listed with	Shenzhen Stock Exchange		
Company Name In Chinese	飞亚达（集团）股份有限公司		
Abbreviation of Registered Company Name in Chinese	飞亚达公司		
Company name in foreign language (if any)	FIYTA HOLDINGS LTD.		
Short form of the Company name in foreign language (if any)	FIYTA		
Legal Representative	LAI Weixuan		
Registered address:	FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen		
Postal Code of the Registered Address	518057		
Office Address	20 <sup>th</sup> Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen		
Postal Code of the Office Address	518057		
Internet Web Site	<a href="http://www.fiytagroup.com">http:// www.fiytagroup.com</a>		
E-mail	investor@fiyta.com.cn		

### II. Liaison Person and Communication Information

	Secretary of the Board	Securities Affairs Representative
Names	Chen Libin	Zhang Yong
Liaison Address	20 <sup>th</sup> Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen	20 <sup>th</sup> Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen
Tel.	0755—86013992	0755—86013669
Fax	0755—83348369	0755—83348369
E-mail	investor@fiyta.com.cn	investor@fiyta.com.cn

**III. Information Disclosure and Place of Regular Reports Prepared for Inquiry**

Newspapers Designated for Disclosing the Information:	Securities Times and Hong Kong Commercial Daily
Internet Web Site Designated by China Securities Regulatory Commission for Publishing the Company's semi-annual report:	<a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a>
Place of the Company's Semi-annual Report Prepared for Inquiry	Office of the Board of Directors

**IV. Changes in Registration**

	Date of Registration	Authority Registered with	Number of Business License of Enterprise as Legal Person	Taxation Registration No.:	Organization Code
Initial registration	March 30, 1990	Shenzhen Municipal Administration for Industry and Commerce	19218978-3	44030152010001	19218978-3
Registration at the end of the reporting period	April 03, 2013	Market Supervision Administration of Shenzhen Municipality	440301103196089	440301192189783	19218978-3
Changes in principal business activities since listing (if any)	<p>June 22 1993</p> <p>Before the change: Production and sales of various pointer type quartz watches and driving units, spares and parts, various timekeeping instruments; mechanical watches and digital display electronic watches. After the change: Production and sales of various pointer type quartz watches and driving units, spares and parts, various timekeeping instruments; processing and wholesale of K gold ornament watches. domestic commerce and supply and sale of goods and materials (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government);</p> <p>January 30 1997</p> <p>Before the change: Production and sales of various pointer type quartz watches and driving units, spares and parts, various timekeeping instruments; processing and wholesale of K gold ornament watches; domestic commerce and supply and sale of goods and materials (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government); After the change: Production and sales of various pointer type</p>				

	<p>quartz watches and driving units, spares and parts, various timekeeping instruments; processing and wholesale of K gold ornament watches; domestic commerce and supply and sale of goods and materials (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government).</p> <p>February 10, 1999</p> <p>Before the change: Production and sales of various pointer type quartz watches and driving units, spares and parts, various timekeeping instruments; processing and wholesale of K gold ornament watches; domestic commerce and supply and sale of goods and materials (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government). After the change: Production and sales of various pointer type quartz watches and driving units, spares and parts, various timekeeping instruments; processing and wholesale of K gold ornament watches; domestic commerce and supply and sale of goods and materials (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government); property management.</p> <p>January 10, 2001</p> <p>Before the change: Production and sales of various pointer type quartz watches and driving units, spares and parts, various timekeeping instruments; processing and wholesale of K gold ornament watches; domestic commerce and supply and sale of goods and materials (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government); property management. After the change: Production and sales of various pointer type quartz watches and driving units, spares and parts, various timekeeping instruments; processing and wholesale of K gold ornament watches; domestic commerce and supply and sale of goods and materials (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government); property management. Self-run import and export (implemented according to Document SHEN MAO GUAN DENG ZHENG ZI NO. 2000-072).</p> <p>February 20, 2004</p> <p>Before the change: Production and sales of various pointer type quartz watches and driving units, spares and parts, various timekeeping instruments; processing and wholesale of K gold ornament watches; domestic commerce and supply and sale of goods and materials (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government); property management. Self-run import and export (implemented according to Document SHEN MAO GUAN DENG ZHENG ZI NO. 2000-072). After the change: Production and sales of various pointer type quartz watches and driving units, spares and parts, various timekeeping instruments; processing and wholesale of K gold ornament watches (the promises are subject to submission of separate report to the authority) ; domestic commerce</p>
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	<p>and supply and sale of goods and materials (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government); property management. Self-run import and export (implemented according to Document SHEN MAO GUAN DENG ZHENG ZI NO. 2000-072).</p> <p>February 29, 2008</p> <p>Before the change: Production and sales of various pointer type quartz watches and driving units, spares and parts, various timekeeping instruments; processing and wholesale of K gold ornament watches (the promises are subject to submission of separate report to the authority) ; domestic commerce and supply and sale of goods and materials (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government); property management. Self-run import and export (implemented according to Document SHEN MAO GUAN DENG ZHENG ZI NO. 2000-072).</p> <p>After the change: Production and sales of various pointer type quartz watches and driving units, spares and parts, various timekeeping instruments; processing and wholesale of K gold ornament watches (the promises are subject to submission of separate report to the authority) ; domestic commerce and supply and sale of goods and materials (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government); property management, property lease; self-run import and export (implemented according to Document SHEN MAO GUAN DENG ZHENG ZI NO. 2000-072).</p>
<p>Changes in the controlling shareholder in the past (if any)</p>	<p>Fiyta Holdings Ltd. (hereinafter referred to as the Company) was reorganized, incorporated and renamed from Shenzhen Fiyta Timer Industry Company on December 25 1992 with approval by the General Office of Shenzhen Municipal People's Government with Document SHEN FU BAN FU [1992] No. 1259 and with China National Aero-Technology Import &amp; Export Corporation Shenzhen Industry &amp; Trade Center (which was renamed as China National Aero-Technology Corporation Shenzhen) as the sponsor.</p> <p>On March 10, 1993, the Company, with approval by the People's Bank of China Shenzhen Special Economic Zone Branch [SHEN REN YIN FU ZI (1993) No. 070], issued publically domestic CNY based common shares (A-shares) and CNY based special shares (B-shares). In accordance with the Approval Document of Shenzhen Municipal Securities Regulatory Office SHEN ZHENG BAN FU [1993] No. 20 and the Approval Document of Shenzhen Stock Exchange SHEN ZHENG SHI ZI (1993) No. 16, the Company's A-shares and B-shares were all listed with Shenzhen Stock Exchange for trading commencing from June 3, 1993.</p> <p>On January 30, 1997, with approval by Shenzhen Municipal Administration for Industry and Commerce, the Company was renamed as Shenzhen Fiyta Holdings Ltd.</p>

	<p>On July 4, 1997, according to the equity assignment agreement between China National Aero-Technology Corporation Shenzhen (CATIC Shenzhen Corporation) and CATIC Shenzhen Holdings Limited (with original name of Shenzhen CATIC Group Co., Ltd. (hereinafter referred to as CATIC Shenzhen), CATIC Shenzhen Corporation assigned 72.36 million corporate shares (taking 52.24% of the Company's total shares) to CATIC Shenzhen. From then on, the Company's controlling shareholder turned to be CATIC Shenzhen from CATIC Shenzhen Corporation.</p> <p>CATIC Shenzhen Holdings completed the registration change with the administration for industry and commerce resulted from its non-public issuing and assets restructuring and the Company's controlling shareholder turned to be AVIC International Holdings Limited. Ended December 31, 2013, the proportion of the Company's equity held by AVIC International Holdings Limited was 41.49%.</p>
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## V. Other Relevant Information

CPAs engaged

Name of the CPAs	Ruihua Certified Public Accountants (special ordinary partnership)
Office address	5-11/F, West Tower of China Overseas Property Plaza, Building 7, NO.8, Yongdingmen Xibinhe Road, Dongcheng District, Beijing
Names of the Certified Public Accountants as the signatories	Liao Shiguo and Xing Xiangzong

The sponsor performing persistent supervision duties engaged by the Company in the reporting period

Inapplicable

The financial advisor performing persistent supervision duties engaged by the Company in the reporting period

Inapplicable

## Section 3 Financial Highlights

## I. Summary of Accounting/Financial Data

May the Company make retroactive adjustment or restatement of the accounting data of the previous years due to change of the accounting policy and correction of accounting errors

☐ Yes ☒ No

	2013	2012	Year-on-year increase/decrease (%)	2011
Turnover in CNY	3,103,496,962.22	3,023,962,527.25	2.63%	2,561,111,471.33
Net profit attributable to the Company's shareholders, in CNY	130,125,124.48	116,003,746.03	12.17%	143,318,684.51
Net profit attributable to the Company's shareholders less the non-recurring items, in CNY	127,158,503.02	113,231,625.62	12.3%	155,515,717.50
Net cash flows arising from operating activities, in CNY	79,047,490.92	45,846,659.76	72.42%	-411,201,758.57
Basic earning per share (CNY/share)	0.331	0.295	12.2%	0.365
Diluted earning per share (CNY/share)	0.331	0.295	12.2%	0.365
Return on equity, weighted average (%)	8.69%	8.18%	0.51%	12.05%
	End of 2013	End of 2012	Increase/decrease at the end of the year over the end of the previous year (%)	End of 2011
Total assets, in CNY	3,558,702,591.28	3,326,763,824.86	6.97%	3,061,600,094.74
Net assets attributable to the Company's shareholders (owner's equity attributable to the Company's shareholders, in CNY)	1,536,434,684.56	1,446,677,625.13	6.2%	1,425,864,692.45

## II. Difference in the Accounting Data based on the Accounting Standards Outside Mainland China

### 1. Difference in Net Profit and Net Assets in the Financial Report as Disclosed according to the International Accounting Standards and the Chinese Accounting Standards

In CNY

	Net profit attributable to the Company's shareholders		Net assets attributable to the Company's shareholders	
	Amount in the reporting period	Amount in the previous period	End of the Reporting Period	Beginning of the reporting period
According to CAS	130,125,124.48	116,003,746.03	1,536,434,684.56	1,446,677,625.13
Items and amount adjusted according to IAS.				

### 2. Difference in Net Profit and Net Assets in the Financial Report as Disclosed Respectively according to the Accounting Standards Outside Mainland China and the Chinese Accounting Standards

In CNY

	Net profit attributable to the Company's shareholders		Net assets attributable to the Company's shareholders	
	Amount in the reporting period	Amount in the previous period	End of the Reporting Period	Beginning of the reporting period
According to CAS	130,125,124.48	116,003,746.03	1,536,434,684.56	1,446,677,625.13
Items and amount adjusted according to IAS.				

### 3. Note to the Difference in the Accounting Data based on the Accounting Standards of CAS and IAS.

## III. Non-recurring gain/loss items and the amount involved

Inapplicable

In CNY

Items	Amount in 2013	Amount in 2012	Amount in 2011	Notes
Gain/Loss from disposal of non-current assets, including the part offset with the provision for impairment of assets	388,966.99	-236,304.20	-369,798.63	Income from disposal of the idled office property in the reporting year
Tax rebate or reduction with approval by overstepping authority, or without formal approval document	0.00	0.00	0.00	Inapplicable

Government subsidy recognized in current gain and loss (excluding those closely related to the Company's business and granted under the state's policies according to certain quota of amount or volume)	3,610,593.36	5,176,129.77	4,006,718.21	Inapplicable
Fund occupancy consideration received from non-financial institution counted to the current gains and losses	0.00	0.00	0.00	Inapplicable
Income from the costs of the investments in the subsidiaries, associates and joint ventures as acquired less than the fair value of the enjoyable recognizable net assets of the investees at the time of investment acquired.	0.00	0.00	0.00	Inapplicable
Exchange gain/loss from non-monetary assets	0.00	0.00	0.00	Inapplicable
Gain/loss from entrusted investment or asset management	0.00	0.00	0.00	Inapplicable
Provision for impairment of various assets arising from force majeure, such as natural disaster	0.00	0.00	0.00	Inapplicable
Gains and losses from debts reorganization	0.00	0.00	0.00	Inapplicable
Enterprise reorganization fee, such as expenses for arrangement for employees, integration fee, etc.	0.00	0.00	0.00	Inapplicable
Gains/losses exceeding the fair value arising from transactions with obviously unfair prices	0.00	0.00	0.00	Inapplicable
Net gain and loss of the subsidiary under the common control and produced from enterprise consolidation from the beginning of the period to the consolidation date	0.00	-2,130,265.54	-16,139,115.49	Inapplicable
Gain and loss arising from contingent matters irrelevant with the Company's normal operation business	0.00	0.00	0.00	Inapplicable
Gain and loss from change of the fair	0.00	0.00	0.00	Inapplicable

value arising from transactional monetary assets, transactional financial liabilities as held as well as the investment income arising from disposal of the transactional monetary assets, transactional financial liabilities and financial assets available for sale excluding the effective hedging transaction in connection with the Company's normal business				
Reverse of the provision for impairment of accounts receivable undergoing impairment test individually	0.00	0.00	0.00	Inapplicable
Gain/loss from external entrusted loan	0.00	0.00	0.00	Inapplicable
Gain and loss arising from change in the fair value of the investment based real estate measured afterwards by means of fair value model	0.00	0.00	0.00	Inapplicable
Influence upon the current gains and losses from the once-and-for-all adjustment over the current gains and losses according to the taxation and accounting laws and regulations	0.00	0.00	0.00	Inapplicable
Income from custodian charge obtained from entrusted operation	0.00	0.00	0.00	Inapplicable
Operating income and expenses other than the aforesaid items	-153,915.17	1,389,127.26	1,256,250.60	Increase of donation outlay in the reporting period
Other gains/losses in compliance with the definition of non-recurring gain/loss	0.00	0.00	0.00	Inapplicable
Less: Amount affected by the income tax	873,382.95	1,425,666.23	918,100.27	Inapplicable
Amount affected by minority equity (after tax)	5,640.77	900.65	32,987.41	Inapplicable
Total	2,966,621.46	2,772,120.41	-12,197,032.99	--

For the Company's non-recurring gain/loss items as defined in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering their Securities to the Public – Non-recurring Gains and Losses and its non-recurring gain/loss items as illustrated in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering their Securities to the Public – Non-recurring Gains and Losses which have been defined as recurring gains and losses, it is necessary to explain the reason.

Inapplicable

## Section 4 Report of the Board of Directors

### I. General

In 2013, restricted by slow-down of the growth of the domestic economy and affected by the relevant policy, retail industry, especially watch industry the Company is engaged in experienced great change which showed that high-end consumption market, especially top brand watch demand dropped significantly while the middle-end consumption market grew steadily. Meanwhile, the Internet has been continuously impacting traditional industry and has opened a new profit model. Under such a background, the Company continued to insist on the brand operation strategy, constantly optimized the sales channels and product structure, carried out flexible and diversiform promoting activities integrated with such elements as holidays, VIP customers, etc., made great efforts to increase sales income and improve the output of individual shops; meanwhile, continuously optimized the critical process, tried to improve the asset turnover efficiency, enhanced control of costs and expenses, carried out various profit management and innovation projects and ensured profit growth of the whole year. In the reporting period, the Company realized a revenue amounting to CNY 3,103.50 million, a 2.63% growth over the previous year; realized net profit amounting to CNY 130.13 million, a 12.17% growth over the previous year.

#### Retail of Famous Brand Watches:

In the reporting period, facing the serious market environment and sluggish atmosphere of industry, HARMONY carried out the business closely around the work theme of “clear understanding of the situation, starting from the heart, innovation and breakthrough, constantly striving to become stronger”. In the reporting year, HARMONY strove to excavate the market opportunity, carried out various sales activities in holidays and ensured the company in maintaining steady level of the income; enhanced the digestion of the receivables from watch sales by means of the activities of enjoying time with respect and pleasing time, etc. and tried hard to optimize the inventory structure; speeded up the capital velocity by means of “gold washing activity”, reduced fund tie-up, reduced various costs and expenditures; on the basis of consolidating the existing brand channels close cooperation relationship, and cautiously developed high-end shops. The company consolidated the first and second tier cities and attached importance on development of the third and fourth tier cities; continued to enhance the strong regions and paid attention to the opportunity of developing the weak regions; kept carrying forward various training activities, including “sales executives training camp”, “spring ploughing program”, “Lohas School”, “star of tomorrow”, etc. and improved the staff’s qualification and technical level.

#### FIYTA Watches:

In the reporting period, the Company kept carrying out various work by focusing on “4P+C” brand elements and ensured continuous quick growth of retail business by sales competition activities with profound theme; brought the effect of spokesperson into full play, conducted event spread through network and print media and elevated the brand recognition; kept upgrading the quality of channels, vigorously expended outlets, franchise houses and comprehensive shops, quickly expanded the channels to the third and fourth tier cities and improved profit of individual shops; steadily carried forward e-commerce business and the sales income of the e-business kept growing quickly; achieved great progress in overseas business in Southeast Asia, Taiwan, Macao, etc. The Company, as the unique watch brand in China, has entered Exhibition Hall I of Basel Watch Fair successively for three years; continuously upgraded the exiting products and added products of new design for competition, launched and richened products of various styles, including HEARTSTRING,

TOURBILLON, PHOTOGRAPHER, DRYAD, etc. which have powerfully supported the frontline sales; gradually improved the human resource system based on the brand upgrading and business growth; improved the techniques of such personnel as management, sales managers, shopping guiders, etc., improved employees' professional development passage, optimized human resource structure and supported quick development of the business.

#### Property Operation:

In the reporting period, the Company kept steady growth in its property operation and the overall management service level was further improved by communication and coordination with the property management company and daily communication with customers. While the self-use area has kept growing, the Company has realized a growth in the rent from the new and renewed tenants.

## II. Analysis on Principal Business

### 1. General

Items	2013	2012	Increase/Decrease (%)	Cause of Movements
Revenue	3,103,496.22	3,023,962,527.25	2.63%	
Operating costs	1,990,125,145.74	1,982,326,103.21	0.39%	
Sales expenses	649,297,842.92	575,687,442.96	12.79%	
Administrative expenses	186,296,159.43	193,404,713.40	-3.68%	
Financial expenses	100,268,241.55	118,655,716.47	-15.50%	
R&D Investment	28,586,506.35	31,219,000.00	-8.43%	-
Net cash flow arising from operation activities	79,047,490.92	45,846,659.76	72.42%	The network development rate has been properly controlled and management of cash flow has been enhanced.
Net cash flow arising from investment activities	-118,283,033.43	-115,539,661.90	2.37%	
Net cash flow arising from	7,030,524.33	29,894,776.58	-76.48%	Issuing company bonds and repayment



financing activities

of bank loan and  
interest

The Company reviewed and summarized the development plan as disclosed previously and the progress during the reporting period

Inapplicable

Reason of the Company's actual operation results lower or higher than predicted profit as publically disclosed in the reporting year

Inapplicable

## 2. Revenue

Note:

Items	Amount in the reporting period	Amount in the same period of the previous year	Increase/Decrease
Income from principal business	3,065,746,163.46	2,991,864,757.79	2.47%
Income from other businesses	37,750,798.76	32,097,769.46	17.61%
Total	3,103,496,962.22	3,023,962,527.25	2.63%

Is the income from sales in kind greater than the service income?

☒ Yes ☐ No

Classification of Sectors	Items	2013	2012	Year-on-year increase/decrease (%)
Sales of FIYTA watches	Sales volume	629,021	620,221	1.42%
	Productin output	768,500	757,537	1.45%
	Inventory	647,090	507,611	27.48%

Note to the year-on-year change rate of the relevant data by over 30%:

☒ Inapplicable

Significant Orders in Hand:

☒ Inapplicable

Significant change in or adjustment of the products or services in the reporting period:

☒ Inapplicable

The Company's major trade debtors

Total sales to the top five customers, in CNY	364,634,780.38
Proportion of the total sales to the top five customers in the total sales of the year, %	11.75%

Information of the top 5 customers

√ Applicable ☐ Inapplicable

No	Customers	Sales (CNY)	Proportion in the total sales of the year (%)
1	1 <sup>st</sup>	84,763,275.50	2.73%
2	2 <sup>nd</sup>	82,782,435.60	2.67%
3	3 <sup>rd</sup>	77,635,424.56	2.5%
4	4 <sup>th</sup>	61,844,018.26	1.99%
5	5 <sup>th</sup>	57,609,626.45	1.86%
Total	--	364,634,780.37	11.75%

### 3. Costs

Classification of Sectors

In CNY

Classification of Sectors	Items	2013		2012		Year-on-year increase/decrease (%)
		Amount	Proportion in operation costs (%)	Amount	Proportion in operation costs (%)	
Watch	Watch	1,957,755,888.80	98.37%	1,947,898,460.61	98.26%	0.11%
Lease	Lease	13,967,490.25	0.7%	20,995,127.45	1.06%	-0.36%

Classification of Products

In CNY

Classification of Sectors	Items	2013		2012		Year-on-year increase/decrease (%)
		Amount	Proportion in operation costs (%)	Amount	Proportion in operation costs (%)	
Famous brand	Famous brand	1,733,324,366.4	87.1%	1,743,211,337.4	87.94%	-0.84%

watches	watches	7		2		
FIYTA Watch	FIYTA Watch	224,431,522.33	11.28%	204,687,123.19	10.33%	0.95%
Lease	Lease	13,967,490.25	0.7%	20,995,127.45	1.06%	-0.36%

Note

Inapplicable

#### Principal Suppliers

Total amount of purchase from top five suppliers, in CNY	1,299,943,290.24
The purchase amount from the top five suppliers accounting in the Company's total purchase amount, %	58.33%

Information about the top 5 suppliers

√ Applicable ☐ Inapplicable

No.	Suppliers	Purchase amount, in CNY	Proportion in the total purchases of the year (%)
1	1 <sup>st</sup>	645,476,901.35	28.96%
2	2 <sup>nd</sup>	261,120,407.65	11.72%
3	3 <sup>rd</sup>	220,268,603.62	9.88%
4	4 <sup>th</sup>	99,170,647.36	4.45%
5	5 <sup>th</sup>	73,906,730.26	3.32%
Total	--	1,299,943,290.24	58.33%

## 4. Expenses

Statement items	2013	2012	Increase/Decrease (%)
Sales expenses	649,297,842.92	575,687,442.96	12.79%
Administrative expenses	186,296,159.43	193,404,713.40	-3.68%
Financial expenses	100,268,241.55	118,655,716.47	-15.50%

## 5. R & D Expenses

The Company has attached importance on technology innovation work all the time, enhances its core competitiveness through innovation of the technology with own intellectual property, consolidate its leading position of self-innovation in China's clock and watch brands so as to realize its vision of becoming an international brand and improve its international competitiveness in the industry. In 2013, the Company's total R & D expenses amounted to CNY 37.197 million, taking

5.45% of the operating income of FIYTA watches, or taking 2.42% of the net assets based on the latest audit, taking 1.2% of the turnover of the latest audit.

## 6. Cash Flow

in CNY

Items	2013	2012	Year-on-year Increase/Decrease (%)
Sub-total of cash flow received from operation activities	3,501,829,105.59	3,432,855,080.96	2.01%
Subtotal of cash flow paid for operating activities	3,422,781,614.67	3,387,008,421.20	1.06%
Net cash flow arising from operating activities	79,047,490.92	45,846,659.76	72.42%
Sub-total of cash flow-in received from investing activities	681,892.51	768,471.62	-11.27%
Sub-total of cash flow paid for investment activities	118,964,925.94	116,308,133.52	2.28%
Net cash flow arising from investment activities	-118,283,033.43	-115,539,661.90	2.37%
Sub-total cash flow received from financing activities	1,791,109,369.63	2,534,134,250.00	-29.32%
Sub-total cash flow paid for financing activities	1,784,078,845.30	2,504,239,473.42	-28.76%
Net cash flow arising from financing activities	7,030,524.33	29,894,776.58	-76.48%
Net increase in cash and cash equivalents	-32,757,883.97	-39,551,435.31	-17.18%

Note to the year-on-year change of the relevant data by over 30%

√ Applicable □ Inapplicable

In the reporting period, the year-on-year growth of the net cash flow arising from operating activities by 72.42% was mainly due to that the Company made proper control over the network development speed and enhanced management of the cash flow.

In the reporting period, the year-on-year drop of the net cash flow arising from financing activity by 76.48% was mainly due to that the Company issued company bonds and repaid bank loan and interest.

Note to the big difference between cash flow from operating activities and net profit in the reporting year:

Inapplicable

### III. Composition of Principal Businesses

In CNY

	Operating revenue	Operating costs	Gross profit rate (%)	Increase/decrease of revenue in the same period of the previous year (%)	Increase/decrease of principal business cost over the same period of previous year (%)	Increase/decrease of gross profit rate over the same period of the previous year (%)
Sectors						
Watches	2,984,547,987.19	1,957,755,888.80	34.4%	2.17%	0.51%	1.08%
Lease	81,198,176.27	13,967,490.25	82.8%	15.07%	-33.47%	12.55%
Products						
Foreign top brand watches	2,301,861,216.97	1,733,324,366.47	24.7%	-1.66%	-0.57%	-0.82%
FIYTA watches	682,686,770.22	224,431,522.33	67.13%	17.56%	9.65%	2.38%
Lease	81,198,176.27	13,967,490.25	82.8%	15.07%	-33.47%	12.55%
Regions						
South China	976,738,481.63	607,835,407.97	37.77%	9.05%	6.42%	1.54%
Northwest China	558,311,345.16	363,009,177.34	34.98%	-15.32%	-17.17%	1.45%
North China	493,280,745.22	322,405,824.15	34.64%	2.93%	0.65%	1.48%
East China	432,760,214.07	281,143,805.58	35.03%	7.07%	5.08%	1.23%
Northeast China	282,672,877.95	184,819,369.04	34.62%	-0.58%	-2.76%	1.47%
Northwest China	321,982,499.43	212,509,794.97	34%	19.63%	17.07%	1.44%

Under the circumstance that the statistic specifications for the Company's principal business data experienced adjustment in the reporting period, the principal business data upon adjustment of the statistic specifications at the end of the reporting period in the latest year.

Inapplicable

## IV. Analysis on Assets and Liabilities

### 1. Significant Change in Assets

In CNY

	End of 2013		End of 2012		Proportion increase/decrease (%)	Note to the significant change
	Amount	Proportion in the total assets (%)				
Monetary fund	107,663,110.74	3.03%	140,420,994.71	4.22%	-1.19%	Inapplicable
Accounts receivable	324,457,339.19	9.12%	309,117,274.31	9.29%	-0.17%	Inapplicable
Inventories	2,123,342,820.93	59.67%	1,883,265,248.76	56.61%	3.06%	Inapplicable
Investment based real estate	235,235,684.76	6.61%	244,379,430.63	7.35%	-0.74%	Inapplicable
Long-term equity investment	43,322,940.12	1.22%	41,733,741.79	1.25%	-0.03%	Inapplicable
Fixed assets	306,888,964.31	8.62%	317,801,267.87	9.55%	-0.93%	Inapplicable
Construction-in-process	6,608,187.55	0.19%	3,866,365.79	0.12%	0.07%	Inapplicable

### 2. Significant Change in Liabilities

In CNY

	2013		2012		Proportion increase/decrease (%)	Note to the significant change
	Amount	Proportion in the total assets (%)				
Short-term borrowing	1,023,000,000.00	28.75%	1,409,800,000.00	42.38%	-13.63%	Inapplicable
Long term borrowings	173,274,950.01	4.87%	48,383,020.45	1.45%	3.42%	Inapplicable

### 3. Assets and Liabilities Measured with Fair Value

Inapplicable

## V. Analysis on Core Competitiveness

FIYTA's core competitiveness is a collection consisting of a set of techniques and technology which enables the Company

to provide customers with particular values, is the competitive power on which a series of products or services rely in achieving the leading position. It consists of the ability of brand building, ability of offering top quality services, ability of product innovation, ability of knowledge management and ability of management of strategic human resources.

In the reporting period, the Company achieved great success in technology platform construction and innovation of science and technology. Through over 10 years' unremitting efforts, the Company's technology center was certified as an enterprise technology center at national level in 2013 relying on its innovation mechanism construction, technology center platform construction, innovation environment construction and talent cultivation, R & D and achievements. The In-cabin Space Suite Watch, the Astronauts' Working Watches and the Astronautess' Working Watch delivered by the Company accompanied the astronauts and astronautess of Shenzhou X in successful fulfillment of China's first manned spaceship rendezvous and docking mission as well as assisted the astronautess in her first space lecturing; the technology project was rewarded the science and technology progress award of Shenzhen Municipality and science and technology progress award (standard award) of Shenzhen Municipality respectively; FIYTA China Manned Space Flight Project 21<sup>st</sup> Anniversary Collector's Edition Watch was rewarded the China Innovative Design Red Start Award granted by China Red Star Award Committee; FIYTA Watch (LY03) was honorably rewarded honorable mention of the 15<sup>th</sup> China Industrial Design granted by State Intellectual Property Office; HUARONGDAO Watch was rewarded Bronze at China (Blue Light Cup) Watch Design Competition; Photographer Series Limited Edition GA.8380.BBB, Flight series, and Feature Design of TRIUMPH Series No. 1 and No. 2 were respectively rewarded honorable mention at hina (Blue Light Cup) Watch Design Competition; Both Shenzhen FIYTA Sophisticated Timepieces Manufacture Co., Ltd. and Shenzhen FIYTA Technology Development Co., Ltd., two of the Company's controlled subsidiaries, have successfully been certified as hi-tech enterprise of Shenzhen; in the whole year, the Company submitted iapplication for 3 invention patents, 7 utility model patents and 30 design patents and the Company was granted 1 invention patent, 10 utility model and 27 design; the Company took lead or participated in preparation or revision of 7 national industrial standards

## VI. Analysis on Investment Status

### 1. External Equity Investment

#### (1) External Investment

External Investment		
Investment amount in the reporting period (in CNY)	Investment in the same Period of the Previous Year (in CNY)	Change rate (%)
0.00	28,050,000.00	-100%
Particulars of Investees		
Company Name	Principal business	Proportion in the investees' equity (%)

#### (2) Holding of the Equity in Financial Enterprises

Inapplicable

**(3) Investment in Securities**

Inapplicable

**2. Entrusted Financing, Investment in Derivative Products and Entrusted Loan****(1) Entrusted Financing**

Inapplicable

**(2) Investment in Derivative Products**

Inapplicable

**(3) Entrusted Loan**

Inapplicable

**3. Application of the Proceeds Raised through Share Offering****(1) General Application of the Raised Capital**

In CNY10,000

Total raised capital	40,000
Total raised capital invested in the reporting period	40,000
Total raised capital accumulatively invested	40,000
Total raised capital whose application has been changed in the reporting period	0
Total raised capital whose application has been changed accumulatively	0
Proportion of the total raised capital whose application has been changed accumulatively (%)	0%

**Note to Application of the Raised Capital**

The Company held the 33<sup>rd</sup> meeting of the Sixth Board of Directors on June 19, 2012. The meeting reviewed and approved the Proposal of Issuing Company Bonds, etc. according to which, the Company planned to issue company bonds with a size not exceeding CNY400 million and with a term not exceeding 5 years (with 5 years inclusive) which would be used for replacing bank loan and replenishing the working capital. On September 9, 2012, approved through verification by China Securities Regulatory Commission (CSRC) with Document ZHENG JIAN XU KE [2012] No. 1209, the Company was approved to issue company bonds with the size not exceeding CNY 400 million. The Company issued CNY 400 million of bonds in the current period. After deduction of the issuing costs, the net raised capital amounting to CNY396.9 million was remitted to the bank account designated by the Company on March 5, 2013.



RSM China CPAs, the CPAs engaged by the Company issued the capital verification reports of ZHONG RUI YUE HUA YAN ZI [2013] No. 0053, ZHONG RUI YUE HUA YAN ZI [2013] No. 0054 and ZHONG RUI YUE HUA YAN ZI [2013] No. 0055 respectively for the frozen capital for subscription of the on-line bond issuing, the frozen capital for subscription of the off-line placement and the actual raised capital conditions. Approved by Shenzhen Stock Exchange with Document SHEN ZHENG SHANG [2013] No. 99, the bonds have been listed for trading with both SZSE Centralized Bidding System and the Comprehensive Agreement Based Transaction Platform commencing from March 29, 2013 with the abbreviation of the security as "12 YADA BOND" and security code as "112152". The issuing of the company bonds has been completed. The capital raised from the issuing was remitted to the bank account designated by the Company on March 5, 2013. Ended December 31, 2013, the Company had used up all the raised capital and no change has taken place in the application purpose of the raised capital.

## (2) Promised Projects with Raised Capital

In CNY10,000

Promised investment projects and investment with the over-raised capital	Has the project been changed (including partial change)	Total promised investment with raised capital	Total investment after adjustment (1)	Amount invested in the report period	Amount accumulatedly invested up to the end of the report period (2)	Investment progress by the end of the report period (%) (3) = (2)/(1)	Date when the project has reached the predicted applicable status	Result realized in the reporting period	Has the predicted operation result been reached?	Has significant change taken place in the feasibility of the project?
Investment projects as promised										
Repayment of bank loan	No	30,000	30,000	30,000	30,000	100%		0	Yes	No
Replenishing the working capital.	No	10,000	10,000	10,000	10,000	100%		0	Yes	No
Sub-total of investment projects as promised	--	40,000	40,000	40,000	40,000	--	--	0	--	--
Investment with over-raised capital										
Inapplicable		0	0	0	0	0%		0		
Sub-total of investment with over-raised capital	--	0	0	0	0	--	--	0	--	--
Total	--	40,000	40,000	40,000	40,000	--	--	0	--	--
Note to failure to comply with the planned progress and predicted earnings and the cause(s) (based on the specific projects)	Inapplicable									
Explanation of the significant change in	Inapplicable									

project feasibility	
Amount of over-raised capital, application and progress of use	Inapplicable
Change of the implementation site of the projects invested with the raised capital	
Change of the implementation site of the projects invested with the raised capital	Inapplicable
Adjustment of the implementation method of the projects invested with the raised capital	Inapplicable
About the initial investment in the projects planned to be invested with the raised capital and the replacement	Inapplicable
Using the idle raised capital to supplement the working capital on temporary basis	Inapplicable
Balance of the raised capital incurred in process of project implementation and the cause	Inapplicable
About application and status of the raised capital unused	Inapplicable
Problems existing in application of the raised capital and the information disclosure or other issues	Inapplicable

### (3) Change of the Projects Invested with the Raised Capital

Inapplicable

#### 4. Analysis on Principal Subsidiaries and Mutual Shareholding Companies

Particulars about the Principal Subsidiaries and Mutual Shareholding Companies

In CNY

Company Names	Company type	Sectors engaged in	Leading products and services	Registered capital	Total assets, in CNY	Net assets (CNY)	Turnover in CNY	Operating profit (in CNY)	Net profit (in CNY)
Shenzhen Harmony World Watches Center Co., Ltd.	Subsidiary	Retail	Mainly engaged in sales of world famous brand watch, including purchase, sales and maintenance service of timepieces and parts	600,000,000	2,225,968,985.87	683,087,942.62	2,360,212,503.57	39,227,850.50	29,858,927.89
FIYTA Sales Co., Ltd.	Subsidiary	Retail	Sales and repairing of clocks and watches and parts, sales of jewelry and ornaments.	50,000,000	558,092,839.55	35,561,591.79	653,897,619.56	15,710,663.84	12,854,793.51
Shenzhen FIYTA Sophisticated Timepieces Manufacture Co., Ltd.	Subsidiary	Manufacture	Mainly engaged in production and sales of FIYTA watches, including production and maintenance of clocks and watches, and driving units, spares and parts, sophisticated timepieces.	10,000,000	208,585,917.62	114,555,819.38	402,805,964.50	114,374,951.82	98,601,444.91

Shenzhen FIYTA Technology Development Co., Ltd.	Subsidiary	Manufacture	R & D, production and sales of watches, production, machining, sales and technology development of sophisticated parts.	10,000,000	53,480,219.60	22,403,972.42	139,514,959.17	13,008,751.07	10,910,788.11
FIYTA (Hong Kong) Limited	Subsidiary	Retail	Mainly engaged in trade and overseas market development of FIYTA watches	HK\$65,060,000	323,196,284.64	129,769,752.48	156,091,829.75	10,969,545.65	8,835,923.15
Shenzhen Symphony Trading Co., Ltd.	Subsidiary	Retail	Sales of clocks and watches and gifts and consultation of relevant information and other domestic trading	5,000,000	26,149,344.22	-2,589,304.52	11,325,910.66	-2,811,765.43	-2,151,740.57
Shanghai Watch Industry Co., Ltd.	Mutual shareholding company	Manufacture	Sales of watches and spares and parts	15,350,000	96,176,699.34	81,466,182.56	72,493,931.14	6,011,142.11	6,356,793.32

Particulars about the Principal Subsidiaries and Mutual Holding Companies:

That FIYTA Sales Co., Ltd. made good a deficit in the reporting year was mainly due to that with growth of FIYTA Brand in the year the market share got elevated and the revenue and profit increased correspondingly;

The year-on-year profit growth of Shenzhen FIYTA Sophisticated Timepieces Manufacture Co. Ltd. by 51.85% was mainly due to that with growth of FIYTA Brand in the year the market share got elevated and the revenue and profit increased correspondingly;

The year-on-year revenue and profit growth achieved by Shenzhen FIYTA Technology Development Co., Ltd. by 65.79%

was mainly due to that with growth of FIYTA Brand in the year the market share got elevated and the revenue and profit increased correspondingly;

That revenue earned by Shenzhen Harmony World Watches Center Co., Ltd. kept basically unchanged for the corresponding period last year and the total profit dropped by 44.19% was mainly due to that affected by the market environment, the revenue growth slowed down, the gross profit rate went down somewhat and expenses grew.

That revenue earned by FIYTA (Hong Kong) Limited kept basically unchanged for the corresponding period last year and the total profit dropped by 52.42% was mainly due to that affected by the market environment, the revenue growth slowed down, the gross profit rate went down somewhat and expenses grew.

Acquisition and disposal of subsidiaries in the reporting period

Inapplicable

## **5. Projects Invested with Funds not Raised through Share Offering**

Inapplicable

## **VII. Prediction of the Operation Performances from January to March 2014**

Inapplicable

## **VIII. Entities Controlled by the Company for Special Purpose**

Inapplicable

## **IX. Development Prospect**

### **(I) Development Trend of the Industry**

In 2013, restricted by slow-down of the growth of the domestic economy and affected by the relevant policy, retail industry, especially watch industry the Company is engaged in experienced great change which showed that high-end consumption market, especially top brand watch demand dropped significantly while the middle-end consumption market grew steadily. Meanwhile, the Internet has been continuously impacting traditional industry and has opened a new profit model. In 2014, as the consumption structure is still unstable and the online consumption develops quickly, there still exists big uncertainty in retail industry. However, with various reform measures of the central government keeping going deep through and the domestic economy keeping steady growth, people's consumption level shall continually rise and the consumer confidence shall be recovered gradually. The Company still has powerful confidence in the retail industry.

### **(II) Development Strategy**

In 2013, the Company shall insist on the brand operation strategy with all the work closely focusing on the annual strategic theme of "deepening the values, improving efficiency and enhancing integration", positively meet the challenge from the overall accelerated decline of the industry, reinforce the coordination of the self-owned brand with retail channels according to the strategy of steady development, enhance operation management, improve per unit yield, strictly control the costs and expenses and improve economic performance. Where HARMONY's retail of world brand watches shall be further

restructured with priority in developing popular bazaars, middle end famous watch brands; FIYTA watch shall be further enhanced in brand upgrading, strengthen product differentiation, channel optimization, precise marketing management and expand market share at high speed; the Company shall strive to promote capacity construction in such key fields of driving units, expand earning from technical services of repairing, explore and develop new business of e-commerce, and at the same time enhance core expertise construction in the fields of brand building, product innovation, high quality service, know-how management and strategic human resource, etc.

### **(III) 2014 Business Plan**

#### **1. HARMONY World Watches**

In 2014, HARMONY shall enhance the 3-level marketing, improve customers' satisfaction level, and take rise of the unit shop yield and returns on investment as the starting point; carry out various work with efficiency as the key, strive to realize steady growth in annual revenue and profit, focus the work on implementation of marketing innovation, expand the operation platform, improve channel quality, deepen relationship with the cooperation partners, optimize inventory structure and fund allocation, put emphasis on unit shop yield and making good deficits of partial shops, reinforce HARMONY brand position, do a good job in construction of the staff's ability and team as well as carrying out the work of saving on expenditure and reducing consumption as well as managing profit, etc.

#### **2. Self-owned Watch Brand Business**

In 2014, the Company shall keep paying attention to improvement of efficiency and profit in the business of the self-owned watch brand; focus the key work on optimizing the existing retail channels, speed up fostering the newly built shops and improve unit shop yield; enhance the inventory management, improve the order decision-making mechanism, do a good job in putting in good order purchase of raw materials, supply of products, launching new products in market and terminal sales watch supply chain, improve the existing inventory turnover ratio; keep improving product seriation and standardization level, optimize management of suppliers and the purchase process, effectively reduce costs, continuously improve gross profit ratio of products; perform key monitoring over the key projects, study and evaluate returns on resource investment, enhance rigid constraint on the budget, strictly control expenditures beyond the budget; improve the managed profit-making level, speed up asset turnover, improve earning power in the principal business and quicken the progress of disposal of low efficiency and non-leading business assets, etc.

### **(IV) Capital Necessary for Future Development**

According to the business development plan and financial budget program in 2014, for the purpose of satisfying the demand on investment and operation capital and at the same time timely grasping the opportunity of merger and acquisition possibly to be brought about from the market change, the Company plans to apply for a financing credit line not exceeding CNY1.8 billion with the relevant banks by means of various ways, including secured loan, loan to subsidiaries, mortgage, etc.

### **(V) Risks Possibly to be Confronted with**

1. Affected by the macro economy and policy environment, change has taken place in the domestic famous brand watch market consumption and demand, the Company shall be confronted with the operation pressure in retail of famous brand watches.

2. The Internet shall keep changing people's life style and promote growth of the new business model. Engaged in retail industry, the Company needs to quickly understand the Internet from the real significance – to understand the e-business and understand the change in the consumption of people.

3. Due to the difference in the brand strategy and development path, by comparison of the Company's business with the earning result of its competitors, there shall still exist some gap in a short term, the Company needs to keep improvement and upgrading.

4. Based on the Company's business development model, the Company needs to maintain higher investment in inventories to meet the requirements for business development. The extensive demand on capital and quick turnover of inventories shall still be an important support for the Company's business development.

## **X. Explanation of the Board of Directions and the Supervisory Committee on the Qualified Auditor's Report Issued by the CPAs**

Inapplicable

## **XI. Change in accounting policy, accounting estimate and way of accounting in comparison with the latest annual report**

Inapplicable

## **XII. Retrospective Restatement Necessary for Correction of Significant Accounting Errors during the Reporting Period**

Inapplicable

## **XIII. Changes in Range of the Consolidated Statements in Comparison with the Financial Report of the Previous Year.**

Inapplicable

## **XIV. Dividend Distribution**

Preparation, Implementation or Adjustment of the Company's Profit Distribution Policy, Especially Cash Dividend Distribution Policy in the Reporting Period

☒ Applicable ☐ Inapplicable

The Company's profit distribution plan for 2012 was reviewed and approved at the 2<sup>nd</sup> meeting of the Seventh Board of Directors held on February 27, 2013 and 2012 Annual General Meeting held on June 21, 2013 and determined that with the total share capital totaling 392,767,870 shares as at December 31, 2012 as the base the Company distributed cash dividend at the rate of CNY 1.00 for every 10 shares (with tax inclusive) to the whole shareholders. As a result, totally CNY 39,276,787.00 of cash dividend was distributed. The profit distribution plan was finished in implementation by August 13, 2013.

Special description of the cash dividend distribution policy	
Whether the plan complies with the Articles of Association and resolution of the General Meeting:	Yes
Whether the dividend distribution rate and proportion are clear and definite:	Yes
Whether the relevant decision making procedures and mechanism are complete:	Yes
Have the independent directors have done their duty and brought their due role into full play:	Yes
Have the minority shareholders fully expressed their opinions and been given the opportunity of fully expressing their opinions and appeal and has their legal interests have been fully protected:	Yes
Are any adjustment or alteration, conditions and procedures of the cash dividend policy in compliance or transparent:	Yes

The profit distribution preplan or proposal and the preplan or proposal of conversion of the capital reserve into share capital in the past three years (with the reporting period inclusive):

According to the provisions concerning cash dividend distribution in the Articles of Association, the Company prepared specific cash dividend distribution plan after the Board of Directors and the Shareholders' General Meeting have reviewed strictly according to the requirements. In the past three years, the Company has well implemented the cash dividend distribution policy, fully asked for the independent directors' opinions, effectively ensured the minority shareholders' benefit and made timely and accurate disclosure in its annual report and the relevant media, where the cash dividend distributed in 2011 amounted to CNY 39,276,787.00 (with tax inclusive), taking 27.41% of the net profit attributable to the Company's shareholders as stated in the consolidated statement; the cash dividend distributed in 2012 amounted to CNY 39,276,787.00 (with tax inclusive), taking 33.86% of the net profit attributable to the Company's shareholders as stated in the consolidated statement; the cash dividend distributed in 2013 amounted to CNY 39,276,787.00 (with tax inclusive), taking 30.18% of the net profit attributable to the Company's shareholders as stated in the consolidated statement; the accumulative amount of cash dividend distributed in the past three years taking 90.77% of the latest annual average net profit complies with the regulations.

Cash dividends distributed in the past three years:

In CNY

Year of Dividend Distribution	Amount of Cash Dividend (including tax)	Net profit attributable to the shareholders in the consolidated statement	Rate of the net profit attributable to the Company's shareholders in the consolidated statement (%)
2013	39,276,787.00	130,125,124.48	30.18%
2012	39,276,787.00	116,003,746.03	33.86%
2011	39,276,787.00	143,318,684.51	27.41%



In the reporting period, both the Company's profit and the parent company's retained earnings were positive however not cash dividend distribution proposal has been put forward.

Inapplicable

## XV. Preplan for Profit Distribution and Conversion of Capital Reserve into Share Capital in the Reporting Period

Bonus shares distributed at the rate of ____ (share) for every 10 shares	0
Dividend distributed at the rate of CNY ____ for every 10 shares (with tax inclusive)	1.00
Share capital base for the dividend distribution preplan (shares)	392,767,870
Total cash dividend distributed (with tax inclusive)	39,276,787.00
Profit available for distribution (CNY)	341,134,316.88
Proportion of the cash dividend in the total profit available for distribution (%)	100%
Cash Dividend Policy:	
Others	
Detailed information for profit distribution or conversion of capital reserve into share capital preplan	
The Company's profit distribution plan for 2013 was reviewed and approved at the 8 <sup>th</sup> meeting of the Seventh Board of Directors held on February 27, 2014 and is going to be submitted to 2013 Annual General Meeting for review. According to the plan, the Company is going to distribute cash dividend at the rate of CNY 1.00 for every 10 shares (with tax inclusive) to the whole shareholders with the total share capital as at December 31, 2013 totaling 392,767,870 shares as the base, and totally CNY 39,276,787.00 of cash dividend is going to be distributed. The profit distribution plan is subject to review and approval of the General Meeting before implementation.	

## XIV. Social Responsibility

The Social Responsibility Report was published on [www.cninfo.com.cn](http://www.cninfo.com.cn) on March 1, 2014.

## XVII Statement of such activities as reception, research, communication, interview in the reporting period

Reception Time	Reception place	Way of reception	Types of Visitors	Visitors received	Discussion topics and provision of materials
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March 25, 2013	Company	On-Site Survey	Institution	SINOLINK SECURITIES CO., LTD, China Galaxy Securities Co., Ltd., Shenzhen Golden Investment Management Co., Ltd., Changsheng Fund Management Co., Ltd. and Guosen Securities Co., Ltd.	Development trend of the domestic luxury goods sector, some measures concerning the Company's strategic development, brand construction, channel management in the past three years. Provision of the Company's public brochures in 2013.
May 7, 2013	Company	On-Site Survey	Institution	UBS Securities Co., Ltd., Huaxia Fund Management Co., Ltd., and Guosen Securities Co., Ltd.	Development trend of the domestic luxury goods sector, some measures concerning the Company's strategic development, brand construction, channel management in the past three years. Provision of the Company's public brochures in 2013.
May 23, 2013	Company	On-Site Survey	Institution	Hanlun Investment Consulting (Shanghai) Co., Ltd., and Rising Securities Co., Ltd.	Development trend of the domestic luxury goods sector, some measures concerning the Company's strategic development, brand construction, channel management in the past three years. Provision of the Company's public brochures in 2013.
June 4, 2013	Company	On-Site Survey	Institution	Hongyuan Securities Co., Ltd., Essence Fund Management Co., Ltd., Gold State Securities Co., Ltd. and Guangdong Wens Investment Co., Ltd.	Development trend of the domestic luxury goods sector, some measures concerning the Company's strategic development, brand construction, channel management in the past three years. Provision of the Company's public brochures in 2013.
July 8, 2013	Company	On-Site Survey	Institution	Pingan Securities Co., Ltd., Rising	Development trend of the domestic luxury goods sector,

				Securities Co., Ltd. King Tower Asset Management Company Ltd., ICBC Credit Suisse Asset Management Co. Ltd., HuaChuang Securities Brokerage CO.,LTD, CITIC-Prudential Fund Management Company Ltd, Orient Fund Management Co., Ltd., Lighthouse Asset Management Co., Ltd., Lombarda China Fund Management Co., Ltd., and China Southern Fund Management Co., Ltd.,	some measures concerning the Company's strategic development, brand construction, channel management in the past three years. Provision of the Company's public brochures in 2013.
August 27, 2013	Company	On-Site Survey	Institution	ICBC Credit Suisse Asset Management Co. Ltd., Galaxy Asset Management Co., Ltd., and UBS Securities Co., Ltd.	Development trend of the domestic luxury goods sector, some measures concerning the Company's strategic development, brand construction, channel management in the past three years. Provision of the Company's public brochures in 2013.
September 25, 2013	Company	On-Site Survey	Institution	Penghua Fund Management Co., Ltd., TEAM-TOP INVESTMENT, and Minsheng Securities Co., Ltd.	Development trend of the domestic luxury goods sector, some measures concerning the Company's strategic development, brand construction, channel management in the past three years. Provision of the Company's public brochures in 2013.
October 24, 2013	Company	On-Site Survey	Institution	SHENGBEILE	Development trend of the

				FINANCE, Chinalion Securities Co., Ltd., CAPITAL SYNERGY INVEST MANAGEMENT CO., LTD., Shenzhen Daoyi Assets Management Co., Ltd., TEBON SECURITIES CO., LTD., Morgan Stanley Huaxin Fund Management Company Limited, Galaxy Securities, Soochow Asset Management Co., Ltd., Hongta Hotland Asset Management Co., Ltd., and Shenzhen Gemboom Investment Management Co., Ltd.	domestic luxury goods sector, some measures concerning the Company's strategic development, brand construction, channel management in the past three years. Provision of the Company's public brochures in 2013.
November 29, 2013	Company	On-Site Survey	Institution	Value Partner Fund Management Co., Ltd., and Guosen Securities Co., Ltd.	Development trend of the domestic luxury goods sector, some measures concerning the Company's strategic development, brand construction, channel management in the past three years. Provision of the Company's public brochures in 2013.
December 18, 2013	Company	On-Site Survey	Institution	Shenyin & Wanguo Securities, Co., Ltd., Morgan Stanley Huaxin Fund Management Company Limited, China International Capital Corporation Limited, Shenzhen	Development trend of the domestic luxury goods sector, some measures concerning the Company's strategic development, brand construction, channel management in the past three years. Provision of the Company's public brochures

				Kangqiao Assets Management Co., Ltd., GF Securities Co., Ltd., Boshi Fund Manage ment Co., Ltd.	in 2013.
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## Section 5 Significant Events

### I. Major Lawsuits and Arbitration Affairs

Inapplicable

### II. Media Query

Inapplicable

### III. Non-operation Oriented Fund Occupancy by the Controlling Shareholder and/or Related Parties

Inapplicable

### IV. Bankruptcy or Reorganization Related Events

Inapplicable

### V. Asset Transactions

#### 1. Acquisition of Assets

Inapplicable

#### 2. Sales of Assets

Inapplicable

#### 3. Enterprise Consolidation

Inapplicable

### VI. Implementation of the Company's Equity Incentive Plan and its Influences

Inapplicable

### VII. Material Related Transactions

#### 1. Related transactions in connection with daily operation

Related Parties	Relationship	Type of related parties	Description of Related Transactions	Principle of pricing of the related transactions	Price of related transactions	Amount of the related transaction (in CNY 10,000)	Proportion in the amount of the similar transactions (%)	Way of settlement for the related transaction	Market price	Disclosure date	Disclosure index
China National Aviation Industry Group Co.	Common controller	Revenue from principal business	Sale of goods	Market price		190.62	0.06%	Bank account transfer		March 1, 2014	www.cninfo.com.cn
Rainbow Supermarket	Common controller	Revenue from principal business	Sale of goods	Market price		8,090.1	2.71%	Bank account transfer		March 1, 2014	www.cninfo.com.cn
China National Aviation Industry Group Co.	Common controller	Revenue from principal business	Sale of goods	Market price		2,427.41	75.51%	Bank account transfer		March 1, 2014	www.cninfo.com.cn
Zhonghang Electronic Measuring Instruments Co., Ltd.	Common controller	Revenue from principal business	Sale of goods	Market price		16.87	0.52%	Bank account transfer		March 1, 2014	www.cninfo.com.cn
CATIC Real Estate	Common controller	Revenue from principal business	Property lease	Market price		150.88	1.86%	Bank account transfer		March 1, 2014	www.cninfo.com.cn
Shenzhen Makway Cable TV Equipment Co., Ltd.	Common controller	Revenue from principal business	Property lease	Market price		23.33	0.29%	Bank account transfer		March 1, 2014	www.cninfo.com.cn
CATIC Property	Common controller	Revenue from principal business	Property lease	Market price		266.05	3.28%	Bank account transfer		March 1, 2014	www.cninfo.com.cn
CATIC Securities, Co., Ltd.	Common controller	Revenue from principal business	Property lease	Market price		103.73	1.28%	Bank account transfer		March 1, 2014	www.cninfo.com.cn

		business						ce			
Shenzhen CATIC City Property Developm ent Co., Ltd.	Common controller	Revenue from principal business	Property lease	Market price		2.23	0.03%	Bank account transferen ce		March 1, 2014	www.cninf o.com.cn
Shenzhen CATIC City Developm ent Co., Ltd.	Common controller	Revenue from principal business	Property lease	Market price		2.23	0.03%	Bank account transferen ce		March 1, 2014	www.cninf o.com.cn
Shenzhen CATIC Guanlan Real Estate Developm ent Co., Ltd.	Common controller	Revenue from principal business	Property lease	Market price		8.93	0.11%	Bank account transferen ce		March 1, 2014	www.cninf o.com.cn
Shenzhen CATIC Changtai Investment Developm ent Co., Ltd.	Common controller	Revenue from principal business	Property lease	Market price		128.56	1.58%	Bank account transferen ce		March 1, 2014	www.cninf o.com.cn
Xi'an Tianyue Hotel Co., Ltd.	Common controller	Revenue from principal business	Property lease	Market price		350	4.31%	Bank account transferen ce		March 1, 2014	www.cninf o.com.cn
Rainbow Supermark et	Common controller	Revenue from principal business	Property lease	Market price		66.71	0.82%	Bank account transferen ce		March 1, 2014	www.cninf o.com.cn
Shenzhen CATIC City Investment Co., Ltd.	Common controller	Revenue from principal business	Property lease	Market price		9	0.11%	Bank account transferen ce		March 1, 2014	www.cninf o.com.cn
Shenzhen CATIC Jiufang	Common controller	Revenue from principal	Property lease	Market price		37.81	0.47%	Bank account transferen		March 1, 2014	www.cninf o.com.cn



Assets Management Co., Ltd.		business						ce			
Shenzhen CATIC Theme Real Estate Co., Ltd.	Common controller	Revenue from principal business	Property lease	Market price		94.56	1.16%	Bank account transference		March 1, 2014	www.cninfo.com.cn
Zhonghang Electronic Measuring Instruments Co., Ltd.	Common controller	Administrative expenses	Processing charges	Market price		3.89	0.32%	Bank account transference		March 1, 2014	www.cninfo.com.cn
CATIC Property	Common controller	Administrative expenses	Property management fee	Market price		178.18	100%	Bank account transference		March 1, 2014	www.cninfo.com.cn
Ganzhou CATIC Real Estate Development Co., Ltd.	Common controller	Administrative expenses	Rent	Market price		94.99	1.3%	Bank account transference		March 1, 2014	www.cninfo.com.cn
Chengdu CATIC Real Estate Development Co., Ltd.	Common controller	Administrative expenses	Rent	Market price		54.69	0.75%	Bank account transference		March 1, 2014	www.cninfo.com.cn
Rainbow Supermarket	Common controller	Sales costs	Market expenses	Market price		239.39	5.64%	Bank account transference		March 1, 2014	www.cninfo.com.cn
Shenzhen CATIC Enterprise Group	Common controller	Administrative expenses	Training fees	Market price		28.1	17.18%	Bank account transference		March 1, 2014	www.cninfo.com.cn

Training Center											
AVIC International Holdings	Common controller	Financial expenses	Guarantee fee	Market price		208	100%	Bank account transference		March 1, 2014	www.cninfo.com.cn
Total				--	--	12,776.26	--	--	--	--	--
Details of the rejection of the goods already sold in big amount				Inapplicable							
Necessity, persistence and choice of related transactions and causes of the transaction with the related parties (non-market other transaction party)				All the above related transactions are favorable to the Company's principal business and belong to normal business of the Company. For the related transaction, the transaction price is determined with reference to the market price of the same category. It is fair and reasonable and has not caused any harm to the Company's interests.							
Influence of the related transaction upon the independence of the listed company				The aforesaid transactions have not affected independence of the Company and the Company shall not be dependent on or be controlled by the related parties due to such transactions.							
Dependence of the Company on the related party and the corresponding measures for solution (if any)				Inapplicable							
In case the total amount of the regular related transaction incurred in the reporting period has been predicted based on categories, state the actual implementation of the in the reporting period (if any)				Inapplicable							
Cause of the big difference between the transaction price and the market reference price. (if applicable)				Inapplicable							

## 2. Related transactions concerning assets acquisition/sales

Inapplicable

## 3. Important Related Transitions with Joint Investments

Inapplicable

## 4. Current Associated Rights of Credit and Liabilities

Did there exist any non-operational related rights of credit and liabilities

☐ Yes ☒ No

Related Parties	Relationship	Types of rights	Reasons of	Does there	Opening	Amount	Ending
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		of credit and liabilities	formation	exist non-operation oriented fund occupancy?	balance (in CNY 10,000)	incurred in the reporting period (in CNY 10,000)	balance (in CNY 10,000)
CATIC Property	Common controller	Related party's rights of credit receivable	Lease	No	0	0.67	0.67
Xi'an Tianyue Hotel Co., Ltd.	Common controller	Related party's rights of credit receivable	Rent	No	0	175	175
Rainbow Supermarket	Common controller	Related party's rights of credit receivable	Loan	No	79.93	135.48	215.41
Rainbow Supermarket	Common controller	Related party's rights of credit receivable	Shopping mall deposit	No	11.94	4.85	16.79
Shenzhen CATIC Enterprise Group Training Center	Common controller	Related party's rights of credit receivable	Training fees	No	15.18	-14.04	1.14
China National Aviation Industry Group	Eventual controller	Related party's rights of credit receivable	Loan	No	67.68	-3.27	64.41
China National Aviation Industry Group Co.	Common controller	Related party's rights of credit receivable	Loan	No	183.16	905.27	1,088.43
Zhonghang Electronic Measuring Instruments Co., Ltd.	Common controller	Related party's rights of credit receivable	Loan	No	0	19.74	19.74
Chengdu CATIC Real Estate Development Co., Ltd.	Common controller	Related party's rights of credit receivable	Rental deposit	No	10.05	1.51	11.56
Ganzhou CATIC	Common	Related	Rental	No	12.27	0	12.27

Real Estate Development Co., Ltd.	controller	party's rights of credit receivable	deposit				
China National Aviation Industry Group Co.	Common controller	Related party's rights of credit receivable	Loan	No	200	500	700
Zhonghang Electronic Measuring Instruments Co., Ltd.	Common controller	Related party's rights of credit receivable	Loan	No	0	10	10
Chengdu CATIC SunlightReal Estate	Common controller	Related party's rights of credit receivable	Loan	No	0.41	-0.41	0
Shenzhen CATIC Building Technology Co., Ltd.	Common controller	Related parties' liabilities payable	Rental deposit	No	0.82	0	0.82
Shenzhen CATIC Nanguang Elevator Engineering Co., Ltd.	Common controller	Related parties' liabilities payable	Rental deposit	No	0.34	0	0.34
Shenzhen CATIC City Investment Co., Ltd.	Common controller	Related parties' liabilities payable	Rental deposit	No	3.77	0	3.77
CATIC Securities Co., Ltd.	Common controller	Related parties' liabilities payable	Rental deposit	No	17.04	0.85	17.89
CATIC Real Estate	Common controller	Related parties' liabilities payable	Rental deposit	No	42.48	0	42.48
Shenzhen CATIC Changtai Investment Development Co., Ltd.	Common controller	Related parties' liabilities payable	Rental deposit	No	22.17	0	22.17
Shenzhen CATIC Jiufang Assets	Common controller	Related parties'	Rental deposit	No	0	6.06	6.06

Management Co., Ltd.		liabilities payable					
Rainbow Supermarket	Common controller	Related parties' liabilities payable	Rental deposit	No	6	0	6
Shenzhen Makway Cable TV Equipment Co., Ltd.	Common controller	Related parties' liabilities payable	Rental deposit	No	6.46	-6.46	0
Zhonghang Electronic Measuring Instruments Co., Ltd.	Common controller	Related parties' liabilities payable	Loan	No	0	4.55	4.55
Chengdu CATIC Real Estate Development Co., Ltd.	Common controller	Related parties' liabilities payable	Rental deposit	No	0	0.44	0.44
China National Aviation Industry Group	Eventual controller	Related parties' liabilities payable	Loan	No	0	1.55	1.55
Influence of the related rights of credit and liabilities upon the Company's operation results and financial position.		Inapplicable					

## 5. Other Material Related Transactions

The 3<sup>rd</sup> meeting of the Seventh Board of Directors held on April 3, 2013 reviewed and approved the Proposal for the Financial Service Agreement Signed by AVIC Finance Co., Ltd. For the relevant contents, refer to the Announcement on the Resolutions of the 3<sup>rd</sup> Meeting of the Seventh Board of Directors (2013-013) and the Announcement on the Related Transaction Involved in the Financial Service Agreement Signed by AVIC Finance Co., Ltd. (2013-015). The proposal needs to be submitted to the General Meeting for review.

Relevant inquiry with the Internet website for disclosing provisional report on material related transactions

Description of provisional announcement	Date of disclosing provisional announcement	Description of the website for disclosing provisional announcements
The Announcement on the Related Transaction Involved in the Financial Service Agreement Signed by AVIC Finance Co., Ltd. (2013-015)	April 3, 2013	<a href="http://www.cninfo.com.cn/">http://www.cninfo.com.cn/</a>

## VIII. Important Contracts and Implementation

### 1. Custody, Contacting and Leases

#### (1) Custody

Inapplicable

#### (2) Contracts

Inapplicable

#### (3) Leases

Inapplicable

### 2. Guarantees

In CNY10,000

Outward guarantees (excluding guarantee to the subsidiaries)								
Names of Gurantees	Date of the announcement on the guarantee line	Guarantee line	Date of occurrence (date of agreement execution)	Actual amount of guarantee	Type of guarantee	Guarantee period	Implementation status	Guarantee to related party? (Y/N)
Inapplicable								
Total amount of outward guarantee approved in the report period (A1)				Total amount of outward guarantee actually incurred in the report period (A2)		0		
Total amount of outward guarantee already approved at the end of the report period (A3)				Total ending balance of outward guarantee at the end of the report period (A4)		0		
Guarantees to the Subsidiaries								
Names of Guarantees	Date of the announcement on the guarantee line	Guarantee line	Date of occurrence (date of agreement execution)	Actual amount of guarantee	Type of guarantee	Guarantee period	Implementation status	Guarantee to related party? (Y/N)
Shenzhen Harmony World Watches Center Co., Ltd.	March 1, 2013	20,000	July 3, 2013	5,000	Guarantee with joint responsibility	1 year	No	No
Shenzhen Harmony	March 1,	20,000	July 18, 2013	5,000	Guarantee with	1 year	No	No

World Watches Center Co., Ltd.	2013				joint responsibility			
Shenzhen Harmony World Watches Center Co., Ltd.	March 1, 2013	10,000	July 23, 2013	2,000	Guarantee with joint responsibility	1 year	No	No
Shenzhen Harmony World Watches Center Co., Ltd.	March 1, 2013	10,000	July 26, 2013	5,000	Guarantee with joint responsibility	1 year	No	No
Shenzhen Harmony World Watches Center Co., Ltd.	March 1, 2013	10,000	July 30, 2013	3,000	Guarantee with joint responsibility	1 year	No	No
Shenzhen Harmony World Watches Center Co., Ltd.	March 1, 2013	10,000	December 30, 2013	10,000	Guarantee with joint responsibility	1 year	No	No
Fiyta (Hong Kong) Ltd.	March 1, 2013	3,931	October 5, 2012	1,572	Guarantee with joint responsibility	2 years	No	No
Fiyta (Hong Kong) Ltd.	March 1, 2013	3,931	November 9, 2012	2,359	Guarantee with joint responsibility	2 years	No	No
Fiyta (Hong Kong) Ltd.	March 1, 2013	11,793	July 11, 2013	3,931	Guarantee with joint responsibility	3 years	No	No
Fiyta (Hong Kong) Ltd.	March 1, 2013	11,793	August 5, 2013	3,931	Guarantee with joint responsibility	3 years	No	No
Total guarantee quota to the subsidiaries approved in the reporting period (B1)		100,000		Total amount of guarantee to the subsidiaries actually incurred in the reporting period (B2)		41,793		
Total guarantee quota to the subsidiaries approved at the end of the reporting period (B3)		100,000		Total balance of actual guarantee to the subsidiaries at the end of the reporting period (B4)		49,931		
The Company's total guarantee (i.e. total of the first two main items)								
Total guarantee quota approved in the reporting period (A1+B1)		100,000		Total amount of guarantee actually incurred in the reporting period (A2+B2)		41,793		
Total guarantee quota already approved at the end of the reporting period (A3+B3)		100,000		Total balance of the actual guarantee at the end of the reporting period (A4+B4)		49,931		

Proportion of the actual guarantees in the Company's net assets (namely A4+B4) (%)	32.5%
Including:	
Amount of guarantees offered to the shareholders, actual controller and its related parties (C)	0
Amount of guarantee for liabilities directly or indirectly offered to the guarantees with the asset-liability ratio exceeding 70%. (D)	0
Guarantee with total amount exceeding 50% of the net assets (E)	0
Total amount of the aforesaid three guarantees (C+D+E)	0
Description of the possibility of bearing joint repayment liability due to undue guarantee	Inapplicable
Description of external guarantee against the specified procedures	Inapplicable

Description of the guarantee with complex method

Inapplicable

### (1) Outward guarantee against law

Inapplicable

### 3. Other Important Contracts

Inapplicable

### 4. Other Important Transactions

Inapplicable

## IX. Implementation of Commitments

**1. The commitments of the Company and its shareholders holding over 5% of the Company's total shares in the report year or extending to the report year from previous year(s).**

Commitments	Promiser	Description	Commitment time	Commitment term	Implementation
Commitment for Equity Separation Reform					
Commitments in the acquisition report or the written report on change of equity					
Commitment made at the time of asset reorganization					



Commitment made at IPO or re-financing	AVIC International Holdings Limited	AVIC International Holdings Limited shall not assign the shares new subscribed within 36 months commencing from the end of the non-public offering by Fiyta Holdings Ltd. (December 30, 2010 to December 29, 2013) according to the Measures for Administration of Issuing of Securities by Listed Companies, the Rules for Implementation of Non-public Issuing of Shares by Listed Companies and the Rules of Shenzhen Stock Exchange on Listing Stocks, and other law, rules and regulations as well as the Contract for Subscription of Shares Non-publically Issued by Fiyta Holdings Ltd.	December 29, 2010	3 years	Finished in implementation
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	FIYTA Holdings Ltd.	<p>The Company commits that in case it is predicted that the Company may be unable to duly pay the principal and interest of the bond or fail to duly pay the principal and interest of the bond when it is due, the Company shall at least take the following measures: 1. not profit distribution to the shareholders shall be conducted. 2. implementation of any capital expenditure projects, such as material external investment, acquisition and merger, etc. shall be suspended. 3. salaries and bonus to the directors and senior executives shall be adjusted down or suspended. 4. None of the key officers may be transferred out.</p>	February 27, 2013	<p>Deadline of the bonds (The valid term of the bonds is 5 years attached with the investors' option of selling back, the Company's option of redemption and option of up-regulation of the nominal interest rate at the end of the 3rd year).</p>	In process of implementation
Other commitments to the minority shareholders					
Has the commitment been timely implemented?	Yes				

The specific cause of failure in implementation and the next plan (if any)	Inapplicable
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**2. There existed profit anticipation for the Company's assets or projects while the reporting period was still within the duration of the profit anticipation. The Company made explanation on whether the assets or projects reached the anticipated profit and the cause**

Inapplicable

## X. Engagement/Disengagement of CPAs

CPAs currently engaged

Name of the domestic CPAs	Ruihua Certified Public Accountants (Special Ordinary Partnership)
Remuneration to the domestic CPAs (in CNY10,000)	95
Successive years of the domestic CPAs offering auditing services	1
Names of the certified public accountants from the domestic CPAs	Liao Shiguo and Xing Xiangzong

Has the CPAs been changed in the current period?

☒ Yes ☐ No

Was the CPAs changed during auditing?

☐ Yes ☒ No

Did the Company implement the approval process in change of the CPAs?

☒ Yes ☐ No

Description of Renewal or Change of the CPAs

2012 Annual General Meeting of the Company reviewed and approved the Proposal on Payment of the Audit Fee of Year 2012 and New Engagement of RSM China CPAs (Special Ordinary Partnership) as the Company's Auditor for Year 2013. The General Meeting approved the engagement of RSM China CPAs (Special Ordinary Partnership) (RSM China CPAs) as the Company's auditor of the financial report of year 2013 and the internal control for a term of one year. For the purpose of better compliance with the requirements of the economic development of China and offering professional services to the customers at deeper level and in a comprehensive way, RSM China CPAs and Crowe Horwath China CPAs Co., Ltd. (Special Ordinary Partnership) (Crowe Horwath China CPAs) entered into the Merger Agreement, according to which the former RSM China CPAs was merged with Crowe Horwath China CPAs. After the merger, the CPAs would take the legal entity of Crowe Horwath China CPAs and has been renamed as RSM China CPAs (Special Ordinary Partnership). With a view to maintaining the continuity and stability of the Company's audit work and ensuring the audit quality of the Company's financial statements, the Audit Committee under the Board of Directors of the Company proposed to replace RSM China CPAs with Ruihua Certified Public Accountants (Special Ordinary Partnership) which

shall take charge of auditing the Company's financial report and the internal control of year 2013.

The 7<sup>th</sup> meeting of the Seventh Board of Directors held on January 8, 2014 reviewed and approved the Proposal on New Engagement of Ruihua Certified Public Accountants (Special Ordinary Partnership) as the Company's Auditor of Year 2013 and the proposal was reviewed and approved at 2014 1<sup>st</sup> Extraordinary General Meeting held on January 24, 2014.

Description of the CPAs, financial adviser or sponsor engaged for internal control auditing

☒ Applicable ☐ Inapplicable

The Company has engaged Ruihua Certified Public Accountants (Special Ordinary Partnership) as the Company's auditor of year 2013. The audit work for year 2013 has been finished and the Company is going to pay service charge for auditing the financial report amounting to CNY 0.65 million and that for auditing the internal control amounting to CNY 0.30 million to Ruihua Certified Public Accountants (Special Ordinary Partnership).

## **XI. Explanation of the Supervisory Committee and Independent Directors (if applicable) on the Qualified Auditor's Report Issued by the CPAs**

Inapplicable

## **XII. Punishment and Rectification**

Inapplicable

## **XIII. Situation of being Confronted of Suspension or Termination of Listing upon Disclosure of the Annual Report**

Inapplicable

## **XIV. Notes to Other Significant Events**

Ended November 30, 2013, the 162,977,327 restricted shares in FIYTA Holdings Ltd. held by AVIC International Holdings Limited had satisfied the conditions for relieving the restriction for sale, of them 155,981,701 shares were the restricted shares from the equity division reform and 6,995,626 shares as the restricted shares from non-public issuing of A shares. Authorized by AVIC International Holdings Limited, the Company finished the procedures for relieving the restriction for sales of the shares. For the detail, please refer to the Indicative Announcement on Relieving the Restriction for Sales of the Restricted Shares from the Equity Division Reform No. 2013-031 and the Indicative Announcement on Relieving the Restriction for Sales of the Restricted Shares from Non-public Issuing No. 2013-032.

## **XV. Significant Events of Subsidiaries**

Inapplicable

## XVI. Issuing of Company Bonds

The 33rd meeting of the Sixth Board of Directors held on June 19, 2012 reviewed and approved the Proposal on Issuing Company Bonds, etc., according to which the Company planned to issued company bonds with amount not exceeding CNY 400 million and the term not exceeding 5 years (with 5 years inclusive). The proceeds would be used for substituting bank loan and replenishing the working capital. On September 9, 2012, approved by China Securities Regulatory Commission with Document ZHENG JIAN XU KE [2012] No. 1209, the Company was permitted to issue company bonds with amount not exceeding CNY 400 million. The Company issued totally CNY 400 million of bonds in the current period. After deduction of the issuing costs, the new proceeds raised therefrom amounted to CNY 396.9 million, which was remitted to the bank account designated by the Company on March 5, 2013. RSM China CPAs, the CPAs appointed by the Company respectively issued the capital verification reports ZHONG RUI YUE HUA YAN ZI [2013] No. 0053, ZHONG RUI YUE HUA YAN ZI [2013] No. 0054 and ZHONG RUI YUE HUA YAN ZI [2013] No. 0055 for the frozen funds for subscription of the on-line issued bonds, the frozen fund for subscription of the off-line placement and the proceeds actually raised. Approved by Shenzhen Stock Exchange with Document SHEN ZHENG SHANG [2013] No. 99, the bonds were listed for trading with both SZSE centralized bidding system and the comprehensive agreement based trading platform with the abbreviation the securities "12 YA DA ZHAI" and security code of "112152". For the detail, refer to "Announcement on Issuing Company Bond 2013-003" disclosed on February 25, 2013. The Company finished the first interest payment for the company bond on February 27, 2014. For the detail, refer to "Announcement on Interest Payment for "12 YA DA ZHAI" No 2014-006".

## Section 6 Change of Shares and Particulars about Shareholders

### I. Change of Shares

In Shares

	Before the change		Increase / Decrease (+/-)					After the change	
	Quantity	Proportion (%)	New issuing	Bonus shares	Shares converted from reserve	Others	Sub-total	Quantity	Proportion (%)
I. Restricted shares	163,027,060	41.5%	0	0	0	-162,977,327	-162,977,327	49,733	0.01%
1. Shares held by the state	0	0%	0	0	0	0	0	0	0%
2. State corporate shares	162,977,327	41.49%	0	0	0	-162,977,327	-162,977,327	0	0%
3. Other domestic shares	49,733	0.01%	0	0	0	0	0	49,733	0.01%
Including: Domestic corporate shares	0	0%	0	0	0	0	0	0	0%
Shares held by domestic natural persons	49,733	0.01%	0	0	0	0	0	49,733	0.01%
4. Foreign invested shares	0	0%	0	0	0	0	0	0	0%
Including: Foreign corporate shares	0	0%	0	0	0	0	0	0	0%
Shares held by foreign natural persons	0	0%	0	0	0	0	0	0	0%
II. Unrestricted shares	229,740,810	58.5%	0	0	0	162,977,327	162,977,327	392,718,137	99.99%
1. CNY ordinary shares	148,092,810	37.71%	0	0	0	162,977,327	162,977,327	311,070,137	79.2%
2. Foreign invested shares listed in Mainland China	81,648,000	20.79%	0	0	0	0	0	81,648,000	20.79%
3. Foreign invested shares listed abroad	0	0%	0	0	0	0	0	0	0%
4. Others	0	0%	0	0	0	0	0	0	0%
III. Total shares	392,767,870	100%	0	0	0	0	0	392,767,870	100%

## II. Issuing and Listing

### 1. Issuing Activities over the Past Three Years

Description of stock and its Derivative Securities	Issuing date	Issuing price (or interest rate)	Issuing quantity	Listing Date	Quantity approved for listing	Expiration date of transaction
Stocks						
Convertible company bonds, detachable convertible bond and corporate bonds						
Corporate bonds	February 27, 2013	5.04%	4,000,000	March 29, 2013	4,000,000	
Warrants						

#### Issuing Activities over the Past Three Years

The 33rd meeting of the Sixth Board of Directors held on June 19, 2012 reviewed and approved the Proposal on Issuing Company Bonds, etc., according to which the Company planned to issued company bonds with amount not exceeding CNY 400 million and the term not exceeding 5 years (with 5 years inclusive). The proceeds would be used for substituting bank loan and replenishing the working capital. On September 9, 2012, approved by China Securities Regulatory Commission with Document ZHENG JIAN XU KE [2012] No. 1209, the Company was permitted to issue company bonds with amount not exceeding CNY 400 million. The Company issued totally CNY 400 million of bonds in the current period. After deduction of the issuing costs, the new proceeds raised therefrom amounted to CNY 396.9 million, which was remitted to the bank account designated by the Company on March 5, 2013. RSM China CPAs, the CPAs appointed by the Company respectively issued the capital verification reports ZHONG RUI YUE HUA YAN ZI [2013] No. 0053, ZHONG RUI YUE HUA YAN ZI [2013] No. 0054 and ZHONG RUI YUE HUA YAN ZI [2013] No. 0055 for the frozen funds for subscription of the on-line issued bonds, the frozen fund for subscription of the off-line placement and the proceeds actually raised. Approved by Shenzhen Stock Exchange with Document SHEN ZHENG SHANG [2013] No. 99, the bonds were listed for trading with both SZSE centralized bidding system and the comprehensive agreement based trading platform with the abbreviation the securities "12 YA DA ZHAI" and security code of "112152". For the detail, refer to "Announcement on Issuing Company Bond 2013-003" disclosed on February 25, 2013.

### 2. Change of the Company's Total Shares and the Strucutre and the Change of the Company's Asset and Liability Structure Arising Therefrom

Inapplicable

### 3. About the existing employees' shares

Inapplicable

## III. Shareholders and Actual Controlling Shareholder

### 1. Number of Shareholders and Shareholding

In shares

Total shareholders in the reporting period	28,314	Total shareholders at the end of the 5 <sup>th</sup> day from the date of disclosing the annual report	29,449
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Shares held by the top ten shareholders								
Shareholder names	Shares held by the top ten shareholders	Shares held by the top ten shareholders (%)	Quantity at the end of the reporting period	Increase/d ecrease in the reporting period	Number of the restricted shares held	Number of the non-restrict ed shares held	Pledging or freezing	
							Status of the shares	Quantity
AVIC International Holdings Limited	State-owned corporate	41.49%	162,977,327		0	162,977,327		
National Social Security Fund No. 110 Portfolio	Domestic non-state corporate	2.04%	8,000,190	-776,099	0	8,000,190		
China Merchants Securities (HK) Co., Ltd.	Foreign corporate	1.84%	7,230,150	-356,120	0	7,230,150		
Zhongrong International Trust Co., Ltd – Zhongrong – Golden Touch No. 11 Securities Investment Collected Capital Trust Program	Domestic non-state corporate	1.1%	4,337,900	1,337,900	0	4,337,900		
Essence International Securities (Hong Kong) Limited	Foreign corporate	1.05%	4,133,285	1,355,093	0	4,133,285		
GOLDEN CHINA PLUS MASTER FUND	Foreign corporate	0.87%	3,418,284	-	0	3,418,284		
Hu Zongqi	Domestic natural person	0.86%	3,379,000	3,379,000	0	3,379,000		
Hua An Fund – Minsheng Bank – Tianshou Investment Structure Portfolio No. 1 Asset Management Program	Domestic non-state corporate	0.85%	3,356,047	3,356,047	0	3,356,047		
KGI ASIA LIMITED	Foreign corporate	0.77%	3,012,085	-	0	3,012,085		
Dai Wen	Domestic natural person	0.32%	1, 239, 100	23, 900	0	1, 239, 100		
About the fact that a strategic investor or ordinary corporate became one of the top ten shareholders due to placement of new shares (if any) (Refer to Note 3)	Inapplicable							
Explanation on associated relationship or consistent action of the above shareholders	The Company has found neither affiliation among the aforesaid shareholders nor concerted actor as specified in the Measures for Administration of Information on the Shareholder Equity Change of Listed Companies.							
Shareholding of top 10 shareholders of unrestricted shares								
Shareholder's Name	Quantity of unrestricted shares held at the end of the reporting period					Share type		
						Share type	Quantity	
AVIC International Holdings Limited	162,977,327					A-shares	162,977,327	
National Social Security Fund No. 110 Portfolio	8,000,190					A-shares	8,000,190	
China Merchants Securities (HK) Co., Ltd.	7,230,150					B-shares	7,230,150	



Zhongrong International Trust Co., Ltd – Zhongrong – Golden Touch No. 11 Securities Investment Collected Capital Trust Program	4,337,900	A-shares	4,337,900
Essence International Securities (Hong Kong) Limited	4,133,285	B-shares	4,133,285
GOLDEN CHINA PLUS MASTER FUND	3,418,284	B-shares	3,418,284
Hu Zongqi	3,379,000	A-shares	3,379,000
Hua An Fund – Minsheng Bank – Tianshou Investment Structure Portfolio No. 1 Asset Management Program	3,356,047	A-shares	3,356,047
KGI ASIA LIMITED	3,012,085	B-shares	3,012,085
Dai Wen	1,239,100	A-shares	1,239,100
Explanation to the associated relationship or consistent action among the top 10 shareholders of non-restricted negotiable shares and that between the top 10 shareholders of non-restricted negotiable shares and top 10 shareholders.	The Company has found neither affiliation among the aforesaid shareholders nor concerted actor as specified in the Measures for Administration of Information on the Shareholder Equity Change of Listed Companies.		
Note to the top 10 shareholders involved in margin financing & securities lending (if any) (Refer to Note 4)	Inapplicable		

Did the shareholders conduct agreed repurchase securities trading in the reporting period?

☐ Yes ☒ No

## 2. Controlling Shareholder

Legal person

Name of the Controlling Shareholder	Legal Representative /Leader	Date of incorporation	Organization code	Registered Capital	Principal business activities
AVIC International Holdings Limited	Wu Guangquan	June 20, 1997	27935122-9	CNY 1110.631996 million	Investing and initiating entities (separate application is to be submitted for a specific project); domestic commerce, supply and sales of goods and materials (excluding the goods for exclusive sale, under special control and monopolized goods); import and export (excluding the goods forbidden by law, administrative rules and regulations, decision of the State Council; the restrictive goods is not allowed for operation until

					permit is granted)
Operation result, financial position, cash flow, future development strategy, etc.	<p>AVIC International Holdings Limited has not yet completed the auditing work for year 2013. Its development strategy is: To become a comprehensive platform for AVIC in opening up the international market, developing the relevant industries and expanding the international investment by means of overall listing and integrating the businesses; to set up an administration and control model adaptable to diversified business and trans-region development, realize breakthrough growth so as to become a multinational corporation with international competitiveness.</p>				
Equity in other domestic and foreign listed companies held by the controlling shareholder by means of control and mutual shareholding in the reporting period	<p>Holding 22.35% equity in CATIC Real Estate, 45.62% equity in Shen Tian Ma, and 41.49% equity in FIYTA.</p>				

Change of the controlling shareholder in the reporting period

Inapplicable

### 3. Actual Controller

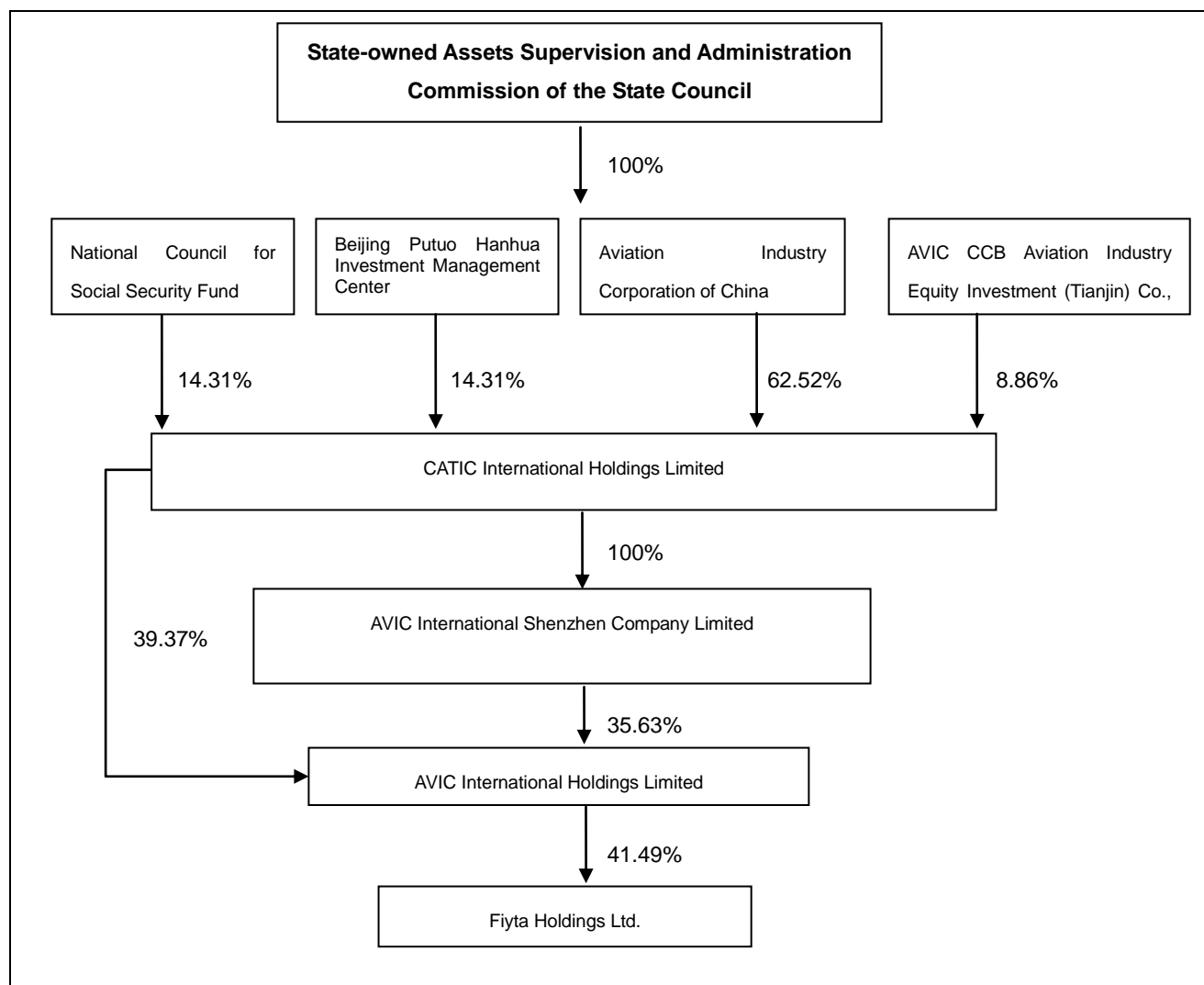
Corporate

Name of the Actual Controller	Legal Representative /Leader	Date of incorporation	Organization code	Registered Capital	Principal business activities
CATIC International Holdings Limited	Wu Guangquan	April 12, 1983	10000099-9	CNY 8459 million	International aviation, trading and logistic, retail and high-end consumption goods, real estate and hotel, electronics and hi-tech, resource development, etc.
Operation result, financial position, cash flow, future development strategy, etc.	<p>CATIC International Holdings Limited has not yet completed auditing work for the year 2013.</p> <p>The development strategy is:</p> <p>To implement the strategy of "Surpassing commerc and taking lead in the industry", to build itself into a first class 、 enterprise group and become a world outstanding enterprise highly loved by the staff, praised highly by customers and respected by the society.</p>				
Equity in other domestic and foreign listed companies held by the actual controller in the reporting period	<p>AVIC International Holdings Limited (HK.0161) directly holds 39.37% equity in the Company and indirectly holds 35.63% equity in AVIC International Holdings Limited (HK.0161) by means of AVIC International Shenzhen Company Limited, totally holding 75% equity.</p>				

Change of the actual controller in the reporting period

Inapplicable

Block Diagram of the Ownership and Control Relations between the Company and the Actual Controller



The actual controller controls the Company by means of trust or managing the assets in other ways:

Inapplicable

#### 4. Other Corporate Shareholder Holding over 10% of the Company's Shares

Inapplicable

#### IV. Share Acquisition Plan Proposed or Implemented by the Company's Shareholder and its Concerted Actor in the Reporting Period

Inapplicable

## Section 7 Directors, Supervisors, Senior Executives and Staff

### I. Change in Shares Held by Directors, Supervisors and Senior Executives

Names	Positions	Office Status	Gender	Age	Starting date of tenure	Expiry date of tenure	Number of shares acquired at end of the reporting period(shares)	Volume of shares acquired during the reporting period(shares)	Volume of shares sold during the reporting period(shares)	Number of shares held at end of the reporting period (shares)
Lai Weixuan	Chairman	In office	male	50	September 10, 2012	September 10, 2015				
Xu Dongsheng	Managing Director	In office	male	48	September 10, 2012	September 10, 2015				
Wang Mingchuan	Director	In office	male	48	September 10, 2012	September 10, 2015				
Huang Yongfeng	Director	In office	male	40	September 10, 2012	September 10, 2015				
Wu Xiaohua	Director	Retired	male	44	September 10, 2012	September 30, 2013				
Wang Xiaohua	Director	In office	female	43	September 10, 2012	September 10, 2015				
Zhang Hongguang	Independent director	In office	male	58	September 10, 2012	September 10, 2015				
Zhang Shunwen	Independent director	In office	male	48	September 10, 2012	September 10, 2015				
Wang Yan	Independent director	In office	male	57	September 10, 2012	September 10, 2015				
Sui Yong	Chairman of Supervisory Committee	In office	male	56	September 10, 2012	September 10, 2015				
Tang Boxue	Supervisor	In office	male	53	September 10, 2012	September 10, 2015				
Chen Zhuo	Supervisor	In office	male	38	September 10, 2012	September 10, 2015				
Chen Libin	Deputy GM & Secretary of the Board	In office	male	50	October 22, 2012	September 10, 2015				

Lu Bingqiang	Deputy GM	In office	male	53	October 22, 2012	September 10, 2015	66,311	0	0	66,311
Li Dehua	Deputy GM & Chief Accountant	In office	male	54	October 22, 2012	September 10, 2015				
Li Bei	Deputy GM	In office	male	59	October 22, 2012	September 10, 2015				
Fang Juan	Deputy GM	In office	female	55	October 22, 2012	September 10, 2015				
Total	--	--	--	--	--	--	66,311	0	0	66,311

## II. Posts Holding

### Work Experience in the Past Five Years of Directors, Supervisors and Senior Executives in Current Office

Mr. Lai Weixuan, born in July 1964, senior accountant, PhD of management of Tongji University and EMBA of Guanghua School of Management of Peking University. He is now the Chairman of the Company, deputy general manager & vice-secretary of the branch CPC Team of CATIC International Holdings Limited, chairman of Rainbow Supermarket Co., Ltd. and director of Shenzhen Aoxuan Investment Co., Ltd. He used to be the manager of the import & export management department and GM assistant of Shenzhen CATIC Trading Co., Ltd., deputy GM and GM of Rainbow Supermarket Co., Ltd., deputy GM, director and the secretary of the CPC Committee of CATIC Shenzhen Company Limited, vice chairman of the Company, vice chairman of Tianma Microelectronics Co., Ltd., director of Shanghai Microelectronics Co., Ltd. and vice chairman of China National Aviation Industry Group Co.

Mr. Xu Dongsheng, born in April 1966 research fellow senior economist, MBA of Tongji University. and PhD of Beijing University of Aeronautics & Astronautics. He is now the managing director of the Company, vice president of China Timepieces Association and chairman of Shenzhen Timepieces Association. Mr. Xu used to be the secretary of CYL Committee of CATIC Shenzhen Company Limited, GM of the Collective Life Service Co., Ltd. of Shenzhen CATIC Enterprise Group, vice secretary of the discipline committee, manager and president assistant of the supervision and audit department of CATIC Shenzhen Company Limited.

Mr. Wang Mingchuan, born in December 1966, senior accountant, master of management engineering of Tongji University. Mr. Wang is a director of the Company, vice chief accountant of CATIC International Holdings Limited, chief accountant of CATIC Shenzhen Company Limited, director of Tianma Microelectronics Co., Ltd., director of CATIC Real Estate Co., Ltd. and director of Rainbow Supermarket Co., Ltd. He used to be a financial supervisor of the financial division of Chengdu Engine Company, manager of the financial department of Shenzhen Shenrong Engineering Plastic Company, manager of the comprehensive management department and chief financial officer of Shenzhen CATIC Trading Co., Ltd., deputy manager of the financial and audit department, deputy manager and manager of the financial department and vice chief accountant of CATIC Shenzhen Company Limited.

Mr. Huang Yongfeng, born in May 1974, senior engineer, master of management engineering of Beijing University of Aeronautics & Astronautics and EMBA of China Europe International Business School. He is now a director of the Company, secretary of the Board of AVIC International Holdings Limited, director of CATIC Real Estate Co., Ltd., director of Rainbow Supermarket Co., Ltd., director of Tianma Microelectronics Co., Ltd. and chairman of Shenzhen Zhongshi

Machinery Equipment Co., Ltd. He used to be manager of the enterprise strategy and management department and GM assistant of CATIC Shenzhen Company Limited, and managing director of Shenzhen Zhongshi Machinery Equipment Co., Ltd.

Madam Wang Xiaohua, born in October 1971, economist, master of commercial economy of Wuhan University of Technology and on-campus EMBA of China Europe International Business School. She is now director of the Company, manager of the human resource department of CATIC Shenzhen Company Limited and director of CATIC Real Estate Co., Ltd. She used to be manager of the human resource department of Rainbow Supermarket Co., Ltd.

Mr. Zhang Hongguang, born in March 1956, senior engineer, bachelor of light industry machinery of Dalian Polytechnic University. He is now an independent director of the Company, vice president of China Timepieces Association. He used to be GM of Shenzhen Qixin Construction Group, deputy GM of Shenzhen Zhongyin Industrial Co., Ltd., manager of Shenzhen Xinghua Co., Ltd. and deputy chief of the education department of the Ministry of Light Industry.

Mr. Zhang Shunwen, born in May, 1966, senior accountant, a CPA, and master of Zhongnan University of Economics and Law. He is now an independent director of the Company, a partner of Lixin Certified Public Accountants (special general partnership), an expert member of the Third Assessment Committee of Guangdong Senior Accountants, vice president of Shenzhen Service Trade Association, practicing tutor of College of Economics of Shenzhen University, Shenzhen Gongjin Electronics Co., Ltd. and Guangdong Lily Blue Culture Flame Communications Co., Ltd. He used to be a vice president of Shenzhen Association of CPAs and a member of CPPCC of Shenzhen Municipality.

Mr. Wang Yan, born in February 1957 senior economist, master of business administration of State University of New York. He is now an independent director of the Company, professor of Intellectual Property Academy of South China University of Technology, deputy director of South China Training Base of the State Intellectual Property Bureau, independent director of Shenzhen Maxonic Automation Control Co., Ltd. He used to be assistant to the director of the Management Department of the State Intellectual Property Bureau, chief economist of the domestic listing company of China Merchants Group (China Merchants Harbor Service), senior executive of First State China Fund Management Co., Ltd., associate professor of Southwest University of Political Science & Law and deputy director of Shenzhen Intellectual Property Bureau.

Mr. Sui Yong, born in January 1958, senior accountant, bachelor of management engineering of Beijing University of Aeronautics & Astronautics. He is the Chairman of the Supervisory Committee of the Company, deputy GM of CATIC Shenzhen Company Limited. He used to be deputy manager and manager of the financial department, manager of the settlement center, manager of the financial department, vice chief accountant and chief accountant of China National Aero-Technology Import & Export Corporation Shenzhen Company and chairman of the supervisory committee of CATIC Real Estate Co., Ltd.

Mr. Tang Boxue, born in July 1961, accountant, graduated from university. He is now a supervisor and the manager of the audit department of the Company. He used to be deputy manager of the audit department and project manager of the financial department of the Company and GM of Shenzhen Pengmen Restaurant Co., Ltd.

Mr. Chen Zhuo, born in September 1976, accountant, MBA of Wuhan University, on-campus EMBA China Europe International Business School. He is now a supervisor of the Company and manager of the strategy and information department. He used to be deputy manager of the strategy and information department of the Company, deputy GM and

manager of the financial information department of FIYTA Sales Co., Ltd. and securities affairs representative of the Company.

Mr. Chen Libin, born in June 1964, postgraduate of economics of the Party School of Guangdong Provincial CPC Committee and EMBA of Sun Yat-Sen University. He is now the Secretary of the CPC Committee and deputy GM of the Company and Secretary of the Board. Mr. Chen used to be deputy director and director of the Party's affairs of the Party-masses Work Department and senior commissioner, deputy manager and manager of the enterprise culture department of AVIC Shenzhen.

Mr. Lu Bingqiang, born in December 1961, senior economist, bechelor of Guangzhou Jinan University. Mr. Lu is deputy GM of the Company and Managing Director of FIYTA (Hong Kong) Limited. He used to be the president secretary of AVIC Shenzhen, GM assistant amd director of the Company, and GM and chairman of Shenzhen Harmony World Watches Center.

Mr. Li Dehua, born in February 1960, senior accountant, graduated from Beijing University of Aeronautics & Astronautics. He is deputy GM & chief accountant of the Company. Mr. Li used to be cost accountant of Shenyang Liming Engine Manufacture Co., Ltd., comptroller of AVIC Shenzhen, manager of the financial department and chief financial officer of the Company.

Mr. Li Bei, born in October 1955, senior engineer at research fellow level, graduated from Shenyang Liming Polytechnical College. He is deputy GM of the Company. He used to be department manager of Shenzhen Feida Watch Co., Ltd. and GM of Shenzhen Feibiao Watch Appearance Pieces Co., Ltd.

Madam Fang Juan, born in October 1959, graduated from Jiangxi Normal University and EMBA of China Europe International Business School She now is deputy GM of the Company and managing director of Harmony World Watches Center. She used to be a translator of Jiangxi Ceramics Co., director of the scientific information office of Jingdezhen City, Jiangxi Province, manager of the human resource department and GM assistant of the Company.

Office taking in shareholder companies

√ Applicable □ Inapplicable

Names of the persons in office	Names of the Shareholders	Titles engaged in the shareholders	Starting date of office term	Expiry date of office term	Does he/she receive remuneration or allowance from the shareholder?
Lai Weixuan	CATIC International Holdings Limited	Deputy GM	February 29, 2012		No
Wang Mingchuan	CATIC International Holdings Limited	Vice Chief Accountant	November 3, 2010		No
Wang Mingchuan	CATIC Shenzhen Company Limited	Chief Accountant	September 13, 2010		Yes



Huang Yongfeng	AVIC International Holdings Limited	Secretary of the Board	July 20, 2012	June 18, 2015	Yes
Wang Xiaohua	CATIC Shenzhen Company Limited	Manager of HR Dept.	March 1, 2009	January 1, 2014	Yes
Sui Yong	CATIC Shenzhen Company Limited	Deputy GM	September 13, 2010		Yes
Explanation to the office taking in shareholder companies	Nil				

## Offices Taken in Other Organizations

√ Applicable □ Inapplicable

Names of the persons in office	Names of Other Organizations	Titles engaged in the other organizations	Starting date of office term	Expiry date of office term	Does he/she receive remuneration or allowance from other organization?
Zhang Hongguang	China Timepieces Association	Vice chairman	January 1, 2010	January 1, 2015	Yes
Zhang Shunwen	Lixin Certified Public Accountants (Special Ordinary Partnership)	Partner	January 1, 2011	-	Yes
Wang Yan	Intellectual Property Academy of South China University of Technology	Full-time professor	August 1, 2010	-	Yes
Explanation to the office taking in other organizations	Nil.				

### III. Remuneration to Directors, Supervisors and Senior Executives

Decision-making procedures, basis for determination and actual payment of the remuneration to directors, supervisors and senior executives

1. Decision-making procedures of the remuneration to directors, supervisors and senior executives: Remuneration to directors and supervisors was reviewed and approved by the Company's General Meeting and remuneration to senior executives was reviewed and approved by the Board of Directors.

2. Basis for determining the remuneration to directors, supervisors and senior executives:

(1) Basis for Determining Remuneration to Directors: Remuneration to the directors appointed by the controlling

shareholder is determined and distributed by the controlling shareholder. Allowance to independent directors is subject to the proposal prepared by the Board of Directors and reviewed and approved by the General Meeting and disclosed in the Company's annual report. Except the aforesaid allowance, independent directors received no extra and undisclosed benefit from the Company, the Company's principal shareholders or other organization or personnel with stakeholding.

(2) Basis for Determining Remuneration to Supervisors: Remuneration to the supervisors appointed by the controlling shareholder is determined and distributed by the controlling shareholder. Remuneration to the staff representative supervisor is determined by the Company based on the specific job he/she is engaged in.

(3) Basis for Determining Remuneration to senior executives: The Company brought into full play and mobilized the senior executives' work enthusiasm and creativeness based on the Company's operating results and with reference to the average remuneration level in the trade, better improved the Company's operating ability and result and ensured realization of the Company's strategic targets. The Company worked out the Measures for Administration of Remuneration to the Senior Executives in 2009, insisted on the principle of distribution according to work and combination of power, responsibility and benefit. The major orientation was "market based", "full amount based" and "broadband based". Commencing from 2007 on, the Company has introduced Balance Scorecard Strategic Management Structure, based on the establishment of the incentive and restriction mechanism adaptable to the modern enterprise system, improved the corporate governance structure, decomposed the Company's strategy to every department and post through the balance scorecard to determine senior executives' performance indicators and action plan on this basis, conducted regular strategic review, work report and assessment on quarterly basis, and decided their total remuneration and renewal of engagement according to the assessment results and fulfillment of performances.

### 3. Actual payment of the remuneration to directors, supervisors and senior executives:

The Company practiced the annual salary system for its senior executives. The annual salary structure consists of the basic annual salary and performance based annual salary. The annual salary assessment for the GM was carried out according to the assessment methods worked out by the shareholder. The assessment basis is mainly in accordance with a series of indicators systems prepared based on the balance scorecard. The assessment for other senior executives was conducted based on the indicators in the balance scorecard prepared at year beginning and the work report at year end.

Remuneration to directors, supervisors and senior executives in the reporting period

In CNY10,000

Names	Positions	Gender	Age	Office Status	Total remuneration received from the Company	Total remuneration received from the shareholder	Remuneration actually received at the end of the reporting period
Lai Weixuan	Chairman	male	50	In office	0	0	0
Xu Dongsheng	Managing Director	male	48	In office	178.1	0	178.1
Wang Mingchuan	Director	male	48	In office	0	0	0

Huang Yongfeng	Director	male	40	In office	0	0	0
Wu Xiaohua	Director	male	44	In office	0	0	0
Wang Xiaohua	Director	female	43	In office	0	0	0
Zhang Hongguang	Independent director	male	58	In office	9	0	9
Zhang Shunwen	Independent director	male	48	In office	9	0	9
Wang Yan	Independent director	male	57	In office	9	0	9
Sui Yong	Chairman of Supervisory Committee	male	56	In office	0	0	0
Tang Boxue	Supervisor	male	53	In office	76.2	0	76.2
Chen Zhuo	Supervisor	male	38	In office	79.8	0	79.8
Chen Libin	Deputy GM& Secretary of the Board	male	50	In office	132.6	0	132.6
Lu Bingqiang	Deputy GM	male	53	In office	147.2	0	147.2
Li Dehua	Deputy GM & Chief Accountant	male	54	In office	159.2	0	159.2
Li Bei	Deputy GM	male	59	In office	135.7	0	135.7
Fang Juan	Deputy GM	female	55	In office	169.2	0	169.2
Total	--	--	--	--	1,105	0	1,105

Incentive equity to directors, supervisors or/and senior executives in the reporting period

Inapplicable

#### IV. Change in Directors, Supervisors and Senior Executives

Names	Titles	Types	Date	Causes
Wu Xiaohua	Director	Retired	September 30, 2013	Mr. Wu applied for resignation of director of the Company due to job change.

#### V. Change of the Core Team of Technology or Key Technical Personnel (other than director, supervisor or senior executive) in the Reporting Period

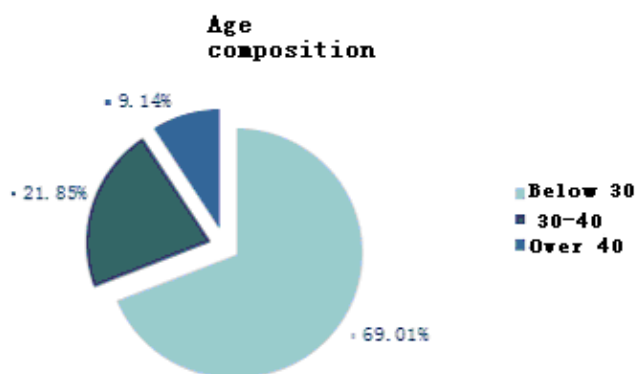
Inapplicable

## VI. About Staff

Ended the reporting period, there were altogether 5,112 employees in the Company. The composition of their education background, age structure and job structure are indicated as follows:

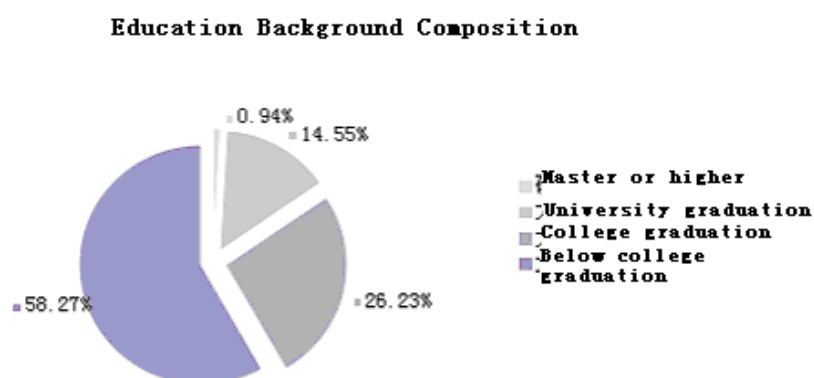
### 1. Age Structure

Age Composition	Below 30	30 - 40	over 40	Total
Number of persons	3,528	1,117	467	5,112
Proportion %	69.01%	21.85%	9.14%	100.00%



### 2. Education Background

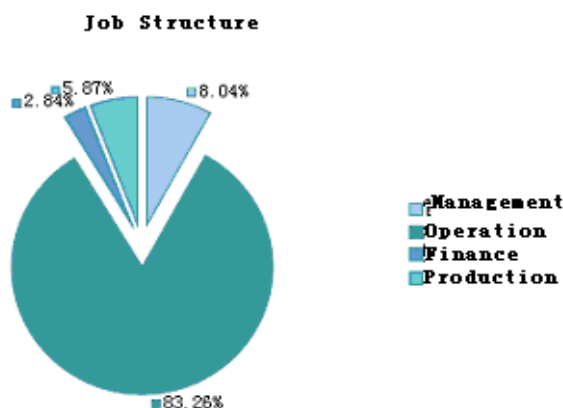
Education background composition	Master's degree or higher	University graduation	Junior college graduation	below junior college	Total
Number of persons	48	744	1,341	2,979	5,112
Proportion%	0.95%	14.55%	26.23%	58.27%	100.00%



### 3. Job Structure

Job composition	Management	Operation	Financial	Production	Total
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Number	411	4,256	145	300	5,112
Proportion	8.04%	83.26%	2.84%	5.86%	100.00%



#### 4. Remuneration Policy for Staff

The Company's remuneration policy is based on strategy, market, performances and job value. The Company has established a remuneration and benefit system with external competitiveness and internal fairness according to the Company's strategic target, ensuring the attractiveness to high quality talents of the industry, retaining the core and key talents of the Company, activating the human resource, mobilizing staff's enthusiasm and improving the Company's core competitiveness.

#### 5. Training Program

The Company is concentrated on watch industry, insists on the principle of guiding various businesses with the brand strategy, takes a broad view of the world and has established its vision of "moulding an international brand and becoming a globalized enterprise". While speeding up development, the Company firmly believes that "to build brand is to integrate the brand work and life style", the core speciality of the organization and staff and the qualification of the staff as brand personnel are the key elements determining the future development. For the purpose of creating the core competitiveness based on "brand building", meeting the strategy challenge, promoting realization of the long and short term plan, the Company determined the talent standard and qualification model based on the brand strategy by means of strategy analysis, internal and external environment analysis, talent supply analysis and employees' ability gap analysis, kept building a training system integrated with talent development model, improved comprehensive, multi-level, targeted and comprehensive accomplishment bearing, promoted overall and quick growth of employees and senior officers and enhanced the Company's core competitiveness.

6. Ended December 31, 2013, there were no retired staff whose pension or expenses needed to be borne by the Company. The Company shows loving care for the retired staff by means of paying respective visits and extending its regards.

## Section 8 Corporate Governance

### I. General

In the year 2013, the Company kept improving the Company's corporate governance structure strictly according to the PRC Company Law, the PRC Securities Law and the regulations of China Securities Regulatory Commission concerning governance of listed companies, and tried to enhance construction of modern enterprise system, upgraded the level of regulatory operation of the Company. As a result, there was no discrepancy between the situation of the Company's corporate governance and the regulatory documents of China Securities Regulatory Commission concerning governance of listed companies.

The Company established and improved relatively standardized corporate governance structure and rules of procedures strictly according to law, rules and regulations, including the PRC Company Law, and the Articles of Association of the Company, formed a decision-making and operation management system with the Shareholders' Meeting, the Board of Directors, the Supervisory Committee and the management of the Company as the principal structure. They implemented their respective duties according to the PRC Company Law and the Articles of Association.

The General Meeting is the Company's supreme organ and has the power of deciding the Company's operation policy and investment plan, reviewing and approving the Company's annual financial budget scheme, settlement scheme, profit distribution plan, loss make-up plan, change of the application of the proceeds raised through issuing, etc., makes resolution on increase and decrease of the Company's registered capital, issuing bond, etc., election and replacement of directors, non-staff supervisors and decision on their remuneration and way of payment.

The Board of Directors is the Company's decision-making organ, takes charge of implementing the decisions made by the Shareholders' General Meeting, assumes responsibility to the Shareholders' General Meeting and reports the work to it; within the authorization from the General Meeting, decides the Company's external investment, acquisition and sales of assets, assets pledge, external guarantee, related transactions, etc., decides establishment of the Company's internal management organs, engagement and disengagement of the Company's general manager, the Board secretary and other senior executives, etc. The Board of Directors consists of nine directors, including three independent directors. The Board of Directors has established three subordinate special committees, namely the Strategy Committee, the Audit Committee and Nomination, Remuneration and Assessment Committee.

The Supervisory Committee is the Company's supervisory organ in charge of supervising the directors, managers and other senior executives in performing duties according to the law and proposes dismissal of any director or senior executive who breaches the law, the administrative rules and regulations, the Articles of Association or the General Meeting's resolutions. The Supervisory Committee consists of three supervisors including two staff supervisors.

The management assumes responsibility to the Board of Directors and the General Manager takes full responsibility for the Company's routine operation and management and development under the leadership of the Board of Directors, supervises the work of every functional department, assesses the work result of each functional department and coordinate the relationship of all departments.

Does there exist any difference in compliance with the corporate governance, the PRC Company Law and the relevant provisions of CSRC.

☐ Yes ☒ No

There exist no difference in compliance with the corporate governance, the PRC Company Law and the relevant provisions of CSRC.

#### Implementation of the Campaign of Corporate Governance and Preparation and Implementation of the Registration Management System for Insiders

##### 1. Campaign of Corporate Governance

With a view to implementing the Basic Regulations of Internal Control of the Enterprises and the relevant supplementary guiding work and in accordance with the requirements of China Securities Regulatory Commission and Shenzhen Securities Regulatory Bureau, the Company formally started the basic rule-compliance project of internal control of the enterprise (hereinafter referred to as the "Internal Control Project"). The Statement of the Implementation Progress of the 54 Experimental Companies for the Rules for Enterprise Internal Control in the Jurisdiction of Shenzhen with reference to the Work Guides for the Key Experimental Companies in the Jurisdiction of Shenzhen in Implementing the Rules for Enterprise Internal Control. In addition, the Company engaged Ruihua Certified Public Accountants (Special Ordinary Partnership) to make independent audit of the Company's internal control. In the reporting period, the Company established the internal control on the business and matters which have been put in the assessment range, which has been effectively implemented and has reached the target of the Company's internal control. There exists no material defect. No significant change has taken place in the internal control resulting in substantial affect upon the assessment conclusion during the period from the base date of the internal control assessment report to the date of issuing the internal control assessment report.

In the reporting period, the Company participated in the Working Conference on Prevention and Control of Insider Trading among Listed Companies in Shenzhen organized by China Securities Regulatory Commission Shenzhen Office (CSRC Shenzhen Office) on March 19, 2013, learned the law, regulations and the relevant cases concerning insider trading, understood well the specific requirements on prevention and control of the insider trading; the Company also participated in the training program of basic finance and accounting of listed companies organized by CSRC Shenzhen Office on June 3, 2013 and had better understanding of the treasurer's duties in standardizing the Company's fundamental financial and accounting work and ensuring the financial information substantially authentic, complete and accurate.

##### 2. Preparation and Implementation of the System for Administration of the Information Insiders

In order to further regulate the Company's inside information and the insiders' activity of trading of the Company's shares, the Company reviewed and approved the System for Administration of the Inside Information and Insiders at the 6<sup>th</sup> meeting of the Sixth Board of Directors dated October 26, 2009 according to the Company Law, the Securities Law and the Share Listing Rules of Shenzhen Stock Exchange. In the reporting period, the Company has strictly implemented the System for Administration of the Inside Information and Insiders in different activities.

## II. Annual General Meeting and Extraordinary Shareholders' Meetings in the Reporting Period

### 1. Annual General Meeting

Sessions	Meeting Date	Description of Proposals	Resolution	Disclosure date	Disclosure index
2012 Annual General Meeting	June 21, 2013	2012 Annual Report and Summary, 2012 Work Report of the Board of Directors, 2012 Work Report of the Supervisory Committee, 2012 Financial Settlement Report, 2012 Profit Distribution Proposal, Proposal on Implementation of Regular Related Transactions in 2012 and Prediction of Regular Related Transactions in 2013, Proposal on Payment of Audit Fee for the Year 2012 and Engagement of the Company's Auditor for the Year 2013, Proposal on Application for Total Bank Credit Line in 2013, Proposal on Application for the Guarantee Amount to Subsidiaries in 2013, Special Report on Deposit and Application of the Raised Capital	reviewed and approved	June 21, 2013	Announcement on Resolutions of 2012 Annual General Meeting 2013-018 <a href="http://www.cninfo.com.cn">www.cninfo.com.cn</a>



		in 2012 and 2012 Work Report of Independent Directors			
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## 2. Extraordinary Shareholders' Meetings

Sessions	Meeting Date	Description of Proposals	Resolution	Disclosure date	Disclosure index
2013 1 <sup>st</sup> Extraordinary Shareholders' Meeting	August 21, 2013	Resolution on the Financial Service Agreement concluded with AVIC Finance Co., Ltd.	reviewed and approved	August 21, 2013	Announcement on Resolutions of 2013 1 <sup>st</sup> Extraordinary Shareholders' Meeting 2013-026 www.cninfo.com.c n

## III. Duty Performance of Independent Directors

### 1. Attendance of Board Meetings and General Meetings

Independent Directors' Attendance at Board Meetings						
Independent directors	Number of Board meetings necessary to be attended in the reporting period	Number of Spot Attendances	Number of Meetings Attended by Communication	Number of attendances by representative	Number of Absence	Failure to personally attend board meetings successively twice (Yes/No)
Zhang Hongguang	5	2	3	0	0	否
Zhang Shunwen	5	2	3	0	0	否
Wang Yan	5	2	3	0	0	否
Number of general meetings attended by independent directors as non-voting delegates		2				

Notes to Failure to Personally Attend Board Meetings Successively Twice

Inapplicable

### 2. Objection of independent directors on some relevant issues

Inapplicable

### 3. Other Note to Duty Performance of Independent Directors

Inapplicable

## IV Duty Performance of Special Committees under the Board of Directors in the Reporting Period

### Summary Report on Performances of the Audit Committee of the Board of Directors

In accordance with China Securities Regulatory Commission, Contents and Formats for Information Disclosure by Companies that Offer Securities to the Public Guideline (No. 2): Contents and Format of Annual Reports (Revision 2012), Shenzhen Stock Exchange: Circular on Doing a Good Job in 2013 Annual Report and the Relevant Work in Listed Companies, Basic Regulations on Enterprise Internal Control, Memorandum of Information Disclosure No. 21 – Information to be Disclosed in the Annual Report and the Company's Rules for the Work of the Audit Committee, the Audit Committee of the Company conducted overall review of the Company's audit work in 2013. The following is the summary of the performances of the Audit Committee and the work of Ruihua Certified Public Accounts (Special Ordinary Partnership) (hereinafter referred to as the "CPAs").

#### 1. Collecting General Information of the Company in the Report Period and Reviewing the Financial Statements Prepared by the Company and Progress of Internal Control Implementation

On January 24, 2014, the Audit Committee the management's overall report on the production and operation and progress of significant events during the reporting period and reviewed 2013 Financial and Accounting Statements prepared by the Company and heard the progress of implementation of the Company's internal control. In its opinion, the data in the financial and accounting statements prepared by the Company basically reflected the financial position and operation results of the Company as ended at December 31, 2013, and approved to carry out the audit work for the year 2012 with the financial statements as the base and issued auditing opinion in writing. The internal control implementation work carried out by the Company has been duly carried forward according to the Basic Standards for Enterprise Internal Control and other relevant laws and regulations. It has basically reflected the Company's internal control construction work ended December 31, 2013 and approved to prepare the Self-Assessment Report on the Internal Control on this basis and carry out the internal control audit work in 2013.

#### 2. Decision on Overall Audit Plan

Before the CPAs started auditing, the audit committee, after consultation with the CPAs, decided the time schedule of the audit work in 2013.

#### 3. Supervision of the Audit Work

On January 24, 2014, the CPAs formally started the audit work. During the auditing, the Audit Committee issued three Letters of Urging Audit respectively on January 24, February 11 and February 20, 2014, demanding the CPAs to complete the audit work according to the time schedule of audit for three times in succession and ensure timely disclosure of the Company's annual report and relevant documents.

#### 4. Preliminary Auditor's Opinion after Reviewing the Financial and Accounting Statements

On February 21, 2014, the CPAs issued a preliminary auditor's opinions on the financial and accounting statements and internal control assessment, and the Audit Committee once again reviewed the Company's financial and accounting

statements and internal control assessment report as preliminarily audited by the CPAs. In the opinion of the Audit Committee, these financial statements truly, accurately and completely reflected the financial position and operation result of the Company ended December 31, 2013 and approved 2013 Annual Report and Summary prepared on the basis of these statements. The said internal control assessment report has truly, accurately and entirely reflected the Company's achievement in internal control construction ended December 31, 2013 and approved to complete the internal control assessment report and internal control audit report based on said report. Meanwhile, the audit committee demanded the CPAs to complete the audit work according to the plan as soon as possible so as to ensure the Company to disclose 2013 Annual Report as scheduled.

#### 5. Summary Work after the Formal Report

On February 27, 2014, the CPAs completed the auditing procedures as scheduled and issued a standard unqualified auditor's report and other relevant documents to the Audit Committee. The Audit Committee held 2014 1<sup>st</sup> Meeting of the Audit Committee on the very day and concluded a resolution and submitted it to the Board of Directors for review and at the same submitted the Summary Report on the Performances of the Audit Committee and the Audit Work of the Certified Public Accountants in 2013. In the opinion of the Audit Committee, RSM China CPAs, the domestic and international auditor engaged by the Company honestly performed the duties in process of offering audit performances according to the professional principle of independence, objectiveness and fairness and did a good job in auditing 2013 Annual Accounting Statements and the internal control auditing.

#### 6. CPAs' Performance of Basic Principle of the Professional Ethics

##### (1) Independence

None of the staff from the CPAs worked for the Company; the CPAs received neither cash nor economic interest in any other form from the Company other than the statutory audit fee. There existed neither direct or indirect mutual investment between the CPAs and the Company nor close operation relationship; there existed no self-assessment on the Company's audit work and there existed no related relation between the member of the auditing team and the Company's decision makers; the CPAs and the auditing staff kept independence both in form and substance in the auditing work and complied with the requirement on keeping independence as specified in the basic principle of the professional ethics.

##### (2) Professional Competence

All the members of the auditing team possessed the professional knowledge and relevant professional qualification certificates necessary for the auditing work, were competent for the auditing work and at the same time maintained necessary attention and professional cautiousness.

#### Summary Report on Performances of the Committees of Nomination, Remuneration and Assessment of the Board of Directors

In the reporting period, the Committees of Nomination, Remuneration and Assessment of the Board of Directors performed its functions strictly according to the law and regulations, the Articles of Association, the Rules for Implementation of the Committees of Nomination, Remuneration and Assessment of the Board of Directors and conducted verification of the emoluments to directors, supervisors and senior executives in the year 2013 at its first meeting of 2014. The verification comments are as follows: The decision-making procedures of emolument to directors, supervisors and senior executives complied with the regulations; the payment criteria of the emolument to directors, supervisors and senior executives complied with the emolument system; the emolument to directors, supervisors and

senior executives as disclosed in 2013 Annual Report is true and accurate.

## V. Work of the Supervisory Committee

Did the Supervisory Committee find any risk existing in performing the supervision activities in the reporting period

☐ Yes ☒ No

The Supervisory Committee has no objection against any matters under supervision in the reporting period.

## VI. Independence and Completeness in business, personnel, assets, organization and finance

The Company is independent in business, personnel, assets, organization and finance from its controlling shareholder. The Company has complete and independent business and the ability of autonomous operation.

**Business.** The Company is mainly engaged in timepiece businesses and has independent production, auxiliary production system and complementary facilities, and possesses its own procurement and sales systems. There exists no competition in the same sector between the Company and its controlling shareholder.

**Personnel:** The Company is completely independent in organization and has sound systems in labor, personnel and salaries management. Except Mr. Lai Weixuan, the Chairman, Mr. Wang Mingchuan, Mr. Huang Yongfeng, Mr. Wu Xiaohua and Madam Wang Xiaohua, the four directors, and Mr. Sui Yong, the chairman of the Supervisory Committee, none of other senior executives takes any concurrent office in the shareholders and none of the financial staff works concurrently for any related parties.

**Assets:** The assets of the Company and its controlling shareholder are highly distinct. The Company enjoys the corporate ownership over its assets and the assets are completely independent from its controlling shareholder. In addition, the Company enjoys sole ownership of the Trademark FIYTA.

**Organization:** The Company has established its own intra-company organizations independent from the controlling shareholder. The Board, the Supervisory Committee and the other internal departments and offices work independently. There exist neither subordinate relations between the controlling shareholder/its functional departments nor doing joint office work. The controlling shareholder enjoys its rights and undertakes the corresponding obligations according to the law and has never been involved in any action which directly or indirectly interferes the Company's business activities surpassing the authority of the General Meeting.

**Finance:** The Company has established independent financial department, worked out sound and independent financial and accounting system and financial management system and independently opened bank accounts. The controlling shareholder has never interfered the Company in its financial and accounting activities.

## VII. Horizontal Competitions

There exists no horizontal competition among the controlling shareholder, actual controller and the Company.

## VIII. Assessment and Incentive Mechanism for Senior Executives

The Company brought into full play and mobilized the senior executives' work enthusiasm and creativeness based on the Company's operating results and with reference to the average remuneration level in the trade, better improved the Company's operating ability and result and ensured realization of the Company's strategic targets. The Company worked out the Measures for Administration of Remuneration to the Senior Executives in 2009, insisted on the principle of distribution according to work and combination of power, responsibility and benefit. The major orientation was "market based", "full amount based" and "broadband based". Since 2007, the Company has introduced the balance scorecard as the strategic management instrument. Based on the establishment of the incentive and binding mechanism corresponding to the modern enterprise system and improvement of the corporate governance structure, the Company disintegrated the Company's strategy to various departments and posts by means of the balance scorecard so as to determine senior executives' performance targets and plan of action, and regularly conducted strategic review and work report assessment on quarterly basis, and decided the total remuneration and office renewal based on the assessment results and performances. The remuneration to the Company's senior executives is the annual salary system. The annual salary structure consists of the basic annual salary and performance based annual salary. The annual salary assessment for the GM was carried out according to the assessment methods worked out by the shareholder. The assessment basis is mainly based on a series of indicators systems prepared based on the balance scorecard, in which the performance indicators of the surplus revenue rate were the main indicators. The assessment for other senior executives was conducted based on the indicators in the balance scorecard prepared at year beginning and the work report and assessment were carried out at year end.

## **Section 9 Internal Control**

### **I. Internal Control Construction**

The Company has prepared its internal control implementation work plan according to the Circular of China Securities Regulatory Commission on the Relevant Issues Concerning Properly Handling the Pilot Work of Internal Control Regulations of Listed Companies (SHANG SHI BU HAN [2011] No. 031) and the Circular of Shenzhen Securities Regulatory Office on the Relevant Issues Concerning Properly Handling the Pilot Work of Internal Control Regulations of the Listed Companies in the Jurisdiction of Shenzhen ([2011] No. 31). The Company appointed the General Manager as the first responsible person in implementation of internal control, established an internal control implementation leading group with the GM as the group leader. The leading group consists of the working team and business module team. The working team and module team consisted of the carefully selected professional staff familiar with the conditions of the Company with high professional competence. They worked together to carry out the internal control construction work in the organization.

The audit department, as the leading department of the internal control regulations, was the organ in charge of carrying out the work and coordination.

Based on the internal control construction in 2012 with combination of the change of the organization structure in 2013, it also took charge of revision of the regulations and rectification of the problems concerning internal control, and carrying out work of overall assessment of the internal control.

In 2013, the Company appointed Ruihua Certified Public Accountants (Special Ordinary Partnership) to offer internal control consulting services for the Company's internal control.

### **II. Statement of the Board of Directors on the Responsibility of Internal Control**

The Board of Directors and directors hereby individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions or errors which would render any statement misleading.

To establish, implement and effectively implement the internal control is the responsibility of the Board of Directors; the Supervisory Company conducts supervision over the Board of Directors in establishment and implementation of the internal control; the management is in charge of organizing and leading daily operation of the Company's internal control.

The objective of the Company's internal control is: to reasonably ensure the operation in compliance with the law, safety of the assets and authenticity and completeness of the financial report and relevant information, to improve operation efficiency and result and to promote realization of the development strategy. As there exists inherent limitation in internal control, it therefore can only provide reasonable assurance for realization of the aforesaid objective.

### **III. Basis for Establishment of Internal Control of the Financial Report**

This assessment report aims at making assessment of the effectiveness of the internal control design and operation

ended December 31, 2013 in accordance with the Basic Regulations for Enterprise Internal Control ("the Basic Regulations"), the Guide on Application of the Enterprise Internal Control ("the Application Guide"), the Guide on Assessment of Enterprise Internal Control ("the Assessment Guide") jointly promulgated by the five ministries and commissions of the P.R. China including the Ministry of Finance and the Guide of Shenzhen Stock Exchange for Standardized Operation of Companies Listed on the Main Board (SZSE Standardization Guide) with reference to the Company's internal control system, internal control manual and assessment method based on the daily supervision and specialized supervision of the internal control.

#### IV. Self-assessment Report of the Internal Control

About the Significant Defects of the Internal Control Found in the Internal Control Self-assessment Report in the Reporting Period	
No significant defect of internal control was found in the reporting period.	
Date of disclosing the internal control self-assessment report, full text	March 1, 2014
Disclosure reference of the full text of the internal control assessment report	www.cninfo.com.cn

#### V. Internal Control Audit Report,

☒ Applicable ☐ Inapplicable

Review Opinions in the Internal Control Audit Report	
In our opinion, FIYTA Holdings Ltd. has maintained effective financial report internal control in all material aspects according to the Basic Standards for Enterprise Internal Control and relevant regulations ended December 31, 2013.	
Date of disclosing the internal control audit report in full text	March 1, 2014
Disclosure reference of the full text of the internal control assessment report	www.cninfo.com.cn

Has the CPAs issued a qualified auditor's report of internal control.

☐ Yes ☒ No

Does the internal control audit report issued by the CPAs agree with the self-assessment report of the Board of Directors

☒ Yes ☐ No

## **VI. Establishment and Implementation of the Responsibility Investigation System for Serious Errors in the Annual Report**

In order to further improve the corporate governance and standardize the Company's systems, the 7<sup>th</sup> meeting of the Sixth Board of Directors in the report period worked out the System for Looking into the Responsibility for Serious Mistakes in Information Disclosure and the system has been strictly implemented.

In the reporting period, no serious error has been found in disclosure of the annual report information.

## **Section 10 Financial Report (Attached Hereinafter)**

### **Chapter 11 Documents Available for Inspection**

**I. Accounting Statements signed by and under the seal of the legal representative, chief accountant and accounting supervisor**

**II. Original of the Auditors' Report under the seal of the accounting firm and signed by and under the seals of certified public accountants.**

**III. Originals of all documents and manuscripts of announcements of the Company disclosed in Securities Times and Hong Kong Commercial Daily as designated by China Securities Regulatory Commission.**



# FIYTA Holdings Ltd.

## Auditors' Report

Rui Hua Shen Zi (2014) No. 48350001

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# AUDITORS' REPORT

Rui Hua Shen Zi (2014) No. 48350001

## To the shareholders of FIYTA Holdings Ltd.:

We have audited the accompanying financial statements of FIYTA Holdings Ltd. (the "Company") and its subsidiaries, which comprise the consolidated and the Company's balance sheet as at 31 December 2013, the consolidated and the Company's income statement, the consolidated and the Company's cash flow statement for the year then ended and consolidated and the Company's statement of change in shareholders' equity, and notes to the financial statements.

## I. Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing and fairly presenting financial statements in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining necessary internal control in order that financial statements are free from material misstatement, whether due to fraud or error.

## II. Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with Chinese Certified Public Accountants' ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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

### **III. Opinion**

In our opinion, the financial statements give a true and fair view of the consolidated financial position of FIYTA Holdings Ltd. and its subsidiaries as at 31 December 2013, and of their consolidated financial performance and their consolidated cash flows for the year then ended and, of the financial position of FIYTA Holdings Ltd. as at 31 December 2013, and of its financial performance and its cash flows for the year then ended in all material aspects in accordance with Accounting Standards for Business Enterprises.

Ruihua Certified Public Accountants

Chinese Certified Public Accountant:

LIAO shiguo

Beijing, China

Chinese Certified Public Accountant:

XING xiangzong

March 2014

## Consolidated Balance Sheet

as at 31 December 2013

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

	Note	Closing Balance	Opening Balance
<b>Current assets</b>			
Cash and bank balances	VII. 1	107,663,110.74	140,420,994.71
Notes receivable	VII. 2	7,100,000.00	2,000,000.00
Accounts receivable	VII. 3	324,457,339.19	309,117,274.31
Prepayments	VII. 4	43,487,613.07	75,418,566.40
Other receivables	VII. 5	40,436,640.10	33,353,606.26
Inventory	VII. 6	2,123,342,820.93	1,883,265,248.76
Other current assets	VII. 7	30,811,991.07	51,043,401.97
<b>Total current assets</b>		2,677,299,515.10	2,494,619,092.41
<b>Non-current asset</b>			
Long-term equity investments	VII. 8	43,322,940.12	41,733,741.79
Investment properties	VII. 9	235,235,684.76	244,379,430.63
Fixed assets	VII. 10	306,888,964.31	317,801,267.87
Construction in progress	VII. 11	6,608,187.55	3,866,365.79
Intangible assets	VII. 12	36,168,611.72	36,749,627.18
Goodwill	VII. 13	-	-
Long-term deferred expenses	VII. 14	146,542,685.58	126,274,611.58
Deferred income tax assets	VII. 15	74,159,134.29	61,339,687.61
Other non-current assets	VII. 17	32,476,867.85	-
<b>Total non-current assets</b>		881,403,076.18	832,144,732.45
<b>Total assets</b>		3,558,702,591.28	3,326,763,824.86

## Consolidated Balance Sheet (continued)

as at 31 December 2013

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

	Note	Closing Balance	Opening Balance
<b>Current liabilities</b>			
Short-term loans	VII. 19	1,023,000,000.00	1,409,800,000.00
Accounts payable	VII. 20	222,347,620.47	211,297,566.43
Advances from customers	VII. 21	9,667,278.30	12,131,032.89
Employee remuneration payable	VII. 22	31,173,812.15	28,090,979.22
Taxes payable	VII. 23	57,628,175.26	55,705,075.23
Interest payable	VII. 24	19,422,859.82	7,376,397.56
Other payables	VII. 25	38,454,934.30	37,453,414.11
Non-current liabilities due within one year	VII. 26	39,310,000.00	55,846,683.00
Other current liabilities	VII. 27	4,924,394.22	10,088,432.90
<b>Total current liabilities</b>		1,445,929,074.52	1,827,789,581.34
<b>Non-current liabilities</b>			
Long-term loan	VII. 28	173,274,950.01	48,383,020.45
Bonds payable	VII. 29	397,728,975.00	-
Other non-current liabilities	VII. 30	2,950,000.00	1,506,000.00
<b>Total non-current liabilities</b>		573,953,925.01	49,889,020.45
<b>Total liabilities</b>		2,019,882,999.53	1,877,678,601.79
<b>Shareholders' equity</b>			
Share capital	VII. 31	392,767,870.00	392,767,870.00
Capital reserves	VII. 32	525,506,952.78	525,506,952.78
Surplus reserves	VII. 33	156,714,094.20	148,587,680.61
Undistributed profit	VII. 34	469,706,600.67	386,984,676.78
Foreign currency translation difference		(8,260,833.09)	(7,169,555.04)
Total shareholders' equity attributable to shareholders of the parent company		1,536,434,684.56	1,446,677,625.13
Minority shareholders' interests		2,384,907.19	2,407,597.94
<b>Total shareholders' equity</b>		1,538,819,591.75	1,449,085,223.07
<b>Total liabilities and shareholders' equity</b>		3,558,702,591.28	3,326,763,824.86

Legal Representative: Lai Weixuan  
Financial Manager: Hu Xinglong

Chief Financial Officer: Li Dehua

## Consolidated Income Statement

for the Year Ended 31 December 2013

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	2013	2012
<b>1. Total Revenue</b>		3,103,496,962.22	3,023,962,527.25
Incl. Operating income	VII. 35	3,103,496,962.22	3,023,962,527.25
<b>2. Total Cost</b>		2,957,455,108.25	2,895,536,885.38
Incl. Operating cost	VII. 35	1,990,125,145.74	1,982,326,103.21
Business tax and surcharges	VII. 36	22,745,047.53	18,574,813.44
Distribution expenses	VII. 37	649,297,842.92	575,687,442.96
Administrative expenses	VII. 38	186,296,159.43	193,404,713.40
Financial expenses	VII. 39	100,268,241.55	118,655,716.47
Asset impairment loss	VII. 40	8,722,671.08	6,888,095.90
Plus: Investment gain	VII. 41	1,589,198.33	1,518,669.03
Incl. gain from investment in associates and jointly controlled enterprises		1,589,198.33	1,518,669.03
<b>3. Operating profit</b>		147,631,052.30	129,944,310.90
Plus: Non-operating income	VII. 42	4,854,127.40	7,101,695.36
Less: Non-operating expenses	VII. 43	1,008,482.22	559,169.77
Incl. losses from disposal of non-current assets		76,660.91	26,173.80
<b>4. Profit before income tax</b>		151,476,697.48	136,486,836.49
Less: Income tax	VII. 44	21,351,677.67	20,826,970.66
<b>5. Net profit</b>		130,125,019.81	115,659,865.83
Net profit attributable to shareholders of the parent company		130,125,124.48	116,003,746.03
Profit attributable to minority shareholders		(104.67)	(343,880.20)
<b>6. Earnings per share</b>			
(1) Basic earnings per share	VII. 45	0.331	0.295
(2) Diluted earnings per share	VII. 45	0.331	0.295
<b>7. Other comprehensive income</b>	VII. 46	(1,113,864.13)	186,202.13
<b>8. Total comprehensive income</b>		129,011,155.68	115,846,067.96
Total comprehensive income attributable to shareholders of the parent company		129,033,846.43	116,189,719.68
Total comprehensive income attributable to minority shareholders		(22,690.75)	(343,651.72)

Legal Representative:Lai Weixuan

Chief Financial Officer: Li Dehua

Financial Manager:Hu Xinglong

# Consolidated Cash Flow Statement

for the Year Ended 31 December 2013

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	2013	2012
<b>1. Cash flows from operating activities:</b>			
Cash received from sales of goods and rendering of services		3,469,499,424.20	3,395,584,259.20
Other cash received relating to operating activities	VII. 47	32,329,681.39	37,270,821.76
<b>Subtotal of cash inflows from operating activities</b>		3,501,829,105.59	3,432,855,080.96
Cash paid for purchasing goods and services		2,510,572,073.55	2,522,610,527.49
Cash paid to and for employees		397,723,297.50	374,296,863.42
Cash paid for taxes and surcharges		169,245,745.69	185,361,542.88
Other cash paid relating to operating activities	VII. 47	345,240,497.93	304,739,487.41
<b>Subtotal of cash outflows in operating activities</b>		3,422,781,614.67	3,387,008,421.20
<b>Net cash flows from operating activities</b>	VII. 48	79,047,490.92	45,846,659.76
<b>2. Cash flows from investing activities</b>			
Cash received from returns on investments			683,750.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		681,892.51	84,721.62
<b>Subtotal of cash inflows from investing activities</b>		681,892.51	768,471.62
Cash paid to acquire fixed assets, intangible assets and other long-term assets		118,964,925.94	116,308,133.52
<b>Subtotal of cash outflows in investing activities</b>		118,964,925.94	116,308,133.52
<b>Net cash flows in investing activities</b>		(118,283,033.43)	(115,539,661.90)
<b>3. Cash flows from financing activities:</b>			
Cash received from borrowings		1,791,109,369.63	2,409,134,250.00
Other cash received relating to financing activities	VII. 47	-	125,000,000.00
<b>Subtotal of cash inflows from financing activities</b>		1,791,109,369.63	2,534,134,250.00
Cash repayments of borrowings		1,669,312,002.72	2,200,889,810.68
Cash paid for dividends, profits distribution or interest		113,063,856.58	146,366,890.14
Other cash payments relating to financing activities	VII. 47	1,702,986.00	156,982,772.60
<b>Subtotal of cash outflows in financing activities</b>		1,784,078,845.30	2,504,239,473.42
<b>Net cash flows from financing activities</b>		7,030,524.33	29,894,776.58
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		(552,865.79)	246,790.25
<b>5. Net increase in cash and cash equivalents</b>	VII. 48	(32,757,883.97)	(39,551,435.31)
Plus: cash and cash equivalents at the beginning of the year	VII. 48	140,420,994.71	179,972,430.02
<b>6. Cash and cash equivalents at the end of the year</b>	VII. 48	107,663,110.74	140,420,994.71

Legal Representative:Lai Weixuan  
Financial Manager:Hu Xinglong

Chief Financial Officer: Li Dehua



# Consolidated Statement of Changes in Shareholders' Equity

for the Year Ended 31 December 2013

Item	2013							2012						
	Total shareholders' equity attributable to shareholders of the parent company						Total shareholders' equity	Total shareholders' equity attributable to shareholders of the parent company					Minority interest	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Others	Minority interest		Share capital	Capital reserve	Surplus reserve	Undistributed profits	Others		
<b>I. Balance at the end of prior</b>	392,767,870.00	525,506,952.78	148,587,680.61	386,984,676.78	(7,169,555.04)	2,407,597.94	1,449,085,223.07	392,767,870.00	581,606,952.78	131,323,437.78	327,521,960.58	(7,355,528.69)	2,751,249.66	1,428,615,942.11
Plus: Amounts affected by	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Correction of prior periods errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to business	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>II. Balance at the beginning of</b>	392,767,870.00	525,506,952.78	148,587,680.61	386,984,676.78	(7,169,555.04)	2,407,597.94	1,449,085,223.07	392,767,870.00	581,606,952.78	131,323,437.78	327,521,960.58	(7,355,528.69)	2,751,249.66	1,428,615,942.11
<b>III. Movements in current year</b>	-	-	8,126,413.59	82,721,923.89	(1,091,278.05)	(22,690.75)	89,734,368.68	-	(56,100,000.00)	17,264,242.83	59,462,716.20	185,973.65	(343,651.72)	20,469,280.96
<b>1. Net profit</b>	-	-	-	130,125,124.48	-	(104.67)	130,125,019.81	-	-	-	116,003,746.03	-	(343,880.20)	115,659,865.83
<b>2. Other comprehensive</b>	-	-	-	-	(1,091,278.05)	(22,586.08)	(1,113,864.13)	-	-	-	-	185,973.65	228.48	186,202.13
<b>Subtotal of item 1 and 2</b>	-	-	-	130,125,124.48	(1,091,278.05)	(22,690.75)	129,011,155.68	-	-	-	116,003,746.03	185,973.65	(343,651.72)	115,846,067.96
<b>3. Capital contribution or</b>	-	-	-	-	-	-	-	-	(56,100,000.00)	-	-	-	-	(56,100,000.00)
(1) Increase in capital	-	-	-	-	-	-	-	-	-	-	-	-	-	-
(2) Others	-	-	-	-	-	-	-	-	(56,100,000.00)	-	-	-	-	(56,100,000.00)
<b>4. Profit distribution</b>	-	-	8,126,413.59	(47,403,200.59)	-	-	(39,276,787.00)	-	-	17,264,242.83	(56,541,029.83)	-	-	(39,276,787.00)
(1) Appropriation of surplus	-	-	8,126,413.59	(8,126,413.59)	-	-	-	-	-	17,264,242.83	(17,264,242.83)	-	-	-
(2) distribution to shareholders	-	-	-	(39,276,787.00)	-	-	(39,276,787.00)	-	-	-	(39,276,787.00)	-	-	(39,276,787.00)
(3) others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>IV. Balance at the end of</b>	392,767,870.00	525,506,952.78	156,714,094.20	469,706,600.67	(8,260,833.09)	2,384,907.19	1,538,819,591.75	392,767,870.00	525,506,952.78	148,587,680.61	386,984,676.78	(7,169,555.04)	2,407,597.94	1,449,085,223.07

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Legal Representative:Lai Weixuan

Chief Financial Officer: Li Dehua

Financial Manager:Hu Xinglong

## Balance Sheet

as at 31 December 2013

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	Closing Balance	Opening Balance
<b>Current assets</b>			
Cash and bank balances		27,929,968.24	51,372,778.02
Accounts receivable	XIII.1	239,193,039.81	240,591,979.60
Prepayments		-	7,400,499.96
Dividends receivable		-	15,960,140.05
Other receivables	XIII.2	1,337,631,334.01	879,008,377.75
Inventory		-	326,238.78
Other current assets		308,119.88	45,265.96
<b>Total current assets</b>		<b>1,605,062,461.94</b>	<b>1,194,705,280.12</b>
<b>Non-current assets</b>			
Long-term equity investments	XIII.3	775,522,660.12	773,933,461.79
Investment property		235,235,684.76	244,379,430.63
Fixed assets		108,094,045.84	113,532,673.59
Construction-in-progress		6,608,187.55	3,866,365.79
Intangible assets		29,820,750.12	30,390,445.62
Long-term deferred expenses		5,679,969.47	9,959,330.37
Deferred income tax assets		775,806.46	424,050.46
Other non-current assets		10,976,867.85	-
<b>Total non-current assets</b>		<b>1,172,713,972.17</b>	<b>1,176,485,758.25</b>
<b>Total assets</b>		<b>2,777,776,434.11</b>	<b>2,371,191,038.37</b>

## Balance Sheet (continued)

as at 31 December 2013

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	Closing Balance	Opening Balance
<b>Current liabilities</b>			
Short-term loan		823,000,000.00	949,800,000.00
Accounts payable		1,273,442.81	6,871,761.93
Advances from customers		1,368,593.44	1,393,704.45
Employee remuneration payable		5,700,000.00	4,130,000.00
Taxes payable		2,909,411.40	7,275,698.17
Interest payable		18,444,077.78	6,207,032.78
Other payables		15,261,230.72	14,215,414.94
<b>Total current liabilities</b>		<b>867,956,756.15</b>	<b>989,893,612.27</b>
<b>Non-current liability</b>			
Long-term loan		87,361,928.00	-
Bonds payable		397,728,975.00	-
Other non-current liabilities		2,950,000.00	1,506,000.00
<b>Total non-current liabilities</b>		<b>488,040,903.00</b>	<b>1,506,000.00</b>
<b>Total liabilities</b>		<b>1,355,997,659.15</b>	<b>991,399,612.27</b>
<b>Shareholders' equity</b>			
Share capital		392,767,870.00	392,767,870.00
Capital reserve		531,162,493.88	531,162,493.88
Surplus reserve		156,714,094.20	148,587,680.61
Undistributed profits		341,134,316.88	307,273,381.61
<b>Total shareholders' equity</b>		<b>1,421,778,774.96</b>	<b>1,379,791,426.10</b>
<b>Total liabilities and shareholders' equity</b>		<b>2,777,776,434.11</b>	<b>2,371,191,038.37</b>

Legal Representative: Lai Weixuan

Chief Financial Officer: Li Dehua

Financial Manager: Hu Xinglong

# Income Statement

for the Year Ended 31 December 2013

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	2013	2012
<b>1. Revenue</b>	XIII. 4	95,787,415.95	171,077,075.86
Less: operating cost	XIII. 4	21,182,291.58	87,018,153.40
Business taxes and surcharges		5,473,152.56	7,047,921.79
Distribution expenses		7,679,098.14	13,037,527.92
Administrative expenses		48,128,405.06	43,261,721.27
Financial expenses		10,501,425.01	23,914,924.88
Impairment loss		490,176.65	(220,345.50 )
Plus: Investment income	XIII. 5	76,560,676.47	173,720,753.91
Incl. income from investment in associates and jointly controlled enterprises		1,589,198.33	1,518,669.03
<b>2. Operating profit</b>		78,893,543.42	170,737,926.01
Plus: Non-operating income		3,367,443.23	4,841,663.32
Less: Non-operating expenses		828,606.79	353,482.48
Incl. losses from disposal of non-current assets		-	872.93
<b>3. Profit before income tax</b>		81,432,379.86	175,226,106.85
Less: Income tax		168,244.00	2,583,678.56
<b>4. Net profit</b>		81,264,135.86	172,642,428.29
<b>5. Other comprehensive income</b>		-	-
<b>6. Total comprehensive income</b>		81,264,135.86	172,642,428.29

Legal Representative:Lai Weixuan  
Financial Manager:Hu Xinglong

Chief Financial Officer: Li Dehua

# Cash Flow Statement

for the Year Ended 31 December 2013

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	2013	2012
<b>1. Cash flows from operating activities:</b>			
Cash received from sales of goods and rendering of services		90,204,327.75	98,950,704.21
Other cash received relating to operating activities		7,092,745.39	156,513,037.61
<b>Subtotal of cash inflows from operating activities</b>		<b>97,297,073.14</b>	<b>255,463,741.82</b>
Cash paid for purchasing goods and services		5,318,017.56	9,351,306.97
Cash paid to and for employees		39,146,743.47	37,549,377.26
Cash paid for taxes and surcharges		14,202,747.08	36,446,081.66
Other cash paid relating to operating activities		407,582,031.08	53,854,596.02
<b>Subtotal of cash outflows in operating activities</b>		<b>466,249,539.19</b>	<b>137,201,361.91</b>
<b>Net cash flows from operating activities</b>	XIII. 6	<b>(368,952,466.05)</b>	<b>118,262,379.91</b>
<b>2. Cash flows from investing activities</b>			
Cash received from returns on investments		90,931,618.19	191,533,579.03
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		672,000.00	58,000.00
<b>Subtotal of cash inflows from investing activities</b>		<b>91,603,618.19</b>	<b>191,591,579.03</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		10,293,325.95	14,039,338.43
<b>Subtotal of cash outflows in investing activities</b>		<b>10,293,325.95</b>	<b>14,039,338.43</b>
<b>Net cash flows in investing activities</b>		<b>81,310,292.24</b>	<b>177,552,240.60</b>
<b>3. Cash flows from financing activities:</b>			
Cash received from borrowings		1,447,261,928.00	1,801,800,000.00
<b>Subtotal of cash inflows from financing activities</b>		<b>1,447,261,928.00</b>	<b>1,801,800,000.00</b>
Cash repayments of borrowings		1,089,800,000.00	1,976,100,000.00
Cash paid for dividends, profits distribution and interest		91,559,577.97	115,536,231.01
Other cash payments relating to financing activities		1,702,986.00	3,932,772.60
<b>Subtotal of cash outflows in financing activities</b>		<b>1,183,062,563.97</b>	<b>2,095,569,003.61</b>
<b>Net cash flows from financing activities</b>		<b>264,199,364.03</b>	<b>(293,769,003.61)</b>
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>-</b>	<b>-</b>
<b>5. Net increase in cash and cash equivalents</b>	XIII. 6	<b>(23,442,809.78)</b>	<b>2,045,616.90</b>
Plus: cash and cash equivalents at the beginning of the year	XIII. 6	51,372,778.02	49,327,161.12
<b>6. Cash and cash equivalents at the end of the year</b>	XIII. 6	<b>27,929,968.24</b>	<b>51,372,778.02</b>

Legal Representative: Lai Weixuan

Chief Financial Officer: Li Dehua

Financial Manager: Hu Xinglong

## Statement of Changes in Shareholders' Equity

for the Year Ended 31 December 2013

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	2013					2012				
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total shareholders' equity	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
<b>I. Balance at the end of prior year</b>	392,767,870.00	531,162,493.88	148,587,680.61	307,273,381.61	1,379,791,426.10	392,767,870.00	531,162,493.88	131,323,437.78	191,171,983.15	1,246,425,784.81
Add: Amounts affected by changes of accounting policies	-	-	-	-	-	-	-	-	-	-
Correction of prior periods errors	-	-	-	-	-	-	-	-	-	-
<b>II. Balance at the beginning of current year</b>	392,767,870.00	531,162,493.88	148,587,680.61	307,273,381.61	1,379,791,426.10	392,767,870.00	531,162,493.88	131,323,437.78	191,171,983.15	1,246,425,784.81
<b>III. Movements in current year</b>	-	-	8,126,413.59	33,860,935.27	41,987,348.86	-	-	17,264,242.83	116,101,398.46	133,365,641.29
1. Net profit	-	-	-	81,264,135.86	81,264,135.86	-	-	-	172,642,428.29	172,642,428.29
2. Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Subtotal of item 1 and 2	-	-	-	81,264,135.86	81,264,135.86	-	-	-	172,642,428.29	172,642,428.29
3. Capital contribution or withdrawn	-	-	-	-	-	-	-	-	-	-
(1) Increase in contribution by shareholders	-	-	-	-	-	-	-	-	-	-
(2) Others	-	-	-	-	-	-	-	-	-	-
4. profit distribution	-	-	8,126,413.59	(47,403,200.59)	(39,276,787.00)	-	-	17,264,242.83	(56,541,029.83)	(39,276,787.00)

(1) Appropriation of surplus reserve	-	-	8,126,413.59	(8,126,413.59)		-	-	17,264,242.83	(17,264,242.83)	-
(2) Distribution to shareholders	-	-	-	(39,276,787.00)	(39,276,787.00)	-	-	-	(39,276,787.00)	(39,276,787.00)
<b>IV. Balance at the end of current year</b>	392,767,870.00	531,162,493.88	156,714,094.20	341,134,316.88	1,421,778,774.96	392,767,870.00	531,162,493.88	148,587,680.61	307,273,381.61	1,379,791,426.10

Legal Representative:Lai Weixuan

Chief Financial Officer: Li Dehua

Financial Manager:Hu Xinglong

**FIYTA Holdings Ltd.**  
**Notes to the Financial Statements**  
**for the Year Ended 31 December 2013**

(Expressed in RMB Yuan unless otherwise indicated)

**I. Company status**

FIYTA Holdings Ltd. (the "Company") was founded, under the approval of Shen Fu Ban Fu (1992) 1259 issued by the General Office of Shenzhen Municipal Government, through the restructuring of former Shenzhen FIYTA Time Industrial Company by the promoter of China National Aero-Technology Import and Export Shenzhen Industry & Trade Center (name changed to "China National Aero-Technology Shenzhen Co., Ltd" lately) on 25 December 1992, and the name changed to "Shenzhen FIYTA Holdings Limited".

Pursuant to the approval of Shen Ren Yin Fu Zi (1993) 070 issued by the People's Bank of China Shenzhen Special Economic Zone Branch, the Company issued Renminbi ordinary shares (A shares) and Renminbi special shares (B shares) publicly on 10 March 1993. On 3 June 1993, both the Company's A shares and B shares were listed and traded on Shenzhen Stock Exchange pursuant to the approval of Shen Zheng Ban Fu[1993]20 issued by Shenzhen Securities Regulatory Office and Shen Zheng Shi Zi (1993)16 issued by Shenzhen Stock Exchange. On 30 January 1997, the company name changed to Shenzhen FIYTA Holdings Limited with the approval of Shenzhen Municipal Administration for Industry and Commerce.

On 4 July 1997, China National Aero-Technology Shenzhen Co., Ltd. ("CATIC Shenzhen Company") transferred 72,360,000 corporate shares (accounting for 52.24% of the Company's total share capital) to Shenzhen China Aviation Group Company Limited (previously known as "Shenzhen China Aviation Industry Company Limited", hereinafter referred to as "China National Aviation Group") according to share transfer agreement signed by both parties. As a result, the Company's controlling shareholder changed from CATIC Shenzhen Company to China National Aviation Group.

On 26 October 2007, the Company implemented split-share reform. Under the premise of maintaining the Company's total of 249,317,999 shares unchanged, the Company's shareholders of non-tradable shares paid 3.1 shares per 10 tradable shares to all the tradable share shareholders registered on option registration date designated by the split-share reform program. At that point, after the reform, the shares held by China National Aviation Group reduced to 44.69% from 52.24%.

On 29 February 2008, due to expanding the scope of business, the Company's corporate business license was altered from Shen Si Zi No. 4403011001583 to No. 440301103196089 with the approval of Shenzhen Municipal Administration for Industry and Commerce.



With the approval of “Reply of China Securities Regulatory Commission (CSRC) to the Approval of Private Placement of Shenzhen FIYTA Holdings Limited” (Zheng Jian Xu Ke[2010]1703) and “Reply of State-owned Assets Supervision and Administration Commission of the State Council (SASAC) on Issues in Private Placement of Shenzhen FIYTA Holdings Limited” (SASAC(2010)430) in 2010, the Company is approved to issue not more than 50,000,000 ordinary shares (A shares) by private placement. After the completion of the placement on 9 December 2010, the Company’s registered capital increased to RMB280,548,479.00 and the equity capital of the Company held by China National Aviation Group reduced to 41.49%.

On 8 April 2011, the Company increased its share capital by 4 shares for every 10 shares by capitalizing the capital reserves on the basis of total shares of 280,548,479 as at 31 December 2010. Total shares of the Company changed to 392,767,870 shares after the increase.

As at 31 December 2013, the Company has accumulatively issued 392,767,870 shares in total (refer to Notes VII. 31 for details).

The business scope of the Company and its subsidiaries (collectively referred to as the “Group”) mainly includes: producing and selling of analogue quartz watches and its movements, components, various timing devices, processing and wholesaling karat gold jewellery watches (production sites are to be declared separately); domestic commercial and material supply and distributing business (excluding goods under exclusive operational rights, special control and exclusive sales); property management and leasing; import and export business of self-design, construction; import and export business (according to Shen Mao Guan Deng Zheng Zi No.2007-072).The legal representative of the Company is Wu Guangquan. The residence of the Company is FIYTA Hi-Tech Building located at Gao Xin Nan Yi Dao, Nanshan District, Shenzhen.

The Company’s parent company is China National Aviation Group and the ultimate parent company is Aviation Industry Corporation of China (AVIC).

Corporate governance institutions that are established by the Company include general meeting of shareholders, board of directors, board of supervisors, audit committee, strategy committee and nomination, remuneration and evaluation committee. The Company has administration, human resources, finance, audit, general office of board of directors, property, R&D, innovative design, strategy and information department and other functional departments.

The financial statements have been approved and authorised for issue the Board of Directors of the Company on 27 February 2014.

## II. Basis of preparation

The financial statements of the Group have been prepared based on going concern assumption and based on actual transactions and events occurred. It is prepared in accordance with the requirements of “Accounting Standards for Business Enterprises - Basic Standard” and 38 Specific Standards issued by the Ministry of Finance on 15 February 2006, and application guidance, illustrations to the standards and related pronouncements (collectively known as “Accounting Standards for Business Enterprises” or “CAS”). These financial statements also comply with the disclosure requirements of “Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports” (revised in 2010) issued by China Securities Regulatory Commission (CSRC).

According to Accounting Standards for Business Enterprises, the accrual basis is adopted for the Group’s accounting activity. Except for some financial instruments, the financial statements are measured using historical cost. In case of impairment occurred on assets, provisions for impairment are provided for in accordance with related rules.

### **III. Statement of compliance**

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises. These financial statements present truly and completely the financial position as at 31 December 2013, the results of operations and the cash flows for the year then ended of the Company and the Group. In addition, the financial statements of the Company and the Group comply with, in all material respects, the disclosure requirements for financial statements and notes to the financial statements under “Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports” as revised by CSRC in 2010.

### **IV. Accounting policies and estimates**

#### **1. Accounting period**

The accounting period of the Group includes accounting year and interim accounting period. An interim period refers to a reporting period which is shorter than a full accounting year. The accounting year of the Group is the calendar year, i.e. from 1 January to 31 December of each year.

#### **2. Recording currency**

Renminbi (RMB) is the functional currency of the main economic environment in which the Company and its domestic subsidiaries operate. The Company and its domestic subsidiaries adopt Renminbi as the recording currency.

Except for the Swiss-based subsidiary Montres Chouriet SA (the “Swiss Company”), which is a subsidiary of FIYTA (Hong Kong) Limited (FIYTA Hong Kong), uses Swiss Franc as the recording currency according to the

main economic environment where the Swiss Company operated, all other subsidiaries outside the mainland China, including HARMONY World Watches International Limited (World Watches International), a subsidiary of Shenzhen HARMONY World Watches Center Co., Ltd (HARMONY Company), FIYTA Hong Kong and its subsidiary Station 68 Limited (Station 68) as well as Nature Art Limited and ProTop Limited, which are special purpose vehicles controlled by Station 68, use Hong Kong Dollar (HKD) as the recording currency.

The currency used in preparing the Group's financial statements is Renminbi.

### **3. Accounting treatment for business combinations**

Business combination refers to transactions or events that combine two or more separate enterprises and form one reporting entity. Business combinations are classified into business combinations involving enterprises under common control and business combinations involving enterprises not under common control.

#### **(1) Business combination involving entities under common control**

If the enterprises involved in a combination are subject to control of the same party or parties both before and after the combination, and that control is not temporary in nature, it is business combination under common control. The party who obtains control over other participating enterprises on the combination date is the combining party, and the other participating enterprises are combined parties in a business combination under common control. Combination date means the date on which the combining party actually obtains control over the combined parties.

Assets and liabilities that the combining party obtained are measured using book value of the combined party's accounts on combination date. Difference between book value of net assets the combining party obtained and book value of combination consideration paid (or the aggregate nominal amount of shares issued) is recognized in capital reserve (share premium). If the capital reserve (share premium) is insufficient to offset, retained earnings will be adjusted accordingly.

All direct expenses incurred by the acquirer in relation to the combination are included in the current profit or loss at the time such expenses incurred.

#### **(2) Business combinations involving entities not under common control**

If the enterprises involved in a combination are not subject to control of the same party or parties both before and after the combination, it is the business combination involving entities not under common control. The party who obtains control over the other participating enterprises on acquisition date is the acquirer, and the other participating enterprises are the acquiree in a business combination not under common control. The acquisition date is the date on which the acquirer actually obtains the control over the acquirees.

As for business combinations involving enterprises not under common control, combination cost includes assets paid, liabilities incurred or assumed, and the fair value of equity securities issued by the acquirer to obtain control over the acquiree on the acquisition date. Fees for auditing, legal service, evaluation and consultation, and other

administrative expenses incurred for the combination are recognized in profit or loss in the period in which such expenses incurred. Transaction costs incurred by the acquirer for issuing equity securities or debt securities as combination consideration are recognized in initial recognition amount of equity securities or debt securities. Contingent consideration, if any, is included in acquisition cost at its fair value on the acquisition date. If, within 12 months, new or further evidence revealed regarding conditions that already existed on acquisition date, the contingent consideration required to be adjusted, adjusting the goodwill arising from the acquisition accordingly. For acquisition that realized step by step through multiple transfer transactions, the equity of the acquiree held by the acquirer before the acquisition date are re-measured using fair value on the acquisition date. Any difference between the fair value and its carrying amount is recognized as investment income and transfer other comprehensive income related to this part of equity to investment gain in the period where the acquisition date falls. The acquisition cost is the aggregate of fair value of acquiree's equity held by the acquirer before the acquisition date and fair value of additional equity acquired on the acquisition date.

Acquisition cost incurred by the acquirer and identifiable net assets acquired in the acquisition are measured at fair value on the acquisition date. If the acquisition cost is greater than the fair value of the part of identifiable net assets acquired on the acquisition date, the difference is recognized as goodwill. If the acquisition cost is lesser than the fair value of the part of identifiable net assets acquired on the acquisition date, review the fair value of each identifiable asset, liability and contingent liability that acquired and the calculation of acquisition cost. If, after the review, the acquisition cost is still lesser than the fair value of the part of identifiable net assets acquired, the difference is recognized in profit or loss in corresponding period.

Deductible temporary differences that the acquirer obtained from the acquiree, which are not recognized on acquisition date due to the conditions of recognition as deferred tax assets are not fulfilled, are recognized as deferred tax assets and correspondingly deduct goodwill if new or further evidence shows, within 12 months after the acquisition date, that relevant conditions exist on the acquisition date and it is probable that the economic benefit arising from the deductible temporary differences on acquisition date can be realized. If the goodwill is insufficient to the deduction, the excess part is recognized in profit or loss in corresponding period. Deferred tax assets recognized in relation to acquisition that other than the circumstances mentioned above are recognized in profit or loss in corresponding period.

#### **4. Method of preparing consolidated financial statements**

##### **(1) Principles in determining the scope of the consolidation**

The scope of consolidation is determined on the basis of control. Control refers to the right that the Company is able to make decision on financial and operational policies of the invested company, and receiving benefits from the business activities conducted by the invested company. The scope of the consolidation includes the Company and all its subsidiaries. Subsidiary means enterprise or entity that is controlled by the Company.

## (2) Method of preparing consolidated financial statements

The Group begins to include a subsidiary in the scope of consolidation from the date that the Company acquires the net assets and effective control over the operation and business decisions of the subsidiary. A subsidiary is excluded out of the scope of the Group's consolidation from the date the Company loses effective control over it. For subsidiary that is disposed, the operating performance and cash flows before the disposal date are properly included in the consolidated income statement and consolidated cash flow statement. The opening balance of the consolidated balance sheet is not adjusted if the disposal occurs in the same period. The business performance and cash flows of the addition of subsidiary through combination involving entities not under common control after the acquisition date have been properly included in the consolidated income statement and consolidated cash flow statement, and no adjustments are made to the opening balance and comparative figures of the consolidated financial statements. For addition of subsidiary through combination involving entities under common control, the business performance and cash flows from the beginning of the period to the combination date are properly included in the consolidated income statement and consolidated cash flow statement, and the opening and comparative figures of the consolidated financial statements are adjusted at the same time.

If the accounting policies or accounting period adopted by the subsidiary are not in line with the Company, necessary adjustments are made to the financial statements of the subsidiary according to the Company's accounting policies and period when preparing consolidated financial statements. If the subsidiary is acquired through combinations involving entities not under common control, the adjustments are made based on the fair value of its identifiable net assets on the acquisition date.

All material intra-group current account balances, transactions and unrealized profits are offset when preparing the consolidated financial statements.

The part of subsidiary shareholders' equity and current period net profit or loss that do not attribute to the Company are presented separately under shareholders' equity and net profit in consolidated financial statements as minority shareholders' equity and minority shareholders' profit or loss respectively. Portion of subsidiaries' current net profit or loss attributable to minority shareholder's equity are presented under the title of "minority shareholders' profit or loss" under net profit in consolidated income statement. If subsidiary's losses that attributable to minority shareholders exceed the opening owners' equity attributable to minority shareholders, minority shareholders' equity is deducted.

If the Company loses control over a subsidiary due to partial disposal of equity investment or other reasons, the remaining equity is measured at fair value on the date when the control lost. The difference between the sum of consideration received for disposal of equity interest and the fair value of remaining equity interest less the net assets attributable to the Company calculated continuously since the purchase date based on shareholding percentage before disposal are recognized in investment gain in the period when the control lost. Other comprehensive income related to equity investment in the subsidiary is transferred to investment gain at the time

control lost. The remaining equity interests are measured subsequently according to “CAS No. 2 – Long-term Equity Investment” or “CAS No. 22 – Recognition and measurement of Financial Instrument”. See Note IV. 7 Financial instrument or Note IV. 10 Long-term equity investment for details.

## **5. Determination of cash and cash equivalents**

The Group's cash and cash equivalents include cash on hand, deposit that can be used for immediate payment, and Group's investments that are with characteristics of short term (generally matures in three months from the date of purchase), highly liquid, readily convertible to known amount of cash, and with insignificant risks of changes in value.

## **6. Foreign currency transactions and financial statements translation**

### **(1) Translation of foreign currency transactions**

Initial recognition of foreign currency transactions incurred by the Group are translated to recording currency using the spot exchange rate at the trading date (usually refers to middle rate of foreign exchange rate on that day published by the People's Bank of China). For foreign currency exchange transactions and transactions related to foreign currency exchange, they are translated into recording currency using actual exchange rate.

### **(2) Translation of monetary items and non-monetary items denominated in foreign currencies**

At the balance sheet date, monetary items denominated in foreign currencies are translated using the spot rate at the balance sheet date. Translation differences arising from the translation are recognized in current profit or loss except for capitalized exchange difference attributable to assets purchased or constructed, which can be capitalized, using foreign currency specified loan and amortized cost of available for sale monetary items denominated in foreign currency. The exchange difference arose from the two scenario mentioned above shall be treated under the principal of capitalizing of borrowing cost and charged to other comprehensive income respectively.

Non-monetary items denominated in foreign currencies that are measured using historical costs are still measured using recording currency translated at the spot rate at transaction date. Non-monetary items denominated in foreign currency which are measured using fair value are translated at spot rate of the day the fair value is determined. The differences between amount of recording currency after the translation and the original amount of recording currency are treated as changes in fair value (including exchange rate change) and are recognized in current profit or loss or recognized in capital reserves as other comprehensive income.

### **(3) Translation of financial statements prepared in foreign currencies**

In preparing of the consolidated financial statements involving overseas operations, if there is any foreign-currency monetary item constituting substantially net investment in overseas operation, the exchange difference arising from exchange rate variation is listed in recognized as “translation difference” under owners' equity in balance sheet. In case of disposal of overseas operation, it is charged to the profit and loss of the period.

Financial statements of foreign businesses that denominated in foreign currencies are translated to financial statements in RMB using following rules: asset and liability items in balance sheet are translated using the spot rate on balance sheet date; except for "undistributed profit", all other items in owners' equity are translated using the spot rate on the date the corresponding transactions occurred. Revenue and expenses items in income statement are translated using the average rate on the transaction date. The undistributed profit at the beginning of the year is the year end balance translated at the prior year. The undistributed profit at the year end is presented using translated items in profit distribution. Difference between the translated assets and sum of liabilities and owners' equity is recognized in other comprehensive income as translation differences and is presented separately under owners' equity in balance sheet. When disposing overseas operations and losing controls over the operations, relevant translation differences which are originally presented under owners' equity are charged to profit or loss entirely or proportionately according to percentage of disposal.

Cash flows denominated in foreign currency and cash flows of subsidiaries outside Mainland China are translated using the average exchange rate on the date when cash flows occur. The amount of cash changes due to exchange rate variations are recognized as adjustment item and presented in the cash flow statement separately. The balance at the beginning of the year and amount actually incurred prior year are presented using figures in prior year's translated financial statements.

## 7. Financial instruments

### (1) Determination of fair values for financial assets and financial liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If there is an active market for a financial instrument, the quoted price in the active market shall be used to establish the fair value of the financial instruments. Quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry association or pricing service agency etc... and represent prices used in actual market transactions on an arm's length basis. If no active market exists for a financial instrument, the Group establishes fair values by using valuation techniques. Valuation techniques include using the prices quoted in latest market transactions between knowledgeable, willing parties for reference, referencing to the current fair value of another instrument that is substantially the same in nature, discounted cash flow method and option pricing model, etc...

### (2) Classification, recognition and measurement of financial assets

Financial assets which are traded in conventional manner are recognized or derecognized on the transaction date. On initial recognition, financial assets are classified into fair value through profit or loss financial assets, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets. The financial assets are initially measured at fair value. For fair value through profit or loss financial assets, the transaction costs are directly recognized into current profit or loss. For financial assets under other categories, relevant transaction costs are included in their initial recognition amounts. Financial assets of the Group are mainly

receivables.

Receivables refer to non-derivative financial assets with no quoted price in active markets and with fixed or determinable recoverable amounts. Financial assets that are classified as receivables by the Group include accounts receivable and other receivables.

Receivable are measured subsequently at the amortized cost by using the effective interest rate method. Gain or losses incurred at the time of de-recognition, impairment or amortization are charged to current profit or loss.

### (3) Impairment of Finance Assets

The Group examines the book value of other financial assets at each balance sheet date, and if there are any objective evidences indicating impairment of financial assets, impairment provision is provided.

For impairment provision of receivables, please refer to Notes IV. 8.

### (4) Recognition and measurement of transfer of financial assets

Financial asset is derecognized if one of the following conditions is satisfied: (a) the contractual rights of receiving cash flows from the financial asset is terminated; (b) financial asset has been transferred, and substantially all risks and reward associated with the ownership of the financial asset have been transferred to transferee; (c) the financial asset has been transferred. The enterprise neither transfers nor retains substantially all the risks and rewards associated with the ownership of the financial asset, but it has not retained control over the financial asset.

If the enterprise neither transfers nor retains substantially all the risks and rewards associated with the ownership of a financial asset, and it retains control over the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizing associated liability. The extent of continuing involvement in the transferred asset is the extent to which the enterprise is exposed to risks of changes in the value of the transferred asset.

For an entire transfer of a financial asset that satisfies the de-recognition criteria, the difference between the carrying amount of the financial asset transferred and the sum of the consideration received from the transfer and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in current profit or loss.

If a part of the transferred financial asset qualifies for de-recognition, the carrying amount of the transferred financial asset in its entirety shall be allocated between the part that is derecognized and the remaining portion proportionately based on the relative fair value of each part. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss attributable to it that had been recognized in other comprehensive income is recognized in current profit or loss.

### (5) Classification and measurement of financial liabilities



On initial recognition, financial liabilities are classified in financial liabilities at fair value through profit or loss and other financial liabilities. A financial liability is initially recognized at fair value. Transaction costs for financial liability at fair value through profit or loss are charged to current profit or loss. Transaction costs for other financial liabilities are included in their initial recognition amounts. The Group's financial liabilities are mainly other financial liabilities and financial guarantee contracts.

(a) Other financial liabilities

Other financial liabilities are measured subsequently at amortized cost using effective interest rate method. Gain or losses arising from derecognizing or amortization are charged to current profit or loss.

(b) Financial guarantee contracts

These contracts are not classified as financial liabilities at fair value through profit or loss. It is initially measured at fair value and subsequently measured at the higher of the amount determined according to "CAS No. 13 – Contingent Events" and the initial amount less accumulated amortization recognized according to "CAS No. 14 – Revenue".

(6) De-recognition of financial liabilities

A financial liability (or part of it) can only be derecognized only when the present obligations are fully (or partly) discharged. If an agreement between the Group (the debtor) and creditor indicates that the present financial liability are to be replaced with a new financial liability which has substantially different terms compare with the present financial liability, the present financial liability is derecognized and the new financial liability is recognized. When a financial liability is entirely or partly derecognized, the difference between the carrying amount of the derecognized financial liability and the consideration paid (including any non-cash assets transferred or new financial liabilities undertaken) is charged to current profit or loss.

(7) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities can be presented in the balance sheet using net figure after offsetting only when the Group has the legal rights to offset the financial assets and liabilities that are already recognized and plans to execute such rights, and the Group intends to settle corresponding financial assets and liabilities on net basis or to realize the financial asset and settle the financial liability simultaneously. Other than situations mentioned above, financial assets and liabilities are presented separately in balance sheet and cannot be offset.

(8) Equity Instrument

An equity instrument is a contract that evidences any residual interest in the assets of the Group after deducting all of its liabilities. The equity instrument will increase the owners' equity by deducting transaction costs from consideration received for the issuance of the equity instrument.

All kinds of distributions to the owners of equity instrument (excluding stock dividends) decrease the owners' equity. The Group does not recognize fair value changes for equity instrument.

## 8. Receivables

Receivables include accounts receivable and other receivables.

### (1) Recognition principle for bad debts provision

The Group examines, at the balance sheet date, the carrying amounts of receivables and impairment provision is recognized if following objective evidences that indicating impairment to receivables occurs: (a) severe financial difficulties of the debtor; (b) a breach of contract by the debtor (such as a default or breach of contract in interest or principle repayments); (c) it is probable that the debtor will be bankrupted or conduct other financial reorganization; and (d) other objective evidences indicating there is an impairment of the receivables.

### (2) Method of recognizing bad debt provision

(a) Determination and providing bad debt provision for receivables which are individually significant in amount and provided for bad debt individually

The Group identifies single accounts receivable item that above RMB800,000.00 and single other receivable item that above RMB500,000.00 as receivables that individually significant in amount.

The Group conducts impairment test on individually significant receivables separately. Financial assets that are not impaired after standalone impairment tests will be tested again by including it in a portfolio of financial assets with similar credit risk characteristics. Receivables that have been impaired in standalone test will not be tested again by including it in a portfolio of financial assets with similar credit risk characteristics.

(b) Determination of receivables that recognize bad debt provision under credit risk portfolio and bad debt provision recognition.

#### i. Basis of determining portfolio with similar credit risk characteristics

Receivables that are not individually significant in amount and receivables that are individually significant in amount but not impaired after individual impairment test are grouped into different asset portfolios based on similarity and correlation of the credit risk characteristics. These credit risk characteristics reflect the ability of the debtor to repay all amounts due according to terms of contracts related to the assets under test and are in connection with estimation of future cash flows expected to be generated by these assets.

#### Basis of portfolio determination

Item	Basis of portfolio determination
Portfolio of aging	Based on aging of receivables
Portfolio of specific accounts	Receivables from petty cash advanced to employees, from subsidiaries of the Company and sales revenue between the last settlement date with the department store and the balance sheet date

#### ii. Recognizing bad debt provision based on credit risk portfolio

If the impairment test is carried out for a portfolio of assets, the amount of bad debt provision is recognized based on the structure of the portfolio and similar credit risk characteristics (the ability of repayment by the debtor

according to contract terms) by assessing historical experience on assets impairment with similar credit risk characteristics, current economic condition, and losses that are already exist in the portfolio.

Method of recognizing bad debt provision for different portfolios

Item	Method
Portfolio of aging	Analyzing the aging of receivables
Portfolio of specific accounts	No bad debt provision is recognized as the risk of impairment does not exist according to its credit risk characteristics

i) Recognizing bad debt provision based on aging analysis method within the portfolio

Aging	Percentage of provision recognized for accounts receivable (%)	Percentage of provision recognized for other receivables (%)
Within 1 year (inclusive)	5	5
1-2 years (inclusive)	10	10
2-3 years (inclusive)	30	30
Above 3 years	50	50

ii) Recognizing bad debt provision using other method within the portfolio

Name of portfolio	Percentage of provision recognized for accounts receivable (%)	Percentage of provision recognized for other receivables (%)
Portfolio of specific accounts	-	-

Based on historical experience, the Group's receivables from petty cash advanced to employees, from subsidiaries of the Company and sales revenue between the last settlement date of the same department store and the balance sheet date are with high recoverability and low possibility of incurring bad debt, as a result, no bad debt provisions are provided for such receivables.

(c) Receivables that are insignificant in amount individually but recognize bad debt provision individually

The Group conducts impairment test to receivables that insignificant in amount individually but with the following characteristics: receivables that involving dispute or legal case, arbitration with the other party; obvious indicators show that it is probable that the debtor is unable to fulfil the repayment obligation. Standalone impairment test is carried out for this kind of receivables. If any objective evidence indicate that the receivables impaired, impairment losses are recognized based on the difference between the carrying amount and the present value of estimated future cash flows. Bad debt provision is recognized accordingly.

(3) Reversal of bad debt provision

If, subsequent to the recognition of an impairment loss on a receivable, there are objective evidences of a recovery in value of the receivable and the recovery is related objectively to events occurred after the impairment was recognized, the impairment loss recognized previously is reversed and recognized in profit or loss. The carrying amount after the reversal shall not exceed the amortized cost of the receivable on the reversal date as if there is no impairment previously.

## 9. Inventory

### (1) Classification of inventory

Inventory mainly includes raw material, work-in-process and stored goods.

### (2) Costing method of acquiring and delivering of inventory

The inventory is valued using actual cost when it is acquired. The cost of inventory includes cost of purchase, manufacturing cost and other costs. Costing methods used for inventory usage and shipment include: weighted average costing (for stored goods of watches with FIYTA brand name), specific identification method (for stored goods of branded watches), and first-in-first-out method (for raw material for FIYTA watches).

### (3) Determination of net realizable value of the inventory and method of recognizing impairment provision

Net realizable value (NRV) equals to estimated selling price less estimated costs of completion, estimated selling costs and related taxes in the ordinary course of business. The determination of net realizable value of the inventory is based on reliable evidence and taking into consideration of the intents of holding the inventory and impacts of events after the balances sheet date. In particular: (a) the NRV of inventories that are available for sale such as finished goods and materials held for trading are determined using the estimated selling price less estimated selling expenses and related taxes if the business is in the ordinary course of operation; (b) the NRV of materials that need to be processed are determined using estimated selling price of finished goods which is manufactured from the material less estimated cost of completion, estimated selling expenses and related taxes if the business is in the ordinary course of operation.

The Company recognizes inventory impairment provision for FIYTA brand watches based on models.

Impairment provisions for branded watches are recognized by specific item.

Impairment provisions for raw materials of FIYTA watches are recognized by categories based on terminal selling status of FIYTA finished watches taking into considerations of the exchangeability of the spare parts and the special usage of materials.

On balance sheet date, inventory is measured at lower of cost and NRV. If the NRV is lower than cost, impairment provision is recognized.

If, after the impairment provision is recognized, the influence conditions are no longer exist and as a result, the NRV of the inventory is higher than its carrying amount, the impairment provision recognized previously can be

reversed. The amount reversed is to be recognized in current profit or loss.

(4) The inventory system is perpetual inventory system

(5) Amortization of low-value consumables and packaging material

The low-value consumables and packaging material are amortized using one-off method at the time it is used.

## 10. Long-term equity investment

### (1) Determination of investment cost

If the long-term equity investment was originated from business combination involving entities under common control, the initial investment cost is the acquired portion of the carrying amount of the combined party's owner equity on the combination date. If the long-term equity investment was originated from business combination involving entities not under common control, the acquisition cost is the aggregate of assets paid, liabilities incurred or undertook and fair value of equity securities issued by the acquirer. Agent fees incurred by the acquirer for the acquisition such as audit, legal service, and valuation and consultation fees, and other related administration expenses are charged to current profit or loss at the time such expenses incurred. Transaction cost incurred for issuing equity securities or debt securities, which are used as considerations for the combination, are included in the initial recognition amount of the equity securities or debt securities.

Equity investments that other than the kind originated from business combinations are measured at cost initially. The investment cost differs based on ways of acquiring the long-term equity investment. It can be determined based on cash consideration actually paid by the Group, fair value of equity securities issued by the Group, value stimulated in investment contract or agreement reached, fair value or carrying amount of assets that is exchanged in a non-monetary asset transfer transaction, or the fair value of the long-term equity investment itself. Expenses that directly related to the acquisition of the long-term equity investment, taxes and other necessary expenditure are included in the investment cost.

### (2) Subsequent measurement and recognition of gain or losses

Cost method is used for measurement of long-term equity investment if there is no common control with or significant influence to the invested entity, and there is no quotation in an active market and the fair value cannot be measured reliable. Equity method is used for measurement of long-term equity investment if there is common control with or significant influence to the invested entity. If a long-term equity investment that does not involving control or joint control or significant influence to the invested entity and its fair value can be measured reliably, it is treated as available for sale financial assets.

Besides, the Company adopts cost method to measure long-term equity investment if it can implement control over the invested entity in its financial statements.

#### (a) Long-term equity investments that are measured using cost method

Under cost method, long-term equity investment is measured at initial investment cost. Current period investment

gain or losses are recognized according to the cash dividend or profit distribution that is announced by the invested entity, except for cash dividend or profit distribution that is already announced but not distributed which is included in the consideration that actually paid.

(b) Long-term equity investments that are measured using equity method

If the initial investment cost of a long-term equity investment, which is measured using equity method, is greater than the portion of fair value of the identifiable net assets of the invested entity attributable to the Company, the initial investment cost of the long-term equity investment is not adjusted. Otherwise, the difference is charged to current profit or loss, and the cost of long-term equity investment is adjusted accordingly.

Under equity method measurement, current period investment gain or losses are the net profit or losses, which are realized by the invested entity in the same year, that attributable to the Company. The portion of net profit or loss that attributable to the Company is determined based on the fair value of the identifiable assets of the invested entity and after adjusting invested entity's net profit according to the accounting policies and accounting period of the Group. For unrealized gain or losses from internal transactions between the Group and its associated enterprises and joint invested enterprises, the part attributable to the Group, calculated based on percentage of shareholding, is offset and, on this basis, the investment gain or losses are calculated. However, for unrealized internal transaction losses between the Group and invested entities, the impairment loss attributable to assets transfer is not offset according to "CAS No. 8 – Asset Impairment". For other comprehensive income of invested entity, the Company will adjust carrying amount of long-term equity investment and recognizing other comprehensive income in capital reserves accordingly.

The invested entity's net loss attributable to the Group reduces the carrying amount of long-term equity investment and other long-term equities that in nature of net investment to the invested entity to the extent of zero. If the Group undertakes obligations of the invested entity's extra losses, provision is to be recognized according to liabilities estimated, and charge to investment loss in current period. Net profit of the invested entity that is realized in subsequent period, the Group offset the unrealized losses using the profit attributable to the Group. After all losses are offset, resume recognizing gains attributable to the Group.

(c) Purchasing minority equity

When preparing consolidated financial statements, the difference, resulted from addition of long-term equity investment and shares of net assets calculated continuously since acquisition date (or combination date) according to new shareholding, is adjusted to capital reserve. If the capital reserve is insufficient to offset, adjusting retained earnings.

(d) Disposal of long-term equity investment

In consolidated financial statements, the parent company can dispose part of the long-term equity investment to a subsidiary given that the parent does not lose control over the subsidiary. The difference between consideration received for the disposal and the part of net assets disposed attributable to the parent is recognized in owners'

equity. If the parent company loses control over a subsidiary because of long-term equity investment disposal, the accounting treatment shall refer to accounting policies stated in Note IV. 4 (2) – “Preparing consolidated financial statements”.

For long-term equity investment disposal other than situations mentioned above, the difference of carrying amount of disposed equity and the consideration actually received is charged to current profit or loss. If the long-term equity investment is measured using equity method, the comprehensive income that originally recognized in owners' equity shall be charged to current profit or loss proportionately at the disposal. Residual equity is recognized as long-term equity investment or other related financial assets at its carrying amount, and subsequent measurement follows accounting policies of long-term equity investment or financial assets stated in the notes. If the measurement of residual equity changes from cost method to equity method, retrospective adjustment is needed according to related rules.

### (3) Basis of determining joint control over or significant influence to the invested entity

Control means a company has the ability to establish an enterprise's financial and business policies, and can obtain benefit from the operation of the enterprise. Joint control means jointly control of a certain business activity according to the agreement of contract. It exists only when the agreement on important accounting and business policies that needs to be reached between investors who share the control rights. Significant influence means participation in decision making to a company's finance and business policies, but could not control or jointly control with other parties to the policy making. In determining whether the Company can control or implement significant influence on invested entity, potential voting factors, such as convertible debt and options and warrants that can be converted or executed in current period held by investors and other parties, have been taken into consideration.

### (4) Impairment test and recognizing impairment provision

The Group checks whether there are any indicators of impairment to the long-term equity investment on each balance sheet date. If it indicates impairment to the assets, recoverable amount will be estimated. If the recoverable amount of the assets is lower than its carrying amount, impairment provision is recognized based on the difference and charged to current profit or loss.

Impairment loss of long-term equity investment is not allowed to reverse in subsequent accounting period.

## 11. Investment property

Investment property is property held to earn rentals or for capital appreciation or both. It includes buildings that are already leased out.

An investment property is measured initially at cost. If it is probable that the benefit related to subsequent expenditures incurred for an investment property will flow into the Company and that the cost can be measured reliably, the expenditure is included in the cost of investment property. Other subsequent expenditures are

charged to profit or loss in the period in which they are incurred.

The Group adopts cost method for subsequent measurement to investment property. Depreciation or amortization policy for investment properties are the same as the one for plants and buildings or land use rights.

Please refer to Note IV. 17 "Impairment of non-current non-financial assets" for details of impairment test and impairment provision recognition for investment property.

When the usage of the property changed from investment property to self-use property, the property is transferred from investment property to fixed asset or intangible asset on the changing date. If the usage of the property changes from self-use to earn rental or capital appreciation, the property is switched to investment property from fixed asset or intangible asset. If it switched to investment property that measured using cost method, it is recognized using the carrying amount before the switch. If it switched to investment property that measured using fair value method, it is recognized using the fair value on the switching date.

The investment property is derecognized when it is disposed or ceased usage permanently and it is estimated that no benefit can be obtained from the disposal. Disposal income arising from selling, transfer, disposing and damaging the investment property, less its carrying amount and taxes related to the disposal, is recognized in profit or loss.

## 12. Fixed asset

### (1) Recognition principles

Fixed assets refer to tangible assets that are held for the purpose of goods production, providing services, lease, or for administrative purposes with useful life of more than one accounting year.

### (2) Depreciation method

Fixed asset is recognized initially at cost taking into consideration of estimated disposal expenses. The fixed asset is depreciated on straight-line basis over its estimated useful life from the next month after it reached estimated useful condition. The useful lives, estimated residual ratios and annual depreciation rates for each category of fixed assets are as follows:

Categories	Estimated useful lives (year)	Estimated net residual value ratios (%)	Annual depreciation rates (%)
Plants and buildings	20-35	5	2.7-4.8
Machinery equipment	10	5-10	9-9.5
Transportation vehicles	5	5	19
Electronics devices	5	5	19
Other equipment	5	5	19

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from



disposal of the asset, after deducting the estimated costs of disposal, if the asset's useful life is passed and in the condition expected at the end of its useful life.

(3) Impairment test and impairment provision recognition for fixed asset

For impairment test and impairment provision recognition for fixed asset, please refer to Note IV. 17 "Impairment of non-current non-financial asset".

(4) Others

Subsequent expenditure in relation to fixed asset is recognized in the cost of the fixed asset and derecognizing the carrying amount of the part replaced if it is probable that the economic benefit related to the fixed asset will flow in the entity and the cost can be measured reliably. Subsequent expenditures other than this are charged to current profit or loss.

When a fixed asset is sold, transferred, retired or damaged, the disposal proceed net of the carrying amount and related taxes is charged in profit or loss for the current period.

The Group conduct reviews to the useful life, estimated net residual rate and depreciation method at least at each end of the accounting year. Any changes will be treated as changes in accounting estimates.

### 13. Construction in progress

Construction in progress is measured at actual project expenditure which includes construction expenditures, capitalized borrowing costs before the project reaches estimated useful condition and other related expenses. Construction in progress is transferred to fixed asset when the asset reaches its estimated useful condition.

For impairment test and impairment provision recognition for construction in progress, please refer to Note IV. 17 "Impairment of non-current non-financial asset".

### 14. Borrowing cost

Borrowing cost includes loan interest, associated expenses incurred in connection with the arrangement of borrowings and exchange difference arising from foreign currency loans. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset can be capitalized starting from the time the necessary acquisition or production for bringing the asset to its estimated useful or sellable condition started, and given that the capital expenditure and borrowing cost have been incurred. The capitalization stops when the asset reaches its estimated useful or sellable conditions. Other borrowing costs are charged to profit or loss at the time they are incurred.

The interest expenses actually incurred current-period special borrowing less unused borrowing funds in bank interest earned or investment income on the temporary investment of those funds, the above mentioned amount shall be capitalized. The weighted average asset disbursement of general borrowing multiplies the capitalization rate to determine the amount of capitalization based on the accumulative asset disbursements of special loans. The capitalization rate is the weighted average interest rate of the general borrowing.

During the capitalization period, exchange differences on foreign currency borrowings are all capitalized; Exchange differences on foreign currency borrowings are generally included into current profit or loss.

The assets which have qualified condition of capitalization is the assets necessarily take a substantial period of time after the acquisition, construction or production activities in order to achieve their intended use or sale of fixed assets, investment property, inventories and other assets.

If the process of acquiring, constructing or producing of the assets that are capable for capitalization is interrupted abnormally and the interruption lasts more than three months, the capitalization of borrowing costs shall be suspended until the acquisition, construction or production resumes.

## 15. Intangible assets

### (1) Intangible assets

An Intangible asset is the identifiable non-monetary asset without physical substances that is owned or controlled by the Group.

An intangible asset is initially measured at its cost. Expenditures related to the intangible asset are included in its cost if it is probable that the related economic benefit will flow into the Group and the cost can be measured reliably. Other expenditures apart from this will be charged to profit or loss in corresponding period at the time it incurred.

Land use right is generally accounted for as intangible asset. When the plants or buildings are constructed by the Group, expenditures on the land use right and on the buildings shall be recognized as the intangible asset and the fixed asset respectively. When the plants or buildings are purchased, the consideration paid shall be allocated between the land use right and the buildings. If it can be allocated reasonably, recognize entirely as fixed assets.

An intangible asset with a finite useful life shall be amortized by using the straight-line method over its estimated useful life when it is available for use. The depreciable amount of an intangible asset is its cost less estimated residual value and impairment provision. An intangible asset with an indefinite useful life is not amortized.

For an intangible asset with a finite useful life, its useful life and amortize method are reviewed at the end of each accounting period. Any changes will be treated under changes in accounting estimates. Besides, the useful life of the intangible assets with indefinite useful life will be reviewed at the end of each accounting period. If there is evidence indicating that it is foreseeable that the period during which the economic benefit associated with the asset would flow into the entity, its useful life will be estimated and the asset will be amortized in accordance to the amortization policies applicable for an intangible asset with finite useful life.

### (2) Research and development expenditure

The Group's expenditure on internal research and development projects are classified into expenditure on the research phase and expenditure on the development phase.

Expenditure on the research phase is recognized in profit or loss in the period in which it is incurred.

Expenditure on the development phase is capitalized and recognized as intangible asset only when all of the following conditions are satisfied:

- (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale;
  - (b) the intention to complete the intangible asset and use or sell it;
  - (c) the intangible asset will generate economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
  - (d) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
  - (e) the expenditure attributable to the intangible asset during its development phase can be measured reliably.
- Expenditures on the development phase, failing to meet the above conditions, are recognized in profit or loss in the period it is incurred.

Expenditures which cannot be divided into expenditures on research phase and expenditures on development phase are charged entirely in current profit or loss.

(3) Impairment test and impairment provision recognition for intangible assets

For impairment test and impairment provision recognition for intangible asset, please refer to Note IV. 17 "Impairment of non-current non-financial asset".

## 16. Long-term deferred expenses

Long-term deferred expenses refer to expenditures which are incurred but shall be expensed over the beneficiary period of more than one year. Long-term deferred expenses shall be amortized on straight-line basis over its beneficiary period.

## 17. Impairment of non-current non-financial assets

The Group assesses, on balance sheet date, whether there are indicators for impairment to fixed assets, construction in process, intangible assets with finite useful life, investment property measured at cost, and long-term equity investment to subsidiaries, joint ventured companies and associated companies. If there are any indicators of impairment, recoverable amount is estimated and impairment test is conducted. Impairment tests are conducted each year to goodwill, intangible assets that with indefinite useful life and intangible assets that have not reached its useful condition despite whether there is indicators of impairment.

If the recoverable amount of an asset is less than its carrying amount in the impairment test, provision for impairment shall be made for the difference and recognized as an impairment loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The fair value of an asset is determined according to the price in a sale agreement in an arm's length transaction. If there is no sale agreement but an active market for the asset, the fair value shall be

determined according to the current bid price. If there is no sale agreement or active market for the asset, the fair value shall be based on the best information available. Costs of disposal include legal costs related to the disposal of the asset, related taxes, cost of removing the asset and direct cost to bring the asset into its condition of sale. The present value of expected future cash flows of an asset shall be determined by estimating the future cash flows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to those future cash flows. Provision for impairment shall be made and recognized on an individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Company shall determine the recoverable amount of the asset group to which the asset belongs. An asset group is the minimum group of assets which can generate cash flows independently.

When conducting impairment test on goodwill, which is presented separately in balance sheet, the carrying amount of goodwill will be allocated to asset group or combination of asset group which are expected to enjoy benefit from the synergy effect in a business combination. If the test results indicate that the recoverable amount of the asset group or combination of asset group, which consist goodwill allocated, is lower than its carrying amount, impairment loss is recognized accordingly. The impairment loss reduces the carrying amount of goodwill that allocated to the asset group or combination of asset group. If the goodwill is insufficient to deduct, then offsetting other assets within the asset group or combination of asset group proportionately based on the weight of the carrying amount of assets other than goodwill in the asset group or combination of group.

Once an impairment loss is recognized, it shall not be reversed in subsequent periods.

## 18. Provisions

A provision is recognized when obligation related to contingencies satisfies following condition: (1) the obligation is a present obligation of the Group; (2) it is probable that an outflow of economic benefits will be required to settle the obligation; and (3) the amount of the obligation can be measured reliably.

At the balance sheet date, a provision shall be initially measured at the best estimate of the expenditure required to settle the related present obligation, taking the risks, uncertainties and time value of money that related to the contingencies into consideration.

When all or part of the expenditure that needed for settling a provision is expected to be reimbursed by a third party, the reimbursement shall be recognized as an asset separately only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the carrying amount of the provision.

## 19. Revenue

### (1) Revenue from sale of goods

Revenue from the sale of goods shall be recognized only when all of the following conditions are satisfied: (a) significant risk and rewards of ownership of the goods have been transferred to the buyer; (b) the seller retains

neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the associated economic benefits will flow to the seller, and (e) the associated costs incurred or to be incurred can be measured reliably.

(2) Revenue from rendering of service

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction are recognized using the percentage of completion method on balance sheet date. The percentage of completion is calculated based on the proportion of services performed to date to the total volume of services to be performed.

The outcome of a transaction involving the rendering of services can be estimated reliably when all of the following conditions are satisfied: (a) the amount of revenue can be measured reliably; (b) it is probable that the associated economic benefits will flow to the entity; (c) the percentage of completion can be measured reliably; and (d) the costs incurred and to be incurred for the transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognized to the extent of costs incurred and expected to be recovered. Costs of service provided are charged to the current profit or loss as service costs. If the costs incurred are not expected to be recoverable, no revenue is recognized.

(3) Revenue from rendering usage rights

The revenue is recognized on accrual basis and based on related contracts or agreements.

(4) Interest income

The interest income shall be calculated based on the tenure of the Group's monetary funds used by others and the actual interest rates used.

(5) Revenue from property leasing

The amount of revenue from property leasing are recognized when the rentals are collected or evidence of receipt of payments are obtained in accordance with the tenure (consider rental-free period, if any) and rental stated in the leasing contract or agreement.

## 20. Government grants

Government grants are monetary assets or non-monetary assets obtained by the Group from the government free of charge. It does not include capital contributions from the government as an owner. Government grants are classified into government grants related to assets and government grants related to income. If a government grant is in form of monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of non-monetary asset, is measured at fair value. If the fair value cannot be measured reliably, it is measured at a nominal amount and recognize directly in the current profit or loss.

A government grant related to asset is recognized as deferred income, and evenly amortized and charged to profit or loss over its useful life. If a government grant related to income is used to compensate related expenses and losses in subsequent periods, it is recognized as deferred income. If it is used to compensate related expenses and losses that are already incurred, it is charged to current profit or loss directly.

If a government grant already recognized needs to be repaid, the carrying amount of related deferred income, if any, is to be reduced. Any excess are charged to current profit or loss. If there is no deferred income, the repayment is charged to current profit or loss directly.

## **21. Deferred tax asset / deferred tax liability**

### **(1) Current period corporate income tax**

At the balance sheet date, current income tax liabilities (or assets) for the current period and prior periods shall be measured at the amount expected to be paid (refunded) according to the requirement of taxation laws. The taxable income used to calculate current period income tax expenses is calculated by making corresponding adjustments to current period profit before tax in accordance with relevant taxation regulations.

### **(2) Deferred tax asset and deferred tax liability**

Temporary differences can be recognized as deferred tax asset and deferred tax liability using balance sheet liability method. Temporary differences arise from: the difference between the carrying amount and tax base of certain assets and liabilities; the difference between the carrying amount and the tax base of an item which are not recognized as assets and liabilities but its tax base can be determined according to relevant taxation laws.

A deferred tax liability shall not be recognized for the taxable temporary differences arising from the following events: (a) the initial recognition of goodwill; (b) the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: (i) the transaction is not a business combination; (ii) at the time of the transaction, it affects neither accounting profit nor taxable profit (or deductible loss). For taxable temporary differences associated with investment in subsidiaries, associates and interests in jointly controlled enterprises, a deferred tax liability shall not be recognized if both of the following conditions are satisfied: (a) the Group is able to control the timing of the reversal of the temporary differences; and (b) it is probable that the temporary difference will not reverse in the foreseeable future. Except for exceptions mentioned above, the Group recognizes all other taxable temporary difference as deferred tax liability.

A deferred tax asset shall not be recognized for the deductible temporary differences associated with the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: (a) the transaction is not a business combination; (b) at the time of the transaction, it affects neither accounting profit nor taxable profit (or deductible loss). For deductible temporary differences associated with investment in subsidiaries, associates and interests in jointly controlled enterprises, a deferred tax asset shall not be recognized if one of the following conditions is satisfied: (a) it is probable that the temporary difference will not reverse in the foreseeable future; and (b) taxable profits will not be available in the future, against which the temporary difference can be

utilized. Except for exceptions mentioned above, the Group recognizes deductible temporary difference as deferred tax asset to the extent of the future taxable profit which is probably achieved by the Group.

A deferred tax asset shall be recognized for the carry forward of unused deductible losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible losses and tax credits can be utilized.

At the balance sheet date, deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirement of tax laws.

At the balance sheet date, the carrying amount of a deferred tax asset shall be reviewed. The Company shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available in future periods to allow the benefit of the deferred tax asset to be utilized. Any such reduction in amount shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

### (3) Corporate income tax

The corporate income tax includes current period income tax and deferred income tax.

The current income tax and deferred income tax shall be recognized in the current profit or loss except for: (a) the income tax arising from events or transactions which are recognized in the comprehensive income or owners' equity are recognized in the comprehensive income or owners' equity accordingly; and (b) the income tax arising from business combinations which are adjusted to the carrying amount of goodwill.

### (4) Offsetting of income tax

When legal right to netting settlement is owned, net settlement or intent to acquire the assets and settle the liabilities happen simultaneously, the Group had net current tax assets against current tax liabilities are netting presentation after offset.

When the legal right to offset current tax assets against current tax liabilities is owned and the deferred tax assets and deferred tax liabilities relate to the same taxation authority on the same taxable income levied by or related to different taxable entities, but within the reverse period of significant amounts of deferred tax assets and liabilities in each future period, and the tax payer's intention to offset current tax assets and liabilities or both to obtain assets or repay debts, the deferred income tax and deferred tax assets and liabilities of the Group to netting presentation after offset.

## 22. Leasing

A finance lease is a lease that transfers substantially all the risks and rewards associated with the ownership of an asset. Title of the asset may or may not eventually be transferred. An operating lease is a lease other than a finance lease. The Group's lease is operating lease.

(1) Accounting treatment for the Group as lessee under operating leases

Lease payments under an operating lease are recognized as cost of relevant assets or charged to profit or loss for the current period on straight-line basis over the lease term. Initial direct costs incurred are charged to profit or loss for the current period directly. Contingent rentals are charged to profit or loss in the period in which they are actually incurred.

(2) Accounting treatment for the Group as lessor under operating leases

Lease receipts under an operating lease are recognized by the in the current profit or loss on a straight-line basis over the lease term. Significant initial direct costs are capitalized when they are incurred, and are recognized in profit or loss over the lease term on the basis on which the lease income is recognized. Insignificant initial direct costs shall be charged to the current profit or loss directly. Contingent rentals are charged to profit or loss in the period in which they are actually incurred.

## 23. Employee remuneration

In the accounting period in which an employee has rendered service to the Group, the Group recognizes the employee benefits payable as a liability.

Expenditures paid by the Group for the social security system set up the government, such as basic pension insurance, medical insurance, housing funds and others, are recognized in the costs of related assets or the current profit or loss.

When the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision shall be recognized for the compensation arising from termination of employment relationship with employees, with a corresponding charge to the profit or loss for the current accounting period, when both of the following conditions are satisfied: (a) the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately; (b) the Group cannot unilaterally withdraw from the termination plan or the redundancy offer.

The earlier retirement plan shall be accounted for in accordance with the accounting principles for compensation for termination of employment. The salaries or wages and the social contributions to be paid for the employees who retire before schedule from the date on which the employees stop rendering services to the Company to the scheduled retirement date, shall be recognized (as compensation for termination of employment) in the current profit or loss if the recognition principles for provisions are satisfied.

## 24. Significant accounting judgments and estimates

When adopting the accounting policies, the Group needs to make judgments, estimates and assumptions for the carrying amount of items which are presented in financial statements and cannot be measured accurately due to internal uncertainties of business. The judgments, estimates and assumptions that are made according to



historical experience of the management and with consideration of other relevant factors will have effects on the reported amounts of revenue, expenses, assets as well as liabilities and the disclosure of contingent liabilities at the balance sheet date. The uncertainties of these estimates will probably result in significant adjustments on the carrying amounts of assets or liabilities which will be affected by those judgments, estimates and assumptions in future accounting periods.

The judgments, estimates and assumptions are reviewed by the Group periodically on going concern basis. If the changes in accounting estimates affect current period only, the amounts affected are recognized in current period. If the change affects both current and future periods, the amounts affected are recognized in the current accounting period as well as subsequent accounting periods.

At the balance sheet date, significant areas that require the Group to make judgments, estimates and assumptions to the amounts of financial statements items are as follows:

(1) Bad debt provision recognition

The allowance method is adopted by the Group to account for losses on bad debts in accordance with the accounting policies for receivables. Impairment of accounts receivable is made based on estimation of its recoverability, which requires the management to make judgments and estimates. The difference between the actual outcome and the estimates will have effects on the carrying amounts of accounts receivable and on provision or reversal of the provision for bad debts of the accounting period in which the estimates will be changed.

(2) Recognition of inventory impairment provision for branded watches

For the brand watches in distribution with stock aging of over 3 years, the Group's management believes it is with an up going trend for its price and the sales of branded watches is promising in the future. The Group's management checked the branded watches for its NRV at the end of the accounting period, and believed that the full amount of value of branded watches can be recovered even in the case that the stock aging of the branded watches increase. If there is any evidence indicated that the NRV is lower than its carrying amount, adjustments will be made in the period when such indicators appear. Impairment to branded watches requires the management to make judgements and estimation on the basis of obtaining reliable evidences and taking consideration of the intention of holding the branded watches and events after the balance sheet date. The difference between actual outcome and the previous estimation will affect the carrying amount of the inventory and recognizing or reversal of inventory impairment provision.

The Group's management believes the method of recognizing and reviewing impairment provision for branded watches is appropriate.

(3) Impairment provision for non-current non-financial assets

At the balance sheet date, the Group judges whether there are indicators of impairment for non-current assets

other than financial assets. For an intangible asset with an indefinite useful life except for annually impairment test, an impairment test will be conducted if there are any indicators of impairment occur. For non-current assets other than financial assets, an impairment test shall be made if there are evidences indicating the carrying amounts cannot be recovered in full amount.

An asset or asset group is impaired when its carrying amount is higher than its recoverable amount (i.e. the higher of its fair value less the disposal expenses and the present value of the estimated future cash flows).

The net amount of fair value less the disposal expenses are determined with reference to the quoted price of similar assets in a sales agreement in an arm's length transaction or an observable market price less incremental costs directly attributable to disposal of the asset.

When estimating the present value of future cash flows, significant judgments are involved to the production output, selling price, relevant business costs of the asset (or asset group) and the discount rate adopted in calculating the present value. In estimating the recoverable amount, the Group will adopt all information available, such as forecasts for the production output, the selling price and relevant business costs, which are made according to reasonable and supportive assumptions.

The Group conducts impairment test to goodwill at least once a year. This requires estimating the present value of future cash flows of asset group or combination of asset group to which goodwill has been allocated. In estimating the present value of future cash flows, the Group needs estimate future cash flows generated from the asset group or the combination of asset groups and choose appropriate discount rates.

#### (4) Depreciation and amortization

Taking the residual value into consideration, an investment property, fixed asset and intangible asset are depreciated or amortized on a straight-line basis over its useful life. The Group reviews the useful life periodically to determine the amount of depreciation or amortization which shall be recognized in each accounting period. The useful life is determined according to historical experience of similar assets and technological renovation estimated. The amount of depreciation or amortization shall be adjusted in future accounting periods if there are material changes in estimates made before.

#### (5) Deferred income tax asset

A deferred tax asset shall be recognized for the unused deductible losses to the extent that it is probable that future taxable profit will be available against which the deductible losses can be utilized. Taking the taxation planning into consideration, the management of the Group is required to make significant amount of judgments to estimate the time and the amount of future taxable profit in order to determine the amount of deferred income tax assets to be recognized.

#### (6) Corporate income tax

For some transactions in the Group's ordinary course of business, uncertainties exist in their tax treatment and

calculation. An approval from the tax authority is needed to determine whether an item is deductible before tax. If the final confirmation from the tax authority differs with the original estimation, the difference will have effects on the current income tax and deferred income tax of the period in which the final confirmation is made by the tax authority.

(7) After-sale quality warranty

The Group has the obligation to provide warrant to the quality of goods sold, and is responsible for damages arising from the repair and replacement due to defective goods. The Group estimates and draws related provision on its after-sale quality warranty commitment to customers with respect to the goods sold. In the case that the contingent event becomes a current obligation and performance of the current obligation may be very likely to cause economic benefit flow out of the Group, the Group recognizes provision based on the best estimates to be spent for fulfilling the related current obligation. Otherwise, if the event does not become a current obligation, no predictions needed. In the course of judgment, the Group needs to consider the recent maintenance data which may not be likely to reflect the future maintenance situations. Any increase or reduction of the provision may possibly affect the profit or loss in the future year.

## V. Taxation

### 1. Value-added tax

The Company and its domestic subsidiaries are general taxpayers of value-added tax (VAT). The taxable amount for VAT is the remaining of the current output tax offset by deductible input tax. The output tax rate of VAT is 17%.

### 2. Business tax

It is levied at 5% to the Company and its domestic subsidiaries on the revenues from property leasing, rendering of services, and transferring assets usage right.

### 3. Consumption tax

The amount of consumption tax is calculated at 20% on the taxable base for import or manufacturing luxury watches by the Company and its domestic subsidiaries.

### 4. Urban maintenance and construction tax, educational surcharge and local educational surcharge

The Company and its domestic subsidiaries pay urban maintenance and construction tax at 7% on the turnover tax actually paid.

The Company and its domestic subsidiaries pay educational surcharge at 3% on turnover tax actually paid.

The Company and its subsidiaries located in Shenzhen pay local educational surcharges at 2% on turnover tax actually paid starting from 1 January 2011 pursuant to Shen Fu Ban (2011) No.60 "Notice of Publishing the Interim Administrative Measures on Imposing Shenzhen Municipal Local Educational Surcharge" issued by the General

Office of Shenzhen Municipal Government.

## 5. Corporate income tax

Name of the Company and its subsidiaries	Applicable tax rate in current year	Applicable tax rate in prior year
The Company (Note ①, ② and ③)	25%	25%
HARMONY Company (Note ① and ②)	25%	25%
Shenzhen FIYTA Precision Timer Manufacturing Co., Ltd. (Manufacturing Company) (Note ② and ③)	15%	15%
Shenzhen World Famous Watch Center Co., Ltd (Watch Center) (Note ①)	25%	25%
FIYTA Hong Kong (Note ⑤)	16.5%	16.5%
Station 68 (Note ⑤)	16.5%	16.5%
Nature Art Limited (Note ⑤)	16.5%	16.5%
Protop Limited (Note ⑤)	16.5%	16.5%
World Watches International (Note ⑤)	16.5%	16.5%
Shenzhen FIYTA Technology Development Co., Ltd (Technology Company) (Note ② and ③)	25%	25%
Shenzhen Xiangji Commercial & Trade Co., Ltd (Trading Company) (Note ⑥)	25%	25%
Beijing Henglianda Watch Center Co., Ltd (Henglianda Company) (Note ⑥)	25%	25%
Kunming Lishan Department Store Co., Ltd. (Lishan Department Store) (Note ⑥)	25%	25%
Harbin Harmony World Watches Distribution Co., Ltd. (Harbin Company) (Note ⑥)	25%	25%
Shenzhen Harmony Culture Communication Co., Ltd (Culture Company) (Note ⑥)	25%	25%
Emile Choureit Timing (Shenzhen) Ltd. (Emile Choureit Shenzhen Company) (Note ⑥)	25%	25%
FIYTA Sales Co., Ltd (Sales Company) (Note ② and ⑥)	25%	25%
Liaoning Hengdarui Commercial & Trade Co., Ltd (Hengdarui Company) (Note ⑥)	25%	25%
Swiss Company (Note ⑦)	30%	30%

Note ①: According to “State Council Notice on Implementing Transitional Preferential Policies to Corporate Income Tax” (Guo Fa [2007] No. 39 issued by State Administration of Taxation, the preferential tax rates enjoyed by enterprises will be phased to legal tax rate in 5 years step by step since 1 January 2008. As a result, the income tax rate for 2013 is 25% for companies registered in Shenzhen.

Note ②: According to the regulations stated in Guo Shui Fa (2008) No. 28, “Interim Administration Method for Levy of Corporate Income Tax to Enterprise that Operates Cross-regionally”, the head office of the Company and its branch offices, the head office of HARMONY Company and its branch offices, and the head office of Sales Company and its branch offices adopt tax submission method of “unified calculation, managing by classes, pre-paid in its registered place, settlement in total, and adjustment by finance authorities” starting from 1 January

2008. Branch offices mentioned above share 50% of the enterprise income tax and prepay locally; and 50% will be prepaid by the head offices mentioned above.

Note ③: According to Notice of “Pre-tax Deduction of Enterprise Research and Development Expenses (Interim)”, Guo Shui FA (2008) No. 116 issued by State Administration of Taxation on 10 Dec. 2008, research and development expenses, which are charged to profit or loss instead of being capitalized as intangible assets, that incurred by the Company and the Manufacture Company for developing new technology, new product and new technique can be deducted by 50% extra on top of actual expensed charged in profit or loss.

Note ④: According to “Notice of Tax Affair”, Shen Di Shui Nan Bei Zi (2012) No. 786 issued by Shenzhen Nanshan Local Taxation Bureau, the company applied for “Reduction and Exemption in Corporate Income Tax Rate for High and New Technology Enterprises that Require Key Support from the State” on 9 April 2012. The Reduction and Exemption period is from January 1, 2012 to December 31, 2014.

Note ⑤: These companies are registered in Hong Kong and the income tax rate of Hong Kong applicable is 16.50% this year

Note ⑥: According to the People's Republic of China Enterprise Income Tax Law, the income tax rate is 25% for residential enterprises since 1 January 2008.

Note ⑦: The tax rate of 30% is applicable for Swiss Company as it registered in Switzerland.

## 6. Property tax

In accordance with Article 5 of “Notice to Publish “Reply to Issues Related to Property Tax and Vehicle and Vessel Usage Tax”, Shen Di Shui Fa (1999) No.374 issued by Shenzhen Local Taxation Bureau, property leased out by manufacturing or business entity are taxed at 1.2% on the bases of 70% of the original cost of the property.

Properties of the Group that situated in Shenzhen are taxed according to this notice. Properties situated in other cities are taxed according to local regulations.

## VI. Business combination and consolidated financial statements

### 1. Details of subsidiaries

(1) Subsidiaries that are acquired through incorporation or investment

Monetary Unit: in ten thousands Yuan ('0000)

Name of Subsidiary	Type of Subsidiary	Place of registration	Nature of Business	Registered Capital	Business Scope	Type of business formation	Legal Rep.	Organization Code	Actual amount of investment at the end of the year	Balance of other item that are substantially form net investment to subsidiary
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HARMONY Company	Hold	Shenzhen	commerce	60,000 (RMB)	Purchase, sales and maintenance of watch, clock and related spare parts	Limited liability	Xu Dongsheng	279313935	60,130.72 (RMB)	-
Manufacturing Company	Hold	Shenzhen	manufacture	1,000 (RMB)	Manufacturing and maintenance of watch and its movements, spare parts, and precise timing devices	Limited liability	Xu Dongsheng	715210802	1,000 (RMB)	-
Watch Center (Note)	Hold	Shenzhen	commerce	280 (RMB)	Sales of luxury watch and clock, glasses, accessories, gifts, art craft (excluding gold and silver jewelry)	Limited liability	Fang Juan	192236228	140 (RMB)	-
FIYTA Hong Kong	Hold	Hong Kong	commerce	6,506 (HKD)	Commerce and investment	Limited liability	-	37954781	6,506 (HKD)	-
Station 68	Hold	Hong Kong	commerce	780 (HKD)	Sales of watches, domestic trading	Limited liability	-	50994724	468 (HKD)	-
Harbin Company	Hold	Harbin	commerce	50 (RMB)	Purchase and sale and maintenance of clock, watch and accessory	Limited liability	Song Yongkang	127592103	50 (RMB)	-
Henglianda Company	Hold	Beijing	commerce	3,000 (RMB)	Sales of watches and maintenance	Limited liability	Fang Juan	775466877	3,130 (RMB)	-
Technology Company	Hold	Shenzhen	manufacture	1,000 (RMB)	R&D, manufacture, sales of watches, high-tech components production and processing	Limited liability	Xu Dongsheng	69396758X	1,000 (RMB)	-
Trading Company	Hold	Shenzhen	commerce	500 (RMB)	Watches and gifts sales and other related consultancy service, other domestic trading	Limited liability	Xu Dongsheng	697108950	500 (RMB)	-
Culture Company	Hold	Shenzhen	commerce	50 (RMB)	Conduct cultural related activities, advertisement business	Limited liability	Fang Juan	562782024	50 (RMB)	-

Emile Choureit Shenzhen Company	Hold	Shenzhen	commerce	500 (HKD)	Wholesale, import & export and related business of timepieces, parts, accessories; watch aftersales service	Limited liability	Lu Bingqiang	550312818	500 (HKD)	-
World Watches International	Hold	Hong Kong	commerce	1000 ( HKD )	Sales and maintenance service	Limited liability	-	53289178-000 - 11-10-4	1000 ( HKD )	-
Sales Company	Hold	Shenzhen	commerce	5000 ( RMB )	Design, R&D, sales of all kinds of clock and watch, timing devices and related accessories; jewelry sales and import, export business	Limited liability	Xu Dongsheng	57476869-2	5000 ( RMB )	-

(continued)

Name of Subsidiary	Percentage of Shareholding (%)	Percentage of voting power (%)	In the scope of consolidation (Yes/No)	Minority shareholders' interest (RMB)	Amount in minority shareholder interest used to offset minority shareholder loss	Owners' equity of parent company after deducting the excess of Minority's attributable share of losses in current period over its share of opening balance of subsidiary's owners' equity	Note
HARMONY Company	100.00	100.00	Yes	-	-	-	-
Manufacturing Company	100.00	100.00	Yes	-	-	-	-
Watch Center (Note)	50.00	50.00	Yes	140.00	-	-	-
FIYTA Hong Kong	100.00	100.00	Yes	-	-	-	-
Station 68	60.00	60.00	Yes	98.48	-	-	-
Harbin Company	100.00	100.00	Yes	-	-	-	-
Henglianda Company	100.00	100.00	Yes	-	-	-	-
Technology Company	100.00	100.00	Yes	-	-	-	-
Trading Company	100.00	100.00	Yes	-	-	-	-
Culture Company	100.00	100.00	Yes	-	-	-	-
Emile Choureit Shenzhen Company	100.00	100.00	Yes	-	-	-	-
World Watches International	100.00	100.00	Yes	-	-	-	-
Sales Company	100.00	100.00	Yes	-	-	-	-

Note: Watch Center used to be a joint venture of the Group. According to the agreement signed between the Company and another shareholder of Water Center, Shenzhen Airlines Electronic Machinery Co., Ltd. (Shenzhen Airline Electronic), the latter is entitled to a fixed yield since 2003, but does not participate in Watch Center's operation. The Company actually controlled the Watch Center's financial and operational management since then. Therefore, Watch Center was included in the Company's the consolidation scope. Watch Center was closed down due to the removal of premise in 2008.

(2) Subsidiaries acquired through business combinations involving entities under common control

Monetary Unit: in ten thousands Yuan ('0000)

Name of Subsidiary	Type of Subsidiary	Place of registration	Nature of Business	Registered Capital	Business Scope	Type of business formation	Legal Rep.	Organization Code	Actual amount of investment at the end of the year	Balance of other item that are substantially form net investment to subsidiary
Hengdarui Company	Hold	Shenyang	Commerce	5,100	Sales of electronics products, tele-communication equipment, instrument, office equipment, groceries, art craft, toys, metal material; conference services, real-estate management, house leasing	Limited Liability	Lu Wanjun	56755181-5	5,600.10	-

(continued)

Name of Subsidiary	Percentage of Shareholding (%)	Percentage of voting power (%)	In the scope of consolidation (Yes/No)	Minority shareholders interest	Amount in minority shareholder interest used to offset minority shareholder loss	Owners' equity of parent company after deducting the excess of Minority's attributable share of losses in current period over its share of opening balance of subsidiary's owners' equity	Note
Hengdarui Company	100.00	100.00	Yes	-	-	-	-

(3) Subsidiaries acquired through business combinations involving entities not under common control

Monetary Unit: in ten thousands Yuan ('0000)

Name of Subsidiary	Type of Subsidiary	Place of registration	Nature of Business	Registered Capital	Business Scope	Type of business formation	Legal Representative	Organization Code	Actual amount of investment at the end of the year	Balance of other item that are substantially form net investment to subsidiary
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Lishan Department Store	Hold	Kunming	Commerce	500 (RMB)	Domestic trading, materials supply and distributing	Limited Liability	Lu Wanjun	77552086-1	120 (RMB)	--
Swiss Company	Hold	Switzerland	Commerce	500 (CHF)	Manufacture and sales of Emile brand watch	Limited Liability	-	--	4,841.54 (HKD)	--

(continued)

Name of Subsidiary	Percentage of Shareholding (%)	Percentage of voting power (%)	In the scope of consolidation (Yes/No)	Minority shareholders' interest	Amount in minority shareholder interest used to offset minority shareholder loss	Owners' equity of parent company after deducting the excess of Minority's attributable share of losses in current period over its share of opening balance of subsidiary's owners' equity	Note
Lishan Department Store	100.00	100.00	Yes	-	-	-	-
Swiss Company	100.00	100.00	Yes	-	-	-	-

## 2. Special purpose vehicles (SPV) or business entity that is controlled through consigned operating or leasing

Based on the equity trust agreement signed by Station 68, the subsidiary of FIYTA Hong Kong, and the trustee of Nature Art Ltd and ProTop Ltd on 10 December 2009, Station 68 as the trustor owns the right of earnings from shareholding and other related right of Nature Art Ltd and ProTop Ltd. It was agreed that the trustee agrees to transfer its rights from time to time based on trustor's instructions. Since then Station 68 owned the control rights over Nature Art Ltd and ProTop Ltd, and the two entities were included in the scope of consolidation by Station 68. Nature Art Ltd and ProTop Ltd are the suppliers of fashion brand watches to the Group. Major transactions that are included in the scope of consolidation between the SPVs of Nature Art Ltd and ProTop Ltd and the Company, and major asset and liability items and corresponding year end balances of Nature Art Ltd and ProTop Ltd that are recognized in consolidated financial statements are presented as follows:

Item	Major transactions with the Company	Major assets, liabilities items recognized in the consolidated statements and its year-end balances
At the end of 2013:		
Nature Art Limited	Purchase fashion brand watches	
Current asset		1,132,954.37
Current liability		1,279,550.17

Net asset		( 146,595.80)
At the end of 2012		
Nature Art Limited	Purchase fashion brand watches	
Current asset		1,436,354.57
Current liability		1,492,278.89
Net asset		(55,924.32)

Item	Major transactions with the Company	Major assets, liabilities items recognized in the consolidated statements and its year-end balances
At the end of 2013:		
ProTop Limited	Purchase fashion brand watches	
Current asset		52,193.22
Current liability		6,289.60
Net asset		45,903.62
At the end of 2012		
ProTop Limited	Purchase fashion brand watches	
Current asset		373,267.37
Current liability		317,889.35
Net asset		55,378.02

### 3. Translation exchange rate used for main items in financial statements of overseas entities

Entities	Asset and liabilities items	
	31 December 2013	1 January 2013
FIYTA Hong Kong	1 HKD= 0.7862 RMB	1 HKD= 0.8109 RMB
World Watches International	1 HKD= 0.7862 RMB	1 HKD= 0.8109 RMB
Swiss Company	1 CHF= 6.8336 RMB	1 CHF= 6.8219 RMB
Entities	Income, expense and cash flow items	
	Year 2013	Year 2012
FIYTA Hong Kong	1 HKD= 0.79855 RMB	1 HKD= 0.8108RMB

World Watches International	1 HKD= 0.79855 RMB	1 HKD= 0.8108 RMB
Swiss Company	1 CHF= 6.8278 RMB	1 CHF=6.7652 RMB

Station 68 is a subsidiary of FIYTA Hong Kong. ProTop Ltd and Nature Art Ltd are business entities controlled by FIYTA Hong Kong. The way of foreign currency translation of these entities and the exchange rate used are the same as FIYTA Hong Kong.

## VII. Notes to main items of the consolidated financial statements

Unless otherwise specified, the beginning of the year refers to 1 January 2013 and the end of the year refers to 31 December 2013. Prior year refers to year 2012 and current year refers to year 2013.

### 1. Cash and bank balances

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
Cash on hand:			487,926.67			538,810.69
-RMB	-	-	422,048.31	-	-	521,336.94
-USD	598.00	6.0969	3,645.95	598.00	6.2855	3,758.73
-HKD	4,697.33	0.7862	3,693.04	2,919.83	0.8109	2,367.69
-EUR	5,587.20	8.4189	47,038.08	14.45	8.3176	120.19
-CHF	1,683.05	6.8336	11,501.29	1,645.75	6.8219	11,227.14
Bank deposit:			107,168,563.21			139,868,866.49
-RMB	-	-	95,824,234.81	-	-	112,614,731.00
-USD	213,460.48	6.0969	1,301,410.16	213,763.50	6.2855	1,343,610.48
-HKD	9,135,662.45	0.7862	7,182,542.68	27,740,445.49	0.8109	22,494,727.25
-CHF	418,575.21	6.8336	2,860,375.56	500,742.38	6.8219	3,415,797.76
Other monetary funds:			6,620.86			13,317.53
-RMB	-	-	6,620.86	-	-	13,317.53
Total			107,663,110.74			140,420,994.71

### 2. Notes receivable

Types	Closing balance	Opening balance
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Types	Closing balance	Opening balance
Banker's acceptance bill	100,000.00	2,000,000.00
Commercial acceptance bill	7,000,000.00	-
Total	7,100,000.00	2,000,000.00

### 3. Accounts receivable

#### (1) Accounts receivables presented by types

Types	Closing balance			
	Carrying amount		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Receivables that are individually significant in amount and provided for bad debt separately	-	-	-	-
Receivables provided for bad debt by portfolio:				
Portfolio based on aging of receivables	143,086,026.61	43.09	7,193,141.49	5.03
Specific receivables	188,564,454.07	56.79	-	-
Subtotal	331,650,480.68	99.88	7,193,141.49	2.17
Receivables that are individually insignificant in amount but provided for bad debt separately	401,267.10	0.12	401,267.10	100.00
Total	332,051,747.78	100.00	7,594,408.59	2.29

(continued)

Types	Opening balance			
	Carrying amount		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Receivables that are individually significant in amount and provided for bad debt separately	-	-	-	-
Receivables provided for bad debt by portfolio:				
Portfolio based on aging of receivables	122,711,131.95	38.85	6,337,338.86	5.16
Specific receivables	192,743,481.22	61.02	-	-
Subtotal	315,454,613.17	99.87	6,337,338.86	2.01
Receivables that are individually insignificant	401,267.10	0.13	401,267.10	100.00

in amount but provided for bad debt separately				
Total	315,855,880.27	100.00	6,738,605.96	2.13

## (2) Receivables presented by aging

Aging	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	329,237,358.47	99.15	309,695,385.44	98.06
1 to 2 years	2,413,122.21	0.73	5,379,992.68	1.70
2 to 3 years	98,348.01	0.03	327,400.75	0.10
Over 3 years	302,919.09	0.09	453,101.40	0.14
Total	332,051,747.78	100.00	315,855,880.27	100.00

## (3) Bad debt provision

## ① Accounts receivable that are provided for bad debt based on portfolio

## A. among the portfolio, accounts receivable that are provided for bad debt based on aging analysis

Aging	Closing balance			Opening balance		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	140,672,904.40	98.31	6,951,829.27	121,208,736.20	98.77	6,054,073.20
1 to 2 years	2,413,122.21	1.69	241,312.22	1,024,812.69	0.84	102,481.27
2 to 3 years	-	-	-	327,400.75	0.27	98,220.23
Over 3 years	-	-	-	150,182.31	0.12	82,564.16
Total	143,086,026.61	100.00	7,193,141.49	122,711,131.95	100.00	6,337,338.86

## B. among the portfolio, accounts receivable that are provided for bad debt using other method

Name of portfolio	Carrying amount	Accrual Percentage (%)	Bad debt provision
Portfolio of specific accounts	188,564,454.07	-	-

## ② Receivables that are individually insignificant in amount but provided for bad debt separately

Types of receivables	Carrying amount	Percentage of bad debt provision	Bad debt provision	Reason
Bad debt	401,267.10	100	401,267.10	Unable to recover

The amount of individual receivable account with obvious evidence indicating that the customers cannot perform the payment obligations is less than RMB 800,000.00. The Group believes that there are significant risks of recovering these receivables, therefore, recognize bad debt provision by 100% of such receivables.

(4) During the reporting period, there are no receivables from any shareholders held over 5% (inclusive) voting shares of the Company.

## (5) Top 5 receivable accounts

Name of accounts	Relationship with the Company	Amount	Aging	Percentage of total accounts receivable (%)
Shennan Circuit Co., Ltd	Related party	10,884,289.63	Within 1 year	3.28
Beijing Heshengxi Commerce & Trading Co., Ltd	Non-related party	6,066,361.50	Within 1 year	1.83
China Resources Sun Hung Kai Properties (Hangzhou) Limited	Non-related party	5,278,724.00	Within 1 year	1.59
Fuzhou Dayang General Department Co., Ltd	Non-related party	4,580,441.26	Within 1 year	1.38
China Resources (Shenzhen) Co., Ltd	Non-related party	4,474,066.99	Within 1 year	1.35
Total		31,283,883.38		9.43

## (6) Receivables from related parties

For details, see Note VIII.6 Receivables from and payables to related parties.

## (7) Amounts of receivables denominated in foreign currencies and exchange rate are as follows:

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
HKD	5,574,572.74	0.7862	4,382,729.09	17,357,136.90	0.8109	14,074,902.31
CHF	46,153.29	6.8336	315,393.12	24,435.33	6.8219	166,695.38

## 4. Prepayments

## (1) Prepayments presented by aging

Account aging	Closing balance	Opening balance
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	Amount	Percentage (%)	Amount	Percentage (%)
within 1 year	39,385,528.82	90.57	50,392,708.30	66.82
1~2 years	3,501,516.25	8.05	23,964,370.10	31.78
2~3 years	143,958.00	0.33	726,788.00	0.96
over 3 years	456,610.00	1.05	334,700.00	0.44
Total	43,487,613.07	100.00	75,418,566.40	100.00

## (2) Top 5 prepayment accounts

Name of entity	Relationship with the Group	Amount	Aging	Reason for unsettlement
Sensheng Industrial Co., Ltd	Non-related party	11,223,468.21	Within 1 years	Prepaid for purchasing
Yitian (Guangzhou) Design Co., Ltd	Non-related party	5,752,053.55	Within 2 year	Prepaid for project
Beat Blattmann Marketing	Non-related party	3,974,285.09	Within 1 year	Prepaid for purchasing
Shenzhen C.S.J Watch Promotion Ltd.	Non-related party	3,509,638.19	Within 1 year	Prepaid for purchasing
Liberty Time Center Gm BH	Non-related party	2,214,086.40	Within 1 year	Prepaid for decoration project
Total		26,673,531.44		

(3) During the reporting period, there is no prepayment to any shareholder with 5% (inclusive) of total voting shares of the Company.

(4) The amount of prepayments in foreign currency and exchange rates are as follows

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
HKD	14,333,541.18	0.7862	11,269,030.08	7,631,490.39	0.8109	6,188,375.56
CHF	1,571,861.72	6.8336	10,741,474.25	1,279,873.85	6.8219	8,731,171.42

## 5. Other receivables

(1) Other receivables presented by types

Types	Closing balance			
	Carrying amount		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)

Other receivables that individually significant in amount and provided for bad debt separately	-	-	-	-
Other receivables provided for bad debt by portfolio				
Portfolio of aging	29,759,918.66	70.09	2,023,735.67	6.80
Portfolio of specific accounts	12,700,457.11	29.91	-	-
Subtotal of portfolio	42,460,375.77	100.00	2,023,735.67	4.77
Other receivables that individually insignificant in amount but provided for bad debt separately	-	-	-	-
Total	42,460,375.77	100.00	2,023,735.67	4.77

(continued)

Types	Opening balance			
	Carrying amount		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables that individually significant in amount and provided for bad debt separately	-	-	-	-
Other receivables provided for bad debt by portfolio				
Portfolio of aging	23,869,560.85	68.69	1,395,054.21	5.84
Portfolio of specific accounts	10,879,099.62	31.31	-	-
Subtotal of portfolio	34,748,660.47	100.00	1,395,054.21	4.01
Other receivables that individually insignificant in amount but provided for bad debt separately	-	-	-	-
Total	34,748,660.47	100.00	1,395,054.21	4.01

## (2) Other receivables presented by aging

Aging	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	37,298,344.72	87.84	29,965,969.12	86.23
1 to 2 years	2,560,158.10	6.03	4,106,149.46	11.82
2 to 3 years	2,249,227.99	5.30	342,907.78	0.99
Over 3 years	352,644.96	0.83	333,634.11	0.96



Total	42,460,375.77	100.00	34,748,660.47	100.00
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## (3) Bad debt provision

Other receivable that are provided for bad debt based on portfolio

A. among the portfolio, other receivables that are provided for bad debt based on aging analysis

Aging	Closing balance			Opening balance		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	26,494,988.82	89.03	1,335,820.98	20,659,513.93	86.55	1,017,165.01
1 to 2 years	1,445,878.69	4.86	144,587.87	3,008,908.59	12.61	299,369.04
2 to 3 years	1,725,872.82	5.80	517,762.65	110,245.00	0.46	33,073.50
Over 3 years	93,178.33	0.31	25,564.17	90,893.33	0.38	45,446.66
Total	29,759,918.66	100.00	2,023,735.67	23,869,560.85	100.00	1,395,054.21

B. among the portfolio, other receivables that are provided for bad debt using other method

Name of portfolio	Carrying amount	Bad debt provision
Portfolio of specific accounts	12,700,457.11	-

(4) During the reporting period, there were no other receivables from any shareholders held over 5% (inclusive) voting shares of the Company.

## (5) Top 5 other receivable accounts

Name of accounts	Relationship with the Company	Amount	Aging	Percentage of total other receivables (%)
China Resources (Shenzhen) Co., Ltd	Non-related party	3,076,860.62	Within 1 year	7.25
Skytel Xi'an Hotel Co., Ltd	Related party	1,750,000.00	Within 1 year	4.12
China Resources Sun Hung Kai Properties (Hangzhou) Limited	Non-related party	1,716,228.00	Within 1 year	4.04
Shenzhen Yitian Holiday World Property Development Co., Ltd	Non-related party	1,090,523.00	Within 1 year	2.57
Shenzhen Airport Co., Ltd	Non-related party	963,505.70	Within 1 year	2.27
Total		8,597,117.32		20.25

## (6) Receivables from related parties

For details, see Note VIII.6 Receivables from and payables to related parties.

## (7) Presentation of other receivables denominated in foreign currency and the exchange rates used

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
CHF	304,648.23	6.8336	2,081,844.14	182,433.18	6.8219	1,244,540.91
HKD	249,811.75	0.7862	196,402.00	418,026.40	0.8109	338,977.61
USD	-	-	-	1,200.00	6.2855	7,542.60
EUR	3,000.00	8.4189	25,256.70	3,000.00	8.3176	24,952.80

## 6. Inventory

## (1) Inventory classification

Item	Closing balance		
	Carrying amount	Provision for obsolete stock	Book value
Raw materials	122,362,922.04	4,886,794.86	117,476,127.18
Work-in-process	19,607,611.43	-	19,607,611.43
Goods in stock	2,012,241,510.56	25,982,428.24	1,986,259,082.32
Total	2,154,212,044.03	30,869,223.10	2,123,342,820.93

(continued)

Item	Opening balance		
	Carrying amount	Provision for obsolete stock	Book value
Raw materials	110,918,957.01	4,886,794.86	106,032,162.15
Work-in-process	5,034,098.24	-	5,034,098.24
Goods in stock	1,791,715,764.69	19,516,776.32	1,772,198,988.37
Total	1,907,668,819.94	24,403,571.18	1,883,265,248.76

Note: at the year end, the balance of the Group's inventory of branded watches with aging over 3 years is RMB148,409,033.32, accounts for 8.82% of the closing balance of all branded watches. The opening balance of the branded watches of the Group's inventory with aging over 3 years is RMB109,032,580.69, about 7.01% of the opening balance of the branded watches.

## (2) Changes in obsolete inventory provision

Item	Opening balance	Increase	Decrease	Closing balance
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			Reversed	Written-off	
Raw materials	4,886,794.86				4,886,794.86
Goods in stock	19,516,776.32	6,465,651.92			25,982,428.24
Total	24,403,571.18	6,465,651.92			30,869,223.10

## (3) Reasons for recognizing and reversing of inventory impairment provision

Item	Basis for recognizing provision	Reason for reversal of provision this year	Percentage of reversed amount accounts for closing balance of this type of inventory (%)
Raw materials	Net realizable value lower than related cost	N/A	-
Goods in stock	Net realizable value lower than related cost	N/A	-

**7. Other current assets**

Item	Nature ( or content )	Closing balance	Opening balance
Deductible input tax of VAT ( Note )	Input tax	23,781,515.54	43,674,175.80
Housing rental	Store rental	3,759,382.17	6,037,338.76
Others	Advertisement fee	3,271,093.36	1,331,887.41
Total		30,811,991.07	51,043,401.97

Note: it is the input tax of VAT balance of the Group that has not been offset against output tax at the end of year 2013.

**8. Long-term equity investment**

## (1) Classification of the long-term equity investment

Item	Opening balance	Increase	Decrease	Closing balance
Investment in associated companies	41,648,741.79	1,589,198.33	-	43,237,940.12
Other equity investment	385,000.00	-	-	385,000.00
Less: impairment provision for the long-term equity investment	300,000.00	-	-	300,000.00
Total	41,733,741.79	1,589,198.33		43,322,940.12

## (2) Details of long-term equity investment

Investee	Accounting method	Investment cost	Opening balance	Increase / decrease	Closing balance
Xi'an Tangcheng Limited	Cost	85,000.00	85,000.00	-	85,000.00
Shenzhen Zhonghang Culture Co. Ltd	Cost	300,000.00	300,000.00	-	300,000.00
Shanghai Watch Industry Co., Ltd (Shanghai Watch)	Equity	39,916,500.00	41,648,741.79	1,589,198.33	43,237,940.12
Total			42,033,741.79	1,589,198.33	43,622,940.12

(continued)

Investee	Shareholding in investee (%)	Voting power enjoyed in investee (%)	Explanation on inconsistency between the shareholding percentage and voting percentage in investee	Provision for impairment	Provision recognized in current year	Cash dividend in current year
Xi'an Tangcheng Limited	0.10	0.10	N/A	-	-	-
Shenzhen Zhonghang Culture Co. Ltd	15.00	15.00	N/A	300,000.00	-	-
Shanghai Watch	25.00	25.00	N/A	-	-	-
Total				300,000.00	-	-

## (3) Investment in associate companies

Investee	Type of entity	Registered place	Legal representative	Business nature	Reg. capital	Share percentage held by the Group (%)	Voting percentage of the Group in investee (%)
Shanghai Watch	Limited Liability	Shanghai	Dong Guozhang	produce and sale watches	15,350,000	25.00	25.00

(continued)

Investee	Total assets at the year end	Total liabilities at the year end	Total net assets at the year end	Total revenue during the year	Net profit for the year	Relation	Organization code
Shanghai Watch	96,176,699.34	14,710,516.78	81,466,182.56	72,493,931.14	6,356,793.32	Associate	134657657

## (4) Detail of impairment provision for the long-term equity investment

Item	Opening balance	Increase	Decrease	Closing balance
Shenzhen Zhonghang Culture Co. Ltd	300,000.00	-	-	300,000.00

## 9. Investment property

### (1) Details of investment property

Item	Opening balance	Increase	Decrease	Closing balance
the investment property that subsequently measured using cost method	244,379,430.63	-	9,143,745.87	235,235,684.76
Less: impairment provision	-	-	-	-
Total	244,379,430.63	-	9,143,745.87	235,235,684.76

### (2) The investment property measured using cost method

Item	Opening balance	Increase	Decrease	Closing balance
I. Total original cost	340,029,020.44	-	-	340,029,020.44
Property and buildings	340,029,020.44	-	-	340,029,020.44
II. Total accumulated depreciation	95,649,589.81	9,143,745.87	-	104,793,335.68
Property and buildings	95,649,589.81	9,143,745.87	-	104,793,335.68
III. Total impairment provision	-	-	-	-
Property and buildings	-	-	-	-
IV. Total book value	244,379,430.63			235,235,684.76
Property and buildings	244,379,430.63			235,235,684.76

Note: The depreciation and amortization charged in 2013 is RMB 9,143,745.87.

## 10. Fixed assets

### (1) Details of fixed assets

Item	Opening balance	Increase	Decrease	Closing balance
I. Total original cost	422,423,727.03	10,346,844.53	1,943,624.15	430,826,947.41
Incl. property and buildings	306,333,695.09	1,367,668.61	440,190.71	307,261,172.99
Machinery	41,992,755.98	3,158,626.78	340,546.54	44,810,836.22
Transport vehicles	13,805,058.95	847,215.52	343,466.00	14,308,808.47
Electronic devices	24,919,765.50	3,216,114.82	451,434.30	27,684,446.02
Other equipment	35,372,451.51	1,757,218.80	367,986.60	36,761,683.71
II. Total accumulated depreciation	104,622,459.16	20,749,861.52	1,434,337.58	123,937,983.10

Item	Opening balance	Increase	Decrease	Closing balance
Incl. property and buildings	33,708,825.54	10,149,700.00	128,308.04	43,730,217.50
Machinery	17,131,790.81	4,133,534.79	236,657.04	21,028,668.56
Transport vehicles	8,221,111.90	1,627,527.59	314,655.20	9,533,984.29
Electronic devices	16,653,120.95	3,183,933.77	406,215.49	19,430,839.23
Other equipment	28,907,609.96	1,655,165.37	348,501.81	30,214,273.52
III. Total carrying amount	317,801,267.87			306,888,964.31
Incl. property and buildings	272,624,869.55			263,530,955.49
Machinery	24,860,965.17			23,782,167.66
Transport vehicles	5,583,947.05			4,774,824.18
Electronic devices	8,266,644.55			8,253,606.79
Other equipment	6,464,841.55			6,547,410.19
IV. Total impairment provision	-	-	-	-
Incl. property and buildings	-	-	-	-
Machinery	-	-	-	-
Transport vehicles	-	-	-	-
Electronic devices	-	-	-	-
Other equipment	-	-	-	-
V. Total book value	317,801,267.87			306,888,964.31
Incl. property and buildings	272,624,869.55			263,530,955.49
Machinery	24,860,965.17			23,782,167.66
Transport vehicles	5,583,947.05			4,774,824.18
Electronic devices	8,266,644.55			8,253,606.79
Other equipment	6,464,841.55			6,547,410.19

Note: Depreciation charged in 2013 was RMB 20,749,861.52.

(2) Fixed assets with restricted ownership

As at 31 December 2013, the property with the original cost of RMB 26,441,545.26, carrying amount of RMB 23,469,717.54 was mortgaged for long-term loan of RMB 7,293,022.01.

(3) Fixed assets that do not have certificate for property right

Item	Reason for not having certificate for property rights	Predicted date for receiving the certificate	Book value
Office rooms for Harbin Branch	Defective in property right	Unknown	351,765.60

(4) Cost of the Group's assets that are fully depreciated but still in use amounts to RMB 51,958,797.93 at the end of year 2013.

## 11. Construction in progress

### (1) Details of construction in progress

Item	Closing balance			Opening balance		
	Carrying amount	Impairment provision	Book value	Carrying amount	Impairment provision	Book value
Clock & Watch base in Guangming New District	6,608,187.55	-	6,608,187.55	1,523,855.00	-	1,523,855.00
FIYTA tech. Building 20F office decoration project	-	-	-	2,165,064.12	-	2,165,064.12
FIYTA tech. Building 19F west area decoration project	-	-	-	177,446.67	-	177,446.67
Total	6,608,187.55	-	6,608,187.55	3,866,365.79	-	3,866,365.79

### (2) Changes for material construction in progress projects

Project name	Budget	Opening balance	Increase	Transferred to fixed asset in current year	Other decrease	Closing balance
Clock & Watch base in Guangming New District	300,000,000.00	1,523,855.00	5,084,332.55	-	-	6,608,187.55

(continued)

Project name	Total capitalized interest	Incl. capitalized in current year	Rate of capitalization in current year	Percentage of investment to budget (%)	Progress	Source of funding
Clock & Watch base in Guangming New District	-	-	-	2.20	Preliminary	Other

## 12. intangible assets

Item	Opening balance	Increase	Decrease	Closing balance
I. Total original cost	48,781,266.42	835,757.14	-	49,617,023.56

Item	Opening balance	Increase	Decrease	Closing balance
Land-use right	34,854,239.40	-	-	34,854,239.40
Software system	3,562,205.50	835,757.14	-	4,397,962.64
Right to use trademarks	10,364,821.52	-	-	10,364,821.52
II. total accumulated amortization	12,031,639.24	1,416,772.60	-	13,448,411.84
Land-use right	6,225,134.84	719,946.36	-	6,945,081.20
Software system	1,859,114.59	638,906.32	-	2,498,020.91
Right to use trademarks	3,947,389.81	57,919.92	-	4,005,309.73
III. total impairment provision	-	-	-	-
Land-use right	-	-	-	-
Software system	-	-	-	-
Right to use trademarks	-	-	-	-
IV. Total book value	36,749,627.18			36,168,611.72
Land-use right	28,629,104.56			27,909,158.20
Software system	1,703,090.91			1,899,941.73
Right to use trademarks	6,417,431.71			6,359,511.79

Note: Amortization charged in 2013 is RMB 1,416,772.60.

### 13. Goodwill

#### (1) Details of goodwill

Name of investee or events that constitutes goodwill	Opening balance	Increase	Decrease	Closing balance	Impairment provision at the year end
Lishan Department Store	1,735,756.48	-	-	1,735,756.48	1,735,756.48

#### (2) Methods of impairment test to goodwill and provision recognition

HARMONY Company, a subsidiary of the Company, acquired 100% shares of Lishan Department Store on 31 March 2008 with consideration of RMB1,200,000.00. On the date of acquisition, the fair value of identifiable net assets of Lishan Department Store was RMB535,756.48. HARMONY Company recorded the difference of RMB1,735,756.48 as goodwill in the consolidated financial statements. At the end of 2008, it carried out the impairment test for the goodwill. As the recoverable amount was lower than its book value, HARMONY Company charged the goodwill impairment losses of RMB1,735,756.48 to the profit or loss in year 2008.

### 14. Long-term deferred expenses



Item	Opening balance	Increase	Amortization	Other decrease	Closing balance	Reason for other decrease
Counter fabrication expenses	43,797,298.00	41,796,328.58	38,854,087.51	-	46,739,539.07	-
Renovation expenses	75,107,963.72	58,899,718.13	51,509,724.29	-	82,497,957.56	-
Fee for representation	6,769,273.68	15,295,637.91	6,769,273.68	-	15,295,637.91	-
Others	600,076.18	2,632,291.86	1,222,817.00	-	2,009,551.04	-
Total	126,274,611.58	118,623,976.48	98,355,902.48	-	146,542,685.58	-

## 15. Deferred income tax assets

### (1) Deferred income tax asset that is already recognized

Item	Closing balance		Opening balance	
	Deferred income tax assets	Deductible temporary difference & deductible losses	Deferred income tax assets	Deductible temporary difference & deductible losses
Asset impairment provision	9,618,849.12	40,487,367.36	7,603,452.98	32,537,231.35
Offset internal unrealized profit	60,608,908.97	246,128,085.69	47,528,528.65	193,473,413.38
Deferred income	737,500.00	2,950,000.00	201,500.00	906,000.00
Deductible loss	3,193,876.20	14,143,969.77	2,930,736.04	13,095,609.63
Others	-	-	3,075,469.94	12,301,879.76
Total	74,159,134.29	303,709,422.82	61,339,687.61	252,314,134.12

### (2) Details of unrecognized deferred income tax asset

Item	Closing balance	Opening balance
Asset impairment provision	2,035,756.48	2,035,756.48
Deferred income	-	600,000.00
Total	2,035,756.48	2,635,756.48

Note: the Group did not recognize above deductible temporary difference mainly because there would be uncertainty on whether sufficient taxable income can be obtained in future.

## 16. Details of asset impairment provision

Item	Opening balance	Provided for in current year	decreased this year		Closing balance
			Reversed	Written-off	
Bad debt provision	8,133,660.17	2,247,636.75	-	763,152.66	9,618,144.26
Provision for obsolete stocks	24,403,571.18	6,465,651.92	-	-	30,869,223.10
Impairment provision for long-term equity investment	300,000.00	-	-	-	300,000.00
Impairment provision for goodwill	1,735,756.48	-	-	-	1,735,756.48
Total	34,572,987.83	8,713,288.67	-	763,152.66	42,523,123.84

## 17. Other non-current assets

Item	Details	Closing balance	Opening balance
China Tenth Metallurgy Group Limited Corporation	Project decoration fund	10,976,867.85	
Kuntai Real Estate Development Group Co., Ltd	House building fund	21,500,000.00	
Total		32,476,867.85	

## 18. Assets with restricted ownership or use right

Item	Closing balance	Reason for restriction
Book value of the assets used for guarantee	23,469,717.54	For guaranteed loan
Book value of assets with restricted ownership or use right for other reasons:	351,765.60	Defective in property rights
Total	23,821,483.14	

## 19. Short-term loans

Item	Closing balance	Opening balance
Guaranteed loan	710,000,000.00	1,409,800,000.00
Credit Loan	313,000,000.00	-
Total	1,023,000,000.00	1,409,800,000.00

Note: the Company's loan of RMB 390,000,000.00 is guaranteed by China National Aviation Group. The Company's loan of RMB 120,000,000.00 is guaranteed by HARMONY Company. HARMONY Company's loan of RMB 200,000,000.00 is guaranteed by the Company.

## 20. Accounts payables

### (1) Details of accounts payables

Item	Closing balance	Opening balance
Trade payables	210,748,187.96	181,379,333.93
Payables for material purchased	11,388,092.75	29,706,892.74
Payables for project warranty	211,339.76	211,339.76
Total	222,347,620.47	211,297,566.43

(2) During the report period, there are no payables to any shareholder or related party with 5% (inclusive) of total voting shares of the Group. For details, see Note VIII.6 Receivables from and payables to related parties.

### (3) Payables in significant amount with aging over 1 year

Creditor	Amount	Reasons for not settled	Settled after the balance sheet date (Yes/No)
Shenzhen Tianjiuxing Industrial Co., Ltd	773,252.30	Invoice not issued	No
Foshan Shunde Daliang Weiye Watch Co., Ltd.	519,571.54	Invoice not issued	No
Shenzhen Peishi Watch Co., Ltd	316,709.55	Invoice not issued	No
Total	1,609,533.39		

### (4) Presentation of payables denominated in foreign currencies:

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
HKD	2,752,017.46	0.7862	2,163,636.13	2,163,491.00	0.8109	1,754,374.85
CHF	382,955.21	6.8336	2,616,962.72	1,244,638.99	6.8219	8,490,802.73

## 21. Advance from customers

### (1) Details of the advances

Item	Closing balance	Opening balance
Advances for trade	9,667,278.30	12,131,032.89

(2) During the reporting period, there is no advance payment from any shareholder with 5% (inclusive) of

voting shares of the Company.

(3) Advances received from related parties

For details, see Note VIII.6 Receivables from and payables to related parties.

(4) Advances that are denominated in foreign currencies are as follows:

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
HKD	78,226.33	0.7862	61,501.54	17,278.10	0.8109	14,010.81

## 22. Employee remuneration payable

Item	Opening balance	Increase	Decrease	Closing balance
I. Wages, bonuses and allowances	27,778,001.08	329,844,164.52	326,719,220.09	30,902,945.51
II. Employee Welfare	-	7,939,322.60	7,939,322.60	-
III. Social insurance	-	42,890,066.74	42,890,066.74	-
Incl. 1.medical insurance	-	11,101,237.35	11,101,237.35	-
2.endowment insurance	-	27,941,685.32	27,941,685.32	-
3.unemployment insurance	-	2,126,759.56	2,126,759.56	-
4.work-related injury insurance	-	771,014.19	771,014.19	-
5.reproduction insurance	-	949,370.32	949,370.32	-
IV. Housing funds	-	12,709,025.17	12,709,025.17	-
V. Expenditure for labor union and employee training	312,978.14	6,361,938.69	6,404,050.19	270,866.64
VI. Compensation for termination of labor contract	-	273,975.00	273,975.00	-
VII. Others	-	787,637.71	787,637.71	-
Total	28,090,979.22	400,806,130.43	397,723,297.50	31,173,812.15

Note: The employee remuneration accrued at year end by the Group will be distributed in the coming accounting year.

## 23. Taxes payable

Item	Closing balance	Opening balance
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Item	Closing balance	Opening balance
Value added tax	23,538,538.96	29,641,692.34
Consumption tax	161,657.78	32,555.56
Business tax	701,932.65	669,050.42
Corporate income tax	30,923,761.70	22,388,435.03
Individual income tax	698,803.51	1,230,752.82
City maintenance & construction tax	389,481.45	392,294.10
Property tax	257,112.75	40,390.99
Educational surcharges	207,011.67	174,743.58
Stamp duty	293,628.46	709,908.93
Embankment protection fee	34,037.50	55,574.92
Others	422,208.83	369,676.54
Total	57,628,175.26	55,705,075.23

## 24. Interest payable

Item	Closing balance	Opening balance
Interest payable to bank	2,622,859.82	7,376,397.56
Interest payable for bond issued	16,800,000.00	-
合计	19,422,859.82	7,376,397.56

## 25. Other payables

### (1) Details of other payables

Item	Closing balance	Opening balance
within 1 year	20,229,108.51	26,922,292.71
1~2 years	8,749,189.38	1,128,478.98
2~3 years	694,894.09	1,480,662.36
over 3 years	8,781,742.32	7,921,980.06
Total	38,454,934.30	37,453,414.11

(2) During the reporting period there is no other payable to any shareholder with 5% (inclusive) of total voting shares of the Company.

(3) Payables to related parties

For details, see Note VIII.6 Receivables from and payables to related parties.

(4) Other payables in significant amount and with aging over 1 year

Creditor	Amount	Reasons for unpaid	Settled after the balance sheet date (Yes/No)
Shenzhen Tencent Computer System Co., Ltd.	5,142,001.36	within lease term	No
Sun Dai Wai	1,143,134.80	Not yet been return	No
Oracle R&D Center (Shenzhen) Limited	681,900.00	within lease term	No
CHEN CHAO CHUNG	786,200.00	Not yet been return	No
Zhu Jin	500,000.00	Meal card guarantee	No
VIA Technologies (Shenzhen) Co., Ltd.	482,965.70	within lease term	No
Shenzhen AVIC Real Estate Co., Ltd	424,800.00	within lease term	No
Shenzhen Good Family Sports-Ware Chain Limited	414,630.00	within lease term	No
Central Iron & Steel Research Institute	400,000.00	within lease term	No
Bravo Tech (Shenzhen) Co., Ltd.	375,432.24	within lease term	No
China Merchants Bank Shenzhen Sci-tech Park Branch	349,692.00	within lease term	No
Shenzhen Uni-phone Self-service Kara-Ok Entertainment Supermarket Limited	334,880.00	within lease term	No
Shenzhen Oriental Boiler Control Co., Ltd	318,491.60	within lease term	No
Shenzhen Yongantang Chain Pharmacy Limited	301,644.00	within lease term	No
Shenzhen Honestar Electronic Limited	241,827.38	within lease term	No
Shenzhen Avic Changtai Investment Development. Co., Ltd	221,712.00	within lease term	No
Total	12,119,311.08		

(5) Other payables in significant amount

Creditor	Closing balance	Nature or content
Shenzhen Tencent Computer System Limited	5,142,001.36	Lease guarantee

Sun Dai Wai	1,143,134.80	Temporary borrowing
Oracle R&D Center (Shenzhen) Limited	811,590.00	Lease guarantee
CHEN CHAO CHUNG	786,200.00	Lease guarantee
Shenzhen Yitianxun Technology Co., Ltd	613,657.80	Lease guarantee
Zhu Jin	500,000.00	Meal card guarantee
VIA Electronics (Shenzhen) Co., Ltd.	482,965.70	Lease guarantee
Shenzhen Avic Real Estate Co., Ltd	424,800.00	Lease guarantee
Shenzhen Good Family Sports-Ware Chain Limited	414,630.00	Lease guarantee
Central Iron & Steel Research Institute	400,000.00	Lease guarantee
Bravo Tech (Shenzhen) Co., Ltd.	375,432.24	Lease guarantee
Shenzhen Honestar Electronic Limited	375,144.00	Lease guarantee
China Merchants Bank Shenzhen Sci-tech Park Branch	349,692.00	Lease guarantee
Shenzhen Uni-phone Self-service Kara-Ok Entertainment Supermarket Limited	334,880.00	Lease guarantee
Shenzhen Oriental Boiler Control Co., Ltd	318,491.60	Lease guarantee
BILLION GENESIS ENTERPRISES LTD	306,618.00	Promotion expenses
Shenzhen Yongantang Chain Pharmacy Limited	301,644.00	Lease guarantee
Shenzhen Hengchangrong Investment Co., Ltd	240,000.00	Lease guarantee
Shenzhen Avic Changtai Investment Development Co., Ltd	221,712.00	Lease guarantee
Shenzhen Hangjian Engineering Cost Consultation Co., Ltd	208,304.00	Lease guarantee
Total	13,750,897.50	

## (6) Presentation of other payables denominated in foreign currencies:

Item	Closing balance			Opening balance		
	Amount in foreign	Exchange rate	RMB equivalent	Amount in foreign	Exchange rate	RMB equivalent
	currency			currency		
HKD	3,416,640.64	0.7862	2,686,162.87	2,772,237.60	0.8109	2,248,007.47
USD	3,613.12	6.0969	22,028.83	3,613.12	6.2855	22,710.27

CHF	73,242.38	6.8336	500,509.11	335,699.41	6.8219	2,290,107.81
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## 26. Non-current liabilities due within one year

### (1) Details of non-current liability due within one year

Item	Closing balance	Opening balance
Long-term loan due within one year (note VII. 28)	39,310,000.00	55,846,683.00

### (2) Long-term loan that is due within one year

#### ① Details of Long-term loan that is due within one year

Item	Closing balance	Opening balance
Guaranteed loan	39,310,000.00	55,846,683.00

#### ② Top five Long-term loans that will due within one year

Lender	Starting date	Ending date	Interest rate ( % )	Currency	Closing balance		Opening balance	
					Amount in foreign currency	Amount in RMB	Amount in foreign currency	Amount in RMB
Bank of China (Hongkong)	2012-11-9	2014-11-8	3.2472	HKD	30,000,000.00	23,586,000.00	-	
Bank of China (Hongkong)	2012-10-5	2014-10-4	3.2510	HKD	20,000,000.00	15,724,000.00	-	
China Construction Bank (Asia) Corp. Ltd.	2011-8-18	2013-8-18	Floating	HKD	-	-	34,435,000.00	27,923,341.50
China Construction Bank (Asia) Corp. Ltd.	2011-9-23	2013-9-23	Floating	HKD	-	-	34,435,000.00	27,923,341.50
Total					-	39,310,000.00	-	55,846,683.00

## 27. Other current liabilities

Item	Content	Closing balance	Opening balance
Accrued expense	Accrued expense for shopping centers	4,924,394.22	10,088,432.90



## 28. Long-term loans

### (1) Classification of long-term loans

Item	Closing balance	Opening balance
Guaranteed loan (Note ①)	118,291,928.00	96,391,683.00
Credit loan	87,000,000.00	-
Mortgage loan (Note ②)	7,293,022.01	7,838,020.45
Less: Long-term loan due within one year (note VII.26)	39,310,000.00	55,846,683.00
Total	173,274,950.01	48,383,020.45

Note ①: FIYTA Hong Kong' loan of RMB117,930,000.00 is guaranteed by the Company, and the Company's loan of RMB361,928.00 is guaranteed by China National Aviation Group.

Note ②: As described in Note VII.10, the loan is mortgaged by property and buildings with original cost of RMB26,441,545.26 and book value of RMB23,469,717.54.

### ② Top five long-term loans

Lender	Starting date	Ending date	Interest rate ( % )	Currency	Closing balance		Opening balance	
					Amount in foreign currency	Amount in RMB	Amount in foreign currency	Amount in RMB
Bank of China, Shenzhen Branch	2013-11-8	2018-11-7	6.4000	RMB	-	87,000,000.00	-	-
Bank of China (Hongkong)	2013-8-5	2016-8-4	3.0000	HKD	50,000,000.00	39,310,000.00	-	-
Bank of China (Hongkong)	2013-7-11	2016-7-10	3.0000	HKD	50,000,000.00	39,310,000.00	-	-
Dettes bancaires à long terme	2012-10-31	2022-10-31	3.0000	CHF	950,000.00	6,491,920.00	1,000,000.00	6,821,900.00
China Construction Bank (Asia) Corp. Ltd.	2011-11-30	2017-11-30	4.2500	HKD	1,018,954.48	801,102.01	1,253,077.38	1,016,120.45
Bank of China (Hongkong)	2012-11-9	2014-11-8	3.2472	HKD	-	-	30,000,000.00	24,327,000.00
Bank of China (Hongkong)	2012-10-5	2014-10-4	3.2510	HKD	-	-	20,000,000.00	16,218,000.00

Lender	Starting date	Ending date	Interest rate ( % )	Currency	Closing balance		Opening balance	
					Amount in foreign currency	Amount in RMB	Amount in foreign currency	Amount in RMB
Total						172,913,022.01		48,383,020.45

## 29. Bonds payable

Name of Bond	Par value	Date of issue	Maturity	Issued amount	Opening balance	Increase	Decrease	Closing balance
12 FIYTA Debt	400,000,000.00	27 Feb. 2013	3+2 years	400,000,000.00	-	397,728,975.00	-	397,728,975.00

Note: Increase in current year including bond issue income of 400,000,000.00 deducting issuing fee of 3,100,000.00 and bond interest adjustment of 828,975.00.

## 30. Other non-current liabilities

Item	Content	Closing balance	Opening balance
Deferred income	Government subsidy	2,950,000.00	1,506,000.00

Details of the deferred income:

Item	Opening balance	Newly acquired in current year	Charged to non-operating income in current year	Other Changes	Closing balance	Asset / income related
Fund to finance establishing of the technology center	600,000.00	-	600,000.00	-	-	Income related
Special funds of provincial cooperation by production, study and research	236,000.00	-	236,000.00	-	-	Income related
The 13 <sup>th</sup> Bonus for Patent Award	350,000.00	-	350,000.00	-	-	Income related
Special fund for Shenzhen strategic and new industry development (note ①)	320,000.00	-	-	-	320,000.00	Income related
Technical study for civil aviation airborne cockpit clock (note ②)	-	1,200,000.00	-	-	1,200,000.00	Income related
Special fund for cultural and creative industries development (note ③)	-	780,000.00	-	-	780,000.00	Income related
The 14 <sup>th</sup> Bonus for Patent Award (note ④)	-	600,000.00	-	250,000.00	350,000.00	Income related

2012 integration project of production, teaching and research (note ⑤)	-	300,000.00	-	-	300,000.00	Income related
Total	1,506,000.00	2,880,000.00	1,186,000.00	250,000.00	2,950,000.00	

Note ①: Special fund for Shenzhen strategic and new industry development was obtained according to the *Notice to Circulate the Plan of the 4th Batch of Shenzhen Specific Fund for Strategic and New Industry Development* Shen Fa Gai (2012) No.1241 which is jointly issued by Development and Reform Commission of Shenzhen Municipality, Economy, Trade and Information Commission of Shenzhen Municipality, Technological Innovation Commission of Shenzhen Municipality and Finance Commission of Shenzhen Municipality,

Note ②: Special fund was obtained from the First Special Fund for Technology Innovation Scheming Technological Development Project (Advanced Equipment Manufacturing) of 2013 Municipal Technology Research and Development Fund by Technological Innovation Commission of Shenzhen Municipality and Finance Commission of Shenzhen Municipality according to *Administrative Measures for Shenzhen Technology Research and Development* and *Administrative Measures for Shenzhen Technology Scheming Project*.

Note ③: Special Fund for FIYTA Cameraman Series Wristwatch project of the company was obtained from Shenzhen Municipal Bureau of Culture Sport and Tourism according to *Administrative Measures for Shenzhen Municipal Cultural Innovation Industry Development Special fund*.

Note ④: Special fund was obtained according to *Notice about Payment of Bonus for the 13th Chinese Patent Award* Yue Zhi Gui (2013) No.165 issued by Intellectual Property Right Bureau of Guangdong Province.

Note ⑤: Special Fund for Nickelless Stainless Steel Technology and Its Application of Production in Contact with Human Skin of 2012 Guidance Integration Project Fund by Production, Study and Research was obtained according to Yue Cai Jiao (2012) No.393 Special funds of provincial cooperation by production, study and research.

### 31. Share capital

Item	Opening balance		Increase or decrease in current year					Closing balance	
	Amount	Percentage (%)	New shares issued	Bonus shares	Shares increased by reserves capitalization	Others	Subtotal	Amount	Percentage (%)
I. Share capital with sales restrictions									
1.State-owned holdings	162,977,327.00	41.49	-	-	-	(162,977,327.00)	(162,977,327.00)	-	-
2. Other domestic	49,733.00	0.01	-	-	-	-	-	49,733.00	0.01

Item	Opening balance		Increase or decrease in current year					Closing balance	
	Amount	Percentage (%)	New shares issued	Bonus shares	Shares increased by reserves capitalization	Others	Subtotal	Amount	Percentage (%)
holdings									
Incl. Domestic legal person holdings	-	-	-	-	-	-	-	-	-
Domestic natural person holdings	49,733.00	0.01	-	-	-	-	-	49,733.00	0.01
Total share capital with sale restriction	163,027,060.00	41.50	-	-	-	(162,977,327.00)	(162,977,327.00)	49,733.00	0.01
II. Shares capital without sales restriction									
1. Ordinary Shares in RMB	148,092,810.00	37.71	-	-	-	162,977,327.00	162,977,327.00	311,070,137.00	79.20
2. Domestic Listed Foreign Shares	81,648,000.00	20.79	-	-	-	-	-	81,648,000.00	20.79
Total share capital with no sales restriction	229,740,810.00	58.50	-	-	-	162,977,327.00	162,977,327.00	392,718,137.00	99.99
III. Total share capital	392,767,870.00	100.00	-	-	-	-	-	392,767,870.00	100.00

Note: The share capital has been verified with the capital verification report of Zhongrui Yuehua Yan Zi (2011) No. 093, which is issued by RSM China CPAs.

### 32. Capital reserve

Item	Opening balance	Increase	Decrease	Closing balance
Share premium	511,014,504.13	-	-	511,014,504.13
Other capital reserves	14,492,448.65	-	-	14,492,448.65
Total	525,506,952.78	-	-	525,506,952.78

### 33. Surplus reserve

Item	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	86,602,786.61	8,126,413.59	-	94,729,200.20
Discretionary surplus reserve	61,984,894.00	-	-	61,984,894.00
Total	148,587,680.61	8,126,413.59	-	156,714,094.20

Note: according to the Company Law and Articles of Association, the Group draws statutory surplus reserve at 10% of net profit. If the statutory surplus reserve is over 50% of the Company's registered capital, drawing of

statutory surplus reserve can be stopped.

### 34. Undistributed profit

#### (1) Changes in undistributed profit

Item	2013	2012	Percentage for drawing or distribution
Undistributed profit at the end of prior year before adjustments	386,984,676.78	327,521,960.58	
Adjustments to undistributed profit at the beginning of the year	-	-	
Undistributed profit at the beginning of the year after adjustment	386,984,676.78	327,521,960.58	
Plus: Net profit attributable to the owner of the parent company for the year	130,125,124.48	116,003,746.03	
Less: statutory surplus reserve drawn	8,126,413.59	17,264,242.83	10.00%
Dividends payable to ordinary shares	39,276,787.00	39,276,787.00	
Undistributed profit at the end of the year	469,706,600.67	386,984,676.78	

#### (2) Description on distribution of dividend

Pursuant to the “Disclosure of Equity Distribution for Year 2012” approved at the 2012 Annual General Meeting held on 21 June 2013, the Company distributed to all shareholders cash bonus of RMB1.00 (tax inclusive) for every 10 shares held based on total shares of 392,767,870 as at 31 December 2012. Total cash dividend distributed was RMB39,276,787.00.

#### (3) Information on subsidiary's surplus reserve in the reporting period

In 2013, HARMONY Company, a subsidiary of the Company, drew surplus reserve of RMB 2,498,675.52, of which RMB 2,498,675.52 is attributable to the parent company. In 2013, Technology Company, a subsidiary of the Company, drew surplus reserve of RMB 1,091,078.81, of which RMB 1,091,078.81 is attributable to the parent company.

### 35. Operating revenue and operating cost

#### (1) Operating revenue and operating cost

Item	2013	2012
Revenue from main businesses	3,065,746,163.46	2,991,864,757.79
Revenue from other businesses	37,750,798.76	32,097,769.46
Total operating revenue	3,103,496,962.22	3,023,962,527.25
Cost for main businesses	1,971,723,379.05	1,968,893,588.06

Item	2013	2012
Cost for other businesses	18,401,766.69	13,432,515.15
Total operating cost	1,990,125,145.74	1,982,326,103.21

## (2) Main businesses presented by industry sectors

Industry sector	2013		2012	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Watches	2,984,547,987.19	1,957,755,888.80	2,921,298,013.87	1,947,898,460.61
Leasing	87,163,386.27	13,967,490.25	74,475,743.92	20,995,127.45
Subtotal	3,071,711,373.46	1,971,723,379.05	2,995,773,757.79	1,968,893,588.06
Less: the amount offset internally	5,965,210.00	-	3,909,000.00	-
Total	3,065,746,163.46	1,971,723,379.05	2,991,864,757.79	1,968,893,588.06

## (3) Main businesses presented by product

Product	2013		2012	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Branded watches	2,301,861,216.97	1,733,324,366.47	2,340,606,349.27	1,743,211,337.42
FIYTA watch	682,686,770.22	224,431,522.33	580,691,664.60	204,687,123.19
Property leasing	87,163,386.27	13,967,490.25	74,475,743.92	20,995,127.45
Subtotal	3,071,711,373.46	1,971,723,379.05	2,995,773,757.79	1,968,893,588.06
Less: the amount offset internally	5,965,210.00	-	3,909,000.00	-
Total	3,065,746,163.46	1,971,723,379.05	2,991,864,757.79	1,968,893,588.06

## (4) Main businesses presented by region

Region	2013		2012	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Southern China	976,738,481.63	607,835,407.97	895,648,801.46	571,148,231.58
Northwest China	558,311,345.16	363,009,177.34	659,330,623.07	438,260,186.50
Northern China	493,280,745.22	322,405,824.15	479,248,802.83	320,336,861.27
Eastern China	432,760,214.07	281,143,805.58	404,175,793.35	267,559,919.58
Northeast China	282,672,877.95	184,819,369.04	284,318,407.81	190,070,745.97

Region	2013		2012	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Southwest China	321,982,499.43	212,509,794.97	269,142,329.27	181,517,643.16
Subtotal	3,065,746,163.46	1,971,723,379.05	2,991,864,757.79	1,968,893,588.06
Less: the amount offset internally	-	-	-	-
Total	3,065,746,163.46	1,971,723,379.05	2,991,864,757.79	1,968,893,588.06

## (5) Operating revenue from top five customers

Period	Total revenue from top five customers	Percentage to total revenue in the same period (%)
2013	364,634,780.38	11.75
2012	365,528,090.62	12.09

**36. Business tax and surcharges**

Item	2013	2012
Consumption tax	2,074,363.64	600,967.05
Business tax	5,226,316.17	4,679,351.01
Urban maintenance and construction tax	8,328,827.60	7,505,581.49
Educational surcharge	3,279,324.36	3,193,879.88
Local educational surcharge	1,698,249.94	1,497,358.60
Others	2,137,965.82	1,097,675.41
Total	22,745,047.53	18,574,813.44

Note: please refer to Note V. Taxes for rate of related taxes.

**37. Distribution expenses**

Item	2013	2012
Salary	198,561,735.42	185,072,205.82
Amortization of long-term deferred expense	83,050,098.35	58,206,131.80
Market promotion expense	74,637,103.44	53,488,467.59
Rental	73,519,504.95	71,224,267.12
Advertising expense	48,099,428.53	45,516,513.86
Department store expense	44,324,424.71	37,404,820.33

Endowment insurance	30,506,204.96	27,296,736.05
Utilities	12,240,139.39	12,209,618.08
Packing expense	12,230,148.26	13,730,837.99
Exhibition expenditures	10,981,402.90	8,000,061.58
Others	61,147,652.01	63,537,782.74
Total	649,297,842.92	575,687,442.96

### 38. Administrative expenses

Item	2013	2012
Salary	93,537,918.74	87,408,793.22
R&D expenses	28,586,506.35	24,145,086.19
Social insurance	9,171,484.22	10,072,463.28
Depreciation	7,611,997.08	5,590,166.06
Travel expenses	7,087,469.93	6,424,413.84
Office expenses	4,039,583.59	3,202,393.92
Labor union fund	3,978,802.49	3,994,997.72
Entertainment expenses	3,511,587.34	3,442,251.90
Employee welfare	3,040,177.19	2,643,170.24
Conference expenses	2,844,205.05	3,361,813.62
Others	22,886,427.45	43,119,163.41
Total	186,296,159.43	193,404,713.40

### 39. Financial expenses

Item	2013	2012
Interest expense	88,455,766.03	99,748,784.32
Less: interest income	1,292,200.79	1,648,908.98
Gain or loss in foreign exchange	(997,317.84)	691,321.89
Bank charges	12,060,882.69	16,556,090.61



Plus: fee for loan guarantee	1,200,000.00	2,720,000.00
Others	841,111.46	588,428.63
Total	100,268,241.55	118,655,716.47

#### 40. Asset impairment loss

Item	2013	2012
Bad debt loss	2,257,019.16	2,335,008.46
Inventory impairment loss	6,465,651.92	4,553,087.44
Total	8,722,671.08	6,888,095.90

#### 41. Investment income

##### (1) Details of investment income

Item	2013	2012
Investment income from the long-term equity investment measured by equity method	1,589,198.33	1,732,241.79
Investment income from disposal of long-term equity investment	-	(213,572.76)
Total	1,589,198.33	1,518,669.03

##### (2) Investment income from the long-term equity investment measured by equity method

Investee	2013	2012	Reason for increase/decrease
Shanghai Watches	1,589,198.33	1,732,241.79	Variation in profit from the investee

#### 42. Non-operating income

Item	2013	2012	Amount included in this year's non-recurring profit or loss
Total gain on disposal of the non-current assets	465,627.90	3,442.36	465,627.90
Including: gain on disposal of fixed assets	465,627.90	3,442.36	465,627.90
Clearing of payables that cannot be paid	169,783.51	-	169,783.51
Breach penalty	286,572.72	718,870.37	286,572.72
Government subsidy (see the table below: details of government subsidies)	3,610,593.36	5,176,129.77	3,610,593.36

Item	2013	2012	Amount included in this year's non-recurring profit or loss
Others	321,549.91	1,203,252.86	321,549.91
Total	4,854,127.40	7,101,695.36	4,854,127.40

## Details of government subsidies:

Item	2013	2012	Asset / income related
2011-2013 Government Subsidy for FIYTA Brand Development Project (note①)	990,000.00	-	Income related
Fund to finance establishment of technical center (note②)	600,000.00	-	Income related
Government subsidy from Shenzhen watch and clock Association for 2011 Basel Exhibition (note③)	435,204.83	-	Income related
Shenzhen municipal reward fund for backbone enterprise (note④)	370,000.00	-	Income related
Award of the 13th Chinese Patent Award (note⑤)	350,000.00	-	Income related
2012 Shenzhen Municipal Prize for Progress in Science and Technology (Standard Prize) by Market Supervision and Administration Bureau of Shenzhen Municipality (note⑥)	300,000.00	-	Income related
Special funds of provincial cooperation by production, study and research (note⑦)	236,000.00	-	Income related
2012 Prize for Progress in Science and Technology by Technology Innovation Commission of Shenzhen Municipality (note⑧)	200,000.00	-	Income related
Government subsidy for standardization project (note⑨)	112,500.00	-	Income related
Subsidy for Exhibition Expenditures	16,888.53	-	Income related

Item	2013	2012	Asset / income related
Award of the 12th Chinese Patent Award	-	1,650,000.00	Income related
Fund for implementing standardize strategic	-	1,096,884.97	Income related
Shenzhen Special Subsidy for High-tech Sector	-	1,070,699.00	Income related
Fund to finance establishment of technical center	-	600,000.00	Income related
Subsidies for booths at 2011 Basel Exhibition	-	248,599.80	Income related
Subsidy fund for “A Kind of Watch and the Way of Manufacturing” project	-	150,000.00	Income related
Specific subsidy fund for self-innovation industry development of Nanshan District	-	177,000.00	Income related
2010 Guangdong Provincial Science and Technology Award	-	100,000.00	Income related
Subsidy for patent application	-	50,000.00	Income related
Subsidy specifically for development of Shenzhen-based private and small, medium sized enterprises	-	32,946.00	Income related
Total	3,610,593.36	5,176,129.77	

Note ①: It was obtained according to Shen Fu (2008) No. 149 “ Notice of Several Measures to Optimize Government Service and Promote Industry Development issued by Shenzhen Municipality.

Note ②: It was the construction subsidy of RMB3,000,000.00 obtained as the Company Technology Center was designated as Shenzhen Municipal Enterprises Technology Center according to Shen Jing Mao Fa (2002) No. 93 jointly issued by Economy and Trade Bureau of Shenzhen Municipality, Finance Bureau of Shenzhen Municipality, National Tax Bureau of Shenzhen Municipality and Regional Tax Bureau of Shenzhen Municipality. The project was finished at the beginning of 2009. The amortization in current year is RMB600,000.00; total amortization is RMB3,000,000.00.

Note ③: It was the Government subsidy from Shenzhen watch and clock Association for 2011 Basel Exhibition that obtained by the Company.

Note ④: The fund was allocated for the Company by Economy, Trade and Information Commission of Shenzhen

Municipality according to “2011 Shenzhen Municipal Governmental Reward Fund Scheme for Supporting Backbone Enterprises in Development Acceleration”.

Note ⑤: It was the specific prize awarded according to Yue Zhi Gui (2012) No.157 “Notice about Payment of Bonus for the 12th Chinese Patent Award” issued by Intellectual Property Right Bureau of Guangdong Province.

Note ⑥: It was prize awarded by Standardization Office, Market Supervision and Administration Bureau of Shenzhen Municipality according to “Shenzhen Municipality Notice of 2012 Shenzhen Municipal Science and Technology Reward.

Note ⑦: It was Special Funds of Provincial cooperation by production, study and research obtained according to Yue Cai Jiao (2009) No. 138.

Note ⑧: It was 2012 Shenzhen Municipal Prize for Progress in Science and Technology that obtained by the Company.

Note ⑨: It was the Standardization Fund obtained by Technology Company, a subsidiary company of the Company.

#### 43. Non-operating expenses

Item	2013	2012	Amount included in non-recurring profit or loss this year
Loss on non-current assets disposal	76,660.91	26,173.80	76,660.91
Incl. loss on fixed assets disposal	76,660.91	26,173.80	76,660.91
Overdue payment	-	100,013.94	-
Donation expense	680,000.00	100,000.00	680,000.00
Others	251,821.31	332,982.03	251,821.31
Total	1,008,482.22	559,169.77	1,008,482.22

#### 44. Income tax expense

Item	2013	2012
Current period income tax measured according to the tax law and related regulations	34,171,124.35	36,044,135.03
Deferred income tax adjustment	(12,819,446.68)	(15,217,164.37)
Total	21,351,677.67	20,826,970.66

## 45. Basic EPS and Diluted EPS

(1) Basic EPS and diluted EPS are presented as follows:

Profit during the reporting period	2013		2012	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Net profit attributable to the Company's ordinary shareholders	0.331	0.331	0.295	0.295
Net profit attributable to the Company's ordinary shareholders after deducting non-recurring profits and losses	0.324	0.324	0.288	0.288

(2) The process to calculate EPS and diluted EPS

In the reporting period, there are no potential dilutive ordinary shares, therefore, diluted EPS equals to basic EPS.

① In calculating basic EPS, net profit for each period attributable to ordinary share shareholders is:

Item	2013	2012
the period's net profit attributable to ordinary share shareholders	130,125,124.48	116,003,746.03
Including: net profit attributable to continued operations	130,125,124.48	116,003,746.03
Net profit attributable to the Company's ordinary share shareholders after deducting non-recurring profit or loss	127,158,503.02	113,231,625.62
Including: net profit attributable to continued operations	127,158,503.02	113,231,625.62

② In calculation of the basic EPS, the denominator is the weighted average number of outstanding ordinary shares. The calculation process is as follows:

Item	2013	2012
Number of outstanding ordinary shares at the beginning of the year	392,767,870.00	392,767,870.00
Plus: the weighted average number of the ordinary shares issued during the year	-	-
Less: the weighted average number of the ordinary shares brought back during the year	-	-
The weighted number of outstanding ordinary shares at the end of the year	392,767,870.00	392,767,870.00

## 46. Other comprehensive income

Item	2013	2012
Translation differences of financial statements denominated in foreign currencies	(1,113,864.13)	186,202.13

## 47. Notes to cash flow statement

### (1) Other cash received related to operating activities

Item	2013	2012
Product promotion fee	20,237,279.49	19,718,427.13
Security deposit	3,116,164.07	5,402,954.06
Government grant	5,304,593.36	4,582,129.77
Interest income	1,292,200.79	1,648,908.98
Petty cash	19,612.78	256,321.97
Others	2,359,830.90	5,662,079.85
Total	32,329,681.39	37,270,821.76

### (2) Other cash paid related to operating activities

Item	2013	2012
Rental	68,825,385.00	68,466,150.08
Marketing and promotion fee	72,337,103.48	50,990,247.50
Advertising fee	63,543,116.36	41,897,425.85
Department store expenses	28,831,716.21	19,589,105.85
Travel expenses	13,105,233.11	11,875,570.38
R&D expenses	11,828,678.97	8,696,080.85
Exhibition expenses	10,981,402.89	6,483,995.58
Office expenses	10,597,505.13	10,194,122.89
Entertainment expenses	7,757,673.11	7,262,012.20
Transportation expenses	7,385,888.70	7,209,754.45
Utility	5,791,708.37	12,262,224.15
Posting and telecommunication expenses	3,816,213.36	4,932,949.23
Insurance premium	3,185,695.46	2,200,857.13
Fees for agent services	2,507,014.01	3,291,029.51
Vehicle expenses	2,341,293.91	2,909,415.22
Packing expenses	2,290,982.21	37,890.18
Tranining expenses	1,630,544.86	2,575,086.69
Maintenance expenses	1,541,915.02	1,163,387.33
Consultation expenses	268,443.80	444,233.66
Others	26,672,983.97	42,257,948.68

Item	2013	2012
Total	345,240,497.93	304,739,487.41

## (3) Other cash received related to financing activities

Item	2013	2012
Banker's acceptance bill finance	-	125,000,000.00

## (4) Other cash paid related to financing activities

Item	2013	2012
Guarantee expense	1,200,000.00	3,320,000.00
Banker's acceptance bill finance	-	125,000,000.00
Bank charges for banker's acceptance bill	-	31,250.90
Fee for bond issuing	502,986.00	581,521.70
Consideration paid for equity transfer under business combination involving entities under common control	-	28,050,000.00
Total	1,702,986.00	156,982,772.60

**48. Supplementary information to cash flow statement**

## (1) Reconciliation from net profit to operating cash flows

Item	2013	2012
1. Reconciliation from net profit to operating cash flows		
<b>Net profit</b>	130,125,019.81	115,659,865.83
Plus: asset impairment provision	7,950,136.01	(57,729,058.90)
Depreciation of fixed asset and amortization of investment property	29,893,607.39	31,949,154.81
Amortization of intangible asset	1,416,772.60	1,355,809.78
Amortization of long-term deferred expense	98,355,902.48	78,288,070.83
Loss (gain) on disposal of fixed assets, intangible assets and other long-term assets	(388,966.99)	22,731.44
Financial expense	90,158,752.03	103,057,212.95
Investment loss (income)	(1,589,198.33)	(1,518,669.03)
Decrease (increase) of the deferred income tax assets	(12,819,446.68)	(15,088,771.18)
Increase (decrease) of deferred income tax liabilities	-	(128,393.19)

Item	2013	2012
Decrease (increase) of inventory	(246,543,224.09)	(229,205,152.15)
Decrease (increase) of operating receivables	(26,941,577.23)	(20,626,766.59)
Increase (decrease) of operating payables	9,429,713.92	39,810,625.16
<b>Net cash flows from operating activities</b>	<b>79,047,490.92</b>	<b>45,846,659.76</b>
<b>2. Significant investment and financing activities not involving cash transactions:</b>		
<b>3. Net changes in cash and cash equivalents:</b>		
Cash at the end of the year	107,663,110.74	140,420,994.71
Less: cash at the beginning of the year	140,420,994.71	179,972,430.02
Plus: cash equivalents at the end of the year	-	-
Less: cash equivalents at the beginning of the year	-	-
Net increase in cash and cash equivalents	(32,757,883.97)	(39,551,435.31)

## (2) Composition of cash and cash equivalents

Item	2013	2012
<b>① Cash</b>	<b>107,663,110.74</b>	<b>140,420,994.71</b>
Incl. Cash on hand	487,926.67	538,810.69
Bank deposit available for immediate payment	107,168,563.21	139,868,866.49
Other monetary funds available for immediate payment	6,620.86	13,317.53
<b>② Cash equivalents</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalent at the end of year</b>	<b>107,663,110.74</b>	<b>140,420,994.71</b>

**VIII. Related party relationship and transactions****1. Details of the parent company of the Company**

Name	Relationship	Type of enterprise	Registered place	Legal representative	Name of business
China National Aviation Group	Parent company	Limited by shares	Shenzhen	Wu Guangquan	investment in industries, domestic trade, material supply and distribution

(continued)



Name	Registered capital	Percentage of the Company shares held by parent company (%)	Voting percentage owned by parent company in the Company (%)	Ultimate controller of the Company	Organization code
China National Aviation Group	1,110,631,996.00	41.49	41.49	AVIC	27935122-9

Note: CATIC Shenzhen Company holds 35.63% shareholding of China National Aviation Group. CATIC Shenzhen Company is a wholly owned subsidiary of China Aero Space International Holdings Limited (CASI), and China Aviation Industry Corporation (AVIC) directly holds 62.52% of the equity of CASI. Therefore, the ultimate controlling party of the Company is AVIC.

## 2. Subsidiaries of the Company

See Note VI.1 Details of subsidiaries.

## 3. Jointly controlled and associate company of the Group

See Note VII.8 Long-term equity investment (3) for details.

## 4. Other related parties of the Group

Name of other related parties	Relationship with the Company	Organization code
Shenzhen CATIC Property Management Limited ( CATIC Property Management)	Controlled by the same party	19219400-5
Shenzhen CATIC Building Equipment Co., Ltd. ( CATIC Building Company)	Controlled by the same party	743201073
Rainbow Department Store Co., Ltd. (Rainbow Department Store )	Controlled by the same party	618842912
Shennan Circuits Co., Ltd. ( Shennan Circuits )	Controlled by the same party	192195761
CATIC Real Estate Company	Controlled by the same party	279340845
Shenzhen Maiwei Cable TV Equipment Limited ( Maiwei Company )	Controlled by the same party	618810902
AVIC Securities Co., Ltd. ( AVIC Securities Company)	Controlled by the same party	741986153
Xi'an Skytel Hotel Co., Ltd. (Skytel Hotel)	Controlled by the same party	76197033-5
Shenzhen AVIC Nanguang Elevator Co., Ltd. ( AVIC Nanguang Company)	Controlled by the same party	192350741
Shenzhen CATIC City Real Estate Development Co., Ltd. ( CATIC City Real Estate Company)	Controlled by the same party	676667833
Shenzhen CATIC City Development Co., Ltd. ( CATIC City Development Company)	Controlled by the same party	192194005
CATIC Guanlan Property Development Co., Ltd. ( CATIC Guanlan Property )	Controlled by the same party	763495945

CATIC Changtai Investment Development Co., Ltd. (CATIC Changtai Company )	Controlled by the same party	732047808
Shenzhen CATIC Jiufang Asset Management Limited (CATIC Jiufang Asset Mgmt Company)	Controlled by the same party	580064616
CATIC Trust Company	Controlled by the same party	158265930
Ganzhou CATIC Real Estate Development Co., Ltd. ( Ganzhou CATIC Real Estate Company )	Controlled by the same party	664794739
Shenzhen CATIC City Investment Co., Ltd (CATIC City Investment)	Controlled by the same party	279340845
Chengdu CATIC Property Development Co., Ltd (Chengdu CATIC Property Company)	Controlled by the same party	66047931X
Chengdu CATIC Sunshine Real-estate Co., Ltd (Chengdu CATIC Sunshine Company)	Controlled by the same party	202384639
Zhonghang Electronic Measuring Instruments Co., Ltd (Zhonghang Electronic Company)	Controlled by the same party	745016111
Shenzhen CATIC Theme Real-estate Co., Ltd (CATIC Theme Company)	Controlled by the same party	618811913
AVIC Training Center	-	-

## 5. Related party transactions

### (1) Receiving services from related parties

Related party	Type of transaction	Related transaction pricing principle and decision-making procedure	2013		2012	
			Amount	Percentage of the same category transactions (%)	Amount	Percentage of the same category transactions (%)
Zhonghang Electronic Company	Processing Charges	Negotiated price	38,931.11	0.32	-	-
CATIC Property Management	Property management	Negotiated price	1,781,754.76	100.00	1,605,837.42	100.00
Ganzhou CATIC Real Estate Company	Rental	Negotiated price	949,918.91	1.30	808,000.60	1.13
Chengdu CATIC Property Company	Rental	Negotiated price	546,919.23	0.75	75,758.92	0.11
AVIC Training center	Training	Negotiated price	281,013.20	17.18	46,600.00	1.81
Rainbow Department Store	Department store expenses	Negotiated price	2,393,915.69	5.64	2,939,606.14	7.86

## (2) Sales of goods and rendering of services to related parties

Related party	Type of transaction	Related transaction pricing principle and decision-making procedure	2013		2012	
			Amount	Percentage of the same category transactions (%)	Amount	Percentage of the same category transactions (%)
Rainbow Department Store	product sales and rendering of service	Negotiated price	80,900,993.83	2.71	73,447,892.06	2.60
AVIC	product sales	Negotiated price	1,906,205.98	0.06	11,013,948.55	0.39
Shennan Circuits	Material sales	Negotiated price	24,274,127.74	75.51	4,008,042.15	20.44
Zhonghang Electronic Company	Material sales	Negotiated price	168,714.53	0.52	-	-
Chengdu CATIC Sunshine Company	product sales	Negotiated price	-	-	36,244.44	-
CATIC Trust Company	product sales	Negotiated price	-	-	36,196.58	-
CATIC Property Management	product sales	Negotiated price	-	-	7,852.99	-

## (3) Related party leasing

Lessor	Lessee	Type of leased assets	Start date	End date	Basis for determination of lease income	Recognized rental income in current year
The Company	CATIC Real Estate Company	property	2012-5-16	2015-5-15	Negotiated price	1,508,832.00
The Company	Maiwei Company	property	2012-2-1	2013-5-30	Negotiated price	233,285.00
The Company	CATIC Property Management	property	2012-10-1	2015-9-30	Negotiated price	2,660,544.00
The Company	AVIC Securities Company	property	2012-9-16	2013-9-15	Negotiated price	1,037,310.00
			2013-9-16	2014-9-16		
The Company	CATIC City Real Estate Company	property	2012-5-16	2015-5-15	Negotiated price	22,320.00
The Company	CATIC City Development Company	property	2012-5-16	2015-5-15	Negotiated price	22,320.00
The Company	CATIC Guanlan Property	property	2012-5-16	2015-5-15	Negotiated price	89,280.00

The Company	CATIC Changtai Company	property	2012-5-16	2015-5-15	Negotiated price	1,285,632.00
The Company	Skytel Hotel	property	2012-8-1	2013-12-31	Negotiated price	3,500,000.00
The Company	Rainbow Department Store	property	2010-5-1	2013-4-30	Negotiated price	667,105.82
			2013-5-1	2016-4-30		
The Company	CATIC Jiufang Asset Mgmt Company	property	2011-7-19	2013-6-30	Negotiated price	378,066.00
			2013-7-1	2016-6-30		
The Company	CATIC City Investment Company	property	2012-5-16	2015-5-15	Negotiated price	90,024.00
The Company	CATIC Theme Real-estate Co., Ltd	property	2012-5-16	2015-5-15	Negotiated price	945,624.00

## (4) Related party guarantees

Guarantor	Guarantee	Amount guaranteed	Effective date	Expiring date	If the guarantee finished (Yes/No)
The Company	HARMONY Company	50,000,000.00	2013-7-3	2014-7-2	No
The Company	HARMONY Company	50,000,000.00	2013-7-18	2014-7-17	No
The Company	HARMONY Company	20,000,000.00	2013-7-23	2014-7-22	No
The Company	HARMONY Company	50,000,000.00	2013-7-26	2014-7-25	No
The Company	HARMONY Company	30,000,000.00	2013-7-30	2014-7-29	No
The Company	HARMONY Company	100,000,000.00	2013-12-30	2014-12-29	No
The Company	FIYTA Hong Kong	39,310,000.00	2013-7-11	2016-7-10	No
The Company	FIYTA Hong Kong	39,310,000.00	2013-8-5	2016-8-4	No
The Company	FIYTA Hong Kong	15,724,000.00	2012-10-5	2014-10-4	No
The Company	FIYTA Hong Kong	23,586,000.00	2012-11-9	2014-11-8	No
China National Aviation Group	The Company	50,000,000.00	2013-6-4	2014-6-3	No
HARMONY Company	The Company	50,000,000.00	2013-9-24	2014-9-23	No
HARMONY Company	The Company	70,000,000.00	2013-10-8	2014-10-7	No
China National Aviation Group	The Company	60,000,000.00	2013-8-7	2014-2-6	No
China National Aviation Group	The Company	130,000,000.00	2013-9-3	2014-3-3	No
China National Aviation Group	The Company	150,000,000.00	2013-8-23	2014-2-21	No

China National Aviation Group	The Company	361,928.00	2013-12-24	2023-12-23	No
China National Aviation Group	The Company	400,000,000.00	2013-2-27	2016-2-26	No

## (5) Remuneration for key management members

Annual remuneration levels	2013	2012
Total amount of Remuneration (in ten thousands Yuan)	1,105	1,056
Incl: (number of persons fall in corresponding remuneration level)		
Below 10	3	5
Between 10 and 100	2	3
Between 100 and 200	6	5
Over 200	-	1

(6) The Group paid China National Aviation Group fees for guarantee amounting to RMB 2,080,000.00 in current year.

(7) The Group borrowed funds from China National Aviation Group amounting to RMB100,000,000.00 in current year and the principal has been repaid with interest of RMB 205,833.33.

**6. Receivables from and payables to related parties**

## (1) Receivables from and prepayments to related parties

Item	Closing balance		Opening balance	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Accounts receivable:				
Rainbow Department Store	2,154,095.08	107,704.75	799,263.70	39,963.19
AVIC	644,059.00	32,202.95	676,811.00	33,840.55
Shennan Circuits	10,884,289.63	544,214.48	1,831,638.46	91,581.92
Zhonghang Electronic Company	197,396.00	9,869.80	-	-
Chengdu CATIC Sunshine Company	-	-	4,060.00	203.00
AVIC Training Center	-	-	1,764.00	176.40
Total	13,879,839.71	693,991.98	3,313,537.16	165,765.06

Item	Closing balance		Opening balance	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Notes receivable:				
Shennan Circuits	7,000,000.00	-	2,000,000.00	-
Zhonghang Electronic Company	100,000.00	-	-	-
Total	7,100,000.00	-	2,000,000.00	-
Other receivables:				
CATIC Property Management	6,700.00	335.00	-	-
Skytel Hotel	1,750,000.00	87,500.00	-	-
Ganzhou CATIC Real Estate Company	122,665.60	6,133.28	122,665.60	6,133.28
Rainbow Department Store	167,856.60	8,392.83	119,401.60	5,970.08
AVIC Training Center	11,424.70	571.24	150,000.00	7,500.00
Chengdu CATIC Property Company	115,616.40	5,780.82	100,536.00	5,026.80
Total	2,174,263.30	108,713.17	492,603.20	24,630.16

## (2) Payables to and advances from related parties

Item	Closing balance	Opening balance
Accounts payable:		
Zhonghang Electronic Company	45,549.40	-
Advances received:		
AVIC	15,469.00	-
Other payables:		
CATIC Building Company	8,227.10	8,227.10
AVIC Nanguang Company	3,354.90	3,354.90
CATIC City Investment Company	37,700.00	37,700.00
AVIC Securities Company	178,920.00	170,400.00
Maiwei Company	-	64,602.00
CATIC Real Estate Company	424,800.00	424,800.00

Rainbow Department Store	60,000.00	60,000.00
CATIC Changtai Company	221,712.00	221,712.00
CATIC Jiufang Asset Mgmt Company	60,606.00	-
Chengdu CATIC Real Estate Company	4,364.60	-
Total	999,684.60	990,796.00

## IX. Contingencies

As of 31 December 2013, the Group does not have any significant contingent events need to be disclosed.

## X. Commitments

### 1. Significant Commitments

#### (1) Capital commitment

RMB Yuan		
Item	End of 2013	Beginning of 2013
Contract signed but not yet recognized in the financial statements		
Long-term assets purchase and construction commitment	7,117,817.60	-

#### (2) Operating lease commitment

As of the balance sheet date, the irrevocable operating lease contracts signed by the Group are as follows:

RMB Yuan		
Item	End of 2013	Beginning of 2013
The minimum lease payment for irrevocable operating lease:		
The 1 <sup>st</sup> year after the balance sheet day	39,333,248.01	43,799,887.75
The 2 <sup>nd</sup> year after the balance sheet day	25,091,639.54	29,299,270.75
The 3 <sup>rd</sup> year after the balance sheet day	10,776,187.77	19,141,295.67
Years afterwards	6,241,600.00	15,032,033.33
Total	81,442,675.32	107,272,487.50

## XI. Events after the balance sheet date

1. The proposal of 2013 profit distribution plan to be recommended to the General Shareholders' Meeting has been approved on the 8<sup>th</sup> Board Meeting of the 7<sup>th</sup> Board of Directors on 27 February 2014. It

proposed to distribute cash dividend of RMB 1.00 (tax inclusive) for every 10 shares held by shareholders based on the total 392,767,870 shares as at 31 December 2013. Cash dividends that need to be distributed amount to RMB39,276,787.00. The proposal is subject to the approval from Annual General Shareholders' Meeting.

2. Pursuant to the resolution passed in the 8<sup>th</sup> Board Meeting of the 7<sup>th</sup> Board of Directors on 27 February 2014, the Company plans to apply credit facility from banks using guaranteed loan, mortgage loan and other means of no more than RMB1,800,000,000.00 in 2014. The proposal of credit facility application is subject to approval from Annual General Shareholders' Meeting.

3. Pursuant to the resolution passed in the 8<sup>th</sup> Board Meeting of the 7<sup>th</sup> Board of Directors on 27 February 2014, the Company plans to apply credit facility of no more than RMB 1,000,000,000.00 from banks in form of guaranteed loan for HARMONY Company, Sales Company, Manufacturing Company, Technology Company, FIYTA Hong Kong, and Trading Company in 2014. The credit facility is included in the total bank facility of RMB1,800,000,000.00 to be applied by the Company in 2014. The proposal of credit facility application is subject to approval from Annual General Shareholders' Meeting.

## XII. Notes to other significant events

1. Watch Center de-registered its registration with the State Tax Bureau of Futian District, Shenzhen Municipality on 3 December 2013 and de-registration of the commerce and industry information is still in processing.

2. The Company is authorized to publicly issue company bond with no more than RMB 400,000,000.00 in par value pursuant to the "Approval of Public Issuing of Company Bond by FIYTA Holdings Ltd" (Zheng Jian Xu Ke (2012) No.1209) issued by SASAC on 9 September 2012. On 26 February 2013, the coupon rate of the bond was determined to be 5.04%. The Company will issue the bond to the public investors over the internet using this coupon rate starting from 27 February 2013 (the code for internet issuing is "101699", and the name is "12 FIYTA Debt"), and will issue the bond to institutional investors offline from 27 February 2013 to 1 March 2013. Current period bond issued is amounting to RMB400,000,000.00 and the net fund of RMB396,900,000.00 raised after deduction of issuing expenses has been remitted to the bank account designated by the Company on 5 March 2013. The interest is counted starting from 27 February 2013.

## XIII. Notes to main items of the Company's financial statements

### 1. Accounts receivable

(1) Receivables presented by types

Types	Closing balance	
	Carrying amount	Bad debt provision



	Amount	Percentage (%)	Amount	Percentage (%)
Receivables that are individually significant in amount and provided for bad debt separately	-	-	-	-
Receivables provided for bad debt by portfolio:	-	-	-	-
Portfolio of aging	-	-	-	-
Portfolio of specific accounts	239,193,039.81	100.00	-	-
Subtotal of portfolios	239,193,039.81	100.00	-	-
Receivables that are individually insignificant in amount but provided for bad debt separately	-	-	-	-
Total	239,193,039.81	100.00	-	-

(continued)

Types	Opening balance			
	Carrying amount		Carrying amount	
	Amount	Percentage (%)	Amount	Percentage (%)
Receivables that are individually significant in amount and provided for bad debt separately	-	-	-	-
Receivables provided for bad debt by portfolio:	-	-	-	-
Portfolio of aging	1,491,713.44	0.62	286,124.69	19.18
Portfolio of specific accounts	239,386,390.85	99.38	-	-
Subtotal of portfolios	240,878,104.29	100.00	286,124.69	0.12
Receivables that are individually insignificant in amount but provided for bad debt separately	-	-	-	-
Total	240,878,104.29	100.00	286,124.69	0.12

## (2) Receivables presented by aging

Aging	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	-	-	138,269,259.91	57.40
1 to 2 years	138,082,739.18	57.73	102,187,976.32	42.43
2 to 3 years	101,110,300.63	42.27	270,685.75	0.11

Aging	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Over 3 years	-	-	150,182.31	0.06
Total	239,193,039.81	100.00	240,878,104.29	100.00

## (3) Bad debt provision

Accounts receivable that are provided for bad debt based on portfolio

A. among the portfolio, accounts receivable that are provided for bad debt based on aging analysis

Aging	Closing balance			Opening balance		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	-	-	-	64,884.69	4.35	3,244.23
1 to 2 years	-	-	-	1,020,960.69	68.44	102,096.07
2 to 3 years	-	-	-	377,394.06	25.30	152,310.39
Over 3 years	-	-	-	28,474.00	1.91	28,474.00
Total	-	-	-	1,491,713.44	100.00	286,124.69

B. among the portfolio, accounts receivable that are provided for bad debt using other method

Name of portfolio	Carrying amount	Bad debt provision
Portfolio of specific accounts	239,193,039.81	-

(4) During the reporting period, there are no receivables from any shareholders held over 5% (inclusive) voting shares of the Company.

## (5) Top 5 receivable accounts

Name of accounts	Relationship with the Company	Amount	Aging	Percentage of total accounts receivable (%)
Sales Company	Consolidated	239,193,039.81	1 to 3 years	100.00

## (6) Accounts receivable from related parties

Name of accounts	Relationship with the Company	Amount	Percentage of total accounts receivable (%)
Sales Company	Consolidated	239,193,039.81	100.00

## 2. Other receivables

## (1) Other receivables presented by types

Types	Closing balance			
	Carrying amount		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables that individually significant in amount and provided for bad debt separately	-	-	-	-
Other receivables provided for bad debt by portfolio	-	-	-	-
Portfolio of aging	2,511,372.60	0.19	153,225.81	6.10
Portfolio of specific accounts	1,335,273,187.22	99.81	-	-
Subtotal of portfolio	1,337,784,559.82	100.00	153,225.81	0.01
Other receivables that individually insignificant in amount but provided for bad debt separately	-	-	-	-
Total	1,337,784,559.82	100.00	153,225.81	0.01

(continued)

Types	Opening balance			
	Carrying amount		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables that individually significant in amount and provided for bad debt separately	-	-	-	-
Other receivables provided for bad debt by portfolio	-	-	-	-
Portfolio of aging	1,167,527.00	0.13	140,077.13	12.00
Portfolio of specific accounts	877,980,927.88	99.87	-	-
Subtotal of portfolio	879,148,454.88	100.00	140,077.13	0.02
Other receivables that individually insignificant in amount but provided for bad debt separately	-	-	-	-
Total	879,148,454.88	100.00	140,077.13	0.02

## (2) Other receivables presented by aging

Aging	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)

Aging	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	1,233,791,918.34	92.22	821,755,722.88	93.47
1 to 2 years	49,442,905.29	3.70	53,350,816.59	6.07
2 to 3 years	52,827,112.88	3.95	3,958,067.08	0.45
Over 3 years	1,722,623.31	0.13	83,848.33	0.01
Total	1,337,784,559.82	100.00	879,148,454.88	100.00

## (3) Bad debt provision

Other receivable that are provided for bad debt based on portfolio

A. among the portfolio, other receivables that are provided for bad debt based on aging analysis

Aging	Closing balance			Opening balance		
	Carrying amount		Bad debt provision	Carrying amount		Bad debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
Within 1 year	2,296,287.70	91.44	116,816.88	528,550.00	45.27	26,427.50
1 to 2 years	110,000.07	4.38	11,000.01	459,474.67	39.36	45,947.47
2 to 3 years	35,542.50	1.41	10,662.75	110,245.00	9.44	33,073.50
Over 3 years	69,542.33	2.77	14,746.17	69,257.33	5.93	34,628.66
Total	2,511,372.60	100.00	153,225.81	1,167,527.00	100.00	140,077.13

B. among the portfolio, other receivables that are provided for bad debt using other method

Name of portfolio	Carrying amount	Bad debt provision
Portfolio of specific accounts	1,335,273,187.22	-

(4) During the reporting period, there are no receivables from any shareholders held over 5% (inclusive) voting shares of the Company.

(5) Top 5 other receivable accounts

Name of company	Relationship with the Company	Amount	Aging	Percentage of total other receivables (%)
HARMONY Company	Subsidiary	1,072,381,174.81	Within 1 year	80.16
Sales Company	Subsidiary	140,678,139.08	Within 1 year	10.52

Emile Choureit Shenzhen Company	Subsidiary	6,868,950.46	Within 1 year	0.51
		9,687,626.49	1 – 2 years	0.72
		28,237,373.51	2 – 3 years	2.11
Manufacturing Company	Subsidiary	5,259,145.98	Within 1 year	0.39
		28,860,178.13	1 – 2 years	2.16
Trading Company	Subsidiary	3,348,343.48	Within 1 year	0.25
		8,903,769.33	1 – 2 years	0.67
		13,849,315.39	2 – 3 years	1.04
		1,630,978.28	Over 3 years	0.12
Total		1,319,704,994.94		98.65

## (6) Receivables from related parties

Name of company	Relationship with the Company	Amount	Percentage of total other receivables (%)
HARMONY Company	Subsidiary	1,072,381,174.81	80.16
Sales Company	Subsidiary	140,678,139.08	10.52
Emile Choureit Shenzhen Company	Subsidiary	44,793,950.46	3.35
Manufacturing Company	Subsidiary	34,119,324.11	2.55
Trading Company	Subsidiary	27,732,406.48	2.07
Technology Company	Subsidiary	13,977,525.38	1.04
Skytel Hotel	Related party	1,750,000.00	0.13
FIYTA Hong Kong	Subsidiary	1,147,471.00	0.09
AVIC Training Center	Related party	11,424.70	-
Total		1,336,591,416.02	99.91

## (7) Presentation of other receivables denominated in foreign currency and the exchange rates used

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
USD	-	-	-	1,200.00	6.2855	7,542.60
CHF	5,000.00	6.8336	34,168.00	2,000.00	6.8219	13,643.80
EURO	3,000.00	8.4189	25,256.70	3,000.00	8.3176	24,952.80
Total			59,424.70			46,139.20

### 3. Long-term equity investment

#### (1) Classification of the long-term equity investment

Classification	Opening balance	Increase	Decrease	Closing balance
Investment in subsidiaries	732,199,720.00	-	-	732,199,720.00
Investment in associated companies	41,648,741.79	1,589,198.33	-	43,237,940.12
Other equity investment	385,000.00	-	-	385,000.00
Less: impairment provision for long-term equity investment	300,000.00	-	-	300,000.00
Total	773,933,461.79	1,589,198.33	-	775,522,660.12

#### (2) Details of long-term equity investment

Investee	Accounting method	Cost of investment	Opening balance	Movement in the year	Closing balance
HARMONY Company	Cost	601,307,200.00	601,307,200.00	-	601,307,200.00
Watch Center	Cost	1,400,000.00	1,400,000.00	-	1,400,000.00
Harbin Company	Cost	125,000.00	125,000.00	-	125,000.00
Manufacturing Company	Cost	9,000,000.00	9,000,000.00	-	9,000,000.00
Shanghai Watch	Equity	39,916,500.00	41,648,741.79	1,589,198.33	43,237,940.12
Technology Company	Cost	10,000,000.00	10,000,000.00	-	10,000,000.00
FIYTA Hong Kong	Cost	55,367,520.00	55,367,520.00	-	55,367,520.00
Trading Company	Cost	5,000,000.00	5,000,000.00	-	5,000,000.00
Xi'an Tangcheng Limited	Cost	85,000.00	85,000.00	-	85,000.00
Shenzhen Zhonghang Culture Co. Ltd	Cost	300,000.00	300,000.00	-	300,000.00
Sales Company	Cost	50,000,000.00	50,000,000.00	-	50,000,000.00
Total			774,233,461.79	1,589,198.33	775,822,660.12

(continued)

Investee	Shareholding in investee (%)	Voting power enjoyed in investee (%)	Explanation on inconsistency between the shareholding percentage and voting percentage in investee	Provision for impairment	Provision recognized in current year	Cash dividend in current year
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HARMONY Company	100.00	100.00	N/A	-	-	-
Watch Center	50.00	50.00	Another shareholder enjoys fixed income with no involvement in operation	-	-	-
Harbin Company	100.00	100.00	N/A	-	-	-
Manufacturing Company	100.00	100.00	N/A	-	-	64,933,629.27
Shanghai Watch	25.00	25.00	N/A	-	-	-
Technology Company	100.00	100.00	N/A	-	-	10,037,848.87
FIYTA Hong Kong	100.00	100.00	N/A	-	-	-
Trading Company	100.00	100.00	N/A	-	-	-
Xi'an Tangcheng Limited	0.10	0.10	N/A	-	-	-
Shenzhen Zhonghang Culture Co. Ltd	15.00	15.00	N/A	300,000.00	-	-
Sales Company	100.00	100.00	N/A	-	-	-
Total	100.00	100.00		300,000.00	-	74,971,478.14

## (3) Details of impairment provision for long-term equity investment

Item	Opening balance	Increase	Decrease	Closing balance
Other equity investment				
Shenzhen Zhonghang Culture Co. Ltd	300,000.00	-	-	300,000.00

**4. Operating revenue and operating cost**

## (1) Operating revenue and operating cost

Item	2013	2012
Revenue from main businesses	95,787,415.95	165,379,500.98
Revenue from other businesses	-	5,697,574.88
Total operating revenue	95,787,415.95	171,077,075.86
Cost for main businesses	21,182,291.58	81,780,106.40
Cost for other businesses	-	5,238,047.00

Item	2013	2012
Total operating cost	21,182,291.58	87,018,153.40

## (2) Main businesses presented by industry sectors

Industry sector	2013		2012	
	Operating revenue	Operating cost	Operating revenue	Operating cost
FIYTA watch	7,245,239.68	7,214,801.33	94,812,757.06	60,784,978.95
Property lease	88,542,176.27	13,967,490.25	70,566,743.92	20,995,127.45
Total	95,787,415.95	21,182,291.58	165,379,500.98	81,780,106.40

## (3) Main businesses presented by regions

Regions	2013		2012	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Southern China	95,787,415.95	21,182,291.58	165,379,500.98	81,780,106.40

## (4) Operating revenue from top 5 clients

Period	Total revenue from top five clients	Percentage of total revenue in the same period (%)
2013	48,856,316.56	51.00
2012	158,790,508.61	92.82

## 5. Investment income

## (1) Details of investment income

Investee	2013	2012
Investment income from long-term equity investment measured by cost method	74,971,478.14	172,202,084.88
Investment income from long-term equity investment measured by equity method	1,589,198.33	1,732,241.79
Investment income arising from disposal of the long-term equity investment	-	(213,572.76)
Total	76,560,676.47	173,720,753.91

## (2) Investment income from long-term equity investment measured by cost method

Investee	2013	2012
HARMONY Company	-	96,241,944.83
Manufacturing Company	64,933,629.27	75,960,140.05



Investee	2013	2012
Technology Company	10,037,848.87	-
Total	74,971,478.14	172,202,084.88

## (3) Investment income from long-term equity investment measured by equity method

Investee	2013	2012	Reasons for changes
Shanghai Watch	1,589,198.33	1,732,241.79	Profit change of investee

## 6. Supplementary information to the cash flow statement

Item	2013	2012
<b>1. Reconciliation from net profit to operating cash flows</b>		
<b>Net profit</b>	81,264,135.86	172,642,428.29
Plus: asset impairment provision	(272,976.01)	(59,905,417.75)
Depreciation of fixed asset and amortization of investment property	14,904,510.45	18,815,815.63
amortization of intangible asset	1,405,452.64	1,344,489.92
Amortization of long-term deferred expense	8,547,838.09	13,329,423.61
Loss (gain) on disposal of fixed assets, intangible assets and other long-term assets	(465,627.90)	872.93
Financial expense	10,916,896.42	24,217,153.74
Investment loss (income)	(76,560,676.47)	(173,720,753.91)
Decrease (increase) of the deferred income tax assets	(351,756.00)	3,217,976.39
Increase (decrease) of deferred income tax liabilities	-	(128,393.19)
Decrease (increase) of inventory	326,238.78	72,713,728.39
Decrease (increase) of operating receivables	(402,736,600.79)	87,876,595.00
Increase (decrease) of operating payables	(5,929,901.12)	(42,141,539.14)
<b>Net cash flows from operating activities</b>	<b>(368,952,466.05)</b>	<b>118,262,379.91</b>
<b>2. Significant investment and financing activities not involving cash transactions:</b>	-	-
<b>3. Net changes in cash and cash equivalents:</b>		
Cash and bank balances at the end of the year	27,929,968.24	51,372,778.02

Item	2013	2012
Less: cash and bank balances at the beginning of the year	51,372,778.02	49,327,161.12
Plus: cash equivalents at the end of the year	-	-
Less: cash equivalents at the beginning of the year	-	-
Net increase in cash and cash equivalents	(23,442,809.78)	2,045,616.90

## XIV. Supplementary Information to the Notes of the Financial Statements

### 1. Details of non-recurring profit or loss

Item	2013	2012
Gain or losses from disposal of non-current assets	388,966.99	(236,304.20)
Government grants included in current profit or loss (except for the fixed or quantitative government grants, enjoyed in a consecutive way, which closely related to the enterprise businesses and according to certain state policies and or on a nation-wide unified standard)	3,610,593.36	5,176,129.77
Net profit or loss between the beginning of the year to the combination date from the subsidiaries acquired through business combinations involving entities under common control	-	(2,130,265.54)
Other non-operating income and expenses besides the items above	(153,915.17)	1,389,127.26
Subtotal	3,845,645.18	4,198,687.29
Income tax effect	873,382.95	1,425,666.23
Effect of minority shareholders' interest (after tax)	5,640.77	900.65
Total	2,966,621.46	2,772,120.41

The Group recognized the non-recurring profit or loss items in accordance with “Explanatory Public Notice on Information Disclosure of Companies Having Publicly Issued Securities No.1 – Non-recurring Profit or Loss” (Zheng Jian Hui Gong Gao (2008) No. 43)

### 2. Return on Equity (ROE) and EPS

Profit of the reporting period	Weighted average ROE	EPS (Yuan per Share)	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders of the Company	8.69%	0.331	0.331
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	8.49%	0.324	0.324

Note: (1) the weighted average ROE = “net profit attributable to the Company's ordinary shareholders” ÷ [“opening net assets attributable to the Company's ordinary shareholders” + “net profit attributable to the Company's ordinary shareholders” ÷ 2 – (“net asset decreased by cash dividends during reporting period, attributable to the Company's ordinary shareholders” \* “cumulative number of months from the next month of net asset attributable to the Company's ordinary shareholders decrease to the end of the reporting period” ÷ “number of months in the reporting period”) - (“net assets changes arising from foreign currency financial statement translation” \* “cumulative number of months from the next month of net asset changes due to other matters to the end of the reporting period” ÷ “number of months in the

reporting period”)] =

$$130,125,124.48 \div [1,446,677,625.13 + 130,125,124.48 \div 2 - 39,276,787.00 \times 4 \div 12 - 1,091,278.05 \times 6 \div 12] = 8.69\%$$

The weighted average ROE after deducting non-recurring profit or loss = “net profit attributable to the Company's ordinary shareholders after deducting non-recurring profit and losses” ÷ [“opening net assets attributable to the Company's ordinary shareholders” + “net profit attributable to the Company's ordinary shareholders” ÷ 2 – (“net asset decreased by cash dividends during reporting period, attributable to the Company's ordinary shareholders” \* “cumulative number of months from the next month of net asset attributable to the Company's ordinary shareholders decrease to the end of the reporting period” ÷ “number of months in the reporting period”) - (“net assets changes arising from foreign currency financial statement translation” \* “cumulative number of months from the next month of net asset changes due to other matters to the end of the reporting period” ÷ “number of months in the reporting period”) ] =

$$127,158,503.02 \div [1,446,677,625.13 + 130,125,124.48 \div 2 - 39,276,787.00 \times 4 \div 12 - 1,091,278.05 \times 6 \div 12] = 8.49\%$$

(2) For the calculation of basic EPS and diluted EPS, see Note VII. 45.

### 3. Abnormal Items in the Group's consolidated financial statements and explanation

#### (1) Balance sheet items

Main balance sheet items with changes over RMB 5,000,000.00 or over 15% by comparing the closing balance and the opening balance are analyzed as follows:

A. The closing balance of cash and bank balances is RMB 107,663,110.74, which is 23.33% less than its opening balance. The main reasons for the decrease are:

- a) Cash paid for purchasing fixed assets, intangible assets and other long-term assets amounting to RMB 118,960,000.00 ;
- b) Net cash inflow from newly acquired bank loans and company bond issued up to RMB121,800,000.00 ;
- c) Cash paid for loan interest and dividend amounting to RMB113,060,000.00; and
- d) Operating cash inflow amounting to RMB79,050,000.00;

B. The closing balance of notes receivable is RMB7,100,000.00, increased 255.00% compared to the opening balance. The main reason for the increase is trade receivable from customers of Technology Company, a subsidiary of the Company, increased the usage of notes receivable for accounts settlement;

C. The closing balance of accounts receivable is RMB324,457,339.19, increased 4.96% compared to the opening balance. The main reasons for the increase are: it is peak season for luxury watch and FIYTA watch at the year end; the timing of ordinary settlement term with the department stores is lacking behind; and the overall increase in scale of sales;

D. The closing balance of advance payment is 43,487,613.07, decreased 42.34% compared to the opening balance. The main reason for the decrease is advances prepaid to Kuntai Real Estate Company and China Tenth Metallurgy Group Limited Corporation was reclassified to other non-current assets according to its nature;

E. The closing balance of other accounts receivable-other is 40,436,640.10, increased 21.24%. The main reason for the

increase is security deposit increased;

F. The closing balance of inventory is RMB2,123,342,820.93, increased 12.75% compared to the opening balance. The main reasons for the increase are new models of FIYTA brand watches increased, the amount of consignment strengthened and the inventory increased accordingly;

G. The closing balance of other current assets is RMB30,811,991.07, decreased 39.64% compared to the opening balance. The main reason for the decrease is that the amount of input tax of value-added-tax of the Group to be deducted decreased towards the year end of 2013;

H. The closing balance of long-term deferred expenses is RMB146,542,685.58, increased 16.05% compared to the opening balance. The increase is caused by newly-added representative cost, decoration cost of sales agent and so on;

I. The closing balance of deferred tax asset is RMB74,159,134.29, increased 20.90% compared to the opening balance. This is mainly due to increase in unrealized profit of inter-company sales;

J. The closing balance of other non-current assets is RMB32,476,867.85, which is transferred from advances for construction prepaid to Kuntai Real Estate Company and China Tenth Metallurgy Group Limited Corporation in current year;

K. The closing balance of short-term loan is RMB1,023,000,000.00, which is 27.44% lower than the opening balance. The decrease is mainly due to part of loan was repaid by the Company using fund raised from bond issuing;

L. The closing balance of accounts payable is RMB222,347,620.47, increased 5.23% compared to the opening balance. The main reason for the increase is that inventory purchasing increased;

M. The closing balance of interest payable is RMB19,422,859.82, increased 163.31% compared to the opening balance. The increase is mainly due to accrual of interest of company bond;

N. The closing balance of non-current liabilities due within one year is RMB39,310,000.00, decreased 29.61% compared to the opening balance. The decrease is due to long-term loan due within one year at the end of 2013 decreased compared to the end of 2012;

O. The closing balance of long-term loan is RMB173,274,950.01, increased 258.13% compared to the opening balance. The main reason for the increase is that the short-term loan had been repaid at its maturity and most newly acquired loans are long-term loans; and

P. The closing balance of bond payable is RMB397,728,975.00 because the Company issued bond in 2013.

## (2) Income statement items

Analysis of main items in 2013 that are with changes over 15% or RMB5,000,000.00 in amount compared with 2012 figure are as follows:

A. Operating revenue realized for 2013 was RMB3,103,496,962.22, which was 2.63% higher than 2012. The increase is mainly due to the increase in the sales of FIYTA brand watches and property rental income compared to the same period

of 2012;

B. Operating cost incurred in 2013 was RMB1,990,125,145.74, increased 0.39% compared to 2012. Main reason for the increase is that sales increased. The percentage of increase in operating cost is 2.24 percentage points higher than the operating revenue. The main reason for this difference is variation of products mix;

C. The distribution expenses incurred in 2013 was RMB649,297,842.92, which is 12.79% higher than 2012 figure. The main reasons for the increase include:

- a) the amortization of long-term deferred expenses (shop decoration etc...) increased about RMB 24,840,000.00 as a result of new shops opened;
- b) expenses for FIYTA brand's marketing, promotion and advertising increased about RMB23,730,000.00;
- c) the employee remuneration increased about RMB13,490,000.00 as a result of expansion of operating scale; and
- d) expenses for department store and rental increased about RMB9,210,000.00 as a result of new shops opened;

D. The financial expense incurred in 2013 was RMB100,268,241.55, which is 15.50% lower on 2012 figure. This is mainly because interest expense decreased as a result of the comparative low interest rate of the company bond issued by FIYTA in 2013.