



SHENZHEN FIYTA HOLDINGS LTD.
2001 ANNUAL REPORT

April 16, 2002

Important: The Board of Directors of the Company hereby confirms that there are no important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individually and/or jointly, for the reality, accuracy and completion of the whole contents. This annual report was prepared in both Chinese and English version. Should there be any difference in understanding of the two versions, the Chinese version shall prevail.

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

Mr. Lu Bingqiang, director, failed to be present at the Board meeting due to work requirement.

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Chapter 1 Company Profile

1. Legal Name in Chinese and English and Short Form:
In Chinese: 深圳市飞亚达 (集团) 股份有限公司
In English: SHENZHEN FIYTA HOLDINGS LTD.
English Short Form: FIYTA
2. Legal Representative: Mr. Li Zhizheng
3. Secretary of the Board and Security Affairs Representative:
Hao Huiwen, Chen Zhuo
Address : FIYTA Building, 163 Zhenhua Rd., Shenzhen
Tel: (0755) 3217888-8218
Fax: (0755) 3348369
E-mail: szfydjts@sina.com
4. Registered / Office Address: FIYTA Building, 163 Zhenhua Rd., Shenzhen
Post Code: 518041
Web Site: <http://www.fiyta.com>
E-mail: szfiyta@public.szptt.net.cn
5. Newspapers Designated for Disclosing the Information:
Securities Times, Hong Kong Commercial Daily
Internet Web Site Designated by China Securities Regulatory Commission for
Publishing the Annual Report: "<http://www.cninfo.com.cn>"
Place Where the Annual Report is Prepared and Placed:
Securities Department of the Company
6. Stock Exchange Listed with: Shenzhen Stock Exchange
Short Form & Code of the Stock: FIYTA A 000026
FIYTA B 200026
7. Other Relevant Information
 - 1) Date of first registration: March 30, 1990
Date of change of registration: January 30, 1997
Registration with: Shenzhen Municipal Administration for Industry and
Commerce.
 - 2) Business License No.: 4403011001583
 - 3) Taxation Registration No.: 440301192189783
 - 4) Certified public accountant engaged

	Name	Office Address
A Shares	Pricewaterhouse Coopers Zhongtian Certified Public Accountants	12-Floor, Rui'an Plaza, No. 333 Huaihai M. Road., Shanghai
B Shares	Pricewaterhouse Coopers China Limited	Room 3706, Diwang Commerce Center, Shun Hing Square, No. 5002 Shennan E. Road, Shenzhen

Chapter 2 Financial and Business Highlights

. Financial Highlights

Items	Amount In RMB
Total profit	16,000,180
Net profit	11,322,807
Net profit, less the non-recurring gains and loss	3,751,042
Profit from principal businesses	81,417,594
Profit from other business lines	19,142,605
Operating profit	13,326,640
Investment income	1,909,801
Subsidy income	0
Net amount of non-operating income and expenses	763,739
Net cash flows arising from operating activities	64,028,448
Net increase of cash and cash equivalents	65,000,072

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

Items	Amount In RMB
Interest income	10,090,527
Disposal of the losses arising from the investees.	-2,655,190
Others	136,428
Total	7,571,765

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

As audited by Pricewaterhouse Coopers China Limited according to the international accounting standards, the Company's net profit in the year 2001 was RMB 12,716 thousand. The items involved in the adjustment for the differences as audited by Pricewaterhouse Coopers Zhongtian Certified Public Accountants are as follows:

	Amount In RMB '000
Net profit as audited by Pricewaterhouse Coopers Zhongtian Certified Public Accountants are as follows:	11,323
(1) adjustment on deferred tax assets	(2,022)
(2) adjustment on provision for doubtful debts	3,500
(3) adjustment on minority interest	(2,041)
(4) others	1,956
Net profit as audited by Pricewaterhouse Coopers China Limited according to the international accounting standards	12,716

. Financial highlights over the past three years:

Items	Amount In RMB				
	2001	2000		1999	
		before adjustment	after adjustment	before adjustment	after adjustment
Income from principal businesses	219,813,846	253,028,149	253,028,149	280,224,092	280,224,092
Net profit	11,322,807	14,665,211	15,680,229	33,139,196	30,834,873
Total assets	725,845,783	781,982,535	777,436,334	821,940,797	821,940,797
Shareholders' equity	587,802,989	593,228,797	588,946,082	580,867,909	578,563,586
Earnings per share (diluted)	0.045	0.059	0.063	0.133	0.124
Earnings per share (weighted)	0.045	0.059	0.063	0.133	0.124
Net assets per share	2.36	2.38	2.36	2.33	2.32
Net assets per share after adjustment	2.25	2.26	2.26	2.19	2.17
net cash flow arising from business activities per share	0.26	-0.016	-0.016	0.151	0.151
Net assets-income ratio	1.93%	2.47%	2.66%	5.71%	5.33%

Notice: Financial data adjustment in 2000 is due to: the organization expenses which

have not been amortized has be stated in the gain and loss statement of the report year.

. Net assets-income ratio and earnings per share calculated in accordance with the Rules for Public Companies to Disclose Information and Prepare Statements (No. 9) promulgated by China Securities Regulatory Commission (CSRC)

Profit of report year	Net assets-income ratio (%)		earnings per share (RMB/share)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal businesses	13.85	13.69	0.327	0.327
Operating profit	2.27	2.24	0.053	0.053
Net profit	1.93	1.90	0.045	0.045
net profit after deduction of non- recurring loss/gain	0.64	0.63	0.015	0.015

. Changes in Shareholders' Equity in the Report Period

Items	Share capital	Capital public reserve	Surplus public reserve	Statutory public welfare fund	Undistributed profit	Total of Shareholders' Equity
year beginning	249,317,999	191,108,477	128,769,371	24,470,854	19,750,235	588,946,082
increase in the report year	0	0	1,698,421	566,140	0	2,264,561
decrease in the report year	0	0	0	0	2,841,514	2,841,514
year end	249,317,999	191,108,477	130,467,792	25,036,994	16,908,721	587,802,989

Reason of change: Increase/decrease in the shareholders' equity is due to the allotment of the public reserve and public welfare fund, and dividends distribution in implementing 2001 profit distribution proposal.

Chapter 3 Changes in Share Capital and Particulars about the Principal Shareholders

. Change in the Company's Shares

1. Changes in the Company's share capital ended December 31, 2001 are as follows:

	Before change	Increase/ Decrease (+ / -) as of the year	In shares
			After the change
1. Shares Unlisted			
Promoters' shares	130,248,000	0	130,248,000
Including: domestic legal person shares	130,248,000	0	130,248,000
Total shares unlisted	130,248,000	0	130,248,000
2. Shares listed			
1) RMB ordinary shares	60,749,999	0	60,749,999
Including: senior executives' shares	405,907	-129,600	276,307
2) Foreign shares listed domestically	58,320,000	0	58,320,000
Total shares listed	119,069,999	0	119,069,999
3. Total shares	249,317,999	0	249,317,999

Reason of change in shares held by senior executives: Mr. Men Tengshan, former vice-chairman of the Board, left the post due to retirement, the shares held by him were listed for trading through approval in June, 2001.

2. Issuing and Listing

(1) Within three years prior to the end of the report period, the Company had not issued any shares or derivatives.

(2) In the year 2001, the Company had neither been involved in any activities of distributing bonus shares, converting public reserve into share capital, share allotment,

issuing new shares, absorption and combination, capital reduction, listing of employees' or staff shares, nor issued any convertible company bonds.

. Shareholders

1. Ended Dec. 31, 2001, the Company had totally 16,578 shareholders, including 6,514 shareholders of A-shares, 3 shareholders holding employees shares and 10,064 shareholders of B-shares.

2. Top 10 shareholders ended Dec. 31, 2001

Shareholders	Shares held	types	proportion
CATIC SHENZHEN HOLDINGS LTD.	130,248,000	Domestic legal person shares	52.24%
Chen Jiexing	1,852,800	B	0.74%
XU AILAN	990,000	B	0.40%
CHINA PINGAN INSURANCE (HK) CO., LTD.	501,900	B	0.20%
Lin Zhihua	500,000	B	0.20%
Wang Jungang	493,030	B	0.20%
Zhejiang Xinsheng Industrial Company	459,218	A	0.18%
Liu Hong	411,800	B	0.17%
Chen Jingan	374,100	A	0.15%
Lin Hongbo	362,880	B	0.15%

The Company has never found any business relations among the top ten shareholders. The shareholder that holds over 5% (including 5%) of the total share capital is CATIC SHENZHEN HOLDINGS LTD. and there was no change in the shareholding in the report year.

3. About Control Shareholder:

CATIC SHENZHEN HOLDINGS LTD. was founded in June, 1997, with total share capital of RMB 642 million, its legal representative was: Li Zhizheng; Principal businesses: Design, manufacture and sales of printed circuit board, LCD, mechanical and quartz timepieces. On the date of founding, the Company issued 400 million Chinese domestic shares to CATIC Shenzhen Corporation, taking 62.31%. In 1997, the company successfully issued 242 million H-shares in Hong Kong, taking 37.69% of the total share capital. The company was listed with Hong Kong Stock Exchange in September, 1997.

4. Actual Controller of the Control Shareholder

CATIC Shenzhen Corporation was founded in April, 1982, with total share capital of RMB 80 million, and its legal representative was: Li Zhizheng; Principal businesses: Invest to initiate entities (proposal subject to specific projects), domestic trading, materials supply (excluding the commodities under monopoly operation, commodities for exclusive sale).

Chapter 4 Directors, Supervisors, Senior Executives and Employees

. Directors, Supervisors, Senior Executives

Name	Title	Sex	Age	Office Term	Shares held at the year end	Office taking in shareholder companies
Li Zhizheng	Chairman of the Board	Male	59	2000-2003	124416	Chairman of the Board of CATIC Shenzhen Holdings Ltd.
Wang Ligu	Director	male	59	2000-2003	0	Director of CATIC Shenzhen Holdings Ltd.
Lu Xianbin	Director	male	58	2000-2003	103680	

Zhu Gensen	Director and General Manager	male	54	2000-2003	0	director of CATIC Shenzhen Holdings Ltd.
Sui Yong	Director	male	44	2000-2003	0	director of CATIC Shenzhen Holdings Ltd.
Lu Binqiang	Director and Deputy General Manager	male	40	2000-2003	48210	
Shao Kexiong	Chairman of Supervisory Committee	male	53	2000-2003	0	supervisor of CATIC Shenzhen Holdings Ltd.
Zhang Meitong	Supervisor	female	53	2000-2003	0	
Zhang Songhua	Supervisor	male	48	2000-2003	0	
Li Dehua	Deputy General Manager and Chief Accountant	male	42	2000-2003	0	
Li Bei	Deputy General Manager	male	46	2000-2003	0	
Hao Huiwen	Secretary of the Board of Directors	male	33	2000-2003	0	

Note: There were no changes in the shares held by the above listed persons in the year.

. Annual Remuneration to Directors, Supervisors, Senior Executives in the Report Year

1. Remuneration to the Company's directors, supervisors, senior executives is decided by the Board with reference to the Company's Measures for Management of Salaries.

2. The total amount of the remuneration to directors, supervisors and senior executives in office in the report year was RMB 882,800. The total remuneration to the three directors enjoying highest salaries was RMB 311,600 and the total remuneration to the three senior executives enjoying the highest salaries was RMB 447,600.

3. There were 12 directors, supervisors and senior executives in the Company and 7 of them enjoyed pay from the Company. Of them, 1 enjoyed annual remuneration over RMB 150,000, 5 within the range of RMB100,000 to RMB150,000, and 1 below RMB 100,000.

4. Mr. Li Zhizheng, Chairman of the Board, Mr. Wang Liguang, Mr. Lu Xianbin and Mr. Sui Yong, three directors and Mr. Shao Kexiong, Chairman of the Supervisory Committee, received pay from the control shareholder instead of the Company

. Changes in directors, supervisors and senior executives in the report period
On February 15, 2001, through nomination by General Manager Zhu Gensen, the Board decided to engage Mr. Li Bei as deputy general manager.

. Employees:

At present, there are totally 1618 employees in the Company, including those working in the head office, various subsidiaries and branches and retired employees.

Education Background	persons	Proportion
college education and above	216	13.35%
Polytechnic school education	219	13.54%
High school and below	1183	73.11%

Professional/occupational structure	persons	Proportion
Administrative personnel	74	4.57%
Financial personnel	107	6.61%
Sales personnel	735	45.43%
Engineers and technicians	105	6.49%
Production Workers	286	17.68%
Restaurant service personnel	294	18.17%
Retired employees	17	1.05%

Chapter 5 Administrative Structure

. Company Administration

() Present Situation

Since the establishment, the Company has prepared the Articles of Association and quite complete internal control system in accordance with the PRC Company Law, the PRC Securities Law and other relevant law and regulations and has established quite complete legal person based administration structure.

1. Shareholders and Shareholders' General Meeting: In the Company's opinion, all shareholders, especially the minority shareholders can enjoy equality, and the Company has ensured them able to sufficiently make use of their rights and enjoy the right of accession to information and the right of participation. The Company has convened and held Shareholders' General Meeting according to the Official Opinion on Standardizing Shareholders' General Meeting of Listed Companies and ensured the shareholders in exercising voting power; The Company has complied with the principle of equality, free will, equivalence and reimbursement.

2. Directors and the Board: The Company has elected directors according to the director engagement procedures as specified in the Articles of Association; at the same time, has further improved such procedures and positively implemented the accumulative voting system; The composition of the number and membership of the Board comply with the laws and regulations. The directors have attended the board meetings and the shareholders' general meetings in a serious and responsible way, excised the power of director and assumed obligations and liabilities. The board meeting minutes are complete and true; The Company is now positively engaged in the work of engaging independent directors according to the requirements of the authority and has conducted verification and research on the establishment of the special committee of the Board.

3. Supervisors and the Supervisory Committee: the composition of the number and membership of the Supervisory Committee comply with the laws and regulations. The Supervisory Committee has conducted supervision over the Company's business financial position and legality and compliance of directors, managers and other senior executives in performing the duties.

4. Performance assessment, encouragement and binding mechanism: The Company has established the performance assessment and encouragement mechanism based on the connection of the executives' salaries with the Company's operation results and personal performances; The Company is now actively making preparation for establishment of the special committee of the Board and shall establish a fair and transparent operation result assessment system and encouragement and binding

mechanism based on the verification and organization conducted by the special committee.

5. Parties at Interest: The Company respect the legal rights and interests of the parties at interest, such as banks, creditors and provide necessary conditions, make positive cooperation and jointly promote the Company to develop in a sustainable and healthy way.

6. Information Disclosure and Transparency: The Company has been disclosing the relevant information in a real, accurate, complete and timely way strictly according to the law, regulations and the Articles of Association and has authorized the secretary of the Board and representative of the securities affairs to take charge of disclosing information, receiving the visit and inquiry of the shareholders.

() Gap between the Actual Situation of the Company Administration and the Requirements as Specified in the Standard Documents.

In accordance with the Rules for Administration of the Listed Companies, the Articles of Association of the Company needs to be further revised. The revised Rules of the Procedures of the Board, the Rules of Procedures of the Supervisory Committee and the Detailed Work Rules of the General Manager are waiting for examination and adoption at 2001 Shareholders' General Meeting. The Company at moment has not yet established independent directorship and special committees of strategy, auditing, nomination, salaries and examination, etc. The Company is going to engage 2 independent directors and complete the revision of the Articles of Association before June 30, 2002 and shall establish special committees of strategy, auditing, nomination, salaries and examination as soon as possible.

. Performance of Independent Directors

In the report year, the Company had not yet engaged any independent directors. The Board has revised the Articles of Association and the relevant regulations according to the Directive Opinion on Establishing Independent Director System in Listed Companies, and is going to submit the document to 2001 Shareholders' General Meeting for examination and approval. At the moment, the Company is carrying out the work of engaging independent director and plans to establish the independent directory system according to the relevant provisions before June 30, 2002.

. The Company has been practicing the "five separations" between the Company and its Control Shareholder in terms of business, personnel, assets, organization and finance

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

Business: The Company has independent production system, auxiliary production system, complementary facilities and purchase/sales system. The control shareholder has never been engaged in production and marketing of the same products of the Company and there exists no competition in the same trade.

Personnel: The Company has independent managerial organs of labor, personnel and

salaries with complete system. Except Mr. Li Zhizheng, Chairman of the Board, Mr. Wang Liguang and Mr. Zhu Gensen, two directors and Mr. Shao Kexiong, Chairman of the Supervisory Committee, who have part-time job in the control shareholder - CATIC SHENZHEN HOLDINGS LTD., any other senior executives have never been engaged in any part-time job in the shareholder companies and the financial staff has never been engaged in part-time job in the related parties.

Assets: The Company's property rights are distinguishable from that of the control shareholder's. All the fixed assets, including real estate, provided by any shareholder as capital contribution in the Company, have been entered to the Company's account. The Company practices independent account establishment, accounting and management. There exist no assets occupied and controlled by the control shareholder or interference from the control shareholder in the Company's assets operation and management. The trademark FIYTA the Company is using now is owned exclusively by the Company.

Organization: The Company has complete Board of Directors, the Supervisory Committee and other internal organs which are working independently. The control 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 Shareholders' General Meeting.

Finance: The Company has established its own independent financial department, and financial calculation system, and has the independent and standardized financial management system. The Company has opened its own bank account, has never shared the same bank account with its control shareholder and independently pays taxes according to the law.

Chapter 6 Shareholders' General Meeting

. Shareholders' General Meetings in the Report Year

The Company published the announcement for 2000 Shareholders' General Meeting on Securities Times and Hong Kong Commercial Daily dated April 24, 2001. The meeting was held on May 25, 2001 at the 9th Floor Meeting Room of the Company's Office Building. There were 4 shareholders and shareholders' representatives present at the meeting, representing 130,776,157 shares, taking 52.45% of the total share capital. The shareholders present at the meeting examined and adopted the following proposals with all votes:

- 1) 2000 Work Report of the Board of Directors;
- 2) 2000 Work Report of the Supervisory Committee;
- 3) 2000 Final Settlement Report;
- 4) 2000 Profit Distribution Proposal;
- 5) Proposal for 2000 Profit Distribution Policy
- 6) Proposal on Amendment of the Articles of Association;
- 7) Proposal on Engaging Independent Directors;
- 8) Proposal on Engagement of Certified Public Accountants

The aforesaid resolutions were published on Securities Times and Hong Kong Commercial Daily respectively dated May 26, 2001. Hu Bo, a lawyer from Guangdong Shentiancheng Law Office produced the legal opinion to confirm the legality and validness of the meeting.

. Change in directors and supervisors

In the report year, the Company had changed no directors or supervisors.

Chapter 7 Report of the Board of Directors

. Operation

1. Business Scope and Operation Status

(1) Principal Businesses

The Company is mainly engaged in design, development, manufacture and sales of timepieces and parts. The Company's principal commercial activities are mainly sales of world top brand watches made in Switzerland, etc. and FIYTA watches; operating restaurants with Guangdong and Northeast China food flavors in catering sector; sales of fine goods as minor business.

(2) Operation

In 2001, facing the day-to-day intensified competition situation of the timepiece industry, the Company has insisted on the principle of "segmentalizing the market, the products and the management", adhered to the top brand strategy, continuously enrich and deepen the culture contents of FIYTA Brand, positively consolidated the sales market, continuously developed and promoted the new products and new series products of high technology and high added value and took the measures of increasing the revenue and saving the expenses by taking the measures of optimizing the marketing network, clearing and deducing the inventories so that the Company had been ensured in steady development. In the report year, the profit from the principal business was RMB 219,813,846 and the profit was RMB 81,417,592, respectively 13.13% and 23.28% drop over the previous year. Although the revenue and profit from the principal businesses dropped, the Company still honorably won the title "National No. 1 in Sales Volume in the Same Sector" rewarded by the Sector Information Statistics Center of China State Bureau of Statistics. The Company has won this title for successively 7 years.

Classification according to sector is as follows:

Sector	Income from principal businesses in RMB	Proportion	Profit from principal businesses	Proportion
Industry	119,739,243	54.47%	51,705,971	63.51%
Commerce	60,606,920	27.57%	10,927,920	13.42%
In the food and beverage sector	39,467,683	17.96%	18,783,703	23.07%
Total	219,813,846	100%	81,417,594	100%

The business activities which take over 10% of the revenue and profit from the principal businesses were manufacture and sales of FIYTA watches and sales of foreign top brand watches. The sales income, sales cost and gross profit of such products are listed as follows:

product sales income	product sales cost	gross profit
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	in RMB	in RMB	
manufacture and sales of FIYTA watches	110,735,956	62,179,192	43.85%
sales of foreign top brand watches	41,854,319	34,734,883	17.01%

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

The Company has altogether 8 subsidiaries, including 4 industrial enterprises, which are: FIYTA Sophisticated Manufacture Co., Ltd. FIYTA Feijing Sophisticated Optical Instruments Manufacture Co., Ltd. Shenzhen Feitu New Technology Development Co., Ltd. Shenzhen Tianfu Electronics Co., Ltd. The first three are mainly engaged in processing, assembling and selling FIYTA timepiece products. Tianfu is mainly engaged and selling Taishi Brand multipurpose electronic time-meters and special time-meters for sports. In the report year, the total turnover of the four manufacturers hit RMB 19,948,703 and the net profit was RMB 5,046,562, a slight growth over the previous year.

Shenzhen Harmony World Watches Center, one of the Company's commercial subsidiaries, which is mainly engaged in sales of the world top brand watches (represented by the products made in Switzerland) and FIYTA watches, and has now 13 train shops in major cities throughout China, realized a turnover RMB 41,854,319 in the report year, a 29.8% growth over the previous year and the net profit was RMB -1,895,624. In the year 2002, with the increase of the train shops, the annual turnover is expected to rise by a big margin and the operation performances shall be further improved as well.

The Company has three catering subsidiaries, including Xi'an Aomen Fine Food and Entertainment City Co., Ltd., Shanghai Xianmeng Fine Food Co., Ltd., Shenzhen Pengmen Restaurant Co., Ltd. In the report year, the turnover from the catering sector reached RMB 39,467,683 and net profit was RMB -1,890,343.

3. Major Suppliers and Customers

The calculated purchase amount to the top five suppliers accounts for 52.76 % of the Company's total purchase amount. The calculated sales amount to the top five customers accounts for 8.54% of the Company's total sales amount.

4. Problems and difficulties occurred in operation and their solutions

The Company's problems and difficulties in the operation in 2001 are summarized as follows:

(1) The production capacity of the timepiece sector was excessively high, the domestic valid demand was insufficient and the market competition was extraordinarily intense.

(2) There existed the impact from imported timepieces, the fake and imitated products and the relevant infringement; some of the manufacturers promoted their products at excessively low cost and thus the market became disordered;

(3) Some of the subsidiaries was in bad condition in their business, causing loss of profit.

To deal with the above problems, the Company had mainly taken the following measures:

(1) Insisted on the brand operation and brand strategy, executed on overall basis the awareness of fine products and upgraded the core competitiveness of the brand. The Company insisted on the product design based on its own intellectual property, and improved the systems of production, quality assurance, market promotion and after-sale services, insisted on devoting major efforts to developing medium and high grade watches and took the “road of top quality products”. The Company continued to enhance the cooperation with the national gymnastic team and demonstrated the Company’s operation philosophy of “always endeavoring to do still better” by means of the perfect gymnastic art of the national gymnastic team. In the report year, the Company consisted on the fighting against the activities of infringing some of the Company’s brands and safeguarded its own intellectual property. In March 2001, the new FIYTA watch independently developed by the Company found favor at Basel International Timepieces Exhibition. It has great significance in upgrading the identity of FIYTA Brand.

(2) Promoting Business Integration, Constructing New Manufacture Platform and Optimizing the Market System. In 2001, the Company established FIYTA Sophisticated Timepiece Manufacture Co., Ltd. by introducing foreign advanced technology and equipment, enhancing the reorganization of the internal business process; On the basis of consolidating and optimizing the existing marketing network, the Company implemented innovation management on overall basis, established the liability, rights and interests based marketing management system.

(3) Insisting on Technology Innovation, Keeping abreast with the Market Trend and Upgrade the Products in terms of Technology. The Company insisted on the development strategy of “Independent Development and Self-controlled Property Right”, self-controlled intellectual property as the leading trend of consumption, in 2001, the Company developed over 30 varieties of new products consisting of 5 series in rose gold, white steel, with styles of high technology and environment friendliness and modern women. Of them, the environment friendliness series products enjoyed extensive welcome.

(4) Enhancing the financial management, clearing the overstocked inventories, controlling the costs and improving the fund application efficiency. The Company positively standardized the management, effectively controlled the purchase costs, reduced the fund occupancy by the inventories, reinforced the management and supervision of the finance, disposed a batch of the commodities in storage, vitalized the funds and improved the efficiency.

(5) Speeding up the conversion of technology, adjusting the industrial structure, quickening the steps of construction of the Hi-tech Industrial Park. Based on the strategy development plan of technology conversion, the Company positively speeded up the construction and development of FIYTA Hi-tech Park for the purpose of improving the structure of the Company’s business and continuously looked for technology projects with high market development potential, for the purpose of improving the profit earning ability and market compatibility.

(6) Based on the motto of “all success coming from highly qualified professionals”, training and encouraging professionals and constructing the up-to-date corporative

culture. The Company further simplified the organization, implemented the approach of “small company” operation and attached great importance on “one organ with multiple functions”, reinforced the on-service training, improved the examination and encouragement mechanism, positively established and developed the enterprise culture in compliance with the top brand.

. Investment

1. Application of the Proceeds Raised through Share Offering

In the year 1997, the Company implemented the share allotment plan and raised proceeds amounting to RMB 209,718 thousand. So far, the proceeds have all been applied to the projects as originally planned, with the details as follows:

Investment projects as committed	Actual Investment Projects:
to set up chain shops of Harmony World Watches Center with planned investment of RMB 112 million.	Ended 2001, thirteen chain shops had been set up in Shenzhen, Harbin, Urumqi, Wuhan, Shenyang, Datong, Changsha, Lanzhou, Kunming, Xi'an, etc. with total investment of RMB 50,190 thousand, a 16.48% growth over the previous year. The chain shops realized a turnover of RMB 41,854 thousand. It is planned to set up 4 to 5 more chain shops and realize a turnover RMB 45,000 thousand and profit RMB 500,000 in the year 2001.
to set up FIYTA Hi-tech Industrial park with planned investment of RMB 55 million.	Ended 2001, the preliminary geotech survey, project bidding, design and foundation laying work had been finished for the project of FIYTA Hi-tech Industrial park construction. So far, the Company has invested RMB 15,334 thousand, a 183.96% increase over the previous year. The year 2002 shall be the construction period and no investment yield would be produced.
to set up chain shops of Harmony World Watches Center in Southeast Asia with planned investment of HK\$ 40,500 thousand.	According to the original plan for utilization of the proceeds raised through placing B shares to set up Harmony World Watches Center in Southeast Asia. However, just as the Company completed the share allotment in 1997, the Asia financial crisis arrived. The Southeast Asia Region, which was so flourishing in the past, sudden turned into great depression in economy. Even now, the economy is still far from being recovered. With the consideration of the safety and the fund operation and ensuring the shareholders' equity, the Board decided to postpone the implementation of the said investment plan and the proceeds were deposited in bank.

For the aforesaid two projects, proceeds amounting to RMB 65,524 thousand have been used. The remaining amount has been deposited in the bank and shall be applied progressively with the progress of the projects.

2. Principal projects invested with the fund not raised through share offering, the progress of the projects and returns:

In July, 2001, Shenzhen Fei'ou Sophisticated Timepiece Manufacture Co., Ltd., one of the Company's subsidiaries, was renamed as Shenzhen FIYTA Sophisticated Timepiece Manufacture Co., Ltd., with registered capital increased from RMB 5,000,000 to RMB 10,000,000 and the Company has 99% of its equity.

. Financial Position

Financial Data Summary in 2001:

			In RMB	
Items	2001	2000	increase/decrease	increase/decrease rate
Other receivable:	40,837,227	64,942,070	-24,104,843	-37.12%
Total assets	725,845,783	777,436,334	-51,590,551	-6.64%
Short-term Loan	74,000,000	111,000,000	-37,000,000	-33.33%
Shareholders' equity	587,802,989	588,946,082	-1,143,093	-0.19%
Profit from principal businesses	81,417,594	106,126,802	-24,709,208	-23.28%
Investment income	1,909,801	7,382,213	-5,472,412	-74.13%

Net profit	11,322,807	15,680,229	-4,357,422	-27.79%
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Notes to the Changes:

- (1) Decrease of other receivables is mainly due to the recovery of the external short-term debts.
- (2) Decrease in total assets is due to the decrease in current liabilities;
- (3) Decrease in short term loans is mainly due to the decrease in short term bank loan;
- (4) Decrease in shareholders' equity is due to the implementation of the profit distribution preplan in the report year;
- (5) Drop in profit from the principal business is due to the decrease of income from the principal business.
- (6) Decrease in the investment income is mainly due to the decrease in the stock investment income and disposal of the losses arising from the investees;
- (7) Drop in the net profit is due to the decrease of profit from the principal businesses.

. Influence from the production and operation environment and changes in macro policy, laws and regulations on the Company.

With China's accession to WTO and progressive opening of the domestic market, the competition of the domestic timepiece industry shall be intensified. The Company shall make full use of high reputation of its own brand and the superiority in price of the medium and high grade products, the complete marketing network and improved market environment, devotes every effort to turning challenge into the opportunity of redevelopment, exporting more finished watch products and spares and parts, developing international development space.

. Business Development Plan of New Year

The Company shall focus on the following work in 2002:

1. Based on the principle of pursuing powerfulness with top quality and pursuing success with powerfulness, definitely regard "independent own intellectual property rights, rich contents of high technology, profound culture, friendly and perfect customers' services" as the foundation of FIYTA Brand, further improve and upgrade the core competitiveness of FIYTA Brand and develop brand operation on creative way.
2. Reinforce the construction of the market networking, develop and improve the marketing system. The Company shall continue to adjust and improve the existing system of the subsidiaries, improve the encouragement mechanism integrated with liabilities, rights and interests, effectively control risk and improve efficiency through reasonable adjustment of the market distribution, and actively develop the markets of the new and developing cities; and devotes efforts to the construction of the chain shops of Harmony World Watches Center.
3. Keep abreast with the market trend, continuously launch new products in high demand in the market and promote top quality products to lead the fashion. In the new year, the Company shall launch a series of "environment friendly" products, further create hot market sales and improve the efficiency.

4. Reinforce the fundamental management, improve various management systems, and bring costs and expenditures and market risks into control. Reinforce the performance and efficiency examination work, implements the system of connection the performances of the staff with the pay and devote great efforts to turning deficits making of the subsidiaries into profit-making.

5. Create cultural atmosphere, improve the mechanism and enhance the cohesive force of the enterprise. Plan and create the brand culture with the characteristics of FIYTA on overall basis, further improve the enterprise binding and encouragement mechanism, introduce technical and managerial professionals, optimize the HR structure, and establish a professional team with reasonable structure and full vitality.

6. Optimize the industrial structure, reasonably deploy the resources and try to realize the conversion of the industry and technology. In 2002, the Company shall reinforce the adjustment of industrial conversion, and try to successfully fulfill the objectives of the Company's industrial structure adjustment. First of all, the Company shall continue to operate FIYTA Brand watches with the awareness of the top quality products; secondly, actively foster and develop the second principal businesses and develop profit-making channels by introducing and investing hi-tech projects; thirdly, complete the construction of FIYTA Hi-tech Park, gradually construct industrial groups invested by the Company in different investment forms within the park, and reinforce the sustainable development ability of the Company.

. Routine Work of the Board of Directors

1. Board meetings and resolutions in the report year

The first board meeting was held at the 3rd floor meeting room of the Company dated February 15, 2001. The meeting decided to engage Mr. Li Bei as deputy general manager of the Company.

The second board meeting was held at the 3rd floor meeting room of the Company dated March 26, 2001. The meeting decided to engage Pricewaterhouse Coopers China Limited as the Company's international auditor for the year 2001 and disengage Arthur Andersen & Co.

The third board meeting was held at the 3rd floor meeting of the Company dated April 23, 2001 and presided by Mr. Li Zhizheng, Chairman of the Board. The meeting adopted the following resolutions: examined and approved 2000 Work Report of the Board of Directors, 2000 Annual Report, Financial Settlement Report, 2000 Profit Distribution Proposal, Proposal for 2001 Profit Distribution Policy, Amendment of the Articles of Association, Proposal on Engaging Independent Directors, and decided to hold 2000 Shareholders' General Meeting on May 25, 2001.

The fourth board meeting was held at the 3rd floor meeting room of the Company on August 8, 2001. The meeting examined and approved 2001 Interim Report and 2001 Interim Profit Distribution Preplan.

The fifth board meeting was held at the 3rd floor meeting room of the Company on December 10, 2001. The meeting adopted the proposal on establishing a joint venture with Founder (Hong Kong) Co., Ltd.

1. Implementation of the Resolutions of the Shareholders' General Meeting

In the report year, the Board carried out the work strictly according to the Articles of Association and the resolutions of the Shareholders' General Meeting and seriously implemented all the resolutions of the Shareholders' General Meeting.

. Profit Distribution Proposal

1. 2001 Profit Distribution Proposal

As audited by Pricewaterhouse Coopers Zhongtian Certified Public Accountants according to the Chinese Accounting Standards (CAS) and Pricewaterhouse Coopers according to the International Accounting Standards (IAS), the Company's net profit in the year 2001 was RMB 11,322,807 and RMB 12,716,000 respectively.

In accordance with PRC Company Law and the Articles of Association of the Company, the profit distribution for 2001 is to be based on the net profit as audited and confirmed by Pricewaterhouse Coopers Zhongtian Certified Public Accountants.

Less the statutory public reserve to be allotted based on 10% of the total net profit amounting to RMB1,132,281 and the statutory public welfare fund to be allotted based on 5% of the same amounting to RMB 566,140, plus the retained profit carried down from the previous year amounting to RMB 19,750,235, the total profit available for distribution to the shareholders was RMB 29,374,621. The Board decided through discussion: based on the total share capital ended the year 2001 totaling 249,317,999 shares, the dividend is to be distributed based on RMB 0.50 (including tax) for every 10 shares, with total amount of RMB 12,465,900. The balance amounting to RMB 16,908,721 is to be carried down to the next year for further distribution.

The dividend for B shares shall be paid in HK dollars after conversion based on average closing exchange rate between RMB and HK\$ a week before the ex-dividend date. The said profit distribution proposal is subject to the examination and approval by 2001 Shareholders' General Meeting before implementation.

2. Policy on Profit Distribution in 2002

The Company plans to conduct a profit distribution at the middle or the end of 2002; The proportion of the net profit realized in the year 2002 to be used for profit distribution shall not be below 30%; the proportion of the retained profit of the year 2000 to be used for profit distribution of 2002 shall be not below 30%; the dividends shall be distributed in cash or bonus shares. The cash dividends shall not be below 30% of the total.

The aforesaid distribution policy is an estimated one. The Board of Directors reserves the right to make adjustment of this policy according to practical situation of the Company.

Chapter 8 Report of the Supervisory Committee

. In 2001, the Supervisory Committee had held 2 meetings.

1. The 1st meeting was held at the 3rd floor meeting room of the Company on April 23,

2001. The meeting examined 2000 Annual Report, and examined and adopted 2000 Work Report of the Supervisory Committee.

2. The 2nd meeting was held at the 3rd floor meeting room of FIYTA Company on Aug. 8, 2001. The meeting reviewed the operation situation of the first half year and examined 2001 Interim Report of the Company, examined and adopted 2001 Interim Profit Distribution Plan of the Company.

In the report year, the Supervisory Committee fully exercised its power authorized according to the relevant Chinese law and regulations and the Articles of Association of the Company, conducted sustainable and effective supervisions over such issues as Company's operation according to the law, work of the senior executives, application of the proceeds raised through share offering. On this basis, the Supervisor Committee hereby expresses its independent opinion as follows:

1. In the report year, the Company standardized its operation strictly according to the relevant laws, regulations and the Articles of Association. The Company had established quite perfect internal control system; directors and senior executives had never been involved in any action against the law, regulations and the Articles of Association or harmful to the Company's interest in implementing their duties.

2. The Supervisory Committee continued to direct the Company's department of supervision and auditing in reinforcing the supervision over the subsidiaries, conducted careful inspection over the subsidiaries' financial system and financial position, and promoted them to carry out their operation in a standardized and healthy way.

3. Both Pricewaterhouse Coopers Zhongtian Certified Public Accountants and Pricewaterhouse Coopers China Limited produced unqualified 2001 auditors' report for the Company. Their audit was objective and fair. The Company's financial statements have truly reflected the Company's real financial position and operation results.

4. The projects invested with the proceeds raised through the latest share offering complied with the projects as committed and the proceeds were used in a normal way.

5. In the report year, the Company had not been involved in such activities as acquisition and sales of assets and the related transactions were carried out in compliance with the legal procedures and rules. There existed no phenomenon that harmed the rights and interests of shareholders or caused the loss of assets of the Company was found.

Chapter 9 Significant Events

. In the report year, the Company had never been involved in any material lawsuit or arbitration.

. In the report period, the Company had never been involved in such activities as assets acquisition/sale or absorption/merger.

. Significant Related Transactions

1. Parties involved in the related transactions

Founder (Hong Kong) Limited (hereinafter referred to as Hong Kong Founder) is a company incorporated in Hong Kong, with legal capital of HK\$ 110.88 million and legal representative: Zhang Xuanlong. Business Scope: system integration and sales of information products. Since CATIC Shenzhen Holdings Ltd, the Company's control shareholder and Beijing Peking University Founder Group Corp. (Founder Group), the indirect control shareholder of Hong Kong Founder jointly signed Equity Transfer Agreement concerning transfer of the Company's promoters' legal person shares, according to the relevant provisions, the Hong Kong Founder is the Company's potential related party.

CATIC Shenzhen Corporation is a large state owned enterprise, with registered capital of RMB 80 million, and legal representative: Li Zhizheng. Business scope: Invest to initiate entities (proposal subject to specific projects), domestic trading, materials supply (excluding the commodities under monopoly operation, control and sales). It is the control shareholder of the Company's parent company.

Shenzhen Kaidi Investment Management Co., Ltd., with registered capital of RMB 150 million, legal representative: Li Zhizheng. Principal businesses: offer financial and management consulting, invest to initiate entities and assets, and make assets management on commission. It is an associated company of a shareholder of the Company's parent company.

2. Intended joint investment with Hong Kong Founder

The Board held the 7th meeting of the 3rd Board on December 7, 2001 and decided to set up a joint venture with Hong Kong Founder for investing the information industry. The newly established joint venture has registered capital of RMB 100 million, of which the Company contributed RMB 60 million, taking 60% of the total shares; Hong Kong Founder contributed RMB 40 million, taking 40% of the total. Business scope: marketing computer hardware and software and information products; technology development; undertaking computer networking project (excluding civil engineering) and development of the relevant technology; information consulting; research and development of information products.

The said related transactions are subject to the examination and approval by the Company's extraordinary shareholders' meeting before implementation. In the report year, no shareholder's general meeting was held for examining this issue.

3 . Other Related Transactions

(1) In the report year, the Company obtained interest income from CATIC Shenzhen Corporation amounting to RMB 7,395,181. CATIC Shenzhen Corporation has established financial clearing center in accordance with the Provisional Regulations

concerning Enterprise Groups in Shenzhen Special Economic Zone, No. 15 Order of Shenzhen Municipal People's Government dated October 9, 1993. The clearing center has the function of intra-company bank, with the functions of undertaking the fund plan, fund raising, fund adjustment and fund management of the Enterprise Group, handling the procedures of fund deposit and withdrawing and clearing of current accounts, etc.

The Company has established account with this clearing center. In the report year, about RMB 150 million was deposited there. According to the agreement between the Company and the said clearing center, the Company shall receive the interest at the average rate between the interest rate of demand deposit and that of the fixed loan and the interest level higher than the interest rate of deposit with commercial bank. The deposits are available for external payment or transfer to the Company's accounts with commercial banks based on the operation/investment requirements so that the normal production and operation activities of the Company shall not be affected.

None of the related events have ever harmed other shareholders' rights and interests. By the end of 2001, all the deposits, principal and interest, have been recovered.

(2) In the report year, the Company offered guarantee to CATIC Shenzhen Corporation for its facilities amounting to RMB 150 million.

Up to the date of disclosure of the annual report, the Company's guarantee responsibilities had been released.

(3) In the report year, the Company obtained assets management income from Shenzhen Kaidi Investment Management Co., Ltd. amounting to RMB 3,795,346.

. Important Contracts and Implementation

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

2. Important Guarantees

The Board held a meeting on March 20, 2000 and approved to offer guarantee to CATIC Shenzhen Corporation for the loan facility it applied for with China Construction Bank Shenzhen Branch. On October 10, 2000, the Company signed the Contract on Guarantee for the Loan Facility with China Construction Bank Shenzhen Branch. Thus the Company became the guarantor of CATIC Shenzhen Corporation for its facility amounting to RMB 150 million.

CATIC Shenzhen Corporation, due to its requirement on the circulating funds, borrowed three loans amounting to RMB 50 million respectively from China Construction Bank Shenzhen Branch dated October 25, 2000, December 1, 2000 and March 13, 2001, with details as follows:

Currency	Term	Amount
RMB	Oct. 25, 2000 to Oct. 24,2001	50,000,000.00
	Dec. 1, 2000 to Nov.30, 2001	50,000,000.00
	Mar. 13, 2001 to Mar. 12, 2002	50,000,000.00

In the report year, CATIC Shenzhen Corporation duly repaid the loans amounting to RMB 100 million, and has repaid in time the balance amounting to RMB 50 million. Thus, the Company had released all the responsibilities as the guarantor up to the date of disclosing the annual report.

3. Assets Management on Commission

Through discussion and approval by the Board, the Company signed the Contract on Assets Management on Commission and Loan with Shenzhen Kaidi Investment Management Co., Ltd.

With the guarantee offered by CATIC Shenzhen Corporation, the Company entrusted the other Party to manage the assets amounting to RMB 40 million with a term from April 18 to November 30, 2001. According to the contract, the annual interest rate of the loan was 6.4% plus service charges at the rate of 1.3% and the management fee at the rate of 1.3%. All the aforesaid funds had been recovered in time according to the contract.

. Implementation of the Commitments Disclosed to the Public by the Company or the Shareholders Holding over 5% of the Company's Share Capital

1.The Company's estimated 2001 profit distribution policy in 2000 was as follows:
The Company once disclosed 2001 profit distribution policy in 2000 Annual Report :
The Board decided 2001 Estimated Profit Distribution Plan at the rate of cash RMB 0.5 (including tax)for every 10 shares according to the requirements of the said policy and based on the practical situation of the Company.

2. In the report year, the shareholders holding over 5% of the total did not disclose any commitments.

. Engagement/Disengagement of Certified Public Accountants and Payment of the Remuneration

In the report year, the Company disengaged Zhong Tian Qin Certified Public Accountants and engaged Pricewaterhouse Coopers Zhongtian Certified Public Accountants for auditing the Company's 2001 Financial Report of A Shares; with the auditing fee for the annual report amounting to RMB 225,000.

In the report year, the Company renewed the engagement of Pricewaterhouse Coopers China Limited as the Company's auditor of B shares with the auditing fee of RMB 225,000.

. In the report year, the Company, its directors or senior executives had never been punished by the supervisory/administrative authority.

Chapter 10 Auditors' Report (attached hereafter)

Chapter 11 Documents Available for Inspection

1. Original copy of the Annual Report signed by the Chairman of the Board;
2. Financial Statements signed by and under the seal of the legal representative, chief accountant and accounting supervisors;
3. Original copy of the Auditors' Report under the seal of the accounting firm and signed by and under the seal of certified accountants.
4. All the originals of the Company's documents and public notice disclosed in the newspapers designated by China Securities Regulatory Commission in the report period.

SHENZHEN FIYTA HOLDINGS LTD.
Board of Directors
April 16, 2002

REPORT OF THE AUDITORS

TO THE SHAREHOLDERS OF
SHENZHEN FIYTA HOLDINGS LIMITED
(Joint stock company incorporated in the People's Republic of China)

We have audited the accompanying consolidated balance sheet of Shenzhen Fiyta Holdings Limited (the "Company") and its subsidiaries (the "Group") as of 31 December 2001 and the related consolidated income and consolidated cash flow statements for the year then ended. These financial statements set out on page 2 to 27 are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2001 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

PricewaterhouseCoopers

[16] April 2002

SHENZHEN FIYTA HOLDINGS LIMITED**(Joint stock company incorporated in the People's Republic of China)****CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2001**

	Notes	2001 RMB'000	2000 RMB'000
Turnover	4	219,814	253,028
Cost of sales		<u>(138,396)</u>	<u>(146,901)</u>
Gross profit		81,418	106,127
Other operating income	7	24,164	27,141
Selling expenses		(58,843)	(73,737)
Administrative expenses		(34,674)	(45,447)
Loss on disposal of a subsidiary	29	<u>(1,003)</u>	<u>(603)</u>
Operating profit	5	11,062	13,481
Finance income - net	8	<u>8,131</u>	<u>3,740</u>
Group profit before tax		19,193	17,221
Shares of results of associated undertakings before tax	14	<u>387</u>	<u>53</u>
Profit before taxation		19,580	17,274
Taxation	9	<u>(5,579)</u>	<u>(4,316)</u>
Profit after taxation		14,001	12,958
Minority interests		<u>(1,285)</u>	<u>70</u>
Net profit for the year		<u><u>12,716</u></u>	<u><u>13,028</u></u>
Earnings per share	10	<u><u>RMB0.05</u></u>	<u><u>RMB0.05</u></u>

The accompanying notes form an integral part of these financial statements.

SHENZHEN FIYTA HOLDINGS LIMITED**(Joint stock company incorporated in the People's Republic of China)****CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2001**

	Notes	2001 RMB'000	2000 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Fixed assets	11	58,891	64,627
Investment properties	12	18,575	-
Construction in progress		17,132	28,105
Leasehold land payments	13	23,064	23,578
Investments in associated undertakings	14	5,905	5,598
Non-current investments	15	3,385	7,595
Deferred tax assets	16	8,344	10,366
Other non-current assets		3,634	3,727
Total non-current assets		138,930	143,596
CURRENT ASSETS			
Inventories	17	164,086	201,078
Trade receivables	18	45,589	47,271
Due from related companies	19	7,842	23,377
Prepayments and other receivables	20	48,841	61,506
Trading investments	21	3,771	41,780
Cash and bank balances		331,693	272,766
Total current assets		601,822	647,778
TOTAL ASSETS		740,752	791,374
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	22	249,318	249,318
Reserves	23	305,627	304,571
Retained earnings		38,361	26,701
Shareholders' equity		593,306	580,590
MINORITY INTERESTS		7,100	6,504
CURRENT LIABILITIES			
Trade payables		18,047	31,125
Due to related companies	19	-	4,429
Staff welfare payable		18,627	21,097
Tax payable		893	4,162
Accruals and other current liabilities		28,779	32,467
Short-term bank loans	24	74,000	111,000
Total current liabilities		140,346	204,280
TOTAL EQUITY AND LIABILITIES		740,752	791,374

On 16 April 2002, Shenzhen Fiyta Holdings Limited's Board of Directors authorised these financial statements for issue.

The accompanying notes form an integral part of these financial statements.

SHENZHEN FIYTA HOLDINGS LIMITED**(Joint stock company incorporated in the People's Republic of China)****CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2001**

	Note	Share capital	Reserves			Retained earnings	Total
			Capital reserve	Statutory reserves	Sub-total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2000							
- as previously reported		249,318	191,108	111,263	302,371	21,438	573,127
- effect of adopting IAS 38 and IAS 10	31	-	-	-	-	19,367	19,367
- as restated		249,318	191,108	111,263	302,371	40,805	592,494
Net profit for the year		-	-	-	-	13,028	13,028
Appropriation to reserves	23	-	-	2,200	2,200	(2,200)	-
Dividends	25	-	-	-	-	(24,932)	(24,932)
At 31 December 2000		249,318	191,108	113,463	304,571	26,701	580,590
Net profit for the year	25	-	-	-	-	12,716	12,716
Appropriation to reserves	23	-	-	1,698	1,698	(1,698)	-
Adjustment on statutory reserves	23	-	-	(642)	(642)	642	-
At 31 December 2001		<u>249,318</u>	<u>191,108</u>	<u>114,519</u>	<u>305,627</u>	<u>38,361</u>	<u>593,306</u>

The accompanying notes form an integral part of these financial statements.

SHENZHEN FIYTA HOLDINGS LIMITED**(Joint stock company incorporated in the People's Republic of China)****CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2001**

	Notes	2001 RMB'000	2000 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	26(a)	85,365	(2,919)
Interest paid		(2,169)	(2,802)
Tax paid		(6,745)	(6,859)
Net cash from/(used in) operating activities		<u>76,451</u>	<u>(12,580)</u>
Cash flows from investing activities			
Purchases of fixed assets		(17,568)	(4,721)
Additions to construction in progress		(11,789)	(2,011)
Sales proceeds from disposals of fixed assets		220	2,707
Disposal of a subsidiary, net of cash disposed	29	1,578	32
Capital injection to an associated company		-	(4,000)
Dividends received from an associated company		-	1,627
Dividends received from non-current investments		220	-
Sales proceeds from disposal of non-current investments		-	2,000
Proceeds from sale of trading investments		42,770	2,335
Purchase of trading investments		(5,187)	-
Increase in other non-current assets		(580)	(2,370)
Subsidiary in voluntary liquidation and not consolidated		(664)	(2,985)
Interest received		<u>10,476</u>	<u>6,714</u>
Net cash flows from/(used in) investing activities		<u>19,476</u>	<u>(672)</u>
Cash flows from financing activities			
Proceeds from borrowings		94,000	110,000
Repayments of borrowings		(131,000)	(90,000)
Dividends paid to group shareholders		-	(24,932)
Decrease in minority interests		-	(1,070)
Net cash flows used in financing activities		<u>(37,000)</u>	<u>(6,002)</u>
Increase/(decrease) in cash and cash equivalents		<u>58,927</u>	<u>(19,254)</u>
Movement in cash and cash equivalents			
At start of year		272,766	292,020
Increase/(decrease)		<u>58,927</u>	<u>(19,254)</u>
At end of year	26(b)	<u><u>331,693</u></u>	<u><u>272,766</u></u>

The accompanying notes form an integral part of these financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Shenzhen Fiyta Holdings Limited (the "Company") was established in the People's Republic of China (the "PRC") as a joint stock limited company following a reorganisation of its predecessor company, Shenzhen Fiyta Timing Industry Company, in December 1992. The Company's Renminbi Ordinary Shares ("A Shares") and Domestically Listed Foreign Shares ("B Shares") were listed on the Shenzhen Stock Exchange in March 1993.

The Company's holding company is CATIC Shenzhen Holdings Limited ("CATIC") which holds 52.24% of its equity interest. CATIC's H Shares were listed on The Stock Exchange of Hong Kong in September 1997.

During 2001, CATIC has signed a share transfer agreement to transfer to Peking University Founder Group Corporation 73,302,200 shares in the Company, representing 29% of the total share capital. The share transfer process was still in progress as at 31 December 2001.

The Company and its subsidiaries (the "Group") is principally engaged in the design, manufacture, assembly and sale of quartz analog watches, clocks, watch straps and watch casings, and catering and entertainment businesses.

As at 31 December 2001, the Company had the following major subsidiaries (all incorporated in the PRC):

Name of the subsidiaries	Registered capital	Attributable equity interest		Principal activities
		Direct	Indirect	
Shenzhen Fiyta Precision Timing Manufacture Co., Ltd. (note a)	RMB10,000,000	90%	9%	Design, manufacture and assembly of quartz watches and watch components
Shenzhen Feijing Precision Optical Device Manufacture Co., Ltd.	RMB7,000,000	90%	9%	Manufacture of precision optical device and watch surfaces
Shenzhen Feiyu Art Clock Co., Ltd. (note b)	HKD3,000,000	75%	-	Design, manufacture and distribution of clocks
Shenzhen Tianfu Electronics Co., Ltd.	HKD3,000,000	66%	-	Design, manufacture and distribution of digital quartz timers
Shenzhen Feitu New Technology Development Company	RMB3,080,000	60%	-	Electroplating of watch straps, casing and jewellery

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION (Cont'd)

Name of the subsidiaries	Registered capital	Attributable equity interest		Principal activities
		Direct	Indirect	
Shenzhen Harmony World Watch Centre Co., Ltd.	RMB15,000,000	90%	-	Distribution of watches and watch components and provision of repair services
Xian Haomen Food & Recreation City Co., Ltd. (note c)	HKD16,000,000	62%	-	Catering and entertainment
Shenzhen Pengmen Restaurant Co., Ltd.	RMB1,000,000	90%	9%	Catering and entertainment
Shanghai Tian Lin Xianmen Restaurant Co., Ltd.	RMB1,000,000	10%	81%	Catering and entertainment

Note: (a) The original name of the company was Shenzhen Feiou Precision Timing Manufacture Co., Ltd. From July 2001, the name has been changed to Shenzhen Fiyta Precision Timing Manufacture Co., Ltd. and the registered capital has been increased from Rmb5,000,000 to Rmb10,000,000.

(b) The subsidiary is in the process of voluntary liquidation due to the expiry of its specified operating period. Its results and assets have not been consolidated in the Group's financial statements this year. The recoverable amount of cost of investment has been included in amount due from related companies.

(c) According to the equity transfer agreement signed on 18 December 2001, the Company and Shenzhen Harmony World Watch Centre Co., Ltd. ("Shenzhen Harmony") will purchase the equity interest held by a joint venture partner of the subsidiary. The transfer is still in progress as at 31 December 2001. After the completion of the equity interest transfer, the Company and Shenzhen Harmony will hold 75% and 25% of the equity interest in Xian Haomen Food & Recreation Co., Ltd. respectively.

(d) A subsidiary, Shanghai Xianmen Food Co., Ltd., was sold during the year (note 29).

2. BASIS OF PREPARATION

The consolidated financial statements are prepared in conformity with Statements of International Accounting Standards ("IAS") and under the historical cost convention as modified by the revaluation of certain fixed assets, investment properties, non-current investments and trading investments. This basis of accounting differs from that used in the statutory accounts of the PRC Group companies which are prepared in accordance with the accounting principles and the relevant financial regulations applicable to enterprises in the PRC. Certain IAS are not applicable in the PRC. The differences arising from the restatement of the results of operations for compliance with IAS are reflected in these financial statements but will not be taken up in the accounting books of the companies in the Group.

In 2001, the Group adopted IAS 39 – "Financial Instruments: Recognition and Measurement". The adoption of IAS 39 did not have a significant effect on the consolidated financial statements. Details of the change in accounting policy are disclosed in the accounting policy on investments in note 3(f).

In addition, the Group also adopted IAS 40 - "Investment Property". IAS 40 clarified that leasehold interests in land should not be shown at valuation and instead should be shown at amortised cost. Details of the changes are disclosed in accounting policies on investment properties and leasehold land payments in note 3(g) and note 3(j) respectively. Further information is disclosed in notes 11, 12 and 13.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3. PRINCIPAL ACCOUNTING POLICIES

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

(a) Consolidation

Subsidiary undertakings, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date that control ceases or when liquidation commences. All intercompany transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Minority interests represent the interests of outside members in the operating results and net assets of subsidiaries.

(b) Investments in associates undertakings

These are undertakings over which the Group has between 20% and 50% of the voting rights, or over which the Group exercises significant influence, but which it does not control. Investments in associated undertakings are accounted for by the equity method of accounting. Equity accounting involves recognising in the income statement the Group's share of the associates' profits or losses for the year. The Group's interest in the associates is carried in the consolidated balance sheet at an amount that reflects its share of the net assets of the associates.

A listing of the Group's major associated undertakings is shown in note 14.

(c) Related party

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(d) Foreign currency translation

The Group maintain its books and records in Renminbi ("RMB"). Foreign currency transactions are translated into RMB at the exchange rate stipulated by the People's Bank of China prevailing at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Renminbi at the exchange rate stipulated by the People's Bank of China at the balance sheet dates. Exchange differences are included in the income statement.

(e) Financial assets and financial liabilities

Financial assets and financial liabilities carried on the balance sheet include cash and bank balances, investments, trade receivables, prepayments and other receivables, amount due from related companies, trade payables, accruals and other current liabilities, amount due to related companies and borrowings. Investments and trade receivables are stated at carrying amounts determined in accordance with note 3(f) and note 3(n) respectively. Other financial assets and financial liabilities are stated at cost.

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

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3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(f) Investments

In 2001, the Group adopted IAS 39 and classified its investments into the following categories: held-to-maturity, available-for sale and trading.

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. During the year the Group did not hold any investment in this category.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are regarded as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than twelve months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. Cost of purchase includes transaction costs. Trading and non-current investments are subsequently carried at fair value.

For non-current investments that an active market exists, they are measured at their fair values. For those that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at amortised cost using the effective interest rate method if they have a fixed maturity, or are measured at cost if they do not have a fixed maturity. Impairment of the investments is assessed at each balance sheet date. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of non-current investments are included in the income statement in the period in which they arise.

Prior to the adoption of IAS 39, the Group had recorded its trading investments and non-current investments at fair value and cost less accumulated impairment losses respectively. Changes in fair values of trading investments and impairment losses of non-current investments were included in the consolidated income statement. The adoption of IAS 39 in 2001 did not have a significant impact on the consolidated financial statements.

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3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(g) Investment properties

Investment properties, principally comprising office buildings are held for long-term rental yields and are not occupied by the Group. Investment properties are treated as long-term investments and are carried at cost less accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided using the straight-line method to write off the cost of the investment properties over their estimated useful lives which are between 20 and 35 years, after deducting the estimated residual value. Where the carrying amount of an investment property is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The cost of maintenance, repairs and minor equipment is charged to the income statement as incurred; the cost of major renovations and improvements is capitalised. The profit or loss on disposal of an investment property is recognised with reference to its carrying value.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average basis, comprises direct materials, direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. Provision is made for obsolete or slow moving inventories (if any).

(i) Fixed assets and depreciation

Fixed assets are stated at cost or valuation less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation is provided using the straight-line method to write off the cost of each asset, or its revalued amount, to their estimated residual values over their estimated useful lives as follows:

Buildings	20 - 35 years
Equipment and machinery	5 - 10 years

Leasehold improvements are depreciated over the remaining period of the lease or beneficial period.

Where the carrying amount of a fixed asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceed and the carrying amount of the relevant asset, and is recognised in the income statement.

Costs incurred in restoring fixed assets to their normal working condition are charged to the income statement. Improvements to fixed assets are capitalised and depreciated over their expected useful lives to the Group.

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3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

(j) Leasehold land payments

Leasehold land payments are up-front payments to acquire a long term interest in land. These payments are stated at cost and amortised over the period of lease on a straight-line basis. In previous years, leasehold land payments was included in land use rights and was stated at cost less accumulated depreciation.

(k) Construction in progress

Construction in progress represents plant, staff quarters and other fixed assets under construction and is stated at cost. This includes the costs of construction, the costs of buildings, machinery and equipment and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing. When the assets concerned are brought into use, the costs are transferred to fixed assets and depreciated in accordance with the policy as stated above.

(l) Revenue recognition

Revenue comprises substantially sales of goods which are recognised when the significant risks and rewards of ownership of the goods have been transferred to customers, the economic benefits associated with the transaction can be received and the amount of revenue and costs can be measured reliably. Sales amounts are shown at invoiced amounts net of discounts and value-added tax.

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

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

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

(m) Operating leases

Leases where substantially all of the risks and rewards of ownership of the assets remain with the lessors are accounted for as operating leases. Operating lease income and expenses are credited and charged to the income statement on a straight-line basis over the period of lease respectively.

The Group has no finance leases.

(n) Trade receivables

Trade receivables are carried at original invoiced amounts less an estimate made for doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off when identified.

3. PRINCIPAL ACCOUNTING POLICIES (Cont'd)

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(o) Employee social insurance schemes

The Group participates in certain employee social insurance schemes in respect of pension, and medical and other insurance managed by governmental organisations. According to the relevant provisions, the Group and its employees are required to make contributions to Social Security Administration Bureau at specified amounts. The proportion of insurance expenses borne by the Group is included in the consolidated operating results when incurred.

The Group has no further liabilities other than the above defined contribution.

(p) Taxation

PRC income taxes are provided for based on the estimated assessable profit and tax rates applicable to the Company and other companies comprising the Group. Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Tax rates currently enacted are used to determine deferred income tax.

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

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4. BUSINESS SEGMENTS INFORMATION OF THE GROUP

For the year ended 31 December 2001

	Clocks and watches RMB'000	Catering, entertainment and others RMB'000	Total RMB'000
Turnover	<u>161,594</u>	<u>58,220</u>	<u>219,814</u>
Segment result			
Operating profit / (loss)	14,453	(3,391)	11,062
Finance income - net			8,131
Share of results of associated undertakings			<u>387</u>
Profit before taxation			19,580
Taxation			<u>(5,579)</u>
Profit after taxation			14,001
Minority interests			<u>(1,285)</u>
Net profit			<u>12,716</u>
Segment total assets	<u>711,083</u>	<u>29,669</u>	<u>740,752</u>
Segment total liabilities	<u>126,849</u>	<u>13,497</u>	<u>140,346</u>
Capital expenditure	<u>27,203</u>	<u>2,677</u>	<u>29,880</u>
Depreciation and amortisation			
- fixed assets	<u>11,991</u>	<u>1,167</u>	<u>13,158</u>
- investment properties	<u>1,042</u>	<u>-</u>	<u>1,042</u>
Amortisation of leasehold land payments	<u>514</u>	<u>-</u>	<u>514</u>
Provision for doubtful debts	<u>4,669</u>	<u>-</u>	<u>4,669</u>
Provision for inventory obsolescence	<u>(6,420)</u>	<u>43</u>	<u>(6,377)</u>

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

For the year ended 31 December 2000

	Clocks and watches RMB'000	Catering, entertainment and others RMB'000	Total RMB'000
Turnover	<u>176,491</u>	<u>76,537</u>	<u>253,028</u>
Segment result			
Operating profit / (loss)	25,183	(11,702)	13,481
Finance income - net			3,740
Share of results of associated undertakings			<u>53</u>
Profit before taxation			17,274
Taxation			<u>(4,316)</u>
Profit after taxation			12,958
Minority interests			<u>70</u>
Net profit			<u>13,028</u>
Segment total assets	<u>744,999</u>	<u>46,375</u>	<u>791,374</u>
Segment total liabilities	<u>188,380</u>	<u>15,900</u>	<u>204,280</u>
Capital expenditure	<u>4,317</u>	<u>3,066</u>	<u>7,383</u>
Depreciation			
- fixed assets	<u>4,959</u>	<u>11,904</u>	<u>16,863</u>
Amortisation of leasehold land payments	<u>561</u>	<u>-</u>	<u>561</u>
Provision for doubtful debts	<u>4,477</u>	<u>-</u>	<u>4,477</u>
Provision for inventory obsolescence	<u>749</u>	<u>-</u>	<u>749</u>

There are no sales or other transactions between the business segments. Segment assets consist primarily of fixed assets, investment properties, leasehold land payments, investment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude minority interests. All assets and operations of the Group are located in the PRC.

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5. OPERATING PROFIT

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

	2001 RMB'000	2000 RMB'000
Operating lease rental income in respect of investment properties	(13,112)	-
Direct operating expenses arising from investment properties that generated rental income	656	-
Loss on disposals of fixed assets	753	862
Provision for doubtful debts	4,669	4,477
Provision for inventory obsolescence	(6,377)	749
Depreciation on fixed assets	13,158	16,863
Depreciation on investment properties	1,042	-
Fair value losses on trading investments	1,416	-
Amortisation of leasehold land payments	514	561
Amortisation of other non-current assets	673	-
Operating lease rental expense	9,225	9,984
Cost of inventories recognised as an expense	138,396	146,901
Repairs and maintenance expenditure on fixed assets	1,408	772
Staff costs (note 6)	29,139	29,409
Advertising expenses	8,508	17,095
Loss on disposal of a subsidiary	1,003	603
Directors' emoluments	312	312

6. STAFF COSTS

	2001 RMB'000	2000 RMB'000
Staff salaries	23,807	23,936
Staff welfare	2,740	2,482
Social insurance expenses	2,592	2,991
	<u>29,139</u>	<u>29,409</u>
Number of employees at 31 December	<u>1,618</u>	<u>2,038</u>

7. OTHER OPERATING INCOME

	2001 RMB'000	2000 RMB'000
Rental income from a property (note 11)	-	13,710
Operating lease rental income in respect of investment properties, net	12,456	-
Repair and maintenance income	5,304	1,796
Gain from trading investments		
- profit on sales	5,454	8,026
- fair value losses	(1,416)	-
Others	2,366	3,609
	<u>24,164</u>	<u>27,141</u>

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8. FINANCE INCOME - net

	2001 RMB'000	2000 RMB'000
Interest income		
- bank deposits	386	10,849
- related parties (note 30)	10,090	-
Interest expenses		
- bank loans	(2,029)	(6,936)
- other loans	(140)	-
Net exchange gain/(losses)	8	(32)
Others	(184)	(141)
	<u>8,131</u>	<u>3,740</u>

9. TAXATION

	2001 RMB'000	2000 RMB'000
Current taxation	3,477	7,633
Deferred taxation (note 16)	2,022	(3,422)
Share of tax of associated undertakings	80	105
	<u>5,579</u>	<u>4,316</u>

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

	2001 RMB'000	2000 RMB'000
Profit before taxation	<u>19,580</u>	<u>17,274</u>
Tax calculated at the tax rates applicable to the Company and its subsidiaries ranging from 15% to 33%	3,702	2,657
Tax effect in tax losses of subsidiaries	1,956	2,804
Accumulated effect of deferred tax for prior years	-	(835)
Income not subject to tax	(79)	(310)
	<u>5,579</u>	<u>4,316</u>

Pursuant to the relevant income tax laws of the PRC, group companies established in the Shenzhen Special Economic Zone are subject to income tax at a rate of 15% while those established in other areas are subject to income tax at a rate of 33%. Further, certain group companies are Sino-foreign joint ventures which are entitled to full exemption from PRC income tax for two years starting from the first profit making year and a 50% reduction in the next three years after offsetting available tax losses carried forward from prior years.

10. EARNINGS PER SHARE

The calculation of earnings per share is based on the consolidated profit for the year of RMB12,716,000 (2000: Rmb13,028,000) and 249,318,000 shares (2000: 249,318,000 shares) on issue.

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11. FIXED ASSETS

	2001				2000	
	Land use rights	Buildings	Equipment and machinery	Leasehold improvements	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost/valuation						
At beginning of year						
- as previously reported	26,439	62,805	42,939	29,783	161,966	155,330
- effect of adopting IAS 40 (note 13)	(26,439)	-	-	-	(26,439)	(26,439)
- as restated	-	62,805	42,939	29,783	135,527	128,891
Reclassified as investment properties (note 12)	-	(38,364)	-	-	(38,364)	-
Reclassification	-	36	(36)	-	-	15,815
Additions	-	11,672	15,347	3,166	30,185	5,355
Disposals	-	-	(1,574)	(14,511)	(16,085)	(5,437)
Disposal of a subsidiary	-	-	(3,769)	-	(3,769)	(473)
Voluntary liquidation of a subsidiary	-	-	(902)	-	(902)	(8,624)
At end of year	-	36,149	52,005	18,438	106,592	135,527
Representing						
At cost	-	27,845	36,476	18,438	82,759	73,366
At valuation	-	8,304	15,529	-	23,833	62,161
	-	36,149	52,005	18,438	106,592	135,527
Accumulated depreciation						
At beginning of year						
- as previously reported	2,861	26,924	23,440	20,536	73,761	64,071
- effect of adopting IAS 40 (note 13)	(2,861)	-	-	-	(2,861)	(2,300)
- as restated	-	26,924	23,440	20,536	70,900	61,771
Reclassified as investment properties (note 12)	-	(18,747)	-	-	(18,747)	-
Reclassification	-	11	(11)	-	-	-
Charge for the year	-	1,172	8,829	3,157	13,158	16,863
Disposals	-	-	(932)	(14,180)	(15,112)	(2,311)
Disposal of a subsidiary	-	-	(1,753)	-	(1,753)	(30)
Voluntary liquidation of a subsidiary	-	-	(745)	-	(745)	(5,393)
At end of year	-	9,360	28,828	9,513	47,701	70,900
Net book value						
At end of year	-	26,789	23,177	8,925	58,891	64,627
At beginning of year	-	35,881	19,499	9,247	64,627	67,120

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11. FIXED ASSETS (Cont'd)

Had the fixed assets been carried at cost less accumulated depreciation, the carrying amounts of each category of fixed assets would have been as follows:

	2001			2000
	Buildings	Equipment and machinery	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Cost	30,464	52,005	18,438	100,907
Accumulated depreciation	(6,645)	(28,828)	(9,513)	(44,986)
	<u>23,819</u>	<u>23,177</u>	<u>8,925</u>	<u>55,921</u>
				<u>44,412</u>

The Group is in the process of applying for property certificates in respect of buildings with a net book value amounting to RMB13,522,000 at 31 December 2001.

The Group's buildings and equipment and machinery were revalued by Shenzhen Assets Valuation Office in February 1992. Revaluation surplus amounting to RMB4,514,000 in aggregate has been reflected in the consolidated balance sheet as at 31 December 2001.

During 2000, some of the office space in FIYTA Building, a property held by the Group and included in "Buildings" above, was rented to third party tenants and the income derived was included in the consolidated income statement (note 7). The net book value of these properties amounted to RMB20 million as at 31 December 2000.

During the year, a subsidiary of the Company, Shenzhen Feiyu Art Clock Co., Ltd., commenced voluntary liquidation. Its fixed assets cost and accumulated depreciation have been excluded from the consolidated financial statements.

12. INVESTMENT PROPERTIES

	2001 RMB'000
Net book value at beginning of year	-
Reclassified from fixed assets (note 11)	19,617
Depreciation for the year	(1,042)
Net book value at end of year	<u>18,575</u>
Directors' valuation	<u>100,000</u>

These investment properties previously held as owner-occupied properties were valued by Shenzhen Assets Valuation Office in February 1992 on a replacement cost basis. Aggregate revaluation surplus arising from such valuation amounting to RMB23,264,000 has been reflected in the consolidated balance sheet as at 31 December 2001. During the year, the directors resolved that the Group will no longer require these properties for its own future production or administrative purposes and will continue to lease them out for rental income. As a result of the change in the intended future use, these properties were reclassified as investment properties and carried at their net book value at date of transfer. At 31 December 2001, no valuation was performed by an independent valuer and the valuation made by the directors used the open market value basis.

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13 LEASEHOLD LAND PAYMENTS

	2001 RMB'000	2000 RMB'000
Cost		
Balance at beginning of year		
- as previously reported	-	-
- effect of adopting IAS 40 (note 11)	26,439	26,439
Balance at beginning of year as restated and end of year	<u>26,439</u>	<u>26,439</u>
Accumulated amortisation		
Balance at beginning of year		
- as previously reported	-	-
- effect of adopting IAS 40 (note 11)	2,861	2,300
Balance at beginning of year as restated	<u>2,861</u>	<u>2,300</u>
Amortisation for the year	514	561
Balance at end of year	<u>3,375</u>	<u>2,861</u>
Net book value		
Balance at end of year	<u>23,064</u>	<u>23,578</u>
Balance at beginning of year	<u>23,578</u>	<u>24,139</u>

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

	2001 RMB'000	2000 RMB'000
By nature		
- Investment properties	12,697	13,007
- Other properties	10,367	10,571
	<u>23,064</u>	<u>23,578</u>

14 INVESTMENTS IN ASSOCIATED UNDERTAKINGS

	2001 RMB'000	2000 RMB'000
Net book value at beginning of year	5,598	3,277
Capital injection to a new associated undertakings	-	4,000
Dividends received	-	(1,627)
Share of results before tax	387	53
Share of tax	(80)	(105)
Net book value at end of year	<u>5,905</u>	<u>5,598</u>

Particulars of principal associated undertakings, which are unlisted, are as follows:

Name	Country of incorporation	% interest held
Shenzhen World Famous Watch Centre Co., Ltd.	People's Republic of China	50%
Shenzhen South China Network Co., Ltd. (a)	People's Republic of China	40%

- (a) The Group has the intention to dispose of the entire equity interest in Shenzhen South China Network Co., Ltd. within twelve months and as such, the current year's results have not been equity accounted. The cumulative share of losses of this company up to 31 December 2000 was RMB642,000.

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15. NON-CURRENT INVESTMENTS

	2001 RMB'000	2000 RMB'000
Investment in unlisted shares of listed companies, at cost	3,000	3,085
Investment in shares of unlisted companies, at cost	385	300
Investment in a subsidiary under voluntary liquidation	-	4,210
	<u>3,385</u>	<u>7,595</u>

At 31 December 2001, the non-current investments of the Group have neither a quoted market price in an active market nor a fixed maturity, and were carried at cost less accumulated impairment losses, if any.

16. DEFERRED TAXATION

	2001 RMB'000	2000 RMB'000
Balance at the beginning of the year	10,366	6,944
Transferred (to) / from income statement (note 9)	(2,022)	3,422
Balance at the end of the year	<u>8,344</u>	<u>10,366</u>

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

	2001 RMB'000	2000 RMB'000
Provision for doubtful debts, provision for inventory obsolescence and start-up costs and other expenses	<u>8,344</u>	<u>10,366</u>

17. INVENTORIES

	2001 RMB'000	2000 RMB'000
Raw materials (at cost)	38,534	49,435
Raw materials (at net realisable value)	7,502	9,016
Work-in-progress (at cost)	1,810	3,484
Finished goods (at cost)	104,205	117,228
Finished goods (at net realisable value)	12,035	21,915
	<u>164,086</u>	<u>201,078</u>

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18. TRADE RECEIVABLES

	2001 RMB'000	2000 RMB'000
Trade receivables	68,359	65,657
Less: provision for doubtful debts	<u>(22,770)</u>	<u>(18,386)</u>
	<u>45,589</u>	<u>47,271</u>

19. DUE FROM / TO RELATED COMPANIES

All the balances with related parties are non-interest bearing and have no fixed terms of repayments at the year end.

20. PREPAYMENTS AND OTHER RECEIVABLES

	2001 RMB'000	2000 RMB'000
Prepayments	534	1,770
Other receivables	54,288	65,432
Less: provision for doubtful debts	<u>(5,981)</u>	<u>(5,696)</u>
	<u>48,841</u>	<u>61,506</u>

21. TRADING INVESTMENTS

	2001 RMB'000	2000 RMB'000
Market value of listed investments		
Share	3,771	2,160
Bonds	-	39,620
	<u>3,771</u>	<u>41,780</u>

The trading investments are traded in active markets and are valued at market price at the close of business by reference to Stock Exchange quoted price.

22. SHARE CAPITAL

	2001		2000	
	Thousand shares	RMB'000	Thousand shares	RMB'000
Registered capital (Par value of RMB1 each)	<u>249,318</u>	<u>249,318</u>	<u>249,318</u>	<u>249,318</u>
Shares in issue (Par value of RMB1 each)				
Promoters' shares	130,248	130,248	130,248	130,248
A Shares	60,750	60,750	60,750	60,750
B Shares	<u>58,320</u>	<u>58,320</u>	<u>58,320</u>	<u>58,320</u>
	<u>249,318</u>	<u>249,318</u>	<u>249,318</u>	<u>249,318</u>

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23. RESERVES

According to the Company Laws of the PRC and Articles of Association of the Company, the Company is required to provide certain statutory reserves, which are appropriated from the net profit as reported in the statutory accounts. Accordingly, the Company shall set aside 10% of its net profit for statutory common reserve fund (except where the fund has reached 50% of the Company's registered capital) and 5% to 10% for the statutory public welfare fund. The Company may make appropriations from its net profit to the discretionary common reserve fund upon approval by shareholders. These reserves cannot be used for purposes other than those for which they are created and are not distributed as cash dividends without the prior approval by shareholders under certain conditions. The statutory public welfare fund is designated for collective welfare of the employees.

The current year's net profit shall first be used to compensate the previous losses before the appropriations to the statutory common reserve fund and statutory public welfare fund.

The statutory common reserve fund, discretionary common reserve fund and capital reserve fund as approved by shareholders may be converted into share capital provided that the balance of the statutory common reserve fund does not fall below 25% of the registered share capital.

For the year ended 31 December 2001, the directors of the Company proposed that 10% and 5% (2000: 10% and 5%) of the profit as reported in the statutory accounts of the Company be appropriated to statutory common reserve fund and statutory public welfare fund respectively, totalling approximately RMB1,698,000 (2000: approximately RMB2,200,000). The resolution is subject to approval by shareholders in the annual general meeting.

During the year, the Group changed its accounting policies in respect of pre-operating expenses, impairment of properties, plant and equipment and construction in progress in the preparation of its statutory accounts in order to comply with the requirements of the "Accounting System for Business Enterprises" as promulgated by the Ministry of Finance of the PRC. These changes in accounting policies did not have an impact on the financial statements of the Group which have been prepared under IAS except that there is an reallocation of RMB642,000 from statutory reserves to the retained earnings as at 31 December 2001.

24. SHORT-TERM LOANS

	2001 RMB'000	2000 RMB'000
Bank loans – unsecured	70,000	111,000
Other loans	4,000	-
	<u>74,000</u>	<u>111,000</u>

Short-term bank loans bore interest ranging from 6% to 7% per annum and were unsecured. As of 31 December 2001, short-term bank loans amounting to approximately RMB70,000,000 (1999: RMB110,000,000) were guaranteed by CATIC Shenzhen Holdings Limited.

Other loans bore interest rate at 3.5% per annum.

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25. DIVIDENDS

Pursuant to a resolution of the Board of Directors, the Company did not declare cash dividends for 2000, (2000: cash dividends for 1999 of Rmb0.1 per share, totalling Rmb24,932,000 were paid in 2000).

26 CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before taxation to cash generated from operations

	2001 RMB'000	2000 RMB'000
Profit before taxation	19,580	17,274
Adjustments for:		
Depreciation		
- fixed assets	13,158	16,863
- investment properties	1,042	-
Amortisation of leasehold land payments	514	561
Amortisation of non-current assets	673	-
Loss on disposals of fixed assets	753	862
Gain on disposal of trading investments	(5,454)	(8,026)
Fair value losses on trading investments	1,416	-
Provision for doubtful debts	4,669	4,477
Provision for inventory obsolescence	(6,377)	749
Loss on disposal of a subsidiary	1,003	603
Gain on disposal of non-current investments	-	(380)
Share of profits of associates	(387)	(53)
Interest expense	2,169	2,802
Interest income	(10,476)	(6,714)
Others	(220)	1,124
(Increase)/decrease in accounts receivable	(4,808)	17,920
Decrease in amounts due from related companies	15,535	2,082
Decrease/(increase) in inventories	43,369	(14,315)
Decrease/(increase) in prepayments and other receivables	20,989	(32,386)
Decrease in accounts payable	(10,028)	(12,946)
Decrease in staff welfare payable	(2,470)	(1,846)
Increase in amounts due to related companies	-	6,921
Increase in accruals and other current liabilities	715	1,509
Cash generated/(used in) from operations	<u>85,365</u>	<u>(2,919)</u>

(b) Analysis of cash and cash equivalents

	2001 RMB'000	2000 RMB'000
Cash and bank balances	<u>331,693</u>	<u>272,766</u>

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27 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(a) Interest rate risk

The interest rates and terms of repayment of bank borrowings are disclosed in note 24. Other financial assets and financial liabilities do not have material interest rate risk.

(b) Credit risk

Trade receivables are spread among a number of customers in the PRC and substantial amounts of cash are deposited with registered banks in the PRC. The directors are of the opinion that the Group has no significant concentrations of credit risk on financial assets.

(c) Foreign currency risk

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

(d) Fair value

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

28. COMMITMENTS

(a) Operating lease commitments

- where the Group is the lessee

	2001	2000
	RMB'000	RMB'000

The future minimum lease payments under non-cancellable operating leases are as follows:

Not later than 1 year	8,309	8,297
Later than 1 year and not later than 5 years	26,342	39,100
Later than 5 years	2,311	-
	<u>36,962</u>	<u>47,397</u>

- where the Group is the lessor

	2001	2000
	RMB'000	RMB'000

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

Not later than 1 year	17,840	16,453
Later than 1 year and not later than 5 years	29,050	39,032
Later than 5 years	24,891	32,749
	<u>71,781</u>	<u>88,234</u>

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28. COMMITMENTS (Cont'd)

(b) Capital commitments

	2001 RMB'000	2000 RMB'000
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Contracted but not provided for

Investments	<u>90,000</u>	<u>-</u>
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During 2001, the Company has entered into an agreement with Founder Holdings Limited to establish a new joint venture company, in which the Company will own 60% of its equity interest.

29. DISPOSAL OF A SUBSIDIARY

The assets, liabilities and results of the disposed subsidiary as at the date of disposal were as follows:

	2001 RMB'000	2000 RMB'000
Fixed assets	<u>2,016</u>	<u>443</u>
Current assets	<u>5,166</u>	<u>1,744</u>
Total assets	7,182	2,764
Total liabilities	<u>(4,279)</u>	<u>(230)</u>
Net assets	<u>2,903</u>	<u>2,534</u>
Share of net assets attributable to the Group	<u>2,903</u>	<u>2,103</u>
Loss for the period	<u>-</u>	<u>-</u>

The loss on disposal was determined as follows:

	2001 RMB'000	2000 RMB'000
Attributable share of net assets sold	2,903	2,103
Proceeds from disposal	<u>(1,900)</u>	<u>(1,500)</u>
Loss on disposal	<u>1,003</u>	<u>603</u>

The net cash inflow on disposal was determined as follows:

	2001 RMB'000	2000 RMB'000
Proceeds from sale	1,900	1,500
Less: part of proceeds not yet paid	<u>(270)</u>	<u>(500)</u>
cash and bank in subsidiary disposed of	<u>(52)</u>	<u>(968)</u>
Net cash inflow on disposal	<u>1,578</u>	<u>32</u>

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30 SIGNIFICANT RELATED PARTY TRANSACTIONS

	2001 RMB'000	2000 RMB'000
Interest income		
CATIC Shenzhen Company (a)	7,395	-
Shenzhen Kai De Investment Management Co., Ltd. (b)	2,695	-
	<u>10,090</u>	<u>-</u>

- (a) Bore interest at 5% per annum. All related deposits and interest income were withdrawn before 31 December 2001.
- (b) Bore interest at 6.4% per annum. All related deposits and interest income were withdrawn before 31 December 2001.
- (c) The directors of the Company are of the opinion that the above transactions with related parties were conducted at prices and terms no less than those charged to other third party customers of the Company.
- (d) As at 31 December 2001, the Company has provided guarantees to certain banks in respect of loans borrowed by CATIC Shenzhen Company amounting to RMB150,000,000. All guarantees by the Company to CATIC Shenzhen Company have expired in March 2002.

31. CHANGES IN ACCOUNTING POLICIES

During 2000, the Group changed its accounting policies with respect to the treatment of dividends declared after the balance sheet date and start-up costs in order to conform with Revised IAS 10 and IAS 38. The comparative figures of the Group have been restated to conform with the changed policies. The effect of these changes are analysed as follows:

Restatement of retained earnings

	2000 RMB'000
Opening retained earnings as previously reported	21,438
Write-off of start-up costs on adoption of IAS 38 (note i)	(5,565)
Recognition of dividends in the period of declaration on adoption of Revised IAS 10 (note ii)	<u>24,932</u>
Opening retained earnings as restated	<u>40,805</u>

- (i) Prior to the issuance of IAS 38 start-up costs were capitalised and amortised over a period of 5 years. Upon the issuance of IAS 38 which applies to financial statements covering periods beginning on or after 1 July 1999, start-up costs are expensed when incurred. Adjustments have been made to expense the start-up costs remaining in the balance sheet and restate them retrospectively to the respective prior periods in accordance with the provisions of IAS 38.
- (ii) Prior to the issuance of Revised IAS 10, dividends proposed or declared after the balance sheet date were recognised as a liability at the balance sheet date. After the issuance of Revised IAS 10 which applies to financial statements covering periods beginning on or after 1 January 2000, the Group discloses dividends declared after the balance sheet date as a subsequent event rather than recognises them as a liability at the balance sheet date. This had been accounted for retrospectively to the respective prior periods in accordance with the provisions of Revised IAS 10.

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32. SUBSEQUENT EVENTS

Pursuant to a resolution of the Board of Directors in 2002, the directors of the Company recommend the payment of dividends for 2001 of Rmb0.05 per share, totalling Rmb12,466,000. The resolution is subject to approval by the shareholders at the annual general meeting.

33. COMPARATIVE FIGURES

Certain comparative figures in the 2000 financial statements have been restated and reclassified to conform to the current year's presentation in accordance with the revised or promulgated accounting standards.

34. ULTIMATE HOLDING COMPANY

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

SHENZHEN FIYTA HOLDINGS LIMITED**(Joint stock company incorporated in the People's Republic of China)****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS****IMPACT OF IAS AND OTHER ADJUSTMENTS ON NET PROFIT AND SHAREHOLDERS' EQUITY**

	Net profit for the year		Shareholders' equity	
	2001 RMB'000	2000 RMB'000	2001 RMB'000	2000 RMB'000
As reported in the statutory accounts	11,323	15,680	587,803	588,946
Impact of major IAS and other adjustments:				
- adjustment on deferred tax assets	(2,022)	3,422	8,344	10,366
- adjustment on provision for doubtful debts	3,500	(3,500)	-	(3,500)
- adjustment on minority interest	(2,041)	-	-	-
- reclassification of prior year profit appropriation to staff welfare payable		-	(15,949)	(15,949)
- reversal dividends proposed after year end in accordance with IAS 10	-	-	12,466	-
- others	1,956	(2,574)	642	727
As restated for IAS	<u>12,716</u>	<u>13,028</u>	<u>593,306</u>	<u>580,590</u>