FIYTA HOLDINGS LTD.

2018 Annual Report

February, 2019

Section 1 Important Notice, Table of Contents and Definition

The Board of Directors, the Supervisory Committee, directors, supervisors and senior executives hereby individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are neither material omissions nor errors which would render any statement misleading.

Huang Yongfeng, the Company leader, Chen Zhuo, chief financial officer, and Tian Hui, the manager of the accounting department (treasurer) hereby confirm the authenticity and completeness of the financial report enclosed in this Annual Report.

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

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

In this report, the Company has described in detail the existing macro-economic risks as well as operation risks. Investors are advised to refer to the contents concerning risk factors possibly to be confronted with and the countermeasures in the Company's future development prospect in Section 4 Discussion and Analysis of the Management

The profit distribution preplan reviewed and approved by the Board of Directors is summarized as follows: With the Company's total share capital of 438,744,881 shares as the base, the Company would distribute cash dividend at the rate of CNY 2.00 for every 10 shares (with tax inclusive), bonus share at the rate of 0 share for every 10 shares (with tax inclusive) to the whole shareholders and capitalize no capital reserve to the whole shareholders.

Table of Contents

Section 1 Important Notice, Table of Contents and Definitions

Section 2 Company Profile and Financial Highlights

Section 3 Business Summary

Section 4 Discussion and Analysis of the Management

Section 5 Significant Events

Section 6 Changes in Shares and Particulars about the Shareholders

Section 7 About the Preferred Shares

Section 8 Directors, Supervisors, Officers and Employees

Section 9 Corporate Governance

Section 10 Bond Related Information

Section 11 Financial Report

Section 12 List of Documents Available for Inspection

Definitions

Terms to be defined	Refers to	Definition
This Company, the Company or FIYTA	Refers to	FIYTA HOLDINGS LTD.
AVIC	Refers to	Aviation Industry Corporation of China, Ltd.
AVIC International	Refers to	AVIC International Holding Corporation
AVIC International Shenzhen	Refers to	AVIC International Shenzhen Co., Ltd.
AVIC IHL	Refers to	AVIC International Holding Limited
The Sales Co.	Refers to	FIYTA Sales Co., Ltd.
Harmony	Refers to	Shenzhen Harmony World Watches Center Co., Ltd.
the Manufacture Co.	Refers to	Shenzhen FIYTA Sophisticated Timepieces Manufacture Co., Ltd.
the Technology Co.	Refers to	Shenzhen FIYTA Technology Development Co., Ltd.
the Hong Kong Co.	Refers to	FIYTA (Hong Kong) Limited
SHIYUEHUI	Refers to	Shiyuehui Boutique (Shenzhen) Co., Ltd.
Hengdarui	Refers to	Liaoning Hengdarui Commerce & Trade Co., Ltd.
Harbin Co.	Refers to	Harbin Harmony World Watch Distribution Co., Ltd.
AVIC SUNDA	Refers to	AVIC SUNDA Co., Ltd.
Rainbow Ltd.	Refers to	Rainbow Department Store Co., Ltd.
Shennan Circuit	Refers to	Shennan Circuit Co., Ltd.

AVIC Property	Refers to	AVIC Property Management Co., Ltd.

Section 2 Company Profile and Financial Highlights

I. Company Information

Short form of the stock	FIYTA A, FIYTA B	Stock Codes:	000026 and 200026
Stock Exchange Listed with	Shenzhen Stock Exchange		
Company Name in Chinese	FIYTA HOLDINGS LTD.		
Abbreviation of the Company Name in Chinese	飞亚达公司		
Company name in English (if any)	FIYTA HOLDINGS LTD.		
Abbreviation of the Company name in English (if any)	FIYTA		
Legal Representative	Huang Yongfeng		
Registered address:	FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen		
Postal Code of the Registered Address	518057		
Office Address	20th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen		
Postal Code of the Registered Address	518057		
Website:	www.fiytagroup.com		
E-mail:	investor@fiyta.com.cn		

II. Liaison Persons and Communication Information

	Secretary of the Board	Securities Affairs Representative
Name	Lu Wanjun	Zhang Yong
Liaison Address	20th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen	20th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen
Tel.	0755-86013669	0755-86013669
Fax	0755-83348369	0755-83348369
Email	investor@fiyta.com.cn	investor@fiyta.com.cn

III. Information Disclosure and Place where the Regular Reports are Prepared

Name of the media selected by the Company for disclosing information	Securities Times and Hong Kong Commercial Daily

Internet Web Site Designated by China Securities Regulatory Commission for Publishing the annual report:	www.cninfo.com.cn
Place where the Company's Annual Report was prepared and is placed for inquiry	The Company's Strategic Operation Department

IV. Changes in Registration

Organization Code	91440300192189783K
Changes in principal business activities since listing (if any)	No change
Changes in the controlling shareholder over the past years (if any)	No change

V. Other Relevant Information

The CPAs appointed by the Company

Name of the CPAs	Ruihua Certified Public Accountants (Special General Partnership)
Office address	9th Floor, Taiping Financial Building, Futian District, Shenzhen
Names of the CPAs as the authorized signatories	Wang Yuqiao and Liu Xin

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

Inapplicable

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

Inapplicable

VI. Summary of Accounting/Financial Data

Does the Company need to make retroactive adjustment or restatement of the accounting data of the previous years

No

	2018	2017	Increase/Decrease of the reporting year over the previous year	2016
Revenue in CNY	3,400,450,599.90	3,345,809,703.98	1.63%	2,993,864,561.43
Net profit attributable to the Company's shareholders, in CNY	183,835,095.29	140,216,258.28	31.11%	110,662,681.59
Net profit attributable to the Company's shareholders less the non-recurring items, in CNY	162,758,061.00	123,918,527.75	31.34%	97,200,540.64
Net cash flows arising from operating activities, in CNY	331,627,789.62	564,954,561.97	-41.30%	455,759,094.15

Basic earning per share (CNY/share)	0.4190	0.3196	31.10%	0.2522
Diluted earning per share (CNY/share)	0.4190	0.3196	31.10%	0.2522
Return on equity, weighted average	7.30%	5.79%	1.51%	4.74%
	End of 2018	End of 2017	Increase/Decrease of the end of the reporting year over the end of the previous year	End of 2016
Total assets (in CNY)	3,599,691,650.26	3,579,789,692.90	0.56%	4,004,897,562.72
Net profit attributable to the Company's shareholders, in CNY	2,570,134,782.90	2,467,967,361.20	4.14%	2,371,370,535.17

VII. Discrepancy in accounting data between IAS and CAS

1. Differences in the net profit disclosed in the financial report & the net assets attributable to the Company's shareholders respectively according to the IAS and the CAS.

Inapplicable

2. Differences in the net profit disclosed in the financial report & the net assets attributable to the Company's shareholders according to both the IAS and the CAS

Inapplicable

VIII. Financial Data Summary based on Quarters

In CNY

	The first quarter	The second quarter	The third quarter	The fourth quarter
Operating revenue	851,815,980.69	844,075,452.03	868,796,654.10	835,762,513.08
Net profit attributable to the Company's shareholders	59,518,000.75	52,849,920.69	50,293,172.83	21,174,001.02
Net profit less the non-recurring profit/loss attributable to the Company's shareholders	54,825,312.90	44,934,058.26	48,421,717.55	14,576,972.29
Net cash flows arising from operating activities	67,632,201.86	157,040,072.23	65,916,200.63	41,039,314.90

Does there exist any significant difference between the above financial indicators or their sum total and the corresponding financial indicators as disclosed by the Company in its quarterly reports or semi-annual report

No

IX. Extraordinary items and amount

In CNY

Items	Amount in 2018	Amount in 2017	Amount in 2016	Notes
Gain/loss from disposal of non-current assets, including the part offset from the provision for impairment of assets.	-180,302.24	7,321,993.36	-660,129.92	It was mainly the income from disposal of the non-operating real estate of Station 68 Ltd. in 2017.
Government subsidies included in current profit or loss, other than on-going government subsidies which are closely related to the Company's normal operation, meet the requirements of government policies and are subject to certain limits and conditions.	19,375,618.48	17,508,255.98	17,234,482.25	
Reversal of the impairment provision for receivables which are tested individually for impairment	7,533,121.86	1,903,056.74	0.00	
Other non-operating income and expenses apart from the aforesaid items	792,842.56	1,238,972.99	935,294.98	
Less: Amount affected by the income tax	6,444,246.37	8,669,699.37	4,047,506.36	
Amount affecting the minority shareholders' equity (after tax)		3,004,849.17	0.00	
Total	21,077,034.29	16,297,730.53	13,462,140.95	--

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

Inapplicable

Section 3 Business Summary

I. Principal Businesses in the Reporting Period

(1) Principal Business and Operation Model

FIYTA concentrates itself in watch industry, takes the brand strategy as the guidance, integrates watch R & D, design, manufacture, sales and services, and has formed two core businesses - watch brand management and watch retail and services. The Company possesses its proprietary watch brands, including FIYTA, Emile Chouriet, JONAS&VERUS and licenced cooperative brands - JEEP and BEIJING, which have different styles and can satisfy segmentized market demands; has watch retail and service brands - HARMONY and BRAND GALLERY, which cover the nationwide market and satisfy high and medium and fashion consumption demands.

(2) Development Status of Watch Industry and the Company's Position in the Industry

Modern watch industry is an advanced manufacture with high precision machinery integrated with information technology and is a special highly sophisticated and accurate time-keeping product. Watch is also a consumer product with aesthetic and fashion character and cultural connotation, as well as high quality consumer goods with outstanding brand value. Under a favorable trend of the people's pursuance for better life and consumption upgrading, watch industry, which integrates high-end sophisticated manufacture and brand aesthetics, enjoys a good development prospect.

In 2018, under the background that the macro economy held pressure and the consumption market was weak in growth, the Company conducted in-depth study on the consumption demand and fashion trend in its brand management business, worked hard on breakthrough and innovation in technology, process and product design and constantly improved the product quality and continuously satisfied the customers' demand. Meanwhile, in light of the segmented market, the Company continued to increase the input in multi-brand strategical planning, channel construction, marketing and promotion, etc, continuously enrich the brand connotation and build brands with differentiation. During the reporting period, the Company constantly maintained powerful competition superiority with it brand businesses in the domestic watch market of which FIYTA Brand further took the leading position in the industry in terms of its influence. In respect of retail services, the Company seized the opportunity of sales recovery of medium- and high-end brands, positively adjusted the shop brand structure and channel layout, continuously developed the medium- and high-end quality channels, kept doing a good job in service quality improvement and arrangement of the technical service network. During the reporting period, the Company's superiority in retail service business competition was further consolidated; where Harmony World Watch kept the leading position in the industry in terms of sales size and channel arrangement. The Company created again a new historical record in annual revenue and total profit and kept advancing towards the vision of "becoming a leading internationalized watch brand enterprise".

II. Significant Changes in the Prime Assets

1. Significant Changes in the Prime Assets

Inapplicable

2. Prime Assets Abroad

Inapplicable

III. Analysis on Core Competitiveness

I. Unique Business Layout of "Watch Brand Management + Watch Retail Services" in the Industry

Incorporated in 1987, FIYTA experienced over three decades' accumulation and innovation breakthrough, constructed the brand management business with FIYTA Brand as the core and watch retail business with Harmony as the core and the two businesses supplemented each other and developed in a coordinated way; both take the leading position in the domestic market at present. The unique business layout of “Watch Brand Management + Watch Retail Services” have provided a guarantee for the Company's sustainable development and “becoming a leading internationalized watch brand enterprise”.

II. Profound Brand Management Experience and Clear Setmented Market Positioning

With reference to the experience of brand management experience of various world watches distributed by HARMONY retail business as well as its own FIYTA Brand molding experience, the Company took a lead in constructing multi-brand tribe with watch brands of FIYTA, Emile Chouriet, JONAS&VERUS, JEEP and BEIJING as the key brands, constantly constructed brand identities of professional watch manufacture, classic and elegance, young fashion, intelligence and outdoors, oriental aethetics, etc. These brands have become the leading brands in the segmented market.

III. National Watch Base and First Class Product Design Ability

The Company is a national technological innovation demonstration enterprise, national industrial design center and national technology certification center for enterprises, and an organization integrating and implementing the standards for informationization and industrialization by the Ministry of Industry and Information Technology. All its subordinative manufacturers are national hi-tech enterprises; has constructed its professional watch manufacture ability in respect of driving unit manufacture, space watch development, high-end watch manufacture teniques, etc. Meanwhile, the Company has kept a leading position in the industry in terms of product quality and creative design ability.

IV. High Quality Brand, Channel Resources and Nationwide Retail Service Network

In watch retail business with HARMONY as the core, the Company has established close cooperative relationship with a great many world top brands and mainstream brands, including Omega, Breguet, Blancpain, Glashutte Original, Jaquet Droz, Longines, Tissot, etc. subordinate to Swatch Group; Rolex and TUDOR subordinate to Rolex; A.LANGE & SOHNE,JAEGER LE-COULTRE,CARTIER,PIAGET, IWC, etc. subordinate to Richemont Group; GIRARD PERREGAUX and ULYSSE NARDIN subordinate to Kering Group; as well as such independent brands as CHOPARD, Bucherer, BREITLING, etc. The Company has also established strategic cooperative relationship with various high grade shopping malls, such as MIXC as well as various high grade department stores in China, possesses top quality brands and channel resources in the industry. The Company has established nationwide watch retail service network.

V. Profound Management Experience and Sustainable Talents Reserve

The Company constantly enhanced construction of the “Brand People” team, continuously improved the profession and comprehensive qualification of the team, actively created a team atmosphere of progressiveness, struggle, continuous improvement and devotion to work. The major members of the management and business backbones of the Company have been engaged in watch industry for long time and have rich experience in brand management and channel operation, enjoy good professional qualification and have profound understanding of watch industry. In addition, the Company has established long term and stable enterprise-school cooperative relationship with various famous colleges and universities in China. The Company is able to continuously and steadily obtain a great number of high quality professionals and infuse new blood for the Company's development. The Company has continued to hold the honorable title of “Yearly Best Employer” granted by Internal Association of Human Resources and CHINACHR.COM successively for 12 years.

Section 4 Discussion and Analysis of the Management

I. General

In China, the domestic economy slowed down in growth, the Sino-US trade conflict was full of complications, the consumption market demand was bearish, and the watch industry was confronted with serious market pressure. During the reporting period, the Company focused on value creation, spared in effort in carrying forward refined management and specialized operation, exerted itself on upgrading the brand identity and customer services, improved the operation efficiency; under the situation of relatively weak market, the Company still realized continuous increase of profit. In 2018, the Company realized revenue amounting to CNY 3400.4506 million with year-on-year growth of 1.63% and realized total profit amounting to CNY 231.1969 million with a year-on-year growth of 21.87%; realized net profit amounting to CNY 183.8351 million with a year-on-year growth of 31.11%. The Company has once again achieved a historical record in operation performance.

During the reporting period, the Company carried out the following key work.

I. Putting forth effort in promoting upgrading of FIYTA Brand and continuously supporting quick development of various brands

FIYTA Brand closely followed the trend of upgrading consumption and the customers' consumption demand of "quality-orientation and personalization" and carried forward in depth upgrading of the brands based on products, marketing and channels, etc. In 2018, FIYTA Brand adhered to the spirit of being specialized in watch making, insisted on independent aesthetic design, launched "FENGZHI", "SOLO" Series, etc. and enriched the serial products of "QUORRA'S CORD", "CLOVER", etc. Meanwhile, for the purpose of satisfying the customers' demand on high quality and customization, the Company announced a high-end customized designer brand - MOONYANG at Basellworld; for the purpose of complying with the life style of rejuvenation and intelligence of consumers, the Company enhanced the digitalized new media marketing; for the purpose of pressing close to the change of customers' consumption scene, vigorously developing the channels of brand flagship store and shopping center and the proportion of sales in shopping center was continuously increasing. In 2018, in light of FIYTA Brand's outstanding performance in specialized watch making and innovative design, FIYTA Brand Space Watch series and the application project were rewarded with a number of "the Fifth China Industrial Award" and many models of FIYTA Brand were rewarded with principal industrial awards, including "2018 China Design Red Star Award", "Honorable Mention of China Design" and "Governor Cup Industrial Design Award", "Shenzhen Gift", etc. During the reporting period, the Company complied with consumers' consumption demand of personalization and diversification, continued to reinforce the influence of the brands of "Emile Chouriet", " JONAS&VERUS", "JEEP" and"BEIJING", improved the competition superiority on the segmented market; the proportion of sales of multiple brands exceeded 25% of the total of the watch brand management business and still kept quick development.

II. Continuing to optimize the watch retail service network and constantly upgrading customer service quality

Harmony World Watch Center firmly grasped the opportunity of revived growth of medium- and high-end watches, deepened strategic cooperation with Swatch, Rolex, Richemont, Kering, etc. and individual watch makers, acquired more high quality international brand resources; and at the same time, kept carrying forward the work of channel upgrading and development of key medium- and high-end channels. In 2018, the unit price of Harmony world watch customers was significantly improved and the channels were further concentrated on medium- and high-end. So far, Harmony World Watch Center has 190 channels of famous brand watches of medium- and high-end. At the same time, for the purpose of satisfying customers' new demand of consuming online international brands, Harmony accelerated layout of online channels by uniting international brands; based on the existing brands, including Oris, Titoni, which have been authorized for online sale, Harmony has opened Carl F.Bucherer Brand JD official flagship store and TISSOT Brand T-Mall Franchise Store. For the purpose of continuously improving customer service quality and sharing the huge space of famous brand watch inventory market, Harmony continued to develop technical service business. In 2018, Harmony and Swatch Group jointly opened the first brand comprehensive after-sale service center. Now the said technical service center has 150 channels. In the reporting period, the Company continued to carry forward upgrading of BRAND GALLERY operation and channel development work, has possessed 150 BRAND GALLERY famous brANd channels based on medium end and fashion and the channel influence has been further improved.

III. Enthusiastically Making Layout of New Businesses and Starting Intelligent Retail in a Cooperative Way

Based on the quick growth of smart watch market, the Company speeded up layout of smart watch business and promoted business innovation. In 2018, FIYTA Brand launched the first pointer type aerobic capacity smart watch - JOYUP series and JEEP Brand launched smart all-realm watch； where, the Company achieved innovative breakthrough in the field of heavy smart watch by JEEP Brand smart watch, in which the Company applied QUALCOMM radio technology and created 4G all-net independent communication with the functions of sports, navigation, payment, etc. It enjoys first mover advantage in terms of functions and technology in the industry, has received good response in market sales and more than 10,000 units were sold in three months after coming into the market.

In light of the new development trend of intelligent retail, for the purpose of bring the superiority of the Company's retail network and profound medium- and high-end member resource into better play, in 2018, the Company, centering the trend of customers' experience, improvement of operation efficiency and whole-channel integration development, etc, started the intelligent retail project with cooperation of OC&C, an international consulting institution.

IV. Insisting on Independent Science & Technology Innovation and Consolidating the Core Technology Power

In 2018, the Company brought the advantage of the watch manufacture bases in Shenzhen and Switzerland into good play, integrated domestic and foreign resources, constantly increased investment in the field of key technologies, including the driving units of mechanical watches, research on application of new materials, space watch and smart watches, kept enhancing its leading position of independent innovation in China watch brands, achieved quite a number of scientific research results and achieved great progress in partial key technology R & D of driving units, materials, etc. In 2018, the Company accumulatively applied for 57 patents, including 15 invention and utility model patents. Relying on the accumulation in aspects of innovation mechanism, innovation ability and innovation talents, the Company was elected a national consumer goods standardization demonstration base and a post-doctorial innovation practice base in Shenzhen.

V. Focusing on Creation of Enterprise Values and Carrying forward Refined Operation Management

In 2018, the Company focused on value creation and spared no effort in carrying forward refined operation management. In the brand management business, the Company actively adjusted the business and organization structure, compressed the management levels, vigorously carried forward cost and expenditure control, further improved the organization efficiency, removed low efficiency and loss-making shops with firm determination, and effectively controlled the operation cost; in the retail service business, the Company brought the advantage of channel size into play, carried out sales discount and improved comparable unit shop output. As a result, the gross profit of Harmony world watch business increased by 1.96% and comparable unit shop output grew by 4%. In 2018, the Company, with the help of scientific management tools, systematically solved the key and tough problems existing in the operation management, continuously carried forward process optimization and construction of precise supply chain, further optimized the inventory structure, with the total amount dropped by CNY 38.2204 million over the year beginning and interest-bearing liabilities dropped by CNY 88.8778 million over the year beginning.

VI. Carrying forward Construction of the Incentive Mechanism and Culture and Further Improving Organization Vitality

For the purpose adapting itself to the change of the market environment and customers, the Company insisted on the enterprise spirit of inheritance and innovation and established and released the new cultural system. In addition, the Company practiced A-share restrictive stock incentive program with a valid term of 5 years (Phase I) and granted 4.224 million A-share restrictive stock to 128 backbone employees. By means of construction of the new culture system and long-term incentive mechanism, the Company further improved the vitality of the organization, supported the new turn of development strategy in landing and arrival of various operation objectives.

Movement of the Major Financial Items in 2018:

Statement Items	2018	2017	Increase/ Decrease (%)	Note to the movement
Balance sheet items				
Advance payments	13,666,816.33	24,663,314.53	-44.59%	It was mainly due to decrease of advance payment for goods at the end of the reporting period
Other receivables	45,870,582.26	34,990,539.09	31.09%	It was mainly due to increase of the deposit in security and cash deposit at the end of the reporting period over the year beginning.
Other current assets	73,703,312.24	24,616,815.21	199.40%	It was mainly due to increase of the input VAT to be offset at the end of the reporting period over the year beginning.
Interest payable	772,351.26	1,464,729.11	-47.27%	It was mainly due to bank loan at the end of the reporting period and the corresponding decrease of the interest payable at the end of the reporting period.
Non-current liabilities due within a year	347,470.00	35,000,000.00	-99.01%	It was mainly due to that the long-term loan due within a year was repaid at the end of the reporting period.
Long-term borrowings	4,517,110.00	79,870,353.00	-94.34%	It was mainly due to that the special-purpose loan for the watch industry base in Guangming New Zone was repaid in the reporting year.
Deferred income	3,672,855.36	5,904,000.00	-37.79%	It was mainly due to that the partial government subsidy to be recognized at the year beginning was recognized as other income during the reporting year.
Profit Statement Items				
Interest cost	27,552,558.81	41,825,035.34	-34.12%	It was mainly due to that as the bank loan decreased in the reporting year and the payment for interest cost decreased correspondingly.

Loss from impairment of assets	3,264,956.18	62,427,499.61	-94.77%	It was mainly due to decrease of the provision for price falling of inventories in the reporting year over the same period of the previous year.
Income from disposal of assets	-181,302.24	7,321,993.36	-102.48%	The income from disposal of assets in the same period of the previous year was mainly the income from disposal of the non-operating real estate of Station 68 Ltd., one of the Company's solely-funded subsidiaries, and there existed no such case in the reporting year.
Cash Flow Statement Items				
Rebated taxes received	4,793,245.20	886,252.20	440.84%	It was mainly due to increase of the rebated input VAT in the reporting year over the same period of the previous year.
Net cash from disposal of fixed assets and intangible asset and recovery of other long term assets	53,280.03	10,678,135.25	-99.50%	It was mainly the income from disposal of the non-operating real estate of Station 68 Ltd. in the same period of the previous year.

II. Analysis on Principal Businesses

1. General

Refer to “I. General” of “Discussion and Analysis of Business Conditions”

2. Income and Costs

(1) Composition of operating revenue

In CNY

	2018		2017		Year-on-year increase/decrease
	Amount	Proportion in the operating revenue	Amount	Proportion in the operating revenue	
Total operating revenue	3,400,450,599.90	100%	3,345,809,703.98	100%	1.63%
Sectors					
Watches	3,193,280,311.30	93.91%	3,182,377,477.24	95.12%	0.34%
Sophisticated manufacture	70,742,449.85	2.08%	34,886,779.43	1.04%	102.78%
Leases	118,323,969.04	3.48%	109,451,504.76	3.27%	8.11%
Others	18,103,869.71	0.53%	19,093,942.55	0.57%	-5.19%

	2018		2017		Year-on-year increase/decrease
	Amount	Proportion in the operating revenue	Amount	Proportion in the operating revenue	
Products					
Watch retail and services	2,090,970,707.50	61.49%	2,039,729,647.67	60.96%	2.51%
Watch brand business	1,102,309,603.80	32.42%	1,142,647,829.57	34.15%	-3.53%
Sophisticated manufacture	70,742,449.85	2.08%	34,886,779.43	1.04%	102.78%
Leases	118,323,969.04	3.48%	109,451,504.76	3.27%	8.11%
Others	18,103,869.71	0.53%	19,093,942.55	0.57%	-5.19%
Regions					
South China	1,536,911,140.58	45.20%	1,490,763,984.16	44.56%	3.10%
Northwest China	588,628,213.03	17.31%	546,462,280.48	16.33%	7.72%
Northeast China	249,884,958.89	7.35%	270,574,447.95	8.09%	-7.65%
East China	439,292,101.70	12.92%	422,998,372.46	12.64%	3.85%
Northeast China	269,671,243.83	7.93%	285,363,830.58	8.53%	-5.50%
Southwest China	316,062,941.87	9.29%	329,646,788.35	9.85%	-4.12%

(2) Sector, product or region which takes over 10% of the Company's operation revenue or operation profit

In CNY

	Operating revenue	Operating cost	Gross profit rate	Year-on-year increase/decrease of operating revenue over the same period of previous year	Year-on-year increase/decrease of operating cost over the same period of previous year	Year-on-year increase/decrease of gross profit rate over the same period of previous year
Sectors						
Watches	3,193,280,311.30	1,910,998,452.65	40.16%	0.34%	-1.18%	0.92%
Sophisticated manufacture	70,742,449.85	59,432,940.99	15.99%	102.78%	89.07%	6.09%
Leases	118,323,969.04	22,474,447.92	81.01%	8.11%	26.37%	-2.74%
Others	18,103,869.71	903,932.64	95.01%	-5.19%	-75.55%	14.37%
Products						
Watch retail and services	2,090,970,707.50	1,576,862,763.43	24.59%	2.51%	-0.65%	2.40%

Watch brand business	1,102,309,603.80	334,135,689.22	69.69%	-3.53%	-3.57%	0.01%
Sophisticated manufacture	70,742,449.85	59,432,940.99	15.99%	102.78%	89.07%	6.09%
Leases	118,323,969.04	22,474,447.92	81.01%	8.11%	26.37%	-2.74%
Others	18,103,869.71	903,932.64	95.01%	-5.19%	-75.55%	14.37%
Regions						
South China	1,536,911,140.58	875,599,755.20	43.03%	3.10%	2.64%	0.25%
Northwest China	588,628,213.03	353,457,194.81	39.95%	7.72%	7.23%	0.27%
Northeast China	249,884,958.89	137,166,812.45	45.11%	-7.65%	-10.46%	1.72%
East China	439,292,101.70	262,001,509.80	40.36%	3.85%	1.29%	1.51%
Northeast China	269,671,243.83	187,589,738.67	30.44%	-5.50%	-7.03%	1.15%
Southwest China	316,062,941.87	177,994,763.27	43.68%	-4.12%	-6.49%	1.43%

As the calculation specification of the Company's principal business data underwent adjustment during the reporting period, the principal business data of the past year were the data based on that after the specification adjustment at the end of the reporting year.

	Operating revenue	Operating cost	Gross profit rate	Year-on-year increase/decrease of operating revenue over the same period of previous year	Year-on-year increase/decrease of operating cost over the same period of previous year	Year-on-year increase/decrease of gross profit rate over the same period of previous year
Sectors						
Watches	3,182,377,477.24	1,933,734,832.90	39.20%	12.71%	11.96%	0.40%
Sophisticated manufacture	34,886,779.43	31,434,866.13	9.90%	-11.77%	11.22%	-18.62%
Leases	109,451,504.76	17,785,254.56	83.80%	2.31%	31.31%	-3.59%
Others	19,093,942.55	3,697,637.98	80.60%	-19.78%	-4.85%	-3.04%
Products						
Watch retail and services	2,039,729,647.67	1,587,232,279.88	22.20%	12.73%	10.87%	1.31%
Watch brand business	1,142,647,829.57	346,502,553.02	69.70%	12.68%	17.28%	-1.19%
Sophisticated manufacture	34,886,779.43	31,434,866.13	9.90%	-11.77%	11.22%	-18.62%
Leases	109,451,504.76	17,785,254.56	83.80%	2.31%	31.31%	-3.59%
Others	19,093,942.55	3,697,637.98	80.60%	-19.78%	-4.85%	-3.04%

Regions						
South China	1,490,763,984.16	853,045,559.52	42.80%	23.43%	24.62%	-0.55%
Northwest China	546,462,280.48	329,631,915.00	39.70%	3.31%	0.75%	1.53%
Northeast China	270,574,447.95	153,182,543.86	43.40%	-2.17%	-3.33%	0.68%
East China	422,998,372.46	258,663,712.98	38.80%	7.68%	9.00%	-0.74%
Northeast China	285,363,830.58	201,782,412.95	29.30%	1.46%	5.02%	-2.40%
Southwest China	329,646,788.35	190,346,447.25	42.30%	7.56%	9.90%	-1.23%

Reason of the change of the specifications

The Company reclassified and adjusted the disclosing specifications based on different sectors, products and regions according to the practical conditions of business operation and requirements of segmented management. The relevant data of the reporting period of the previous year underwent adjustment according to the same specifications; where the specifications based on sectors and products have been adjusted from the original classification based on business management plate into classification based on business attribution categories; the specifications for classification based on regions have been adjusted from the original classification based on the location of branch companies into the classification based on the location of shops.

(3) Is the physical sales income greater than the service income

Yes

Classified based on sectors	Items	In CNY	2018	2017	Year-on-year increase/decrease
Brand watches	Sales volume	pcs	1,032,886	1,169,341	-12.00%
	Output	pcs	1,085,929	1,443,902	-25.00%
	Inventory	pcs	1,326,997	1,273,954	4.00%

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

Inapplicable

(4) Implementation of Important Sale Contracts Concluded at the End of the Reporting Period

Inapplicable

(5) Composition of Operating Costs

Classified based on sectors and products

In CNY

Classified based on sectors	Items	2018		2017		Year-on-year increase/decrease
		Amount	Proportion in the operating costs	Amount	Proportion in the operating costs	
Watches	Goods purchase	1,576,862,763.43	79.09%	1,587,232,279.88	79.89%	-0.65%

Classified based on sectors	Items	2018		2017		Year-on-year increase/decrease
		Amount	Proportion in the operating costs	Amount	Proportion in the operating costs	
	cost					
	Raw materials	298,467,328.86	14.97%	318,023,289.64	16.01%	-6.15%
	Labor costs	25,602,142.25	1.28%	23,200,389.66	1.17%	10.35%
	Depreciation expense	1,124,500.75	0.06%	1,025,084.88	0.05%	9.70%
	Water and electricity fees	582,727.38	0.03%	462,540.76	0.02%	25.98%
	Rent	2,100,422.82	0.11%	466,825.54	0.02%	349.94%
	Others	6,258,567.16	0.31%	3,324,422.53	0.17%	88.26%
Sophisticated manufacture	Raw materials	39,129,570.45	1.96%	13,450,268.43	0.68%	190.92%
	Labor costs	12,770,838.35	0.64%	10,882,923.92	0.55%	17.35%
	Depreciation expense	1,440,723.29	0.07%	1,511,974.62	0.08%	-4.71%
	Water and electricity fees	1,443,140.38	0.07%	1,204,598.61	0.06%	19.80%
	Rent	275,118.68	0.01%	125,227.28	0.01%	119.70%
	Others	4,373,549.85	0.22%	4,259,873.27	0.21%	2.67%
Leases	Depreciation expense	13,170,394.47	0.66%	10,568,722.86	0.53%	24.62%
	Labor costs	2,983,488.04	0.15%	2,992,768.29	0.15%	-0.31%
	Others	6,320,565.41	0.32%	4,223,763.41	0.21%	49.64%
Others	Purchase cost	903,932.64	0.05%	3,697,637.98	0.19%	-75.55%

In CNY

Classified based on products	Items	2018		2017		Year-on-year increase/decrease
		Amount	Proportion in the operating costs	Amount	Proportion in the operating costs	
Watch retail and services	Goods purchase cost	1,576,862,763.43	79.09%	1,587,232,279.88	79.89%	-0.65%
Watch brand business	Raw materials	298,467,328.86	14.97%	318,023,289.64	16.01%	-6.15%
	Labor costs	25,602,142.25	1.28%	23,200,389.66	1.17%	10.35%
	Depreciation expense	1,124,500.75	0.06%	1,025,084.88	0.05%	9.70%
	Water and electricity fees	582,727.38	0.03%	462,540.76	0.02%	25.98%

Classified based on products	Items	2018		2017		Year-on-year increase/decrease
		Amount	Proportion in the operating costs	Amount	Proportion in the operating costs	
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	Others	6,258,567.16	0.31%	3,324,422.53	0.17%	88.26%
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	Labor costs	12,770,838.35	0.64%	10,882,923.92	0.55%	17.35%
	Depreciation expense	1,440,723.29	0.07%	1,511,974.62	0.08%	-4.71%
	Water and electricity fees	1,443,140.38	0.07%	1,204,598.61	0.06%	19.80%
	Rent	275,118.68	0.01%	125,227.28	0.01%	119.70%
	Others	4,373,549.85	0.22%	4,259,873.27	0.21%	2.67%
Leases	Depreciation expense	13,170,394.47	0.66%	10,568,722.86	0.53%	24.62%
	Labor costs	2,983,488.04	0.15%	2,992,768.29	0.15%	-0.31%
	Others	6,320,565.41	0.32%	4,223,763.41	0.21%	49.64%
Others	Purchase cost	903,932.64	0.05%	3,697,637.98	0.19%	-75.55%

(6) Is there any change in the consolidation scope in the reporting period

No

(7) Is there any significant change or adjustment related situation taken place in the Company's business, products or services in the reporting period

Inapplicable

(8) Major sales customers and major suppliers

Information about the major sales customers

Total sales to the top five customers, in CNY	466,297,023.36
Proportion of the total sales to the top five customers in the total sales of the year,	13.72%
Proportion of the sales volume to the top five customers in the total sales to the related parties in the year	2.11%

Note: The customers controlled by the same actual controller should be presented after consolidation except that actually controlled by the same state-owned assets management institution.

Information of the top 5 customers

Serial No.	Customers	Sales (in CNY)	Proportion in the total sales of the year
1	China Resources (Shenzhen) Co., Ltd	143,815,196.14	4.23%
2	VIP.COM	106,605,479.95	3.14%
3	China Resources (Shenyang) Real Estate Co., Ltd.	73,398,392.21	2.16%
4	Yongan Department Store Co., Ltd.	70,713,098.56	2.08%
5	Rainbow Department Store Co., Ltd.	71,764,856.50	2.11%
Total	--	466,297,023.36	13.72%

Other Information about the major customers

Inapplicable

Major suppliers

Total amount of purchase from top five suppliers, in CNY	1,214,053,934.87
Proportion of the purchase amount from the top five suppliers in the Company's total purchase amount	61.06%
Proportion of purchase amount from the top 5 suppliers in the total purchase amount from the related parties in the year	0.00%

Note: The suppliers controlled by the same actual controller should be presented after consolidation except that actually controlled by the same state-owned assets management institution.

Information about the top 5 suppliers

Serial No.	Suppliers	Purchase amount, in CNY	Proportion in the total purchases of the year (%)
1	SMH Swiss Watch Trading (Shanghai) Co., Ltd.	603,264,969.67	30.34%
2	Ningbo Shangheng Watches Co., Ltd.	280,192,821.62	14.09%
3	Rolex (Guangzhou) Ltd.	178,191,143.82	8.96%
4	Lifeng Commerce Co., Ltd.	93,139,200.03	4.68%
5	SMH Business Services (Shanghai) Pty Ltd.	59,265,799.73	2.98%
Total	--	1,214,053,934.87	61.06%

Other information about the major suppliers

Inapplicable

3. Expenses

In CNY

	2018	2017	Year-on-year increase/decrease	Note to significant changes
Sales costs	856,970,173.10	811,437,932.01	5.61%	Inapplicable
Administrative expenses	224,796,280.12	190,589,582.24	14.99%	Inapplicable
Financial expenses	35,916,240.16	49,186,742.91	-26.98%	Inapplicable
R & D expenditures	47,350,342.82	49,453,899.35	-4.25%	Inapplicable

4. Investment in R & D

Investment in R & D was mainly for consolidating the Company's leading position in self-dependent innovation in China's watch brands. The Company continuously increased investment in personnel, equipment, research budget, etc. for such key technology fields as space watches, driving units of mechanical watches, industrial design, smart watches, research on application of new materials, etc., and had created a number of scientific research achievements. In 2018, the Company's total investment in R & D amounted to CNY 47,350,342.82, taking 1.84% of the net assets as audited in the most recent period and taking 1.39% of the operation revenue as audited in the most recent period. In 2018, the Company applied for 57 patents, of which 15 were patents of invention and utility models. By virtue of the accumulation in innovation mechanism, innovation ability, innovative talents and innovation achievements, etc., in addition to the existing titles of "National Certified Enterprise Technology Center", "National Industrial Design Center", "National Technology Innovation Demonstration Enterprise", the Company has been elected an national consumer goods standardization demonstration base and a post-doctarial innovation practice base in Shenzhen.

Summary of Investment in R & D

	2018	2017	Proportion of movements
Number of R & D staff (persons)	47	45	4.44%
Proportion of R & D staff in total employees	0.91%	0.84%	0.07%
Amount of investment in R & D, in CNY	47,350,342.82	49,453,899.35	-4.25%
Proportion of investment in R & D in operating revenue	1.39%	1.48%	-0.09%
Amount of capitalized investment in R & D (in CNY)	0.00	0.00	0.00%
Proportion of capitalized investment in R & D in the total investment in R & D	0.00%	0.00%	0.00%

Cause(s) of significant change of the total investment in R & D in the operating revenue

Inapplicable

Note to the cause of significant change in the capitalization rate of investment in R & D and note to the reasonability

Inapplicable

5. Cash Flow

In CNY

Items	2018	2017	Year-on-year increase/decrease
Subtotal of cash flow in from operating activity	3,864,826,375.05	3,849,407,740.68	0.40%
Subtotal of cash flow out from	3,533,198,585.43	3,284,453,178.71	7.57%

operating activity			
Net cash flows arising from operating activities	331,627,789.62	564,954,561.97	-41.30%
Subtotal of cash flow in from investment activity	53,280.03	10,448,081.56	-99.49%
Subtotal of cash flow out from investment activity	146,877,130.29	136,914,522.99	7.28%
Net cash flows arising from investment activities	-146,823,850.26	-126,466,441.43	16.10%
Subtotal of cash flow in from fund raising activity	741,192,340.23	575,282,350.00	28.84%
Sub-total cash flow paid for financing activities	949,023,364.54	1,255,793,728.74	-24.43%
Net cash flows arising from financing activities	-207,831,024.31	-680,511,378.74	-69.46%
Net increase of cash and cash equivalents	-22,324,831.35	-242,279,864.49	-90.79%

Note to the major influence factors for the significant change in the relevant year-on-year data:

1. Net cash flow arising from operating activities amounting to CNY 331,627,789.62 was mainly due to increase of the recovered receivables brought about from revenue growth in the reporting year; and in addition, the inventory size effectively reduced at the year end by enhancing control over inventory; in the reporting year, the Company realized the net cash flow from operating activities greater than the net profit of the Company.

2. Net cash flow arising from investment activities amounting to CNY -146,823,850.26, increased by CNY 20,357,408.83 over the same period of the previous year, was mainly due to increase of the renewed investment in shops and counters in the reporting year over the same period of the previous year.

3. Net cash flow arising from financing activities amounting to CNY -207,831,024.31 in the reporting year was mainly due to repayment of the bank loans and payment of dividends and interest, where the cash flow-out from repayment of the interest-bearing liabilities amounted to CNY 91,140,868.40, payment of the dividends amounted to CNY 87,748,976.20 and payment of the loan interest amounted to CNY 28,941,179.71.

4. Net increase of cash and cash equivalent in the reporting year amounting to CNY -22,324,831.35 was mainly due to repayment of partial bank loans with monetary capital in the reporting year and as a result the size of interest-bearing liabilities was reduced at the end of the reporting year.

Cause(s) of significant difference in the net cash flow arising from the operating activities and the net profit in the reporting year

Inapplicable

III. Analysis on Non-Principal Businesses

Inapplicable

IV. Assets and Liabilities

1. Significant Changes in Assets Composition

In CNY

	End of 2018		End of 2017		Proportion increased/decreased	Note to significant changes
	Amount	Proportion in total assets	Amount	Proportion in total assets		
Monetary fund	164,828,059.97	4.58%	187,152,891.32	5.23%	-0.65%	Inapplicable
Accounts receivable	370,545,656.61	10.29%	326,254,624.94	9.11%	1.18%	Inapplicable
Inventories	1,782,306,301.70	49.51%	1,820,526,676.26	50.86%	-1.35%	Inapplicable
Investment real estate	377,319,433.03	10.48%	305,493,987.77	8.53%	1.95%	Inapplicable
Long-term equity investment	44,881,063.15	1.25%	43,879,518.09	1.23%	0.02%	Inapplicable
Fixed assets	425,649,562.85	11.82%	523,699,592.65	14.63%	-2.81%	Inapplicable
Construction-in-process	12,041,126.00	0.33%	10,947,300.53	0.31%	0.02%	Inapplicable
Short term loans	547,118,452.97	15.20%	525,990,510.00	14.69%	0.51%	Inapplicable
Long-term borrowings	4,517,110.00	0.13%	79,870,353.00	2.23%	-2.10%	Inapplicable

2. Assets and liabilities measured based on fair value

Inapplicable

3. Restriction on rights in the assets ended the reporting period

A property owned by Switzerland based Montres Chouriet SA with net value of CNY 14,978,058.57 was used as a collateral for the overseas long term loan amounting to CNY 4,517,110.00.

V. Investment

1. General

Inapplicable

2. Significant equity investment acquired in the reporting period

Inapplicable

3. Significant non-equity investment in process in the reporting period

In CNY

Description	Way of investment	Is it an investment in fixed assets?	Industry involved by the investment project	Amount invested during the reporting period	Accumulative amount actually invested by the end of the reporting period	Capital source	Project progress	Predicted earning	Earnings accumulatively realized by the end of the reporting period	Cause of the failure in arriving at the planned progress and predicted earnings	Date of disclosure (if any)	Disclosure index (if any)
The supporting engineering works at the watch industry base in Guangming New Zone	Self-built	Yes	Manufacture	1,093,825.47	12,041,126.00	Self-raised capital	35.36%	0.00	0.00	Inapplicable	March 10, 2017	http://www.cninfo.com.cn/
Total	--	--	--	1,093,825.47	12,041,126.00	--	--	0.00	0.00	--	--	--

4. Financial assets investment

(1) Portfolio investment

Inapplicable

(2) Investment in derivatives

Inapplicable

5. Application of the raised capital

(1) General application of the raised capital

In CNY 10,000

Year of raising	Way of raising	Total capital raised	Total amount of raised capital used in the reporting period	Total accumulative amount of raised capital used accumulated	Total raised capital whose application purpose has been changed in the reporting period	Total accumulative raised capital whose application purpose has been changed	Proportion of the total accumulative raised capital whose application purpose has been changed	Total raised capital not yet used	Application and status of the raised capital unused	Amount of the raised capital idled for more than 2 years
2015	Non-public issuing of A-shares	60,000	3,119.79	58,583.07	0	0	0.00%	0	Inapplicable	0
Total	--	60,000	3,119.79	58,583.07	0	0	0.00%	0	--	0
Note to General Application of the Raised Capital										
The Company held the 18th session of the Seventh Board of Directors and 2014 Annual General Meeting respectively on April 16, 2015 and June 17, 2015. The meetings reviewed and approved the Proposal on the Plan for Non-public Issuing of A-shares to the Specified Investors, etc., according to which the Company planned to issue in a non-public way A-shares to no more than 10 (with 10 inclusive) specified investors with the total raised capital not exceeding CNY 600 million, which would be applied for four projects, including the project of launching new FIYTA watches and supplement the working capital. The application for non-public issuing of A-shares was reviewed and approved by CSRC Securities Issuance Examination Committee (CSIEC) on October 30, 2015. On November 17, 2015, the Company received Official Reply to FIYTA Holdings Ltd. on Approval for Non-public Issuing (ZHENG JIAN XU KE [2015] No. 2588 which authorized the Company to issue no more than 46,911,649 new shares in non-public way. The actual number of A-shares actually issued in the non-public issuing activity was 45,977,011 shares and the raised capital amounted to CNY 599 million. After deduction of the underwriting fee, the raised capital amounted to RMB 585 million. After deduction of the issuing costs, the net raised capital amounting to CNY583 million was remitted to the bank account designated by the Company on December 18, 2015. Grant Thornton Certified Public Accountants (Special General Partnership) issued the Capital Verification Reports ZHI TONG YAN ZI (2015) No. 441ZC0653, ZHI TONG YAN ZI (2015) No. 441ZC0652 respectively for the raised capital. Up to now, the capital raised from non-public issuing of A-shares is going to be applied for the originally designated application purpose and there exists no such a case that the application purpose has been changed. The concerned follow-up commitments have been completed in implementation.										

(2) Promised Projects with Raised Capital

In CNY 10,000

Promised investment projects and investment with	Has the project been	Total promised investmen	Total investment after	Amount invested during the	Amount accumulatively	Investment progress	Date when the project	Result realized in the	Has the predicted operation	Has significant change

the over-raised capital	changed (including partial change)	t with raised capital	adjustment (1)	reporting period	invested up to the end of the report period (2)	by the end of the report period (%) (3) = (2)/(1)	has reached the predicted applicable status	reporting period	result been reached?	taken place in the feasibility of the project?
Investment projects as promised										
1. Project of Launching New FIYTA Watches	No	18,000	18,000	0	18,000	100.00%		0	Inapplicable	No
2. FIYTA E-commerce project	No	12,000	12,000	1,523.44	12,068.85	100.00%		2,511.51	Yes	No
3. FIYTA Brand Marketing Promotion Project	No	10,000	10,000	0	10,000	100.00%		0	Inapplicable	No
4. Technical Service Website Construction Project	No	5,000	5,000	1,572.87	5,022.62	100.00%		254.49	Yes	No
5. Replenishing working capital	No	15,000	15,000	23.48	13,491.6	89.94%		0	Inapplicable	No
Subtotal of investment projects as committed	--	60,000	60,000	3,119.79	58,583.07	--	--	2,766	--	--
Intended investment with the over-raised capital										
Inapplicable										
Subtotal of the intended investment with the over-raised capital	--	0	0	0	0	--	--	0	--	--
Total	--	60,000	60,000	3,119.79	58,583.07	--	--	2,766	--	--
Cause of failure to satisfy the plan progress or predicted revenue and the cause (based on specific project)	Inapplicable									
Note to the significant change in the feasibility of a project	Inapplicable									
Amount, application and application progress of the over-raised capital	Inapplicable									
Change of the site for implementation of the project invested with the	Inapplicable									

raised capital	
Adjustment of the way of implementation of the project invested with the raised capital	Inapplicable
Earlier investment in and replacement of the project invested with the raised capital	The Company provided CNY 63.5839 million of the self-raised fund in the project to be invested with the raised capital. After the raised capital was available for the project, according to the special auditor's report and the resolution of the Board of Directors and as agreed by the sponsor, the raised capital was applied in the project respectively on January 20, 2016 and January 21, 2016 and the self-raised fund as invested previously was replaced.
The idled raised capital used to replenish working capital for time being	Inapplicable
Amount of the balance of the raised capital incurred in project implementation and the cause	Inapplicable
Application and status of the raised capital unused	Ended December 31, 2018, the Company's raised fund had been used up.
Application of the raised capital and the issues existing in the information disclosure or other information	Inapplicable

Note: The accumulative investment with the raised capital amounted to CNY 585.8307 million while the net raise capital as received amounted to CNY 582.9244 million. The balance between the two amounting to CNY 2.9063 million was due to that 1) the Company had invested the net interest income amounting to CNY 0.9509 million arising from the account deposit of the raised capital in the projects invested with the raised capital; 2) the Company paid the issuing expenses for raising the capital amounting to CNY 1.9554 million from the own fund.

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

Inapplicable

VI. Sales of Significant Assets and Equity

1. Sales of Significant Assets

Inapplicable

2. Sales of Significant Equity

Inapplicable

VII. Analysis on Principal Subsidiaries and Mutual Shareholding Companies

Particulars about the principal subsidiaries and mutual shareholding companies which may affect the Company's net profit by over 10%.

In CNY

Company Names	Company type	Principal business	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Shenzhen Harmony World Watches Center Co., Ltd.	Subsidiaries	Purchase & sale and repairing service of watches and components	600,000,000	1,525,299,380.86	771,047,827.36	2,107,171,019.37	117,994,574.06	92,675,275.97
FIYTA Sales Co., Ltd.	Subsidiaries	Design, R & D and sales of watches and components & parts	450,000,000	742,574,904.27	401,872,117.88	1,027,778,790.49	-13,350,224.65	-10,380,652.52
Shenzhen FIYTA Sophisticated Timepieces Manufacture Co., Ltd.	Subsidiaries	Manufacture and production of watches and components	10,000,000	199,287,290.22	126,817,895.59	391,743,894.54	92,231,635.04	79,917,680.30
Shenzhen FIYTA Technology Development Co., Ltd.	Subsidiaries	Production and machining of sophisticated components and parts	10,000,000	93,175,666.69	66,854,230.98	107,109,049.70	7,673,840.30	7,552,309.14
FIYTA (Hong Kong) Limited	Subsidiaries	Trading of watches and accessories and investment	137,737,520	250,553,071.46	166,857,380.72	127,815,302.37	-9,991,088.62	-13,926,872.13
Shiyuehui Boutique (Shenzhen) Co., Ltd.	Subsidiaries	Design, R & D and sales of watches and components &	5,000,000	20,074,338.88	-3,792,098.52	27,288,251.21	217,825.72	-252,234.02

		parts						
Liaoning Hengdarui Commerce & Trade Co., Ltd.	Subsidiaries	Purchase & sale of watches and components & parts	51,000,000	143,835,959.26	40,062,997.77	9,111,983.83	1,220,621.29	914,215.97
Harbin Harmony World Watch Distribution Co., Ltd.	Subsidiaries	Purchase & sale of watches and components & parts	500,000	14,804,401.11	3,632,411.43	38,734,268.74	196,739.56	66,430.83
Emile Chouriet (Shenzhen) Limited	Subsidiaries	Design, R & D and sales of watches and components & parts	41,355,200	126,442,604.19	62,866,037.60	107,143,080.33	1,885,427.05	1,361,927.90
Shanghai Watch Industry Co., Ltd.	Mutual shareholding company	Production and sales of watches and components & parts	15,350,000	115,360,493.17	104,526,575.69	97,282,978.95	4,487,189.00	4,006,180.22

Subsidiaries acquired and disposed in the reporting period

Inapplicable

Note to the principal mutual shareholding companies

Inapplicable

VIII. Structurized Entities Controlled by the Company

Inapplicable

IX. Development Prospect

I. Development Trend of the Industry

In 2019, the situation that the domestic economic growth may further slow down and there may exist uncertainty in the consumer market shall become “the new normal”; superposition of such technologies as Internet of Things, AI, communication, etc. shall further promote transformation of the commercial ecology and watch industry shall still be confronted with various challenges. On the other hand, however, in the long run, benefited by growth of the people's disposable income, rise of middle class and rise of high quality consumption demand, the medium- and high-end consumer goods shall enter the fast traffic lane of development. The favorable policies, such as the preferential policies of adjustment of customs duties, tax reduction, to be introduced, shall be expectable to speed up this progress. In addition, with rise of China's comprehensive strength, consumers’ recognition of excellent home-made brands and the products which can be better integrated in China's traditional culture shall be quickly raised. In a word, in 2019, the Chinese consumer market shall breed and prompt more development opportunities. The domestic watch market shall present a situation of general stability with constant growth of the medium- and high-end market.

II. Development Strategy

The Company takes “to create quality life” as its mission, focuses on watch business, insists on brand strategy and persists in innovation and development, and devotes itself to build the Company into a “leading internationalized watch brand enterprise” and create satisfactory value return for its shareholders.

III. Key Work in 2019

In 2019, the Company shall, centering on lean operation of the two principal core businesses - watch brand management and watch retail services, ensure stable growth of the Company's business performances. The key work is summarized as follows:

1. Comply with the consumption upgrading trend, continue to carry forward the brand upgrading work with FIYTA Brad as the core, speed up development of the brands, including FIYTA, Emile Chouriet, JONAS&VERUS, JEEP, BEIJING, etc., consolidate the competition superiority and improve the segmented market share and brand influence.

2. Seize the growth opportunity of medium- and high-end brands, carry forward channel upgrading with Harmony as the core and service upgrading, speed up optimization and development of the watch retail services of HARMONY and BRAND GALLERY, continuously improve the channel operation efficiency, stabilize the position of HARMONY in the industry and improve the channel influence of BRAND GALLERY.

3. Quickly integrate modern information technology, speed up promoton of whole-channel integration development and intelligent retail work and construct “Big Data” of brand operation management.

4. Continue to explore integration of the Internet of Things, AI technology and communication technology with modern watch industry and speed up business innovation development of smart watches, etc.

IV. Capital Necessary for Future Development

According to the Company's business development plan and financial budget planning in 2019 and for the purpose of satisfying the demand on investment and operation capital and at the same time timely seizing the development opportunity possibly brought about from the market change, the Company plans to apply for financing credit line with amount not exceeding CNY 900 million by various means, including credit, guarantee, loan to subsidiaries, mortgage, etc. in 2019.

V. Risks Possibly to be Confronted with

1. In 2019, it is not optimistic for growth of macro-economy and the consumption confidence is still in process of recovery, which may cause the consumers to be more cautious in shopping, and consumer discretionary industry may be confronted with growth pressure.

2. Young consumer group's demand tends to be personalized and diversified and it is more difficult to focus what brands consumers may choose. The industrial competition and fighting for seizing consumers among various brands shall become more fierce.

3. Great change may take place in off-line shopping environment due to quick development of shopping center and it

would be more difficult to guide flow for off-line sales channels; online costs and expenses increase constantly and the performance of online channels may be affected.

4. There exists big difference in product features, operation model and investment between smart watches and traditional watches. The Company shall be required to have higher resources integration capability, investment in key technologies and talents reserve.

X. Statement of Such Activities as Reception of Survey, Communications, Interview, etc.

1. Registration Form of the Activities, such as Reception of Survey, Communications, Interviews, etc. in the Reporting Period

Reception time	Way of reception	Types of visitors received	Index of basic information of survey
January 11, 2018	Field survey	Institution	http://irm.cninfo.com.cn/ircs/ssgs/companyIrmForSzse.do?stockcode=000026
January 23, 2018	Field survey	Institution	http://irm.cninfo.com.cn/ircs/ssgs/companyIrmForSzse.do?stockcode=000026
March 22, 2018	Field survey	Institution	http://irm.cninfo.com.cn/ircs/ssgs/companyIrmForSzse.do?stockcode=000026
October 23, 2018	Field survey	Institution	http://irm.cninfo.com.cn/ircs/ssgs/companyIrmForSzse.do?stockcode=000026

Number of reception	4
Number of institutions received	25
Number of persons received	28
Number of other visitors received	0
Is there any important information disclosed, revealed or leaked to the public?	No

Section 5 Significant Events

I. Profit Distribution for Common Stock and Conversion of Capital Reserve into Share Capital

Preparation, Implementation or Adjustment of the Policy for Common Stock Profit Distribution, Especially the Policy for Cash Dividend Distribution

The Company's 2017 Profit Distribution Plan was reviewed and approved at the 24th session of the Eighth Board of Directors held on March 8, 2018 and 2017 Annual General Meeting held on June 21, 2018. It was resolved that with the Company's total share capital of 438,744,881 shares as at December 31, 2017 as the base, the Company would distribute cash dividend at the rate of CNY 2.00 for every 10 shares (with tax inclusive), bonus share at the rate of 0 share for every 10 shares (with tax inclusive) to the whole shareholders and capitalize no capital reserve to the whole shareholders. The implementation of the profit distribution plan was finished on August 1, 2018. For the detail, refer to the Announcement on Implementation of the Profit Distribution for Year 2017 (2018-014).

Special Note to Cash Dividend Distribution Policy	
Does it comply with the Articles of Association or the resolution of the General Meeting?	Yes
Are the profit distribution criteria and proportions definite and clear?	Yes
Are the relevant decision-making process and mechanism complete?	Yes
Do independent directors do their best in performing their duties and bring their duties into due play?	Yes
Do minority shareholders have opportunity to make full expression of their opinions and appeal? Have their lawful rights and interests been fully protected?	Yes
In case of adjustment or variation of the cash dividend distribution policy, do the conditions and procedures comply with the regulations and transparent?	Inapplicable

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

According to the provisions concerning cash dividend distribution in the Articles of Association, the Company prepared specific cash dividend distribution plan after the Board of Directors and the Shareholders' General Meeting have reviewed strictly according to the requirements. In the past three years, the Company has well implemented the cash dividend distribution policy, fully asked for the independent directors' opinions, effectively ensured the minority shareholders' benefit and made timely and accurate disclosure in its annual report and the relevant media.

Profit Distribution Plan in 2016: With the total share capital of 438,744,881 shares as at December 31, 2016 as the base, the Company is going to distribute to the whole shareholders cash dividend at CNY 1.00 for every 10 shares (with tax inclusive), 0 bonus share for every 10 shares; converted no reserve into share capital.

Profit Distribution Plan in 2017: With the total share capital of 438,744,881 shares as at December 31, 2017 as the base, the Company is going to distribute to the whole shareholders cash dividend at CNY 2.00 for every 10 shares (with tax inclusive), 0 bonus share for every 10 shares; converted no reserve into share capital.

Profit Distribution Plan in 2018: With the total share capital of 438,744,881 shares as at December 31, 2018 as the base, the Company is going to distribute to the whole shareholders cash dividend at CNY 2.00 for every 10 shares (with tax inclusive), 0 bonus share for every 10 shares; converted no reserve into share capital.

The accumulative amount of cash dividend distributed in the past three years took 151.39% of the annual average net profit in the past three years, which complies with the rules and regulations.

Statement of cash dividends distributed in the past three years (with the reporting period inclusive)

In CNY

Year of Dividend Distribution	Amount of Cash Dividend (including tax)	Net profit attributable to the Company's shareholders in the consolidated statements of the year of dividend distribution	Ratio of the net profit attributable to the Company's shareholders taken in the consolidated statements	Amount of cash dividend distributed in other way(s) (such as shares repurchased)	Proportion of the cash dividend distributed in other way(s) in the net profit attributable to the Company's shareholders of ordinary shares in the consolidated statements	Total amount of cash dividend (including other way(s))	Ratio of the total amount of cash dividend (including other way(s)) in the net profit attributable to the Company's shareholders of ordinary shares in the consolidated statements
2018	87,748,976.20	183,835,095.29	47.73%	0.00	0.00%	87,748,976.20	47.73%
2017	87,748,976.20	140,216,258.28	62.58%	0.00	0.00%	87,748,976.20	62.58%
2016	43,874,488.10	110,662,681.59	39.65%	0.00	0.00%	43,874,488.10	39.65%

In the reporting period, both the Company's profit and the parent company's profit available for shareholders of ordinary shares were positive but no common stock cash dividend distribution proposal has been put forward.

Inapplicable

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

Bonus shares distributed at the rate of ___ (share) for every 10 shares	0
Dividend distributed at the rate of CNY___ for every 10 shares (with tax inclusive)	2.00
Number of shares converted for every 10 shares (shares)	0
Share capital base for the dividend distribution preplan (shares)	438,744,881
Total cash dividend distributed (with tax inclusive)	87,748,976.20

Amount of cash dividend distributed in other way(s) (such as shares repurchased)	0.00
Total amount of cash dividend (including other way(s))	87,748,976.20
Profit available for distribution (CNY)	683,798,086.83
Proportion of the cash dividend in the total profit available for distribution (%)	100%
Cash Dividend Distribution for the Reporting Year	
Others	
Detailed information for profit distribution or conversion of capital reserve into share capital preplan	
The Company's 2018 Profit Distribution Plan was reviewed and approved at the 6th session of the Ninth Board of Directors held on March 13, 2019 and brought to 2018 Annual General Meeting for review. It was planned that with the Company's total share capital of 438,744,881 shares as at December 31, 2018 as the base, the Company would distribute cash dividend at the rate of CNY 2.00 for every 10 shares (with tax inclusive), bonus share at the rate of 0 share for every 10 shares (with tax inclusive) to the whole shareholders and capitalize no capital reserve to the whole shareholders. The profit distribution plan is subject to review and approval of the General Meeting before implementation.	

III. Implementation of Commitments

1. Commitments finished in implementation by the Company, shareholders, actual controller, acquirer, directors, supervisors, senior executives or other related parties in the reporting period and commitments unfinished in implementation at the end of the reporting period

Commitments	Promiser	Commitment type	Description	Commitment time	Commitment deadline	Implementation status
Commitment for Equity Separation Reform						
Commitments in the acquisition report or the written report on change of equity						
Commitment made at the time of asset reorganization						
Commitment made at IPO or re-financing						
Equity incentive commitment						
Other commitments to the minority shareholders	Huang Yongfeng, Chen Libin, Lu Bingqiang, Lu Wanjun, Liu Xiaoming, Pan Bo, Li Ming, Chen Zhuo	Commitment for sales restriction on shares	The said directors and senior executives increased holding of the Company's shares and committed that within six	December 16, 2017	6 months	Completed in implementation

			months of the increase they shall not reduce the holding size initiatively, shall not be engaged in any inside trading, trading the shares during sensitive period or short swing trading.			
Has the commitment been timely implemented	Yes					
If the commitment has not been implemented at the end of the reporting period, it is necessary to explain the specific reason of failure in implementation and the future work plan.	Inapplicable					

2. There existed profit anticipation for the Company's assets or projects while the reporting period was still within the duration of the profit anticipation. The Company made explanation on whether the assets or projects reached the anticipated profit and the cause

Inapplicable

IV. Non-operational Occupancy of the Company's Capital by the Controlling Shareholder and its Related Parties

Inapplicable

V. Explanation of the Board of Directors, the Supervisory Committee and Independent Directors (if any) on the "Qualified Auditor's Report" issued by the CPAs in the Reporting Period

Inapplicable

VI. Explanation on the Changes in the Accounting Policy, Accounting Estimate, and Accounting Method in Comparison with the Financial Report of the Previous Year

Inapplicable

VII. Explanation on Serious Accounting Errors Occurred in the Reporting Period Necessary to be Restated Retrospectively

Inapplicable

VIII. Explanation on the Changes in the Scope of the Consolidated Statements in Comparison with the Financial Report of the Previous Year

Inapplicable

IX. Engagement/Disengagement of CPAs

CPAs currently engaged by the Company

Name of the domestic CPAs	Ruihua Certified Public Accountants (Special General Partnership)
Successive years of the domestic CPAs offering auditing services	3
Name of the certified public accountants from the domestic CPAs	Wang Yuqiao and Liu Xin
Successive years of the domestic CPAs offering auditing services	3

Has the CPAs been changed for the reporting period?

No

Employment of CPAs, financial consultant or sponsor for auditing the internal control

The 24th Session of the Eighth Board of Directors held on March 8, 2018 and 2017 Annual General Meeting held on June 21, 2018 reviewed and approved the Proposal for Payment of the Auditing Fee of Year 2017 and Engagement of the CPAs as the Auditor of Year 2018, and decided to renew Ruihua Certified Public Accountants (Special General Partnership) as the Company's Auditor for auditing the Company's 2018 Financial Report and Internal Control for a term of one year. During the reporting period, the Company paid the audit fee amounting to CNY 700,000.00 to Ruihua Certified Public Accountants (Special General Partnership) for auditing the financial report and CNY 300,000.00 for auditing the internal control.

X. Listing Suspension or Delisting Possibly to be Confronted with after Disclosure of the Annual Report

Inapplicable

XI. Matters concerning Bankruptcy Reorganization

Inapplicable

XII. Significant Lawsuits and Arbitrations

Inapplicable

XIII. Penalty and Rectification

Inapplicable

XIV. Integrity of the Company and its Controlling Shareholder and Actual Controller

Inapplicable

XV. Implementation of the Company's Equity Incentive Plan, Employee Stock Ownership Plan or other Employee Incentive Measures

The 3rd session of the Ninth Board of Directors held on November 12, 2018 and 2019 1st Extraordinary General Meeting held on January 11, 2019 decided to start 2018 A-Share Restrictive Stock Incentive Program (Phase I), which was later on reviewed and approved at the 5th session of the Ninth Board of Directors held on January 11, 2019, and the Company eventually granted 4.224 million restrictive A-shares to 128 persons eligible for the incentive。 For the detail, refer to the relevant announcement disclosed in the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn on January 12, 2019.

This part of A-share restrictive stock was all granted and registered for listing by January 31, 2019.

XVI. Significant Related Transactions

1. Related Transactions Related with Day-to-Day Operations

Inapplicable

2. Related transactions concerning acquisition and sales of assets or equity

Inapplicable

3. Related transactions concerning joint investment in foreign countries

Inapplicable

4. Current Associated Rights of Credit and Liabilities

Inapplicable

5. Other Significant Related Transactions

The 4th session of the Ninth Board of Directors held on December 25, 2018 and 2019 1st Extraordinary General Meeting held on January 11, 2019 reviewed and approved the Proposal for Conclusion of the Financial Service Agreement with AVIC Finance Co., Ltd., and decided to terminate the original agreement with AVIC Finance Co., Ltd. and conclude a new Finance Service Agreement. For the detail, refer to the Announcement on the Resolution of the 4th Session of the Ninth Board of Directors No. 2018-029, Announcement on the Conclusion of the Financial Service Agreement with AVIC Finance Co., Ltd. - Related Transaction No. 2018-031 and Announcement of the Resolution of 2019 1st Extraordinary General Meeting No. 2019-008).

Inquiry on the website for disclosing the provisional report concerning significant related transactions

Description of the provisional announcements	Date of disclosure	Disclosure website
Announcement on the Resolution of the 4th Session of the Ninth Board of Directors, 2018-029	December 27, 2018	www.cninfo.com.cn
Announcement on the Financial Service Agreement with AVIC Finance Co., Ltd. a Related Transaction, 2018-031	December 27, 2018	www.cninfo.com.cn
Announcement on Resolution of 2019 1st Extraordinary General Meeting 2019-008	January 12, 2019	www.cninfo.com.cn

XVII. Important Contracts and Implementation

1. Custody, Contacting and Leases

(1) Custody

Inapplicable

(2) Contracting

Inapplicable

(3) Leases

Inapplicable

2. Significant Guarantees

(1) Guarantees

In CNY 10,000

Outward guarantees Offered by the Company and its Subsidiaries (excluding guarantee to the subsidiaries)								
Names of Guarantees	Date of the announcement on the guarantee line	Guarantee line	Date of occurrence	Actual amount of guarantee	Type of guarantee	Guarantee period	Implementation status	Guarantee to related party?
Inapplicable								
Total amount of outward guarantee approved in the report period (A1)		0		Total amount of outward guarantee actually incurred in the		0		

			report period (A2)					
Total amount of outward guarantee already approved at the end of the report period (A3)		0	Total ending balance of outward guarantee at the end of the report period (A4)			0		
Guarantee to the subsidiaries								
Names of Guarantees	Date of the announcement on the guarantee line	Guarantee line	Date of occurrence	Actual amount of guarantee	Type of guarantee	Guarantee period	Implementation status	Guarantee to related party?
Harmony	March 10, 2018	20,000	December 30, 2018	8,000	Guarantee with joint responsibility	1 year	No	No
the Hong Kong Co.	March 10, 2018	7,016.8	April 26, 2018	2,631.3	Guarantee with joint responsibility	1 year	No	No
the Hong Kong Co.	March 10, 2018	3,508.4	September 10, 2018	348.67	Guarantee with joint responsibility	1 year	No	No
the Hong Kong Co.	March 10, 2018	0	October 15, 2018	557.86	Guarantee with joint responsibility	1 year	No	No
the Hong Kong Co.	March 10, 2018	0	November 13, 2018	418.4	Guarantee with joint responsibility	1 year	No	No
the Hong Kong Co.	March 10, 2018	0	November 27, 2018	263.13	Guarantee with joint responsibility	1 year	No	No
Total guarantee quota to the subsidiaries approved in the reporting period (B1)		30,525.2	Total amount of guarantee to the subsidiaries actually incurred in the reporting period (B2)			12,219.36		
Total guarantee quota to the subsidiaries approved at the end of the reporting period (B3)		30,525.2	Total balance of actual guarantee to the subsidiaries at the end of the reporting period (B4)			12,219.36		
Guarantee among the subsidiaries								
Names of Guarantees	Date of the announcement on the guarantee line	Guarantee line	Date of occurrence	Actual amount of guarantee	Type of guarantee	Guarantee period	Implementation status	Guarantee to related party?

Inapplicable									

Total guarantee quota to the subsidiaries approved in the reporting period (C1)	0	Total amount of guarantee to the subsidiaries actually incurred in the reporting period (C2)	0
Total guarantee quota to the subsidiaries approved at the end of the reporting period (C3)	0	Total balance of actual guarantee to the subsidiaries at the end of the reporting period (C4)	0
Total amount of guarantees (i.e. Total of the previous three major items)			
Total guarantee quota to the subsidiaries approved in the reporting period (A1)	30,525.2	Total amount of outward guarantee actually incurred in the report period (A2)	12,219.36
Total amount of guarantees already approved at the end of the report period (A3)	30,525.2	Total ending balance of guarantees at the end of the report period (A4)	12,219.36
Proportion of the actual guarantees in the Company's net assets (namely A4+B4 + C4)		4.75%	
Including:			
Amount of guarantees offered to the shareholders, actual controller and its related parties (D)		0	
Amount of guarantee for liabilities directly or indirectly offered to the guarantees with the asset-liability ratio exceeding 70% (E)		0	
Guarantee with total amount exceeding 50% of the net assets (F)		0	
Total amount of the aforesaid three guarantees (D+E+F)		0	
For the guarantee not yet due, guarantee responsibility incurred in the reporting period or description of the possible related discharge duty (if any)		Inapplicable	
Note to the outward guarantee against the established procedures (if any)		Inapplicable	

Description of the guarantee with complex method

Inapplicable

(2) Outward guarantee against regulations

Inapplicable

3. Entrusting a Third Party to Manage the Cash Assets

(1) Finance Management on Commission

Inapplicable

(2) Entrusted Loan

Inapplicable

4. Other Important Contracts

Inapplicable

XVIII Social Responsibilities

1. Implementation of social responsibilities

"The Social Responsibility Report " was published on www.cninfo.com.cn on March 15, 2019.

2. Implementation of the social responsibility of precise poverty relief

During the reporting period of half a year, the Company had neither precise poverty relief work nor follow-up precise poverty relief plan necessary to be carried out.

3. Environmental Protection

Does the Company or any of its subsidiaries belong to a key pollutant discharging unit as announced to the public by the environmental protection authority?

Yes

Name of the Company or its Subsidiary	Description of the major pollutants or specific pollutant	Way of discharging	Number of discharging outlets	Distribution of the discharging outlets	Discharging concentration	Pollutant Discharge Standards in Force	Total discharge volume	Total discharge volume verified	Over-discharging
Shanghai Watch Industry Co., Ltd.	Nickel and chromium effluent	Intermittent and interruption	1	At the port of effluent treatment equipment	Nickel < 0.01,	Nickel:0.1; chromium:0.3	2640 tons/year	3960 tons/year	None

Construction and operation of the pollution prevention and control facilities

Shanghai Watch Co., Ltd. reconstructed the clean production facility in 2016 and added 2 sets of equipment in 2018 for the purpose of ensuring discharging of nickel and chromium effluent to comply with the Emission Standard of Pollutants for Electroplating during 2018. So far, the facility has been running normally and has never over-discharged the pollutants; and has now networked the platform of the local environmental protection authority.

Environmental impact assessment on construction projects and other environmental protection administrative licensing

In 2018 Yangpu District Environmental Protection Bureau of Shanghai organized and held the Clean Production Auditing and Assessment Seminar of Shanghai Watch Co., Ltd. where the company's clean production work was assessed, audited and approved.

Shanghai Watch Co., Ltd.has passed the pollution discharge verification organized by Yangpu District Environmental Protection Bureau of Shanghai with the Notice of Pollution Discharging Verification No.: YANG HUAN JIAN HUAN JIAN FEI HE ZI [2007] No. 05363;

In accordance with the provisions of Shanghai Environmental Protection Bureau, the Company is going to apply for the pollutant discharging licence before the end of 2019. At present, the company is making the relevant preparation work for application for the pollutant discharging licence.

Contingency Plan for Emergent Environmental Incidents

Shanghai Watch Co., Ltd. prepared the Emergency Response Plan against Emergent Environmental Incidents and regularly organizes training and exercise every year. The aforesaid plan has been approved and filed for record by Yangpu District Environmental Protection Bureau of Shanghai and has been published on the Environmental Information Disclosure Platform of Enterprises and Institutions of Shanghai.

Environment Self-Monitoring Program

Yangpu District Environmental Protection Bureau of Shanghai conducts supervision once every quarter. The company entrusts Shanghai Light Industry Environment Protection and Pressure Vessel Monitoring General Station, a competent independent agent, to conduct the monitoring every year. The company is itself equipped with monitoring instruments and conducts self-monitoring at least 4 times every month.

Other environment information necessary to be disclosed

The company has disclosed the concerned information on the Environmental Information Disclosure Platform of Enterprises and Institutions of Shanghai according to the requirements of the local environmental protection authorities. Website: http://xxgk.eic.sh.cn

Other information in connection with the environmental protection

None

XIX. Notes to Other Significant Events

1. Amendment of the Articles of Association

The 26th Session of the Eighth Board of Directors held on August 21, 2018 and 2018 2nd Extraordinary General Meeting held on September 11, 2018 reviewed and approved the Proposal on Amendment of the Articles of Association. For the detail, refer to the Announcement on the Resolution of the 26th Session of the Eighth Board of Directors No. 2018-015, the Announcement on the Resolution of 2018 2nd Extraordinary General Meeting No. 2018-021 and the Proposal on Amendment of the Articles of Association disclosed on the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn.

2. Election for the New Board of Directors and the New Supervisory Committee

The 26th Session of the Eighth Board of Directors held on August 21, 2018 and 2018 2nd Extraordinary General Meeting held on September 11, 2018 reviewed and approved the Proposal on Election for the New Board of Directors and Nomination of on-independent Director Candidates and the Proposal on Election for the New Board of Directors and

Nomination of Independent Director Candidates. Mr. Huang Yongfeng, Mr. Wang Mingchuan, Mr. Fu Debin, Mr. Xiao Zhanglin, Mr. Wang Bo, Mr. Chen Libin were elected non-independent directors of the Ninth Board of Directors; Mr. Wang Jianxin, Mr. Zhong Hongming and Mr. Tang Xiaofei were elected independent directors of the Ninth Board of Directors. For the detail, refer to the Announcement on the Resolution of the 26th Session of the Eighth Board of Directors No. 2018-015, the Announcement on the Resolution of 2018 2nd Extraordinary General Meeting No. 2018-021 disclosed on the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn.

The 19th Session of the Supervisory Committee held on August 21, 2018 and 2018 2nd Extraordinary General Meeting held on September 11, 2018 reviewed and approved the Proposal on Election for the New Supervisory Board; Mr. Wang Baoying was elected non-staff supervisor of the Ninth Supervisory Committee. For the detail, refer to the Announcement on the Resolution of the Ninth Supervisory Committee No. 2018-016 and the Announcement on the Resolution of 2018 2nd Extraordinary General Meeting No. 2018-021 disclosed on the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn.

2018 Staff Representative Congress held on August 30, 2018 reviewed and approved the Proposal on Election of the Staff Representative Supervisors of the Ninth Supervisory Committee; Madam Sheng Qing and Mr. Zou Zhixiang were elected staff representative supervisors the Ninth Supervisory Committee. For the detail, refer to the Announcement on the Resolution of the Staff Representative Congress No. 2018-019 disclosed on the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn.

XX. Significant Events of the Company's Subsidiaries

Inapplicable

Section 6 Change of Shares and Particulars about Shareholders

I. Change of Shares

1. Change of Shares

In shares

	Before the change		Increase / Decrease (+/ -)					After the change	
	Quantity	Proportion	New issuing	Bonus shares	Shares converted from reserve	Others	Sub-total	Quantity	Proportion
I. Restricted shares	380,513	0.09%					0	380,513	0.09%
1. Shares held by the state	0	0.00%					0	0	0.00%
2. State corporate shares	0	0.00%					0	0	0.00%
3. Other domestic shares	380,513	0.09%					0	380,513	0.09%
Including: Domestic corporate shares	0	0.00%					0	0	0.00%
Shares held by domestic natural persons	380,513	0.09%					0	380,513	0.09%
4、Foreign invested shares	0	0.00%					0	0	0.00%
Including: Foreign corporate shares	0	0.00%					0	0	0.00%
Shares held by foreign natural persons	0	0.00%					0	0	0.00%
II. Unrestricted shares	438,364,368	99.91%					0	438,364,368	99.91%
1. CNY ordinary shares	356,716,368	81.30%					0	356,716,368	81.30%
2. Foreign invested shares listed in Mainland China	81,648,000	18.61%					0	81,648,000	18.61%
3、Foreign invested shares listed abroad	0	0.00%					0	0	0.00%
4. Miscelleneous	0	0.00%					0	0	0.00%
III. Total shares	438,744,881	100.00%					0	438,744,881	100.00%

Cause of the change of shares

Inapplicable

Approval of Change of the Shares

Inapplicable

Transfer of the Shares Changed

Inapplicable

Progress of implementation of the stock repurchase

Inapplicable

Progress of implementation of reduction of the holding size of the shares repurchased by centralized bidding

Inapplicable

Influence of the change of the shares upon such financial indicators as the basic EPS and diluted EPS, net asset value per share attributable to the common stockholders in the past year and the latest period

Inapplicable

Other information the Company considers necessary or required by the securities regulatory authority to be disclosed.

The 3rd session of the Ninth Board of Directors held on November 12, 2018 and 2019 1st Extraordinary General Meeting held on January 11, 2019 decided to start 2018 A-Share Restrictive Stock Incentive Program (Phase I), which was later on reviewed and approved at the 5th session of the Ninth Board of Directors held on January 11, 2019, and the Company eventually granted 4.224 million restrictive A-shares to 128 persons eligible for the incentive。 The date of granting this part of restrictive shares was January 11, 2019 (The lock-up period of these restrictive shares was two years commencing from the date of granting) . By January 30 2019, the work of granting the shares and registration for listing was completed. After the share granting, the Company's total capital stock increased to 442,968,881 shares.

2. Change of the Restricted Shares

Inapplicable

II. Issuing and Listing

1. Issuing of securities (with preferred stock exclusive) in the reporting period

Inapplicable

2. Note to changes of the company’s total shares and the structure of shareholders as well as the structure of assets and liabilities

Inapplicable

3. Existing Employee Shares

Inapplicable

III. Shareholders and Actual Controlling Shareholder

1. Number of Shareholders and Shareholding

In shares

Total common shareholders at the end of the reporting period	31,855	Total common shareholders at the end of the month before the date of disclosing the annual report	31,352	Total preference shareholders with the voting power recovered at the end of the reporting period (if any) (Refer to Note 8)	0	Total preference shareholders with the voting power recovered at the end of the month before the day of disclosing the Annual Report (if any) (Refer to Note 8)	0

Shares held by the shareholders holding over 5% shares or the top ten shareholders								
Name of the Shareholder	Nature of the shareholder	Shareholding proportion	Number of shares held at the end of the reporting period	Increase/ decrease in the reporting period	Number of the restricted shares held	Quantity of unrestricted shares held	Pledging or freezing	
							Status of the shares	Quantity
AVIC International Holding Limited	State corporate	37.15%	162,977,327	0	0	162,977,327		
Chongqing International Trust Co., Ltd. - YUXIN No. 2 Trust	Domestic natural persons	4.19%	18,389,227	6,904,000	0	18,389,227		
Mo Jiadong	Domestic natural persons	2.90%	12,703,968	12,703,968	0	12,703,968		
#Yang Zugui	Domestic natural persons	2.52%	11,069,727	1,568,758	0	11,069,727		
National Social Security Fund 114 Portfolio	State corporate	2.20%	9,657,744	0	0	9,657,744		
Xizang Investment Co., Ltd.	State corporate	1.13%	4,976,551	0	0	4,976,551		
MANULIFE TEDA Fund— Minsheng Bank—MANULIFE	Domestic non-state-owned corporate	1.12%	4,893,559	0	0	4,893,559		

TEDA Value Growth Oriented Additional Issue No. 351 Assets Management Program								
Shenzhen Heli Fengyuan Commerce & Trade Co., Ltd.	Domestic non-state-owned corporate	0.62%	2,704,000	-596,000	0	2,704,000		
Shenzhen Rongliyuan Commercial Information Co., Ltd.	Domestic non-state-owned corporate	0.37%	1,630,500	1,030,500	0	1,630,500		
China Construction Bank Co., Ltd. - INVESCO GREAT WALL Quantized Selected Stock Type Securities Investment Fund	Domestic non-state-owned corporate	0.31%	1,376,533	-1,531,100	0	1,376,533		
About the fact that a strategic investor or ordinary corporate became one of the top ten shareholders due to placement of new shares (if any) (Refer to Note 3)		Inapplicable						
Explanation on associated relationship or consistent action of the above shareholders		Inapplicable						

Shares held by top 10 shareholders of unrestricted shares			
Name of the Shareholder	Quantity of unrestricted shares held at the end of the reporting period	Share type	
		Share type	Quantity
AVIC International Holding Limited	162,977,327	CNY ordinary shares	162,977,327
Chongqing International Trust Co., Ltd. - YUXIN No. 2 Trust	18,389,227	CNY ordinary shares	18,389,227
Mo Jiadong	12,703,968	CNY ordinary shares	12,703,968
#Yang Zugui	11,069,727	CNY ordinary shares	11,069,727
National Social Security Fund 114 Portfolio	9,657,744	CNY ordinary shares	9,657,744
Xizang Investment Co., Ltd.	4,976,551	CNY ordinary shares	4,976,551
MANULIFE TEDA Fund－ Minsheng Bank－MANULIFE TEDA Value Growth Oriented	4,893,559	CNY ordinary shares	4,893,559

Additional Issue No. 351 Assets Management Program			
Shenzhen Heli Fengyuan Commerce & Trade Co., Ltd.	2,704,000	CNY ordinary shares	2,704,000
Shenzhen Rongliyuan Commercial Information Co., Ltd.	1,630,500	CNY ordinary shares	1,630,500
China Construction Bank Co., Ltd. - INVESCO GREAT WALL Quantized Selected Stock Type Securities Investment Fund	1,376,533	CNY ordinary shares	1,376,533
Explanation to the associated relationship or consistent action among the top 10 shareholders of non-restricted negotiable shares and that between the top 10 shareholders of non-restricted negotiable shares and top 10 shareholders.	Inapplicable		
Note to the top 10 shareholders involved in margin financing & securities lending (if any) (Refer to Note 4)	Inapplicable		

Did the top ten common shareholders or top ten shareholders of unrestricted common shares conduct contractual repurchase during the reporting period?

No

2. Controlling Shareholder

Nature of the controlling shareholder: State-owned shareholding directly under the central government

Type of the controlling shareholder: corporate

Name of the Controlling Shareholder	Legal Representative /Leader	Date of incorporation	Organization Code	Leading business activities
AVIC International Holding Limited	Liu Hongde	June 20, 1997	91440300279351229A	Investing and initiating entities (separate application is to be submitted for a specific project); domestic commerce, supply and sales of goods and materials (excluding the goods for exclusive sale, under special control and monopolized goods); import and export.
Equity in other domestic and foreign listed companies held by the controlling shareholder by means of control and mutual shareholding in	AVIC International Holding Limited holds 22.35% equity in AVIC Sunda Holding Company Limited (AVIC SUNDA 000043); 14.24% equity in Tianma Micro-electronics Co., Ltd. (SHEN TIANMA A 000050); 69.74% equity in Shennan Circuits Co.,Ltd. (Shennan Circuits 002916); and 73.87% equity in AVIC International Maritime Holdings Limited (a Singapore listed company, O2I).			

the reporting period.	

Change of the controlling shareholder in the reporting period

Inapplicable

3. Actual Controller and its Concerted Parties

Nature of the actual controller: State-owned assets regulatory agency directly under the central government

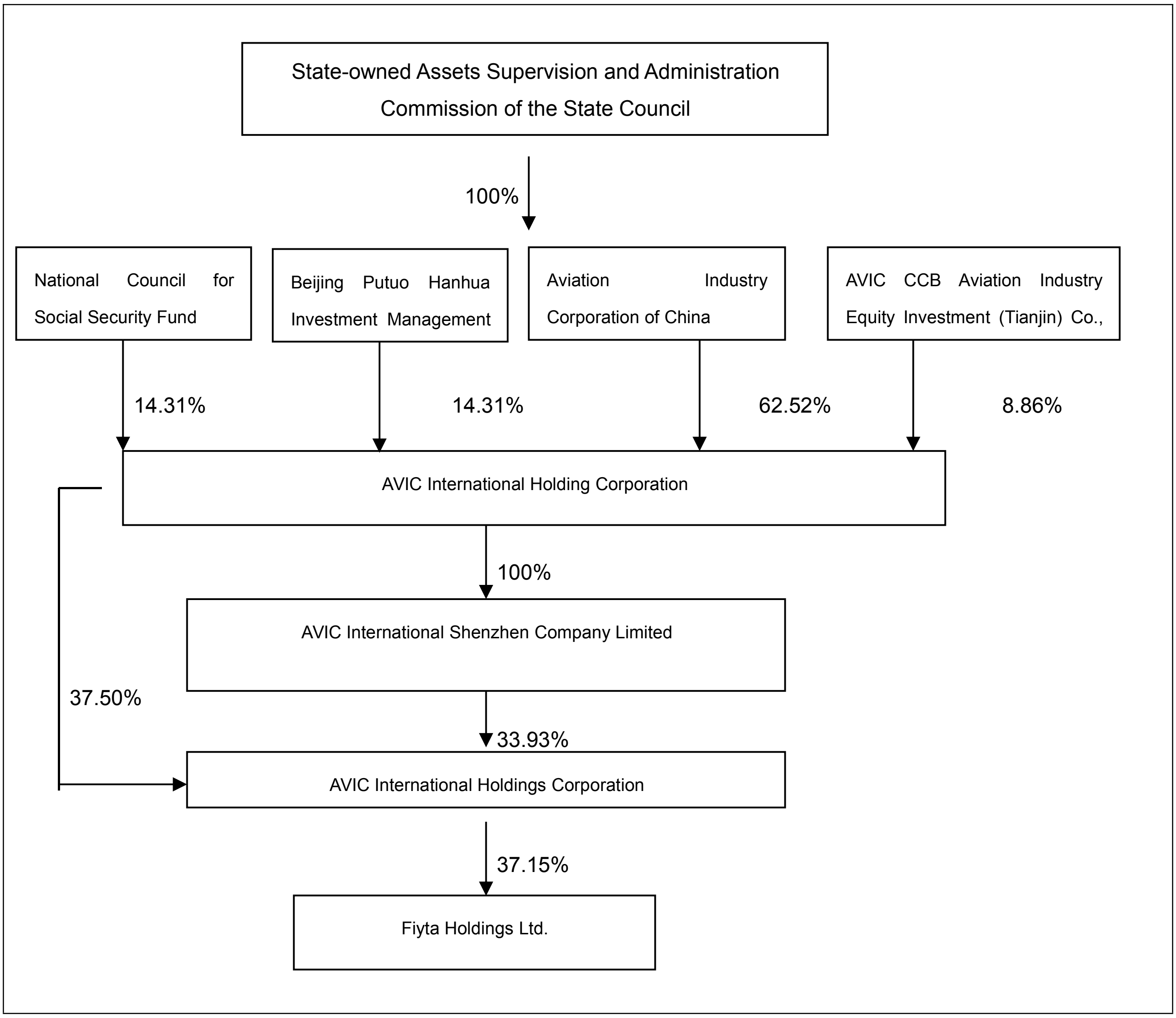
Type of the actual controller: corporate

Name of the Actual Controller	Legal Representative /Leader	Date of incorporation	Organization Code	Leading business activities
AVIC International Holding Corporation	Liu Hongde	April 12, 1983	911100001000009992	Import & export; warehousing; investment and management of industry, hotel, property, real estate; development, sales and repairing service of new energy equipment; exhibition; transfer of technology and technical services in connection with the aforesaid businesses; dispatch contract workers to implement overseas engineering works; sales of poisonable chemicals.
Equity in other domestic and foreign listed companies controlled by the actual controller in the reporting period	AVIC International holds 8.40% equity in Tianma Micro-electronics Co., Ltd. (SHEN TIANMA A 000050).			

Change of the actual controller in the reporting period

Inapplicable

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



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

Inapplicable

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

Inapplicable

5. Shareholding Reduction Restriction on the Controlling Shareholder, the Actual Controller, the Reorganizing Party and other Committing Party

Inapplicable

Section 7 About the Preferred Shares

Inapplicable

Section 8 Directors, Supervisors, Senior Executives and Employees

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

Name	Title	Office Status	Gender	Age	Starting date of tenure	Expiry date of tenure	Number of shares held at the beginning of the reporting period (shares)	Shareholding increased in the reporting period (shares)	Shareholding decreased in the reporting period (shares)	Other increase/decrease (shares)	Number of shares held at end of the reporting period (shares)
Huang Yongfeng	Chairman	In office	Male	45	September 11, 2018	September 11, 2021	80,000	0	0	0	80,000
Wang Mingchuan	Director	In office	Male	53	September 11, 2018	September 11, 2021	0	0	0	0	0
Fu Debin	Director	In office	Male	42	September 11, 2018	September 11, 2021	0	0	0	0	0
Xiao Zhanglin	Director	In office	Male	43	September 11, 2018	September 11, 2021	0	0	0	0	0
Wang Bo	Director	In office	Male	40	September 11, 2018	September 11, 2021	0	0	0	0	0
Chen Libin	Director & GM	In office	Male	55	September 11, 2018	September 11, 2021	80,000	0	0	0	80,000
Wang Jianxin	Independent director	In office	Male	49	September 11, 2018	September 11, 2021	0	0	0	0	0
Zhong	Independ	In office	Male	44			0	0	0	0	0

Hongming	ent director				September 11, 2018	September 11, 2021					
Tang Xiaofei	Independent director	In office	Male	45	September 11, 2018	September 11, 2021	0	0	0	0	0
Wang Baoying	Chairman of the Supervisory Committee	In office	Male	55	September 11, 2018	September 11, 2021	0	0	0	0	0
Sheng Qing	Supervisor	In office	Female	43	September 11, 2018	September 11, 2021	0	0	0	0	0
Zou Zhixiang	Supervisor	In office	Male	35	September 11, 2018	September 11, 2021	0	0	0	0	0
Lu Bingqiang	Deputy GM	In office	Male	58	October 08, 2018	October 08, 2021	96,311	0	0	0	96,311
Lu Wanjun	Deputy GM and Secretary of the Board	In office	Male	52	October 08, 2018	October 08, 2021	50,000	0	0	0	50,000
Liu Xiaoming	Deputy GM	In office	Male	48	October 08, 2018	October 08, 2021	50,000	0	0	0	50,000
Pan Bo	Deputy GM	In office	Male	43	October 08, 2018	October 08, 2021	50,000	0	0	0	50,000
Li Ming	Deputy GM	In office	Male	46	October 08, 2018	October 08, 2021	50,040	0	0	0	50,040
Chen Zhuo	Chief Accountant	In office	Male	43	October 08, 2018	October 08, 2021	51,000	0	0	0	51,000
Zhang Hongguang	Independent director	Retired	Male	63	August 31, 2015	September 11, 2018	0	0	0	0	0
Zhang Shunwen	Independent director	Retired	Male	53	August 31, 2015	September 11, 2018	0	0	0	0	0
Wang Yan	Independ	Retired	Male	62	August		0	0	0	0	0

	ent director				31, 2015	September 11, 2018					
Wang Jingqi	Supervisor	Retired	Male	39	October 14, 2016	September 11, 2018	0	0	0	0	0
Total	--	--	--	--	--	--	507,351	0	0	0	507,351

II. Personnel Change in Directors, Supervisors and Senior Executives

Name	Office Taken	Type	Date:	Cause
Wang Jianxin	Independent director	Appointment & removal	September 11, 2018	Elected independent director of the Ninth Board of Directors at the 26th Session of the Eighth Board of Directors and 2018 2nd Extraordinary General Meeting.
Zhong Hongming	Independent director	Appointment & removal	September 11, 2018	Elected independent director of the Ninth Board of Directors at the 26th Session of the Eighth Board of Directors and 2018 2nd Extraordinary General Meeting.
Tang Xiaofei	Independent director	Appointment & removal	September 11, 2018	Elected independent director of the Ninth Board of Directors at the 26th Session of the Eighth Board of Directors and 2018 2nd Extraordinary General Meeting.
Zou Zhixiang	Supervisor	Appointment & removal	September 11, 2018	Elected staff supervisor of the Ninth Supervisory Committee at 2018 1st Staff Representative Congress.
Zhang Hongguang	Independent director	Retired upon expiry of the tenure	September 11, 2018	Retired upon expiry of the tenure of the Eighth Board of Directors
Zhang Shunwen	Independent director	Retired upon expiry of the tenure	September 11, 2018	Retired upon expiry of the tenure of the Eighth Board of Directors
Wang Yan	Independent director	Retired upon expiry of the tenure	September 11, 2018	Retired upon expiry of the tenure of the Eighth Board of Directors
Wang Jingqi	Supervisor	Retired upon expiry of the tenure	September 11, 2018	Retired upon expiry of the tenure of the Eighth Supervisory Committee

III. Profile of Senior Executives

Professional Background, CV and Major Duties of Directors, Supervisors and Senior Executives in Office

Mr. Huang Yongfeng, born in May, 1974, senior engineer, master of management engineering of Beijing University of Aeronautics & Astronautics, and EMBA of China Europe International Business School. He is now the Secretary of the CPC Committee and Chairman of the Board of the Company. Mr. Huang used to be the chairman and general manager of AVIC INTL Zhuhai Co., Ltd., assistant to the general manager of AVIC International Holding Corporation, deputy general manager, assistant to the general manager, manager of the enterprise strategy and management department of AVIC International Shenzhen Co., Ltd., director of AVIC Sunda Holding Company Limited, director of Rainbow Department Store Co., Ltd., director of Tianma Microelectronics Co., Ltd. and chairman of Shenzhen Zhongshi Mechanical Equipment Co., Ltd.

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

Mr. Fu Debin, born in February 1977, master of engineering and doctor of engineering of Beijing University of Aeronautics & Astronautics. He is a director in office of the Company and the head of H.R. department of AVIC International Holding Corporation, a director of Tianma Microelectronics Co., Ltd. and a director of Shennan Circuits Co., Ltd. He used to be the head of the administration and management department and deputy head of the management department of AVIC International Holding Corporation, deputy director of the party policy office and deputy secretary of the general Party branch of Power School of Beijing University of Aeronautics & Astronautics.

Mr. Xiao Zhanglin, born in January 1976, senior engineer, MBA of Shanghai Jiaotong University. He is a director in office of the Company, company secretary of AVIC International Holding Limited, director of AVIC Sunda Holding Company Limited, director of Shennan Circuits Co., Ltd.   a director of Rainbow Department Store Co., Ltd., a director of Shenzhen Aero Fasteners MFG Co., Ltd. Mr. Xiao used to be the chief of the retail and high-end consumer goods office, deputy section chief of the strategy development department of AVIC International Holding Corporation and the assistant to the section chief of the enterprise strategy and management department of AVIC International Shenzhen Co., Ltd., a director of Shenzhen AVIC Commerce and Trade Co., Ltd. And a director of Tianma Microelectronics Co., Ltd.

Mr. Wang Bo, born in July, 1979, MBA of Renmin University of China. He is a director in office of the Company, section chief of the HR department of AVIC International Shenzhen Co., Ltd., a director of Shennan Circuits Co., Ltd, a director of Shenzhen Aero Fasteners MFG Co., Ltd., a director of Shenzhen Grand Skylight Hotel Management Company Limited and a director of Shenzhen Shanghai Hotel. Mr. Wang used to be deputy section chief of the HR department of AVIC International Holding Corporation, a director of AVIC INTL Guangzhou Co., Ltd., and a director of AVIC INTL Zhuhai Co., Ltd. and a director of Shenzhen AVIC Commerce and Trade Co., Ltd.

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

Mr. Wang Baoying, born in July, 1964, senior engineer at research fellow level, bachelor of Beijing University of Aeronautics & Astronautics, EMBA of China Europe International Business School. He is the Chairman of the Supervisory Committee, managing director of AVIC International Shenzhen Co., Ltd., the chairman of the supervisory committee of Tianma Microelectronics Co., Ltd., the chairman of the supervisory committee of Rainbow Department Store Co., Ltd. and the chairman of the supervisory committee of Shennan Circuits Co., Ltd. He used to be a director of the Company, section-chief of AVIC Tianjin Aviation Electro-mechanical Co., Ltd., deputy GM of Shenzhen Rainbow Department Store

Co., Ltd., first deputy GM of Shenzhen Nam Kwong (Group) Company Limited, manager of the enterprise strategy and management department and assistant of the GM of CATIC Shenzhen, executive director of AVIC International Holding Limited, managing director of Shenzhen AVIC Resources Co., Ltd., managing director of AVIC New Energy Development Co., Ltd. and managing director of AVIC International Holding Corporation.

Ms. Sheng Qing, born in April, 1976, accountant, senior HR administrator,bachelor of international accounting specialization of Jiangxi University of Finance and Economics, master of organization and HR management of the University of Hong Kong. She is the manager of the discipline inspection, supervision and audit department of the Company. She used to be a supervisor of the Eighth Supervisory Committee, manager of HR department and senior business manager of the audit department of the Company.

Mr. Zou Zhixiang, born in March 1984, medium auditor, accountant and bachelor of financial management of Hunan University. He is now an assistant to the manager of the descipline inspection, supervision and audit department of the Company. Mr. Zou used to be the senior business manager of the audit department of the Company and the auditing commissioner of the supervision and audit department of AVIC International Holding Limited.

Mr. Wang Jianxin, born in June, 1970, graduated from Zhongnan University of Economics and Law, a Chinese CPA. Mr. Wang is a partner of ShineWing Certified Public Accountants (Special General Partnership) and independent director of Chongqing Fuling Zhacai Group Co.,Ltd.

Mr. Zhong Hongming, born in January 1975, graduated from Renmin University of China, doctor of law. Mr. Zhong is an associate research fellow of Law Research Institute of Sichuan Academy of Social Sciences, a researcher of the united post-doctorial research center of Sichuan Academy of Social Sciences, a member of China Securities Law Research Council, an independent director of Mango Excellent Media Co., Ltd. and Xian Dagang Road Machinery Co.,Ltd.

Mr. Tang Xiaofei, born in May, 1974, graduated from Southwest Jiaotong University, professor and doctorial tutor. Mr. Tang is a professor and doctorial tutor of the Business School of Southwest Jiaotong University, director of Urban Brand Strategy Research Institute of Southwest University of Finance and Economics, enjoying the title of Outstanding Talent of the New Century granted by the Ministry of Education, Secretary-general and executive council member of the International Brand Strategy Society, a council member of Chinese Association of Market Development, consultant of APEX Ogilvy, expert consultant of brand development of Chengdu Municipal Government, expert of Chengdu Famous Trademark Determination Board, executive director of CCTV WDY, independent director of Sichuan Languang Development Co., Ltd.

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

Mr. Lu Wanjun, born in February, 1967, accountant, EMBA of Sino-European International Management Institute. Mr. Lu is the Secretary of Committee for Discipline Inspection, a deputy GM and the Secretary of the Board of the Company. He used to be the assistant to the GM of the Company, executive deputy GM and deputy GM, the assistant to the GM and concurrently the manager of the financial department of Shenzhen Harmony World Watches Center Co., Ltd.

Mr. Liu Xiaoming, born in 1971, engineer, economist, bachelor of mechanical engineering of Beijing University of Aeronautics & Astronautics, and EMBA of China Europe International Business School. He is a deputy GM of the Company, the managing director of Shenzhen Harmony World Watches Center Co., Ltd. He used to be the assistant to the GM of the Company, a deputy GM and the assistant to the GM of Shenzhen Harmony World Watches Center Co., Ltd.

Mr. Pan Bo, born in March, 1976, bachelor of electromechanical engineering of Beijing University of Aeronautics & Astronautics, and EMBA of China Europe International Business School. He is now a deputy GM of the Company and the managing director of FIYTA Sales Co., Ltd. Mr. Pan used to be the assistant to the GM of the Company, executive deputy GM, deputy GM, the assistant to the GM, manager of the sales department, manager of the logistic department, manager of the after-sale department, etc. of FIYTA Sales Co., Ltd.

Mr. Li Ming, born in September, 1973, bachelor of marketing of Zhongnan University of Economics and Law and EMBA of China Europe International Business School. He is now a deputy GM of the Company. Mr. Li used to be the assistant to the GM and chief HR officer of the Company, a deputy GM, the assistant to the GM and manger of the HR department of Shenzhen Harmony World Watches Center Co., Ltd.; chief HR officer and the GM of the marketing center of China Netcom Shenzhen; manager of big customer market planning of China Telecom Shenzhen.

Mr. Chen Zhuo, born in September 1976, accountant, MBA of Wuhan University, EMBA of China Europe International Business School. He is the chief accountant of the Company. Mr. Chen used to be a supervisor, the assistant to the GM, manager of the strategy and information department, deputy manager of the strategy and information department and securities affairs representative of the Company, deputy GM and manager of the financial information department of FIYTA Sales Co., Ltd.

Office taking in shareholder companies

Names of the persons in office	Names of the Shareholders	Titles engaged in the shareholders	Starting date of tenure	Expiry date of tenure	Does he/she receive remuneration or allowance from the shareholder
Wang Mingchuan	AVIC International Shenzhen Co., Ltd.	Deputy GM and Chief Accountant	January 23, 2017		Yes
Fu Debin	AVIC International Holding Corporation	Head of the HR Dept.	July 01, 2016		Yes
Xiao Zhanglin	AVIC International Holding Limited	Company secretary	February 05, 2018		Yes
Wang Bo	AVIC International Shenzhen Co., Ltd.	Head of the HR Dept.	April 25, 2017		Yes
Wang Baoying	AVIC International Shenzhen Co., Ltd.	Special commissioner	April 11, 2017		Yes
Explanation on the office taking in shareholder	Inapplicable				

companies	

Office taking in other organizations

Names of the persons in office	Names of other organizations	Titles engaged in the other organizations	Starting date of tenure	Expiry date of tenure	Does he/she receive remuneration or allowance from other organizations
Wang Jianxin	Shine Wing Certified Public Accountants	Partner	December 01, 2006		Yes
Zhong Hongming	Law Research Institute of Sichuan Academy of Social Sciences	Associate research fellow	November 24, 2017		Yes
Zhong Hongming	Mango Excellent Media Co., Ltd.	Independent director	June 14, 2017		Yes
Zhong Hongming	Xian Dagang Road Machinery Co.,Ltd.	Independent director	October 27, 2017		Yes
Tang Xiaofei	Business School of Southwest Jiaotong University	Doctorial tutor	September 01, 2008		Yes
Tang Xiaofei	Business School of Southwest Jiaotong University	Professor	December 01, 2011		Yes
Explanation on the office taking in other organizations	Inapplicable				

Punishment imposed by the securities regulatory authority on the directors, supervisors and senior executives both in office and having left their posts in the reporting period.

Inapplicable

IV. Remuneration to Directors, Supervisors and Senior Executives

Decision-making procedures, basis for determining the remuneration and actual payment to directors, supervisors and senior executive to directors, supervisors and senior executives:

The Company practiced the annual salary system for its senior executives. The annual salary structure consists of the basic annual salary and performance based annual salary;and performance based annual salary consists of financial performance annual salary and non-financial performance annual salary. Where the assessment for the annual salary to the Chairman is conducted according to the assessment measures concluded by the shareholder organization while the assessment of senior executives is conducted according to the Measures for Administration of the Remuneration to Senior Executives.

Remuneration to Directors, Supervisors and Senior Executives during the Reporting Period

In CNY 10,000

Name	Title	Gender	Age	Office Status	Total pretax remuneration received from the Company	Is the remuneration from one of the Company's related parties
Huang Yongfeng	Chairman	Male	45	In office	102.25	No
Wang Mingchuan	Director	Male	53	In office	0	No
Fu Debin	Director	Male	42	In office	0	No
Xiao Zhanglin	Director	Male	43	In office	0	No
Wang Bo	Director	Male	40	In office	0	No
Chen Libin	Director & GM	Male	55	In office	153.02	No
Wang Jianxin	Independent director	Male	49	In office	3.48	No
Zhong Hongming	Independent director	Male	44	In office	3.48	No
Tang Xiaofei	Independent director	Male	45	In office	3.48	No
Wang Baoying	Chairman of the Supervisory Committee	Male	55	In office	0	No
Sheng Qing	Supervisor	Female	43	In office	101.43	No
Zou Zhixiang	Supervisor	Male	35	In office	31.76	No
Lu Bingqiang	Deputy GM	Male	58	In office	129.14	No
Lu Wanjun	Deputy GM and Secretary of the Board	Male	52	In office	135.89	No
Liu Xiaoming	Deputy GM	Male	48	In office	144.23	No
Pan Bo	Deputy GM	Male	43	In office	148.89	No
Li Ming	Deputy GM	Male	46	In office	135.89	No
Chen Zhuo	Chief Accountant	Male	43	In office	135.89	No
Zhang Hongguang	Independent director	Male	63	Retired	4.5	No
Zhang Shunwen	Independent director	Male	53	Retired	6.21	No
Wang Yan	Independent director	Male	62	Retired	6.21	No
Wang Jingqi	Supervisor	Male	39	Retired	66.56	No
Total	--	--	--	--	1,312.31	--

Equity incentive to directors and senior executives of the Company during the reporting period

Inapplicable

V. Employees

1. Number, Job Composition and Education Background of Employees

Number of employees working for the parent company	125
Number of employees working for the major subsidiaries	5,037
Total employees on active duty	5,162
Total employees receiving remuneration in the reporting period	5,162
Number of the retired employees for whom the parent company and the major subsidiaries need to share the pension	0
Job Composition	
Job Composition Categories	Number of persons involved in the job composition
Production	339
Sales	3,842
Technical	352
Financial	148
Administrative	481
Total	5,162
Education background	
Education levels	Number of persons
Master's degree or higher	77
Undergraduate	774
Junior college	1,279
Below junior college	3,032
Total	5,162

2. Remuneration Policy for Staff

The Company’s remuneration policy is based on the principle of post value orientation, performance orientation, efficiency priority, is based on the principle of strategy, market, performances and job value with consideration of fairness, sustainable development and market orientation. The Company aims to establish a remuneration system which may match the Company's strategy, comply with the Company's development strategy and correspond to the Company's overall efficiency, can surely attract high quality talents, retain the key talents, activate the human resource and improve the Company’s core competitiveness.

3. Training Program

The Company is concentrated on watch industry, insists on the principle of guiding various businesses with the brand strategy, takes a broad view of the world and has established its vision of “becoming a leading internationalized watch brand enterprise”. While speeding up development, the Company firmly believes that “to build brand is to integrate the brand work and life style”, the core speciality of the organization and staff and the qualification of the staff as brand personnel are the key elements determining the future development. For this purpose, in respect of employee training, the Company has established FIYTA College and takes the college as an important base for popularizing and implementing the enterprise culture, promoting practice of the strategy and molding brand people. Based on the college, the Company constructs a training system of various talents, focuses on the echelon leadership,cultivating young generations, and professional ability training of various key talents. Through the projects, such as reservoir of master craftsmen,sales training, CSSGB training and medium and high-level leadership training, young general power camp, etc., carry forward the construction of integrated talents cultivation system of the Company and assist the Company to become a learning organization with powerful vitality.

4. Labor Outsourcing

Inapplicable

Section 9 Corporate Governance

I. General

In year 2018, the Company kept improving the Company's corporate governance structure strictly according to the PRC Company Law, the PRC Securities Law and the regulations of China Securities Regulatory Commission concerning governance of listed companies, and tried to enhance construction of modern enterprise system, upgraded the level of regulatory operation of the Company. As a result, there was no discrepancy between the situation of the Company's corporate governance and the regulatory documents of China Securities Regulatory Commission concerning governance of listed companies.

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

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

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

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

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

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

No

II. Independence in Business, Personnel, Assets, Organization, Finance, etc. from the Controlling Shareholders

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

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

Personnel: The Company is completely independent in organization and has sound systems in labor, personnel and salaries management. Except Mr. Wang Mingchuan, Mr. Fu Debin,Mr. Xiao Zhanglin and Mr. Wang Bo, the four directors, and Mr. Wang Baoying, the chairman of the Supervisory Committee, none of other senior executives takes any concurrent office in the shareholders and none of the financial staff works concurrently for any related parties.

Assets: The assets of the Company and its controlling shareholder are highly distinct. The Company enjoys the corporate ownership over its assets and the assets are completely independent from its controlling shareholder. In addition, the Company enjoys sole ownership of such trademarks as FIYTA, HARMONY, etc.

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

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

III. Horizontal Competitions

Inapplicable

IV. Annual General Meeting and Extraordinary General Meetings in the Reporting Period

1. General Meetings

Sessions	Meeting type	Proportion of attendance of the investors	Meeting date	Date of disclosure	Disclosure index
2018 1st Extraordinary General Meeting	Extraordinary General Meeting	7.37%	January 16, 2018	January 17, 2018	http://www.cninfo.com.cn/

2017 Annual general meeting	Annual general meeting	39.07%	June 21, 2018	June 22, 2018	http://www.cninfo.com.cn/
2018 2nd Extraordinary General Meeting	Extraordinary General Meeting	37.76%	September 11, 2018	September 12, 2018	http://www.cninfo.com.cn/

2. Extraordinary general meeting requested for holding by the preferred shareholders with the voting power recovered.

Inapplicable

V. Duty Performance of Independent Directors in the Reporting Period

1. Attendance for Board Meetings and General Meetings

Attendance for Board Meetings and General Meetings							
Names of independent director	Number of Board meetings which should be be attended in the reporting period	Number of Spot Attendances	Number of Meetings Attended by Communication	Number of attendances of board meeting by representative	Number of absence	Failure to personally attend board meetings successively twice	Number of attendance of the General Meeting
Zhang Hongguang	3	2	1	0	0	No	0
Zhang Shunwen	3	2	1	0	0	No	3
Wang Yan	3	1	1	1	0	No	0
Wang Jianxin	4	1	3	0	0	No	1
Zhong Hongming	4	1	3	0	0	No	0
Tang Xiaofei	4	1	3	0	0	No	0

Note to failure to attend the board meeting successively twice
Inapplicable

2. Objection of independent directors on some relevant issues

Have the independent directors proposed any objection on the relevant issues of the Company
No

3. Other Note to Duty Performance of Independent Directors

Inapplicable

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

Summary Report on Performances of the Strategy Committee of the Board of Directors

During the reporting period, the Strategy Committee performed its duties strictly according to the law and regulations, the Articles of Association and the Rules for Implementation of the Strategy Committee of the Board of Directors, continued to do research work on the strategic planning for the Company's long term development and supervised the Company in implementation of various strategies. The Strategy Committee held its first meeting of year 2018 on March 8, 2018. The meeting reviewed and approved the Work Report of the Board of Directors of Year 2017 and the Profit Distribution for Year 2017; the second meeting of the Strategy Committee for year 2018 was held on November 12, 2018. The meeting reviewed and approved 2018 A-Share Restrictive Stock Incentive Plan (Phase I) (Draft), etc.

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

In accordance with the Rules on the Content and Format of Information Disclosure of Companies that Publicly Offer Securities No. 2 (Contents and Format of Annual Reports) (Revision 2017) promulgated by China Securities Regulatory Commission, the Basic Regulations on Enterprise Internal Control, Memorandum of Mainboard Information Disclosure No. 1 – Relevant Information to be Disclosed in the Regular Report promulgated by Shenzhen Stock Exchange and the Company's Enforcement Regulations of the Special Committees of the Board of Directors, the Audit Committee of the Board of Directors carried out comprehensive examination of the Company's financial report and internal control audit work of year 2018. The following is the summary of the performances of the Audit Committee and the work of Ruihua Certified Public Accountants (Special General Partnership) (hereinafter referred to as the "CPAs"):

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

On February 1, 2019, the Audit Committee heard the management's overall report on the production and operation and progress of significant events during the reporting period and reviewed 2018 Financial and Accounting Statements prepared by the Company and heard the progress of implementation of the Company's internal control. In its opinion, the data in the financial and accounting statements prepared by the Company basically reflected the financial position and operation results of the Company as ended at December 31, 2018, and approved to carry out the audit work for year 2018 with the financial statements as the base. The internal control implementation work carried out by the Company has been duly carried forward according to the Company Law, the Securities Law, Basic Standards for Enterprise Internal Control and other relevant laws and regulations. It has basically reflected the Company's internal control construction work ended December 31, 2017 and approved to prepare the Self-Assessment Report on the Internal Control on this basis and carry out the internal control audit work in 2018.

2. Determination of the Overall Audit Plan

On December 5, 2018, the Audit Committee reviewed the Report of FIYTA on Arrangement of the Audit Work of 2018 submitted by the CPAs and determined the time schedule of the audit work of 2018.

3. Supervision of the Audit Work

On December 26, 2018, the CPAs formally started the audit work. During the auditing, the Audit Committee frequently urged the CPAs to complete the audit work according to the time schedule of audit so as to ensure timely disclosure of the Company's annual report and relevant documents. On February 1, 2019, the Audit Committee reviewed the Report on the Progress of the Audit Work of 2018 submitted by the CPAs.

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

On March 11, 2019, the CPAs issued a preliminary auditor's opinions on the financial and accounting statements and internal control assessment, and the Audit Committee once again reviewed the Company's financial and accounting statements and internal control assessment report as preliminarily audited by the CPAs. In the opinion of the Audit Committee, these financial statements truly, accurately and completely reflected the financial position and operation result of the Company ended December 31, 2018 and approved 2018 Annual Report and Summary prepared on the basis of these statements. The said internal control assessment report has truly, accurately and entirely reflected the Company's achievement in internal control construction ended December 31, 2018 and approved to complete the internal control assessment report and internal control audit report based on said report. Meanwhile, the audit committee demanded the CPAs to complete the audit work according to the plan as soon as possible so as to ensure the Company to disclose 2017 Annual Report as scheduled.

5. Summary Work after the Formal Report

On March 13, 2019, the CPAs completed the auditing procedures as scheduled and issued a standard unqualified auditor's report and other relevant documents to the Audit Committee. The Audit Committee held 2019 1st Session of the Audit Committee on the very day and concluded a resolution and submitted it to the Board of Directors for review; and at the same time submitted the Summary Report on the Performances of the Audit Committee and the Audit Work of the Certified Public Accountants in 2018. In the opinion of the Audit Committee, Ruihua Certified Public Accountants (Special General Partnership), the domestic and international auditor engaged by the Company faithfully performed the duties in process of offering audit performances according to the professional principle of independence, objectiveness and fairness and did a good job in auditing 2018 Annual Accounting Statements and the internal control auditing.

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

(1) Independence

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

(2) Professional Competence

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

Summary Report on Performance of the Committee of Nomination, Remuneration and Assessment of the Board of Directors

In the reporting period, the Committee of Nomination, Remuneration and Assessment of the Board of Directors performed its functions strictly according to the law and regulations, the Articles of Association and the Rules for Implementation of the Committees of Nomination, Remuneration and Assessment of the Board of Directors. 2018 1st session of the

Committees of Nomination, Remuneration and Assessment held on March 8, 2018 reviewed and approved the proposals on emoluments to the senior executives for year 2017; 2018 2nd session of the Committees of Nomination, Remuneration and Assessment held on August 21, 2018 reviewed and approved the proposal on election and nomination of non-independent director candidates for the new Board of Directors and independent director candidates for the new Board of Directors;2018 3rd session of the Committee of Nomination, Remuneration and Assessment held on October 8, 2018 reviewed and approved the proposal on election of the Chairman of the Board, appointment of the GM, deputy GMs, chief accountant, the Board secretary, etc.; 2018 4th session of the Committee of Nomination, Remuneration and Assessment held on November 12, 2018 reviewed and approved 2018 A-Share Restrictive Stock Long Term Incentive Plan (Draft), 2018 A-Share Restrictive Stock Incentive Plan (Phase I) (Draft), etc.; 2018 5th session of the Committee of Nomination, Remuneration and Assessment held on December 25, 2018 reviewed and approved 2018 A-Share Restrictive Stock Long Term Incentive Plan (Revised Draft), 2018 A-Share Restrictive Stock Incentive Plan (Phase I) (Revised Draft), etc.

VII. Work Summary of the Supervisory Committee

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

No

VIII. Assessment and Incentive Mechanism for Senior Executives

(1) Assessment of Senior Executives

The 5th session of the Sixth Board of Directors held on September 18, 2009 reviewed and approved the Measures for Management of Remuneration to Senior Executives. During the reporting period, the Company strictly implemented the Measures for Management of Remuneration to Senior Executives.

(2) Incentive to Senior Executives

The 3rd session of the Ninth Board of Directors held on November 12, 2018 and 2019 1st Extraordinary General Meeting held on January 11, 2019 decided to start 2018 A-Share Restrictive Stock Incentive Program (Phase I), which was later on reviewed and approved at the 5th session of the Ninth Board of Directors held on January 11, 2019, and the Company decided to grant 4.224 million restrictive A-shares to 128 persons eligible for the incentive, including 7 directors and senior executives who were granted 600,000 restrictive A-shares, taking 0.14% of the Company's total capital stock with the details as follows:

Name	Title	Quantity of restrictive shares received (in 10,000 shares)	Equity received Proportion in the total quantity granted (%)	Equity received Proportion in the total capital stock (%)
Huang Yongfeng	Chairman	10	2.37%	0.02%
Chen Libin	Director & GM	10	2.37%	0.02%
Lu Wanjun	Deputy GM and Secretary of the Board	8	1.89%	0.02%
Liu Xiaoming	Deputy GM	8	1.89%	0.02%
Pan Bo	Deputy GM	8	1.89%	0.02%

Li Ming	Deputy GM	8	1.89%	0.02%
Chen Zhuo	Chief Accountant	8	1.89%	0.02%
Other core management, business, professional and technical backbones (121 persons)		362.4	85.81%	0.83%
Total (128 persons)		**422.4**	**100%**	**0.97%**

The price of this part of restrictive shares granted was CNY 4.40/share; the granting date was January 11, 2019 (The lock-up period of these restrictive shares was two years commencing from the date of granting) . By January 30 2019, the work of granting the shares and registration for listing was completed.

IX. Internal Control

1. Particular case found involving material defects in the internal control during the reporting period

No

2. Self-assessment Report of the Internal Control

Date of disclosing the full text of the internal control assessment report	March 15, 2019	
Index of disclosure of the full text of the internal control assessment report	www.cninfo.com.cn	
Proportion of the total assets of the organizations involved in the assessment in the total assets of the Company's consolidated financial statements	99.00%	
Proportion of the operation revenue of the entitled involved in the assessment in the total operation revenue of the Company's consolidated financial statements	99.00%	
Criteria for affirming the defects		
Categories	Financial report	Non-financial Report
Qualitative criteria	(1) The defect involving fraud of the directors, supervisors and senior executives; (2) correction of the financial statements already published; (3) The CPA found that there existed serious misstatement in the financial statements of the reporting period while the internal control failed to find the misstatement in process of operation; (4) The Company's auditing committee and supervision and audit department conducted ineffective supervision of the internal control.	(1) seriously violating the PRC laws, administrative regulations and normative documents; (2) "decision on major issues, important officer appointment and/or removal and arrangement of important projects as well as application of big sum of fund have not undergone collective decision-making procedures; (3) serious running off of officers and technicians of the key positions; (4) there is no system control available for the Company's production and operation practice or the system no

		longer works; (5) the internal control for information disclosure no longer works, having caused the Company censured publicly by the regulatory authority; (6) the results of the internal control assessments, especially the material defects or important defects have not been rectified.
Quantitative criterion	(1) Material defects：Misstatement≥ 5% of the pre-tax profit；(2)Important defects：1% of profit before tax ≤ Misstatement＜5% of profit before tax; (3)Common defects：Misstatement＜1% of profit before tax.	(1) Material defects：Misstatement≥ 5% of the pre-tax profit；(2)Important defects：1% of profit before tax ≤ Misstatement＜5% of profit before tax; (3)Common defects：Misstatement＜1% of profit before tax.
Number of material defects in the financial statements (pcs)	0	
Number of material defects in the non-financial statements (pcs)	0	
Number of important defects in the financial report (pcs)	0	
Number of important defects in the financial report (pcs)	0	

X. Internal Control Audit Report

Deliberation Opinions in the Internal Control Audit Report	
In our opinion, FIYTA Holdings Limited maintained effective internal control on the financial report in all material aspect according to the Basic Regulations for Enterprise Internal Control and the relevant provisions ended December 31, 2017.	
Disclosure of the internal control audit report	Disclosed
Date of disclosing the full text of the internal control assessment report	March 15, 2019
Index of disclosing the full text of the internal control audit report	www.cninfo.com.cn
Type of the onions in the internal control audit report	Standard unqualified auditor’s report
Are there any material defects in the non-financial report	No

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

No

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

Yes

Section 10 Bond Related Information

Did there exist any company bonds which were issued to the public and listed with the stock exchange for trading and was due by the date when the Annual Report was approved for issuing or failed to be fully cashed by the end of the reporting period.

Section 11 Financial report

瑞华会计师事务所
RUIHUA CERTIFIED PUBLIC ACCOUNTANTS

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AUDITORS' REPORT

Ruihua Shen Zi [2019] No. 01210010

To the Shareholders of FIYTA Holdings Ltd.:

I. Opinion

We have audited the financial statements of FIYTA Holdings Ltd. ("FIYTA Ltd." or the "Company"), which comprise the consolidated and the Company's balance sheet as at 31 December 2018, the consolidated and the Company's income statement, the consolidated and the Company's cash flow statement for the year then ended and consolidated and the Company's statement of changes in shareholders' equity, and notes to the financial statements.

In our opinion, the financial statements give a fair presentation of the consolidated and the Company's financial position of FIYTA Ltd. as at 31 December 2018, and of its consolidated and the Company's financial performance and its consolidated and the Company's cash flows for the year then ended in all material aspects in accordance with Accounting Standards for Business Enterprises.

II. Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the FIYTA Ltd. in accordance with the Code of Ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities in professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters that need to communicate in our audit report are identified as follows:

1. Existence, valuation and allocation of inventories

(1) Description

As described in Note IV 11 and Note VI. 5 Inventory, the balance and provision of inventory were RMB1,870,015,903.32 and RMB87,709,601.62 respectively. The carrying amount of inventory was RMB1,782,306,301.70 as at 31 December 2018.

(i) As the main business of FIYTA Ltd is selling FIYTA brand watches and branded watches, the main inventory of FIYTA Ltd are finished watches and watch components. The inventories are distributed in stores, regional warehouses, resellers' warehouses and the Company's warehouses which increased the difficulty of stock observation;

(ii) The management of FIYTA Ltd measures inventory at lower of cost and net realizable value (NRV) at balance sheet date. Where the cost of an inventory exceeds its NRV, the difference is recognized as provision. The determination of NRV involves material management judgment and estimates.

The inventories have significant impact to the Company's assets, as a result, we identified existence, valuation and allocation of inventories as a key audit matter.

(2) How our audit addressed the key audit matter

(i) Understanding, assessing and testing the design and operating effectiveness of internal controls of purchase and payment, production and storage, and the accrual of inventory provision;

(ii) Understanding and evaluating the appropriateness of the Company's inventory provision policy;

(iii) Understanding locations of inventory storage, accounting method of inventory and determining the scope of inventory observation;

(iv) Discussing physical stocktaking status with the management and attending the physical stocktaking to the locations and inventories within the scope of inventory observation and conducting observation and test count on site;

(v) Performing alternative procedures of confirmation and inspecting contracts, goods delivery notes and account statements for the inventories outside the scope of inventory observation and stored in reseller's warehouses;

(vi) Obtaining schedule of inventory provision calculation, reviewing whether the provision was made according to relating accounting policies and re-calculating the provision to evaluate the accuracy of inventory provision;

(vii) Reviewing and evaluating the appropriateness of the material estimates made by the management in determining the NRV of inventory;

(viii) Agreeing current period purchases in large amount to corresponding contract, tax invoice and inspecting purchase requisition form and goods receipt notes etc...

2. Revenue recognition

(1) Description

The Company's revenue mainly comes from sales of FIYTA brand watches and distribution of branded watches. FIYTA brand watches and branded watches are mainly sold through shops in department store except for minor direct sale and consignment sale. Refer to Note IV. 24 for accounting policies relating to revenue recognition.

As described in Note VI. 30 Operating revenue and operating cost, the Company's revenue from main business was RMB3,382,346,730.19 in year 2018. Operating revenue represents major line item in income statement and is main source of profit. Accuracy and completeness of revenue recognition have significant impact to the Company's profit, as a result, we identified revenue recognition as a key audit matter.

(2) How our audit addressed the key audit matter

(i) Understanding, assessing and testing the design and operating effectiveness of internal controls relating to revenue recognition;

(ii) Checking whether the condition, method and timing of revenue recognition is in conformance with principle of Accounting Standards for Business Enterprises;

(iii) Selecting samples from current year's transaction record, agreeing to supporting documents such as contract, tax invoice and goods dispatch note etc… to evaluate occurrence of revenue recognition;

(iv) In connection with audit of accounts receivable, selecting major customers and confirming corresponding sales in current year to evaluate the completeness of revenue recognition;

(v) Conducting cut-off test to sales transactions before and after the balance sheet date to evaluate whether the revenue was recorded in appropriate accounting period;

IV. Other Information

The management of FIYTA Ltd are responsible for the Other Information. The Other Information comprises all of the information included in the Company's 2018 annual report other than the financial statements and our auditors' report thereon.

Our opinion expressed on the financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

V. Responsibilities of the Management and those Charged with Governance for the Financial Statements

The management of the FIYTA Ltd (the "Management") is responsible for the preparation of the financial statements that give a fair view in accordance with Accounting Standards for Business Enterprises and design, implementing and maintaining necessary internal controls to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those who charged with governance is responsible for overseeing the Company's financial reporting process.

VI. Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
4. Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required, according to China Standards on Auditing, to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within FIYTA Ltd to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ruihua Certified Public Accountants (Special General Partnership)	Chinese CPA (Engagement Partner): ___________ Yuqiao Wang
Beijing, China	Chinese CPA: ____________ Xin Liu
	15 March, 2019

Financial Statements

The currency applied in the financial notes and statements is Renminbi (CNY)

1. Consolidated Balance Sheet

Prepared by FIYTA HOLDINGS LTD.

December 31, 2018

In CNY

Items	Ending balance	Opening balance
Current assets:		
Monetary capital	164,828,059.97	187,152,891.32
Settlement reserve		
Inter-bank lending		
Financial assets which is measured based on the fair value and whose movement is counted to the current gain/loss		
Derivative financial assets		
Notes receivable and accounts receivable	377,597,503.46	335,948,508.62
Where: Notes receivable	7,051,846.85	9,693,883.68
Accounts receivable	370,545,656.61	326,254,624.94
Advance payments	13,666,816.33	24,663,314.53
Receivable premium		
Reinsurance accounts receivable		
Reserve for reinsurance contract receivable		
Other receivables	45,870,582.26	34,990,539.09
Including: Interest receivable		
Dividends receivable		
Redemptory monetary capital for sale		
Inventories	1,782,306,301.70	1,820,526,676.26
Held-for-sale assets		
Non-current assets due within a year		
Other current assets	73,703,312.24	24,616,815.21
Total current assets	2,457,972,575.96	2,427,898,745.03
Non-current assets:		
Loan issuing and advance in cash		
Available-for-sale financial assets	85,000.00	85,000.00
Held-to-due investments		

Long term accounts receivable		
Long-term equity investment	44,881,063.15	43,879,518.09
Investment real estate	377,319,433.03	305,493,987.77
Fixed assets	425,649,562.85	523,699,592.65
Construction-in-process	12,041,126.00	10,947,300.53
Productive biological asset		
Oil and gas assets		
Intangible assets	43,545,477.61	44,223,280.21
Development expenses		
Goodwill		
Long-term expenses to be apportioned	128,572,545.15	109,409,785.49
Deferred income tax asset	100,675,706.09	105,905,944.80
Other non-current assets	8,949,160.42	8,246,538.33
Total non-current assets	1,141,719,074.30	1,151,890,947.87
Total assets	3,599,691,650.26	3,579,789,692.90
Current liabilities:		
Short term borrowings	547,118,452.97	525,990,510.00
Borrowings from central bank		
Deposits taking and interbank placement		
Loans from other banks		
Financial liabilities measured based on the fair value and whose change was charged to the current gain and loss.		
Derivative financial liabilities		
Notes payable and accounts payable	259,913,612.34	263,256,495.65
Advances from customers	16,459,445.00	15,141,587.79
Funds from selling out and repurchasing financial assets		
Service charge and commission payable		
Salaries payable to the employees	69,779,037.83	71,564,367.14
Taxes payable	55,923,171.92	55,857,236.59
Other payables	71,819,930.30	59,232,265.75
Including: interest payable	772,351.26	1,464,729.11
Dividends payable		
Payable reinsurance		
Reserve for insurance contract		
Acting trading securities		

Income from securities underwriting on commission		
Held-for-sale liabilities		
Non-current liabilities due within a year	347,470.00	35,000,000.00
Other current liabilities		
Total current liabilities	1,021,361,120.36	1,026,042,462.92
Non-current liabilities:		
Long-term borrowings	4,517,110.00	79,870,353.00
Bonds payable		
Including: preferred shares		
Perpetual bond		
Long-term accounts payable		
Long term accrued payroll		
Predicted liabilities		
Deferred income	3,672,855.36	5,904,000.00
Deferred income tax liability		
Other non-current liabilities		
Total non-current liabilities	8,189,965.36	85,774,353.00
Total liabilities	1,029,551,085.72	1,111,816,815.92
Owner’s equity:		
Capital Stock	438,744,881.00	438,744,881.00
Other equity instruments		
Including: preferred shares		
Perpetual bond		
Capital Reserve	1,062,455,644.22	1,062,455,644.22
Less: shares in stock		
Other comprehensive income	-5,442,139.78	-11,523,442.39
Special reserve		
Surplus Reserve	223,015,793.80	206,805,713.35
Reserve against general risks		
Retained earnings	851,360,603.66	771,484,565.02
Total owners’ equity attributable to the parent company	2,570,134,782.90	2,467,967,361.20
Minority shareholders’ equity	5,781.64	5,515.78
Total owner’s equity	2,570,140,564.54	2,467,972,876.98
Total liabilities and owners’ equity	3,599,691,650.26	3,579,789,692.90

Legal representative: Huang Yongfeng Chief Financial Officer: Chen Zhuo

Person in charge of the Accounting Department: Tian Hui

2. Balance Sheet (Parent Company)

In CNY

Items	Ending balance	Opening balance
Current assets:		
Monetary capital	137,175,466.27	131,163,944.43
Financial assets which is measured based on the fair value and whose movement is counted to the current gain/loss		
Derivative financial assets		
Notes receivable and accounts receivable	737,636.38	6,832,006.11
Where: Notes receivable		
Accounts receivable	737,636.38	6,832,006.11
Advance payments		
Other receivables	870,739,378.37	831,952,437.86
Including: Interest receivable		
Dividends receivable		
Inventories		
Held-for-sale assets		
Non-current assets due within a year		
Other current assets	10,081,272.94	9,089,170.12
Total current assets	1,018,733,753.96	979,037,558.52
Non-current assets:		
Available-for-sale financial assets	85,000.00	85,000.00
Held-to-due investments		
Long term accounts receivable		
Long-term equity investment	1,376,129,654.08	1,375,128,109.02
Investment real estate	297,042,937.87	270,241,724.52
Fixed assets	297,517,472.81	340,765,873.45
Construction-in-process	12,041,126.00	10,947,300.53
Productive biological asset		
Oil and gas assets		
Intangible assets	35,337,052.82	36,932,963.95
Development expenses		
Goodwill		
Long-term expenses to be apportioned	4,500,638.97	4,418,287.94

Deferred income tax asset	952,857.33	1,499,126.32
Other non-current assets	4,493,971.35	2,687,910.84
Total non-current assets	2,028,100,711.23	2,042,706,296.57
Total assets	3,046,834,465.19	3,021,743,855.09
Current liabilities:		
Short term borrowings	505,000,000.00	470,000,000.00
Financial liabilities measured based on the fair value and whose change was charged to the current gain and loss.		
Derivative financial liabilities		
Notes payable and accounts payable	52,324,191.98	60,520,874.66
Advances from customers	1,636,520.02	4,212,930.07
Salaries payable to the employees	11,589,634.34	9,291,422.00
Taxes payable	943,919.26	1,038,481.26
Other payables	57,997,397.28	21,596,100.44
Including: interest payable	685,419.80	929,155.39
Dividends payable		
Held-for-sale liabilities		
Non-current liabilities due within a year		35,000,000.00
Other current liabilities		
Total current liabilities	629,491,662.88	601,659,808.43
Non-current liabilities:		
Long-term borrowings		74,861,928.00
Bonds payable		
Including: preferred shares		
Perpetual bond		
Long-term accounts payable		
Long term accrued payroll		
Predicted liabilities		
Deferred income	3,672,855.36	5,904,000.00
Deferred income tax liability		
Other non-current liabilities		
Total non-current liabilities	3,672,855.36	80,765,928.00
Total liabilities	633,164,518.24	682,425,736.43
Owner’s equity:		
Capital Stock	438,744,881.00	438,744,881.00
Other equity instruments		

Including: preferred shares		
Perpetual bond		
Capital Reserve	1,068,111,185.32	1,068,111,185.32
Less: shares in stock		
Other comprehensive income		
Special reserve		
Surplus Reserve	223,015,793.80	206,805,713.35
Retained earnings	683,798,086.83	625,656,338.99
Total owner's equity	2,413,669,946.95	2,339,318,118.66
Total liabilities and owners' equity	3,046,834,465.19	3,021,743,855.09

Legal representative: Huang Yongfeng Chief Financial Officer: Chen Zhuo

Person in charge of the Accounting Department: Tian Hui

3. Consolidated Profit Statement

In CNY

Items	Amount incurred in the reporting period	Amount incurred in the previous period
I. Turnover	3,400,450,599.90	3,345,809,703.98
Including: operating income	3,400,450,599.90	3,345,809,703.98
Interest income		
Earned insurance premium		
Service charge and commission income		
II. Total operating costs	3,190,243,356.71	3,182,619,506.27
Including: Operating costs	1,993,809,774.20	1,986,652,591.57
Interest payment		
Service charge and commission payment		
Surrender Value		
Compensation expenses, net		
Provision of reserve for insurance contract, net		
Payment of policy dividend		
Reinsurance expenses		
Taxes and surcharges	33,769,344.40	32,871,258.58
Sales costs	856,970,173.10	811,437,932.01
Administrative expenses	219,162,525.85	190,589,582.24

R & D expenditures	47,350,342.82	49,453,899.35
Financial expenses	35,916,240.16	49,186,742.91
Where: Interest cost	27,552,558.81	41,825,035.34
Interest income	2,269,447.05	2,915,602.99
Loss from impairment of assets	3,264,956.18	62,427,499.61
Plus: Other income	19,375,618.48	17,508,255.98
Investment income (loss is stated with "-")	1,001,545.06	455,893.22
Including: return on investment in associate and joint venture	1,001,545.06	455,893.22
Income from change of fair value (loss is stated with "-")		
Exchange income (loss stated with "-")		
Income from disposal of assets (loss stated with "-")	-181,302.24	7,321,993.36
III. Operating Profit (loss is stated with "-")	230,403,104.49	188,476,340.27
Plus: Non-operating income	1,446,357.53	2,607,653.91
Less: Non-operating expenses	652,514.97	1,368,680.92
IV. Total profit (total loss is stated with "-")	231,196,947.05	189,715,313.26
Less: Income tax expense	47,361,851.76	47,098,954.06
V. Net Profit (net loss is stated with "-")	183,835,095.29	142,616,359.20
(I) Net Profit from sustainable operation (net loss is stated with "-")	183,835,095.29	142,616,359.20
(II) Net profit from termination of business operation (net loss is stated with "-")		
Net profit attributable to the parent company's owner	183,835,095.29	140,216,258.28
Minority shareholders' gain/loss		2,400,100.92
VI. Net of other comprehensive income after tax	6,081,568.47	-28,676.16
Net of other comprehensive income after tax attributable to the parent company's owner	6,081,302.61	255,055.85
(I) Other comprehensive income which cannot be re-classified into gain and loss		
1. Movement of the net liabilities and net assets re-measured for setting the beneficial plan		
2. Other comprehensive income which cannot be converted into gain and loss based on the equity method		

(II) Other comprehensive income which shall be re-classified into gain and loss	6,081,302.61	255,055.85
1. Other comprehensive income which can be converted into gain and loss based on the equity method		
2. Gain/loss from change in the fair value of the financial assets available for sale		
3. Gain/loss from which the held-to-maturity investment is re-classified as available-for-sale financial assets		
4. Valid part of the gain/loss from cash flow hedge		
5. Conversion difference in foreign currency statements	6,081,302.61	255,055.85
6. Others		
Net amount of other comprehensive income after tax attributable to minority shareholders	265.86	-283,732.01
VII. Total comprehensive income	189,916,663.76	142,587,683.04
Total comprehensive income attributable to the parent company's owner	189,916,397.90	140,471,314.13
Total comprehensive income attributable to minority shareholders	265.86	2,116,368.91
VIII. Earnings per share:		
(I) Basic earnings per share	0.4190	0.3196
(II) Diluted earnings per share	0.4190	0.3196

Legal representative: Huang Yongfeng Chief Financial Officer: Chen Zhuo Person in charge of the Accounting Department: Tian Hui

4. Statement of Profit, Parent Company

In CNY

Items	Amount incurred in the reporting period	Amount incurred in the previous period
I. Revenue	130,901,823.99	117,746,387.79
Less: Operating cost	19,010,293.07	17,785,254.56
Taxes and surcharges	4,340,938.33	4,244,709.29
Sales costs		5,024,222.36
Administrative expenses	62,841,044.26	56,597,226.83
R & D expenditures	24,155,557.54	24,358,700.54
Financial expenses	9,231,733.69	11,051,564.46

Where: Interest cost	10,189,512.00	12,432,288.90
Interest income	1,756,834.88	1,384,504.01
Loss from impairment of assets	46,068.70	62,283.14
Plus: Other income	7,689,684.27	11,482,400.00
Investment income (loss is stated with "-")	144,001,545.06	117,455,893.22
Including: return on investment in associate and joint venture	1,001,545.06	455,893.22
Income from change of fair value (loss is stated with "-")		
Income from disposal of assets (loss stated with "-")	-51,942.13	-54,661.87
II. Operating Profit (loss is stated with "-")	162,915,475.60	127,506,057.96
Plus: Non-operating income	38,080.00	231,994.49
Less: Non-operating expenses	446,782.97	320,029.00
III. Total profit (total loss is stated with "-")	162,506,772.63	127,418,023.45
Less: Income tax expense	405,968.14	-1,022,105.57
IV. Net Profit (net loss is stated with "-")	162,100,804.49	128,440,129.02
(I) Net Profit from sustainable operation (net loss is stated with "-")	162,100,804.49	128,440,129.02
(II) Net profit from termination of business operation (net loss is stated with "-")		
V. Net of other comprehensive income after tax		
(I) Other comprehensive income which cannot be re-classified into gain and loss		
1. Movement of the net liabilities and net assets re-measured for setting the beneficial plan		
2. Other comprehensive income which cannot be converted into gain and loss based on the equity method		
(II) Other comprehensive income which shall be re-classified into gain and loss		
1. Other comprehensive income which can be converted into gain and loss based on the equity method		
2. Gain/loss from change in the fair value of the financial assets available for sale		
3. Gain/loss from which the held-to-maturity investment is re-classified as		

available-for-sale financial assets		
4. Valid part of the gain/loss from cash flow hedge		
5. Conversion difference in foreign currency statements		
6. Others		
VI. Total comprehensive income	162,100,804.49	128,440,129.02
VII. Earnings per share:		
(I) Basic earnings per share		
(II) Diluted earnings per share		

Legal representative: Huang Yongfeng Chief Financial Officer: Chen Zhuo

Person in charge of the Accounting Department: Tian Hui

5. Consolidated Cash Flow Statement

In CNY

Items	Amount incurred in the reporting period	Amount incurred in the previous period
I. Cash flows arising from operating activities		
Cash received from sales of goods and supply of labor service	3,810,404,536.16	3,799,342,843.85
Net increase of customers' deposit and due from banks		
Net increase of borrowings from the central bank		
Net increase of borrowings from other financial institutions		
Cash received from the premium of the original insurance contract		
Net cash received from the reinsurance business		
Net increase of the reserve from policy holders and investment		
Net increase from disposal of financial assets which is measured based on the fair value and whose movement is counted to the current gain/loss		
Cash received from interest, service charge and commission		
Net increase of loan from other banks		

Net increase of fund from repurchase business		
Rebated taxes received	4,793,245.20	886,252.20
Other operation activity related cash receipts	49,628,593.69	49,178,644.63
Subtotal of cash flow in from operating activity	3,864,826,375.05	3,849,407,740.68
Cash paid for purchase of goods and reception of labor services	2,189,921,981.01	2,070,318,097.62
Net increase of loans and advances to customers		
Net increase of due from central bank and due from banks		
Cash from payment for settlement of the original insurance contract		
Cash paid for interest, service charge and commission		
Cash for payment of policy dividend		
Cash paid to and for staff	583,417,253.40	516,928,806.69
Taxes paid	305,622,391.83	285,279,057.38
Other business activity related cash payments	454,236,959.19	411,927,217.02
Subtotal of cash flow out from operating activity	3,533,198,585.43	3,284,453,178.71
Net cash flow arising from operating activities	331,627,789.62	564,954,561.97
II. Cash flows arising from investment activities:		
Cash received from recovery of investment		
Cash received from investment income		
Net cash from disposal of fixed assets, ,intangible assets and recovery of other long term assets	53,280.03	10,678,135.25
Net cash received from disposal of subsidiaries and other operating units		-230,053.69
Other investment related cash receipts		
Subtotal of cash flow in from investment activity	53,280.03	10,448,081.56
Cash paid for purchase/construction of fixed assets, Intangible assets and other long term assets	146,877,130.29	136,914,522.99
Cash paid for investment		
Net increase of the pledged loan		
Net cash paid for acquisition of subsidiaries and other operation units		

Other investment related cash payments		
Subtotal of cash flow out from investment activity	146,877,130.29	136,914,522.99
Net cash flows arising from investment activities	-146,823,850.26	-126,466,441.43
III. Cash flows arising from fund raising activities		
Cash received from absorbing investment		
Incl.: Cash received from the subsidiaries' absorption of minority shareholders' investment		
Cash received from loans	741,192,340.23	575,282,350.00
Cash received from bond issuing		
Other fund-raising related cash receipts		
Subtotal of cash flow in from fund raising activity	741,192,340.23	575,282,350.00
Cash paid for debt repayment	832,333,208.63	1,167,061,934.80
Cash paid for dividend/profit distribution or repayment of interest	116,690,155.91	85,355,204.78
Including: Dividend and profit paid by the subsidiaries to minority shareholders		
Cash paid for other financing activities		3,376,589.16
Sub-total cash flow paid for financing activities	949,023,364.54	1,255,793,728.74
Net cash flows arising from fund raising activities	-207,831,024.31	-680,511,378.74
IV. Change of exchange rate influencing the cash and cash equivalent	702,253.60	-256,606.29
V. Net increase of cash and cash equivalents	-22,324,831.35	-242,279,864.49
Plus: Opening balance of cash and cash equivalents	184,947,891.32	427,227,755.81
VI. Ending balance of cash and cash equivalents	162,623,059.97	184,947,891.32

Legal representative: Huang Yongfeng Chief Financial Officer: Chen Zhuo

Person in charge of the Accounting Department: Tian Hui

6. Cash Flow Statement, Parent Company

In CNY

Items	Amount incurred in the reporting period	Amount incurred in the previous period
I. Cash flows arising from operating activities		
Cash received from sales of goods and supply of labor service	116,016,128.07	118,206,419.70
Rebated taxes received		
Other operation activity related cash receipts	3,085,141,911.13	938,657,962.92

Subtotal of cash flow in from operating activity	3,201,158,039.20	1,056,864,382.62
Cash paid for purchase of goods and reception of labor services	300,000.00	
Cash paid to and for staff	58,785,131.65	52,908,089.08
Taxes paid	10,909,143.22	13,645,601.66
Other business activity related cash payments	3,050,352,344.19	560,857,112.69
Subtotal of cash flow out from operating activity	3,120,346,619.06	627,410,803.43
Net cash flow arising from operating activities	80,811,420.14	429,453,579.19
II. Cash flows arising from investment activities:		
Cash received from recovery of investment		
Cash received from investment income	143,000,000.00	117,000,000.00
Net cash from disposal of fixed assets, intangible assets and recovery of other long term assets	1,430.00	30,112.00
Net cash received from disposal of subsidiaries and other operating units		
Other investment related cash receipts		
Subtotal of cash flow in from investment activity	143,001,430.00	117,030,112.00
Cash paid for purchase/construction of fixed assets, Intangible assets and other long term assets	27,763,546.06	47,230,065.02
Cash paid for investment		
Net cash paid for acquisition of subsidiaries and other operation units		114,299,236.67
Other investment related cash payments		
Subtotal of cash flow out from investment activity	27,763,546.06	161,529,301.69
Net cash flows arising from investment activities	115,237,883.94	-44,499,189.69
III. Cash flows arising from fund raising activities		
Cash received from absorbing investment		
Cash received from loans	700,000,000.00	540,000,000.00
Cash received from bond issuing		
Other fund-raising related cash receipts		
Subtotal of cash flow in from fund raising activity	700,000,000.00	540,000,000.00
Cash paid for debt repayment	774,861,928.00	986,000,000.00
Cash paid for dividend/profit distribution or repayment of interest	115,249,277.23	79,277,672.20
Cash paid for other financing activities		

Sub-total cash flow paid for financing activities	890,111,205.23	1,065,277,672.20
Net cash flows arising from fund raising activities	-190,111,205.23	-525,277,672.20
IV. Change of exchange rate influencing the cash and cash equivalent	73,422.99	-90,699.34
V. Net increase of cash and cash equivalents	6,011,521.84	-140,413,982.04
Plus: Opening balance of cash and cash equivalents	128,958,944.43	269,372,926.47
VI. Ending balance of cash and cash equivalents	134,970,466.27	128,958,944.43

Legal representative: Huang Yongfeng Chief Financial Officer: Chen Zhuo

Person in charge of the Accounting Department: Tian Hui

7. Consolidated Statement of Changes in Owner's Equity

Amount in the reporting period

In CNY

Items	Reporting period												
	Owners' equity attributable to the parent company											Minority shareholders' equity	Total owner's equity
	Capital Stock	Other equity instruments			Capital Reserve	Less: shares in stock	Other comprehensive income	Special reserve	Surplus Reserve	Reserve against general risks	Retained earnings		
		Preferred shares	Perpetual bond	Others									
I. Ending balance of the previous year	438,744,881.00				1,062,455,644.22		-11,523,442.39		206,805,713.35		771,484,565.02	5,515.78	2,467,972,876.98
Plus: Change in accounting policy													
Correction of previous errors													
Consolidation of enterprises under the same control													
Others													
II. Opening balance of the reporting year	438,744,881.00				1,062,455,644.22		-11,523,442.39		206,805,713.35		771,484,565.02	5,515.78	2,467,972,876.98
III. Decrease/increase of the report year (decrease is stated							6,081,302.61		16,210,080.45		79,876,038.64	265.86	102,167,687.56

with "-")													
(I) Total comprehensive income							6,081,302.61				183,835,095.29	265.86	189,916,663.76
(II) Owners' input and decrease of capital													
1. Common shares contributed by the owner													
2. Capital contributed by other equity instruments holders													
3. Amount of payment for shares credited to owners' equity													
4. Others													
(III) Profit Distribution									16,210,080.45		-103,959,056.65		-87,748,976.20
1. Provision of surplus reserve									16,210,080.45		-16,210,080.45		
2. Provision of reserve against general risks													
3. 3. Distribution to the owners (or shareholders)											-87,748,976.20		-87,748,976.20
4. Others													
(IV) Internal carry-over of owners' equity													
1. Conversion of capital reserve into capital (or capital stock)													
2. Conversion of surplus reserve into capital (or capital stock)													
3. Loss made up with surplus reserve													
4. Setting of the amount involved in													

the movement of the beneficial plan carried over to the retained earnings													
5. Others													
(V) Special reserve													
1. Provision in the reporting period													
2. Applied in the reporting period													
(VI) Others													
IV. Ending balance of the reporting period	438,744,881.00				1,062,455,644.22		-5,442,139.78		223,015,793.80		851,360,603.66	5,781.64	2,570,140,564.54

Amount in the previous period

In CNY

Items	Previous period												
	Owners' equity attributable to the parent company											Minority shareholders' equity	Total owner's equity
	Capital Stock	Other equity instruments			Capital Reserve	Less: shares in stock	Other comprehensive income	Special reserve	Surplus Reserve	Reserve against general risks	Retained earnings		
		Preferred shares	Perpetual bond	Others									
I. Ending balance of the previous year	438,744,881.00				1,062,455,644.22		-11,778,498.24		193,961,700.45		687,986,807.74	3,577,654.56	2,374,948,189.73
Plus: Change in accounting policy													
Correction of previous errors													
Consolidation of enterprises under the same control													
Others													
II. Opening balance of the reporting year	438,744,881.00				1,062,455,644.22		-11,778,498.24		193,961,700.45		687,986,807.74	3,577,654.56	2,374,948,189.73
III. Decrease/increase of the report year (decrease is stated with "-")							255,055.85		12,844,012.90		83,497,757.28	-3,572,138.78	93,024,687.25

(I) Total comprehensive income							255,055.85				140,216,258.28	2,116,368.91	142,587,683.04
(II) Owners' input and decrease of capital												-5,688,507.69	-5,688,507.69
1. Common shares contributed by the owner													
2.. Capital contributed by other equity instruments holders													
3. Amount of payment for shares credited to owners' equity													
4. Others												-5,688,507.69	-5,688,507.69
(III) Profit Distribution									12,844,012.90		-56,718,501.00		-43,874,488.10
1. Provision of surplus reserve									12,844,012.90		-12,844,012.90		
2. Provision of reserve against general risks													
3. Distribution to the owners (or shareholders)											-43,874,488.10		-43,874,488.10
4. Others													
(IV) Internal carry-over of owners' equity													
1. Conversion of capital reserve into capital (or capital stock)													
2. Conversion of surplus reserve into capital (or capital stock)													
3. Loss made up with surplus reserve													
4. Setting of the amount involved in the movement of the													

beneficial plan carried over to the retained earnings													
5. Others													
(V) Special reserve													
1. Provision in the reporting period													
2. Applied in the reporting period													
(VI) Others													
IV. Ending balance of the reporting period	438,744,881.00				1,062,455,644.22		-11,523,442.39		206,805,713.35		771,484,565.02	5,515.78	2,467,972,876.98

Legal representative: Huang Yongfeng   Chief Financial Officer: Chen Zhuo

Person in charge of the Accounting Department: Tian Hui

8. Consolidated Statement of Changes in Owner's Equity, Parent Company

Amount in the reporting period

In CNY

Items	Reporting period										
	Capital Stock	Other equity instruments			Capital Reserve	Less: shares in stock	Other comprehensive income	Special reserve	Surplus Reserve	Retained earnings	Total owner's equity
		Preferred shares	Perpetual bond	Others							
I. Ending balance of the previous year	438,744,881.00				1,068,111,185.32				206,805,713.35	625,656,338.99	2,339,318,118.66
Plus: Change in accounting policy											
Correction of previous errors											
Others											
II. Opening balance of the reporting year	438,744,881.00				1,068,111,185.32				206,805,713.35	625,656,338.99	2,339,318,118.66
III. Decrease/increase of the report year (decrease is stated with "-")									16,210,080.45	58,141,747.84	74,351,828.29
(I) Total comprehensive										162,100,804.49	162,100,804.49

income											
(II) Owners' input and decrease of capital											
1. Common shares contributed by the owner											
2. Capital contributed by other equity instruments holders											
3. Amount of payment for shares credited to owners' equity											
4. Others											
(III) Profit Distribution									16,210,080.45	-103,959,056.65	-87,748,976.20
1. Provision of surplus reserve									16,210,080.45	-16,210,080.45	
2. Distribution to the owners (or shareholders)										-87,748,976.20	-87,748,976.20
3. Others											
(IV) Internal carry-over of owners' equity											
1. Conversion of capital reserve into capital (or capital stock)											
2. Conversion of surplus reserve into capital (or capital stock)											
3. Loss made up with surplus reserve											
4. Setting of the amount involved in the movement of the beneficial plan carried over to the retained earnings											
5. Others											

(V) Special reserve										
1. Provision in the reporting period										
2. Applied in the reporting period										
(VI) Others										
IV. Ending balance of the reporting period	438,744,881.00				1,068,111,185.32				223,015,793.80	683,798,086.83	2,413,669,946.95

Amount in the previous period

In CNY

Items	Previous period										
	Capital Stock	Other equity instruments			Capital Reserve	Less: shares in stock	Other comprehensive income	Special reserve	Surplus Reserve	Retained earnings	Total owner's equity
		Preferred shares	Perpetual bond	Others							
I. Ending balance of the previous year	438,744,881.00				1,068,111,185.32				193,961,700.45	553,934,710.97	2,254,752,477.74
Plus: Change in accounting policy											
Correction of previous errors											
Others											
II. Opening balance of the reporting year	438,744,881.00				1,068,111,185.32				193,961,700.45	553,934,710.97	2,254,752,477.74
III. Decrease/increase of the report year (decrease is stated with "-")									12,844,012.90	71,721,628.02	84,565,640.92
(I) Total comprehensive income										128,440,129.02	128,440,129.02
(II) Owners' input and decrease of capital											
1. Common shares contributed by the owner											
2. Capital contributed by other equity instruments holders											
3. Amount of payment for shares credited to											

owners' equity											
4. Others											
(III) Profit Distribution									12,844,012.90	-56,718,501.00	-43,874,488.10
1. Provision of surplus reserve									12,844,012.90	-12,844,012.90	
2. Distribution to the owners (or shareholders)										-43,874,488.10	-43,874,488.10
3. Others											
(IV) Internal carry-over of owners' equity											
1. Conversion of capital reserve into capital (or capital stock)											
2. Conversion of surplus reserve into capital (or capital stock)											
3. Loss made up with surplus reserve											
4. Setting of the amount involved in the movement of the beneficial plan carried over to the retained earnings											
5. Others											
(V) Special reserve											
1. Provision in the reporting period											
2. Applied in the reporting period											
(VI) Others											
IV. Ending balance of the reporting period	438,744,881.00				1,068,111,185.32				206,805,713.35	625,656,338.99	2,339,318,118.66

Legal representative: Huang Yongfeng　　Chief Financial Officer: Chen Zhuo

Person in charge of the Accounting Department: Tian Hui

Notes to the Financial Statements for the Year Ended 31 December 2018

(Expressed in RMB Yuan unless otherwise indicated)

I. Company status

FIYTA Holdings Ltd. (the “Company”) was founded, under the approval of Shen Fu Ban Fu (1992) 1259 issued by the General Office of Shenzhen Municipal Government, through the restructuring of former Shenzhen FIYTA Time Industrial Company by the promoter of China National Aero-Technology Import and Export Shenzhen Industry & Trade Center (name changed to “China National Aero-Technology Shenzhen Co., Ltd” lately) on 25 December 1992, and the name changed to “Shenzhen FIYTA Holdings Limited”. The headquarters is located at FIYTA Hi-Tech Building, Gao Xin Nan Yi Dao, Nanshan District, Shenzhen, Guangdong Province.

Pursuant to the approval of Shen Ren Yin Fu Zi (1993) 070 issued by the People’s Bank of China Shenzhen Special Economic Zone Branch, the Company issued Renminbi ordinary shares (A shares) and Renminbi special shares (B shares) publicly on 10 March 1993. On 3 June 1993, both the Company’s A shares and B shares were listed and traded on Shenzhen Stock Exchange pursuant to the approval of Shen Zheng Ban Fu[1993]20 issued by Shenzhen Securities Regulatory Office and Shen Zheng Shi Zi (1993)16 issued by Shenzhen Stock Exchange.

On 30 January 1997, the company name changed to Shenzhen FIYTA Holdings Limited with the approval of Shenzhen Municipal Administration for Industry and Commerce.

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

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

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

With the approval of “Reply of China Securities Regulatory Commission (CSRC) to the Approval of Private

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

On 3 March 2011, the company name changed to FIYTA Holdings Limited with the approval of Shenzhen Municipal Administration for Industry and Commerce.

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

On 11 November 2015, with the approval of China Securities Regulatory Commission (CSRC) "Reply of non-public offering of stocks of Shenzhen FIYTA Holdings Limited" (ZhengJianXuKe[2015]2588) and the approval of State-owned Assets Supervision and Administration Commission of the State Council (SASAC) "Reply of non-public offering of stocks of Shenzhen FIYTA Holdings Limited" (SASAC(2015)415), the Company was approved to issue not more than 46,911,649 ordinary shares (A shares) through non-public offering. After the completion of the non-public offering of stocks on 22 December 2015, the Company's registered capital was increased to RMB438,744,881.00 and the equity capital of the Company held by China National Aviation Group reduced to 37.15%.

As at 31 December 2018, the Company has accumulatively issued 438,744,881 shares in total (refer to Notes VI. 25 "Share capital" for detail).

Corporate governance institutions that were established by the Company include General Meeting of Shareholders, Board of Directors, Board of Supervisors, Strategy Committee, Audit Committee, and Nomination, Remuneration and Evaluation Committee. The Company's functional departments include Administration, Party Affairs, Discipline Inspection and Audit, Finance, Human Resources, Strategy and Operating, Data and Information, Innovative Design Center, R&D, and Property Management departments.

The financial statements have been approved and authorised for issue by the Board of Directors of the Company on 13 March 2019.

There are 11 subsidiaries that are included in the Company's scope of consolidation for year 2018, see Note VIII "Equity in other entities" for detail. Comparing with prior year, the status of changes in scope of consolidation is: zero addition and one decrease. See Note VII "Changes in scope of consolidation" for detail.

The business scope of the Company and its subsidiaries mainly includes: producing and selling of analogue indication mechanical watches, quartz watches and its movements, components, various timing devices, processing and wholesaling karat gold jewellery watches, intelligent watches; domestic commercial and material supply and distributing business (excluding goods under exclusive operational rights, special control and exclusive sales); property management and leasing; providing design service. Import and export business of self-design and construction; import and export business (according to Shen Mao Guan Deng Zheng Zi No.2007-072).The legal representative of the Company is Huang Yongfeng.

II. Basis of preparation

The financial statements of the Company have been prepared based on going concern assumption and based on actual transactions and events occurred. It is prepared in accordance with the requirements of “Accounting Standards for Business Enterprises - Basic Standard” (promulgated under Decree No. 33 of the Ministry of Finance and revised under Decree No. 76 of the Ministry of Finance) and 42 Specific Standards issued and revised by the Ministry of Finance on and after 15 February 2006, and application guidance, illustrations to the standards and related pronouncements (collectively known as “Accounting Standards for Business Enterprises” or “CAS”). These financial statements also comply with the disclosure requirements of “Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports” (revised in 2014) issued by China Securities Regulatory Commission (CSRC).

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

III. Statement of compliance with corporate accounting standards

The financial statements of the Company have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises. These financial statements present truly and completely the financial position as at 31 December 2018, the results of operations and the cash flows for the year then ended of the Company. In addition, the financial statements of the Company comply with, in all material respects, the disclosure requirements for financial statements and notes to the financial statements under “Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports” as revised by CSRC in 2014.

IV. Significant accounting policies and estimates

The Company and each subsidiaries determines specific accounting policies and estimates for revenue recognition, depreciation of fixed asset, amortization of intangible assets and R&D expenses according to the characteristics of their production and operation and based on CAS. Refer to Notes IV. 24 “Revenue”, Note IV 15

“Fixed Asset”, Note IV 18 (1) “Intangible Asset” and Note IV 18 (2) “R&D Expenses” for detail. For explanation of significant accounting judgement and estimate made by the management, refer to Note IV 30 “Significant accounting judgement and estimate” for detail.

1. Accounting period

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

2. Operating cycle

Normal operating cycle refer to the period start from purchasing asset for manufacturing until realization of cash or cash equivalent. The operating cycle of the Company is 12 months, which is the basis for distinguishing liquidity of assets and liabilities.

3. Recording currency

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

Except for the Swiss-based subsidiary Montres Chouriet SA (the “Swiss Company”) , which is a subsidiary of FIYTA (Hong Kong) Limited (FIYTA Hong Kong), uses Swiss Franc as the recording currency according to the main economic environment where the Swiss Company operated, all other subsidiaries outside the mainland China, including FIYTA Hong Kong and its subsidiary Station 68 Limited (Station 68) use Hong Kong Dollar (HKD) as the recording currency and translate to Renminbi when preparing financial statements.

The currency used in preparing the Company’s financial statements is Renminbi.

4. Accounting treatment for business combinations involving entities under common control and not under common control

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

(1) Business combination involving entities under common control

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

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

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

(2) Business combinations involving entities not under common control

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

As for business combinations involving enterprises not under common control, combination cost includes assets paid, liabilities incurred or assumed, and the fair value of equity securities issued by the acquirer to obtain control over the acquiree on the acquisition date. Fees for auditing, legal service, evaluation and consultation, and other administrative expenses incurred for the combination are recognized in profit or loss in the period in which such expenses incurred. Transaction costs incurred by the acquirer for issuing equity securities or debt securities as combination consideration are recognized in initial recognition amount of equity securities or debt securities. Contingent consideration, if any, is included in acquisition cost at its fair value on the acquisition date. If, within 12 months, new or further evidence revealed regarding conditions that already existed on acquisition date, the contingent consideration required to be adjusted, adjusting the goodwill arising from the acquisition accordingly. For acquisition that realized step by step through multiple transfer transactions, the equity of the acquiree held by the acquirer before the acquisition date are re-measured using fair value on the acquisition date. Any difference between the fair value and its carrying amount is recognized as investment income and transfer other comprehensive income related to this part of equity to investment gain in the period where the acquisition date falls. The acquisition cost is the aggregate of fair value of acquiree's equity held by the acquirer before the acquisition date and fair value of additional equity acquired on the acquisition date.

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

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

For business combination involving entities not under common control that achieved in stages that involves multiple transactions, judgement of whether a transaction belongs to “a basket transaction” requires to be carried out in accordance with the “Notice of the Ministry of Finance on Circulating the Fifth Interpretation to Accounting Standards for Business Enterprise” (Cai Kuai (2012) No. 19) and criteria of “a basket transaction” stated in clause 51 of “Accounting Standards for Business Enterprise No. 33 – Financial Statements Consolidation” (see Note IV 5 (2) for detail). If it is “a basket transaction”, the accounting treatment shall be referred to descriptions in above paragraphs and Note IV 13 “Long-term equity investment”. If it isn’t “a basket transaction”, the accounting treatment shall be differentiated for individual and consolidated financial statements.

In the individual financial statements, the initial investment cost is the sum of the carrying amount of equity investment of the acquiree held prior to the acquisition date and the additional investment cost at the acquisition date. When disposing an equity held prior the acquisition date that involving other comprehensive income, the other comprehensive income shall be accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities (i.e. except for the portion resulted from changes in re-measuring the acquiree’s net liability or net asset of a defined benefit plan according to equity method accounting, the rest shall be recorded in current period investment gain).

In the consolidated financial statements, the cost of equity investment of the acquiree held prior to the acquisition date is re-measured at the fair value on the acquisition date, the difference between the fair value and carrying value is recognized as investment gain for the current period.

For an equity held prior the acquisition date that involving other comprehensive income, the other comprehensive income shall be accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities (i.e. except for the portion resulted from changes in re-measuring the acquiree’s net liability or net asset of a defined benefit plan according to equity method accounting, the rest shall be recorded in current period investment gain).

5. Method of preparing consolidated financial statements

(1) Principles in determining the scope of the consolidation

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

The Company will re-evaluate the scope of consolidation once related facts and situation changes, which in turn results in changes to key factors that define control.

(2) Method of preparing consolidated financial statements

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

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

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

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

If the Company losses control over a subsidiary due to partial disposal of equity investment or other reasons, the remaining equity is measured at fair value on the date when the control lost. The difference between the sum of consideration received for disposal of equity interest and the fair value of remaining equity interest less the net assets attributable to the Company calculated continuously since the purchase date based on shareholding percentage before disposal are recognized in investment gain in the period when the control lost. Other comprehensive income related to equity investment in the subsidiary is transferred to investment gain at the time control lost. The remaining equity interests are measured subsequently according to “CAS No. 2 – Long-term Equity Investment” or “CAS No. 22 – Recognition and measurement of Financial Instrument”. See Note IV. 9 “Financial instrument” or Note IV. 13 “Long-term equity investment” for details.

If the Company losses control over a subsidiary step by step through multiple disposal transactions, judgment of whether these transactions belong to “a basket transaction”. It’s typically considered to account the multiple transaction as “a basket transaction” if the terms, conditions or economic effects of each of the transactions meet one or more criteria list below:

a. The transactions are entered into at the same time or in contemplation of each other;

b. The transactions together can achieve a complete commercial effect;

c. The occurrence of one transaction is dependent on the occurrence of at least one other transaction;

d. One transaction is not economically justified, but it is economically justified when considered together with other transactions.

If the transactions do not belong to a basket transaction, each transactions shall be accounted for as a disposal transaction that does not resulted in loss of control (refer to Note IV. 13 (2) ④ for detail) and applicable principle of loss of control over a subsidiary because of partial disposal of equity investment or other reason (refer to previous paragraph). However, the difference between each consideration received for disposal and portion of net asset related to the disposal shall be accounted as other comprehensive income in consolidated financial statement and charged to profit or loss at the time control losses and in the period of loss of control.

6. Categorizing of joint arrangement and accounting treatment for joint operation

A joint arrangement is an arrangement of which two or more parties have joint control. The Company classifies joint arrangements into joint operations and joint ventures. A joint operation is a joint arrangement whereby the joint operators have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the joint ventures have rights to the net assets of the arrangement.

The Company adopts equity method to joint venture investment and accounted for in accordance with accounting policies stated in Note IV 13 (2) ②“Long-term investment accounted for using equity method”.

As a party in a joint operation, the Company recognize the followings: asset held independently; liability undertaken independently; the Company’s share of asset held commonly and liability undertaken commonly;

revenue from selling output of the joint operation that enjoyed by the Company; revenue from selling output of the joint operation based on the Company's share; expenses incurred independently by the Company and common expenses incurred and shall be borne by the Company according to its shares.

When the Company, as a party in a joint operation, invest or sell asset (the asset does not constitute business) to the joint operation or purchase asset from the joint operation, the Company only recognize the portion of profit or loss that attribute to other parties in the joint operation arises from the transaction before the asset is sold to third party. If the asset impaired according to "CAS No. 8 – Asset impairment", the Company recognize the loss in full if the asset is invested or sold to the joint operation by the Company, or only recognize the portion attributable to the Company should be recognized if the asset is purchased by the Company from the joint operation.

7. Determination of cash and cash equivalents

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

8. Foreign currency transactions and financial statements translation

(1) Translation of foreign currency transactions

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

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

At the balance sheet date, monetary items denominated in foreign currencies are translated using the spot rate at the balance sheet date. Translation differences arising from the translation are recognized in current profit or loss except for: ① Capitalized exchange difference attributable to assets purchased or constructed, which can be capitalized, using foreign currency specified loan; ② Exchange differences on hedging instruments used for effective hedging of net investments in overseas operations (the difference is included in other comprehensive income until the net investment is disposed of to be recognized as current gains and losses;③Amortized cost of available for sale monetary items denominated in foreign currency. The exchange difference arose from the two scenario mentioned above shall be treated under the principal of capitalizing of borrowing cost and charged to other comprehensive income respectively.

In preparing of the consolidated financial statements involving overseas operations, if there is any foreign-currency monetary item constituting substantially net investment in overseas operation, the exchange difference arising from exchange rate variation is recognized in other comprehensive income and will be charged to profit or loss at the period the investment is disposed.

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

(3) Translation of financial statements prepared in foreign currencies

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

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

Cash flows denominated in foreign currency and cash flows of subsidiaries outside Mainland China are translated using the average exchange rate on the date when cash flows occur. The amount of cash changes due to exchange rate variations are recognized as adjustment item and presented in the cash flow statement separately.

The balance at the beginning of the year and amount actually incurred prior year are presented using figures in prior year’s translated financial statements.

All foreign exchange translation difference of an oversea investment recorded under equity and attributable to the shareholders of the parent company shall be charged to current period profit or loss when the Company losses control over this oversea investment due to disposal of all equity owned or partial disposal or other reasons.

If the equity holding in an oversea investment decreased but still maintain control due to partial disposal or other reasons, foreign exchange translation difference related to the part disposed shall be included as minority shareholders’ interest and should not be charged to current period profit or loss. If the partial disposal is for oversea associate or joint ventured enterprise, foreign exchange difference related to the oversea operation shall be charged to profit or loss when the disposal occurred based on the percentage disposed.

9. Financial instruments

A financial asset or financial liability is recognized when the Company becomes one party of financial instrument contracts. Financial asset and financial liability are initially recognized at fair value. Transaction expenses for fair value through profit or loss financial asset and liability shall be charged to the profit or loss directly. Transaction expenses for financial asset and liability other than that shall be included in the initial recognition amount.

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

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

(2) Classification, recognition and measurement of financial assets

Financial assets which are traded in conventional manner are recognized or derecognized on the transaction date. On initial recognition, financial assets are classified into fair value through profit or loss financial assets, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets.

① Fair value through profit or loss financial asset

Fair value through profit or loss financial asset includes financial asset held for trade and designated upon initial recognition as at fair value through profit or loss.

Financial asset meet one of the following criteria is categorized as financial asset held for trade: A. the purpose of acquiring the financial asset is for selling in short-term; B. belongs to identifiable financial instrument portfolio that is centralized managed and objective evidence proofed that the Company manages the portfolio in a manner to make profit in short-term; C. belongs to derivative instrument except for derivative instruments that are designated as effective hedging tools, financial guarantee contract or connected with equity instrument investment that do not have quotation in an active market and that the fair value cannot be measured reliably and the settlement of derivative instrument must involve delivery of this equity instrument.

Financial asset can be recognized initially as designated fair value through profit or loss financial asset if one of the following conditions is met: A. the designation can eliminate or reduce significantly the situation of inconsistency in recognition or measurement of profit or loss caused by different measurement basis; B. the official documents of the Company's risk management or investment strategy state that the financial asset portfolio or portfolio combines financial asset and financial liability that contains the financial asset are managed, evaluated and reported to key management based on fair value.

Fair value through profit or loss financial asset is measured consequently using fair value. Profit or loss arose from changes in fair value and dividend and interest income related to the asset are recorded in current period profit or loss.

② Held-to-maturity investment

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method; gains and losses arising from de-recognition, impairment or amortization is recognized in profit or loss for the current period.

Effective interest rate method refers to the method that calculates amortized cost and interest income or expenses for each period based on actual interest rate of a financial asset or financial liability (or a group of financial asset or financial liability). Effective interest rate is the rate that used to discount future cash flows of a financial asset or financial liability in its holding period or a shorter time applicable to its current book value.

When calculating effective interest, the Company estimates future cash flows (do not consider future credit loss) based on all contractual terms of the financial asset or financial liability, and taking into consideration of expenses, transaction fee and discount or premium, which consist part of the actual interest rate, that are paid to or received from different parties of the financial asset or financial liability contract.

③Loan and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's assets fall under this category include notes receivable, accounts receivable, interest receivable, dividends receivable and other receivables etc…

Loan and receivables are subsequently measured at amortized cost using the effective interest method; gains and losses arising from de-recognition, impairment or amortization is recognized in profit or loss for the current period.

④Available-for-sale financial asset (AFS financial asset)

AFS financial assets are those non-derivative financial assets that are designated as available for sale and those financial assets in addition to those above mentioned.

The cost of AFS debt instrument investment at period end is determined according to amortized cost, i.e. the initial recognized amount minus principal repaid plus or minus the accumulated amortization of difference between initial recognized amount and amount at the maturity date, and minus impairment loss incurred. The cost of AFS equity instrument at period end is the initial cost when it is acquired.

AFS financial assets are subsequently measured at fair value. Gain and losses arising from changes in fair value of AFS financial assets (other than impairment losses and foreign exchange gains and losses resulted from foreign currency monetary assets which are recognized in profit or loss for the current period) are recognized as other comprehensive income, until the financial assets are derecognized, are transferred to profit or loss for the current period. Equity instrument investment with no quoted price in active markets and with not reliably measured fair value, and derivative financial assets for the equity instrument and settled by paying the equity instrument are subsequently measured at cost.

Interest income and dividends related to the AFS financial assets are recognized as investment gain for the current period.

(3) Impairment of financial assets

The Company assesses the carrying amount of financial assets at each balance sheet date other than those at fair value through profit or loss, if there is objective evidence that financial assets are impaired, the Company determines the amount of impairment loss.

The Company conducts impairment test on individually significant financial assets separately. Financial assets that are not individually significant in amount are tested for impairment separately or grouped into different asset portfolios based on similarity and correlation of the credit risk characteristics. Financial assets that are not impaired after standalone impairment tests will be tested again by including it in a portfolio of financial assets with similar credit risk characteristics. Financial assets that have been impaired in standalone test will not be tested again by including it in a portfolio of financial assets with similar credit risk characteristics.

①Impairment to held-to-maturity, loan and receivables

The carrying amount of financial assets that are measured at cost or amortized cost shall be reduced to the present value of estimated future cash flows. The amount reduced shall be recognized as impairment loss and charged to current period profit or loss. If there is objective evidence shows that the value of the financial asset recovered after impairment loss was recognized, and the recovery is connected with matters happened after the recognition of impairment loss, the loss recognized previously could be reversed. The carrying amount after the reversal shall not exceed the amortized cost at the reversal date as if there is no impairment before.

②Available-for-sale financial assets

It indicated that impairment incurred to the AFS financial asset if the air value decrease is judged as severe and not temporary by considering all relevant factors.

If AFS financial assets are impaired, accumulated losses due to decreases in fair value previously recognized directly in other comprehensive income are reversed and charged to profit or loss for the current period. The reversed accumulated losses are the asset's initial acquisition costs after deducting amounts recovered and amortized, current fair value and impairment losses previously recognized in profit or loss.

If, in a subsequent period, the fair value of financial assets increases and the increase can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment losses can be reversed. The reversal of impairment losses of AFS equity instruments are to be included in other comprehensive income and the AFS debt instrument impairments are to be reversed through current period profit or loss.

The impairment for derivative financial asset that do not have quotation in an active market and that the fair value cannot be measured reliably and the settlement of derivative instrument must involve delivery of this equity instrument are not allowed to be reversed.

(4) Condition of recognition and measurement of transfer of financial assets

Financial asset is derecognized if one of the following conditions is satisfied: ①the contractual rights of receiving cash flows from the financial asset is terminated; ②financial asset has been transferred, and substantially all risks and reward associated with the ownership of the financial asset have been transferred to transferee; ③the financial asset has been transferred. The enterprise neither transfers nor retains substantially all the risks and rewards associated with the ownership of the financial asset, but it has not retained control over the financial asset.

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

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

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

For financial asset sold with recourse or endorsed, it needs to assure that almost all risk and rewards associated with the financial asset have been transferred. If almost all risk and rewards associated with the financial asset have been transferred to the recipient, the financial asset shall be de-recognized. If the Company retains almost all risk and rewards associated with the financial asset, it shall not be de-recognized. If the Company neither transfers nor retains almost all risk and rewards associated with the financial asset, judgment of whether the Company retains control over the asset needs to be carried out and it shall be accounted for based on principals stated in above paragraphs.

(5) Classification and measurement of financial liabilities

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

①Fair value through profit or loss financial liability

The condition of categorizing fair value through profit or loss financial liability and designated as fair value through profit or loss financial liability is the same as fair value through profit or loss financial asset and designated fair value through profit or loss asset.

Fair value through profit or loss financial liability is measured subsequently using fair value and gain or losses resulted from changes in fair value and dividend or interest payment related to the financial liability shall be charged to current period profit or loss.

②Other financial liability

Derivative financial liabilities, which connected with equity instrument without quotation in an active market and that the fair value cannot be measured reliably and the settlement of such financial liabilities require delivery of the equity instrument, are measured subsequently at cost. Other financial liabilities are measured at amortized cost using effective interest rate method. Gain or losses arising from derecognizing or amortization are charged to current profit or loss.

③Financial guarantee contract

Financial guarantee contracts that are not belong to financial liabilities designated as fair value and record changes in profit or loss are initially recognized at fair value, and initially recognized at the determined amount in accordance with the "CAS No. 13 - Contingencies" and the higher of the initial balance after deducting the accumulated amortization according to the "CAS No. 14 - Income".

(6) De-recognition of financial liability

A financial liability or part of it can only be derecognized only when the present obligations are fully or partly discharged. If an agreement between the Company (the debtor) and creditor indicates that the present financial liability are to be replaced with a new financial liability which has substantially different terms compare with the present financial liability, the present financial liability is derecognized and the new financial liability is recognized.

When a financial liability is entirely or partly derecognized, the difference between the carrying amount of the derecognized financial liability and the consideration paid (including any non-cash assets transferred or new financial liabilities undertook) is charged to current profit or loss.

(7) Derivative instrument and embedded derivative instrument

Derivative financial instruments of the Company are initially measured at the fair value of the date a derivative contract entered into and subsequently measured at their fair value. Gain or losses arising from changes in fair value of derivative instrument that designated hedging instrument and highly effective are charged to profit or loss based on hedging accounting. Any gains or losses arising from changes in fair value which do not meet the requirements of hedge accounting are directly recognized to profit or loss for the current period.

For hybrid instrument with embedded derivative, where financial assets or liabilities not designated as fair value through profit or loss, the economic features and risks of the embedded derivative are not closely related to that of the host contract, and a similar instrument with the same terms as the embedded derivative would meet the definition of a derivative, then embedded derivative is separated from hybrid instrument and accounted for as a derivative. If embedded derivative is unable to measure separately either at acquisition or subsequently at balance sheet date, hybrid instrument as a whole is designated as financial assets or liabilities at fair value through profit or loss.

(8) Offsetting of financial assets and financial liabilities

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

(9) Equity Instrument

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

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

10. Accounts receivable

Receivables include accounts receivable and other receivables.

(1) Recognition principle for bad debts provision

The Company examines, at the balance sheet date, the carrying amounts of receivables and impairment provision is recognized if following objective evidences that indicating impairment to receivables occurs: ①severe financial difficulties of the debtor; ②a breach of contract by the debtor (such as a default or breach of contract in interest or principle repayments); ③it is probable that the debtor will be bankrupted or conduct other financial reorganization; and ④other objective evidences indicating there is an impairment of the receivables.

(2) Method of recognizing bad debt provision

①Determination and providing bad debt provision for receivables which are individually significant in amount and provided for bad debt individually

The Company identifies single accounts receivable item that above RMB800,000.00 (inclusive) and single other receivable item that above RMB500,000.00 (inclusive) as receivables that individually significant in amount. The Company conducts impairment test on individually significant receivables separately. Financial assets that are not impaired after standalone impairment tests will be tested again by including it in a portfolio of financial assets with similar credit risk characteristics. Receivables that have been impaired in standalone test will not be tested again by including it in a portfolio of financial assets with similar credit risk characteristics.

②Determination of receivables that recognize bad debt provision under credit risk portfolio and bad debt provision recognition.

A. Basis of determining portfolio with similar credit risk characteristics

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

Basis of portfolio determination

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

B. Recognizing bad debt provision based on credit risk portfolio

If the impairment test is carried out for a portfolio of assets, the amount of bad debt provision is recognized based on the structure of the portfolio and similar credit risk characteristics (the ability of repayment by the debtor according to contract terms) by assessing historical experience on assets impairment with similar credit risk characteristics, current economic condition, and losses that are already exist in the portfolio.

Method of recognizing bad debt provision for different portfolios

Item	Method
Portfolio of aging	Analyzing the aging of receivables
Portfolio of specific accounts	No bad debt provision is recognized

a. Recognizing bad debt provision based on aging analysis method within the portfolio

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

b. Recognizing bad debt provision at a percentage based on balance within the portfolio

Name of portfolio	Percentage of provision recognized for accounts receivable (%)	Percentage of provision recognized for other receivables (%)
Portfolio of specific accounts	No bad debt provision is recognized as the risk of impairment does not exist according to its credit risk characteristics	

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

③Receivables that are insignificant in amount individually but recognize bad debt provision individually

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

(3) Reversal of bad debt provision

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

Accounts receivable transferred by the Company to financial institutions without recourse, the difference between transaction amount minus the carrying amount of receivable and related transaction taxes and fees is charged to current period profit or loss.

11. Inventory

(1) Classification of inventory

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

(2) Costing method of acquiring and delivering of inventory

The inventory is valued using actual cost when it is acquired. The cost of inventory includes cost of purchase, manufacturing cost and other costs. Costing methods used for inventory usage and shipment include: weighted average costing (except for branded watches), specific identification method (for stored goods of branded watches).

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

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

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

Impairment provisions for branded watches are recognized by specific item.

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

If, after the impairment provision is recognized, the influence conditions are no longer exist and as a result, the NRV of the inventory is higher than its carrying amount, the impairment provision recognized previously can be reversed. The amount reversed is to be recognized in current profit or loss.

(4) The inventory system is perpetual inventory system

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

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

12. Asset held for sale and disposal group

If the Company mainly recovers a non-current asset or disposal group by disposal (including non-monetary transaction with commercial substance, the same below) rather than continuously usage. The asset is then classified as assets held for sale. The following conditions are to be met at the same time: A non-current asset or disposal group can be immediately sold under current conditions based on the practice of selling such assets or disposal group in a similar transaction; the Company has already decided on the sales plan and has been confirmed the purchase commitment; the sale is expected to be completed within one year. Among them, the disposal group refers to a group of assets that are disposed of by the sale or other means together in a transaction, and the liabilities directly related to these assets transferred in the transaction. The disposal group belongs to the asset group or the asset group combination in accordance with "CAS No. 8 –Asset impairment" to share the goodwill acquired in the business combination, the disposal group shall include the goodwill allocated to the disposal group.

When the Company initially measures or re-measures the non-current assets held for sale and the disposal group on the balance sheet date, if the book value is higher than the net amount after the fair value minus the selling expenses, then the book value is reduced to the net amount after deducting the selling expenses from the fair value shall be recognized as the asset impairment loss and recorded in the current profits and losses, and at the same time, provision shall be made for the impairment of assets held for sale. For the disposal group, the recognized impairment loss on assets is offset against the carrying amount of the goodwill in the disposal group, and then reduced in proportion to the applicable "CAS No. 42 - Non-current Assets Held for Sale , Disposal Group and Discontinued Operations" ("Held-for-Sale Standard") measurement requirements of the non-current assets of the book value. On the subsequent balance sheet date, if the fair value minus the selling expenses increases, the amount previously written-down should be restored and the applicable sale-for-sale criterion should be applied after classification as held-for-sale category reversal of the amount of the asset impairment loss recognized in the measurement of non-current assets shall be recorded into the profits and losses of the current period; and according to the book value of the non-current assets held by the disposal group other than goodwill, the carrying amount of the goodwill that has been offset against and the non-current assets subject to the measurement of the held for sale criteria cannot be reversed .

Non-current assets held for sale or disposal of non-current assets in the disposal group are not subject to depreciation or amortization. The interest on liabilities held in the disposal group for sale and other expenses are continuously recognized.

Non-current assets or disposal group no longer meet the classified conditions for holding the sale category, the Company will no longer be classified as held for sale or remove non-current assets from held-for-sale disposal group, and shall be measured at the lower of the following: (1) The carrying amount before classification as held for sale is adjusted according to the depreciation, amortization or impairment that should be recognized if it is not classified as held for sale; (2) recoverable amount.

13. Long-term equity investment

Long-term equity investment refers to equity investments where the Company has control, joint control or significant influence over, an investee. Equity investment where the Company cannot control, joint control or exercise significant influence over the investee, shall be accounted for as AFS financial asset or Fair value through profit or loss financial asset, of which the accounting policies are stated in Note IV 9 “Financial instrument”.

Joint control means jointly control of a certain business activity according to the agreement of contract. It exists only when the agreement on important accounting and business policies that needs to be reached between investors who share the control rights. Significant influence means participation in decision making to a company’s finance and business policies, but could not control or jointly control with other parties to the policy making.

(1) Determination of investment cost

For a long-term equity investment acquired through a business combination involving entities under common control, the investment cost of the long-term equity investment is the attributable share of the carrying amount of the shareholders' equity of the acquiree at the date of combination. The difference between the initial cost of the long-term equity investment and the payment in cash, non-cash assets transferred as well as the book value of the debts borne by the acquirer shall offset against the capital reserve. If the capital reserve is insufficient to deduct, retained earnings shall be adjusted. If the consideration is paid by issuing equity securities, it shall, on the date of acquisition, regard the share of the book value of the shareholder's equity of the acquiree on the consolidated financial statement of the ultimate control party as the initial cost of the long-term equity investment. The total face value of the stocks issued shall be regarded as the capital stock, while the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. The equities of the combined party which respectively acquired through multiple transaction under the same control that ultimately form into the combination of the enterprises under the common control, should be disposed according whether belongs to a basket transaction. If it belongs to a basket transaction, each transaction shall be accounted for by the Company as a transaction of acquiring the control right. If not belongs to package deal, it shall, on the date of merger, regard the enjoyed share of the book value of the shareholder's equity of the merged enterprise on the consolidated financial statement of the ultimate control party as the initial cost of the long-term equity investment, and as for the difference between the initial investment cost of the long-term equity investment and sum of the book value of the long-term equity investment before the combination and the book value of the consideration of the new payment that further required on the combination date, should adjust the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. The equity investment held before the combination date which adopted the equity method for accounting, or the other comprehensive income confirmed for the available-for-sale financial assets, should not have any accounting disposal for the moment.

For the long-term investment required acquired from the business combination involving entities not under common control, the initial investment cost regarded as long-term equity investment on the purchasing date according to the combination cost, the combination costs shall be the sum of the fair values of the assets paid, the liabilities incurred or assumed and the equity securities issued by the Company. The equity of the acquirees which respectively acquired through multiple transactions that ultimately form into the combination of the entities under common control, should be disposed according whether belongs to a basket transaction. If it belongs to a basket transaction, each transaction would be accounted for by the Company as a transaction of acquiring the control right. If it does not belong to a basket transaction, the sum of the book value of the original held equity investment of the acquirees and the newly added investment cost should be regarded as the initial investment cost of the long-term equity investment that changed to be accounted by cost method. If the original held equity is calculated by cost method, the other relevant comprehensive income would not have any accounting disposal for the moment. If the original held equity investment is the financial assets available for sale, its difference between the fair value and the book value as well as the accumulative changes of the fair value that include in the other comprehensive income, should transfer into the current gains and losses.

Agent fees incurred by the acquirer for the business combination such as audit, legal service, and valuation and consultation fees, and other related administration expenses are charged to current profit or loss at the time such expenses incurred.

Equity investments that other than the kind originated from business combinations are measured at cost initially. The investment cost differs based on ways of acquiring the long-term equity investment. It can be determined based on cash consideration actually paid by the Company, fair value of equity securities issued by the Company, value stimulated in investment contract or agreement reached, fair value or carrying amount of assets that is exchanged in a non-monetary asset transfer transaction, or the fair value of the long-term equity investment itself. Expenses that directly related to the acquisition of the long-term equity investment, taxes and other necessary expenditure are included in the investment cost. Cost for long-term equity investment that has significant influences over the investees because of addition of the investment or execute joint control, shall be accounted for based on the sum of the fair value of the equity investment original held according to “CAS No.22 – Recognition and Measurement of Financial Instrument” and the newly added investment cost.

(2) Subsequent measurement and recognition of gain or losses

Equity method is used for measurement of long-term equity investment if there is common control (except joint operation) with or significant influence over the invested entity. Cost method is used for measurement of long-term equity investment if there is control over the invested entity.

①Long-term equity investments that are measured using cost method

Under cost method, long-term equity investment is measured at initial investment cost. Current period investment gain or losses are recognized according to the cash dividend or profit distribution that is announced by the invested entity, except for cash dividend or profit distribution that is already announced but not distributed which is included in the consideration that actually paid.

②Long-term equity investments that are measured using equity method

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

When measured by adopting equity method, respectively recognize investment income and other comprehensive income according to the net gains and losses as well as the portion of other comprehensive income which should be enjoyed or be shared, and at the same time adjust the book value of the long-term equity investment; corresponding reduce the book value of the long-term equity investment according to profits which be declared to distribute by the investees or the portion of the calculation of cash dividends which should be enjoyed; for the other changes except for the net gains and losses, other comprehensive income and the owners' equity except for the profits distribution of the investees, should adjust the book value of the long-term equity investment as well as include in the capital reserve. The investing enterprise shall, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment, recognize the attributable share of the net profits and losses of the invested entity after it adjusts the net profits of the invested entity. If the accounting policies adopted by the investees is not accord with that of the Company, should be adjusted according to the accounting policies of the Company and the financial statement of the investees during the accounting period and according which to recognize the investment income as well as other comprehensive income. For the transaction happened between the Company and associated enterprises as well as joint ventures, if the assets launched or sold not form into business, the portion of the unrealized gains and losses of the internal transaction, which belongs to the Group according to the calculation of the enjoyed proportion, should recognize the investment gains and losses on the basis. But the losses of the unrealized internal transaction happened between the Company and the investees which belongs to the impairment losses of the transferred assets, should not be neutralized. The assets launched by the Company to the associated enterprises or the joint ventures if could form into business, the long-term equity investment without control right which acquired by the investors, should regard the fair value of the launched business as the initial investment cost the newly added long-term equity investment, and for the difference between the initial investment cost and the book value of the launched business, should be included into the current gains and losses with full amount. The assets sold by the Company to the associated enterprises or the joint ventures if could form into business, the difference between the acquired consideration and the book value of the business should be included in the current gains and losses with full amount. The assets purchased by the Company to the associated enterprises or the joint ventures if could form into business, should be accounting disposed according to the CAS - No. 20 – “Business Combination”, and should be recognized gains or losses related to the transaction with full amount.

The Company shall recognize the net losses of the invested enterprise until the book value of the long-term equity investment and other long-term rights and interests which substantially form the net investment made to the invested entity are reduced to zero. However, if the Company has the obligation to undertake extra losses, it shall be recognized as the estimated liabilities in accordance with the estimated duties and then recorded into investment losses at current period. If the invested entity realizes any net profits later, the Company shall, after the amount of its attributable share of profits offsets against its attributable share of the un-recognized losses, resume recognizing its attributable share of profits.

For the long-term equity investment in the associates and joint ventures held by the Company for the first time before the implementation of the new accounting standards, if there is a debit balance of the equity investment related to the investment, the difference shall be amortized and charged to current profit or loss using straight line method based on original remaining period.

③Purchasing minority equity

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

④Disposal of long-term equity investment

In consolidated financial statements, the parent company can dispose part of the long-term equity investment to a subsidiary given that the parent does not lose control over the subsidiary. The difference between consideration received for the disposal and the part of net assets disposed attributable to the parent is recognized in owners' equity. If the parent company losses control over a subsidiary because of long-term equity investment disposal, the accounting treatment shall refer to accounting policies stated in Note IV. 5 (2) – “Preparing consolidated financial statements”.

For long-term equity investment disposal other than situations mentioned above, the difference of carrying amount of disposed equity and the consideration actually received is charged to current profit or loss.

For the long-term equity investment measured by adopting equity method, if the remained equity after disposal still adopts the equity method for measurement, the other comprehensive income originally recorded into owners' equity should adopt the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees according to the corresponding proportion. The owners' equity recognized owning to the changes of the other owners' equity except for the net gains and losses, other comprehensive income and the profits distribution of the investees, should be transferred into the current gains and losses according to the proportion.

For the long-term equity investment which adopts the cost method of measurement, if the remained equity still adopt the cost method, the other comprehensive income recognized owning to adopting the equity method for measurement or the recognition and measurement standards of financial instrument before acquiring the control of the investees, should adopt the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees and should be carried forward into the current gains and losses according to the proportion; the changes of the other owners' equity except for the net gains and losses, other comprehensive income and the profits distribution among the net assets of the investees which recognized by adopting the equity method for measurement, should be carried forward into the current gains and losses according to the proportion.

If the Company lost control over the investee by disposing part of the equity investment and the remained equity after disposal could execute joint control or significant influences over the investees, it should change to measure by equity method when preparing the individual financial statement and should adjust the measurement of the remained equity to equity method as adopted since the time acquired. If the remaining equity after disposal could not execute joint control or significant influences on the investees, it should change the accounting disposal according to the relevant regulations of the recognition and measurement standards of financial instrument, and its difference between the fair value and book value on the date lose the control right should be included in the current gains and losses. For the other comprehensive income recognized by adopting equity method for measurement or the recognition and measurement standards of financial instrument before the Company acquired the control of the investees, should execute the accounting disposal by adopting the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees when lose the control of them, while the changes of the other owners' equity except for the net gains and losses, other comprehensive income and the profits distribution among the net assets of the investees which recognized by adopting the equity method for measurement, should be carried forward into the current gains and losses according to the proportion. Of which, for the disposed remained equity which adopted the equity method for measurement, the other comprehensive income and the other owners' equity should be carried forward according to the proportion; for the disposed remained equity which changed to execute the accounting disposal according to the recognition and measurement standards of financial instrument, the other comprehensive income and the other owners' equity should be charged to profit or loss in full.

For those the Company lost the control of the investees by disposing part of the equity investment, the disposed remained equity should change to calculate according to the recognition and measurement standards of financial instrument, and difference between the fair value and book value on the date lose the control right should be included in the current gains and losses. For the other comprehensive income recognized from the original equity investment by adopting the equity method, should execute the accounting disposal by adopting the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees when terminate the equity method for measurement, while for the owners' equity recognized owning to the changes of the other owner's equity except for the net gains and losses, other comprehensive income and the profits distribution of the investees, should be transferred into the current investment income with full amount when terminate adopting the equity method.

The Company respectively disposes the equity investment of the subsidiaries through multiple transactions until lose the control right, if the above transactions belongs to the package deal, should execute the accounting disposal by regarding each transaction as a deal of disposing the equity investment of the subsidiaries until lose the control right, while the difference between each expenses of the disposal and the book value of the long-term equity investment in accord with the disposed equity before losing the control right, should firstly be recognized as other comprehensive income then be transferred into the current gains and losses of losing the control right along until the time when lose it.

14. Investment property

Investment property is property held to earn rentals or for capital appreciation or both. It includes buildings that are already leased out. Besides, for the vacant buildings held by the Company for the purpose of operating leases, if the board of directors (or similar institution) makes a written resolution that expressly indicates that it will be used for operating leases and the intention to keep no longer changes in the short-term, it also can serve as an investment real estate.

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

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

Please refer to Note IV. 20 "Impairment of Long-term assets" for details of impairment test and impairment provision recognition for investment property.

If the usage of a property changed from self-use to investment or vice versa, the carrying amount before change shall be used as initial recognition amount after the change.

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

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

15. Fixed asset

(1) Recognition principles

Fixed assets refer to tangible assets that are held for the purpose of goods production, providing services, lease, or for administrative purposes with useful life of more than one accounting year. Fixed asset is recognized only when the economic benefit associated with the fixed asset is probable to flow into the Company and the cost can be measured reliably. Fixed asset is recognized initially at cost by considering estimated disposal expenses.

(2) Depreciation method

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

Categories	Method of depreciation	Estimated useful lives (year)	Estimated net residual value ratios (%)	Annual depreciation rates (%)
Plants and buildings	straight-line	20-35	5.00	2.70-4.80
Machinery equipment	straight-line	10	5.00-10.00	9.00-9.50
Electronics devices	straight-line	5	5.00	19.00
Transportation vehicles	straight-line	5	5.00	19.00
Other equipments	straight-line	5	5.00	19.00

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset's useful life is passed and in the condition expected at the end of its useful life.

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

For impairment test and impairment provision recognition for fixed asset, please refer to Note IV. 20 "Impairment of Long-term asset".

(4) Recognition basis and pricing method of financing leased fixed assets

A financing lease is a lease that transfers all the risks and rewards incidental to the ownership of the asset in substance and the ownership may or may not eventually be transferred. The depreciation accrued method of the fixed assets rented out under financing leases using a same policy as its own fixed assets. If it is reasonably certain that the ownership of the leased asset can be acquired when the lease term expires, depreciation is accrued over the useful life of the leased asset. If it cannot reasonably determine that the ownership of the leased asset can be acquired when the lease term expires, the depreciation will be accrued in the shorter of lease term and the useful life of leased asset.

(5) Others

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

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

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

16. Construction in progress

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

For impairment test and impairment provision recognition for construction in progress, please refer to Note IV. 20 “Impairment of Long-term asset”.

17. Borrowing cost

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

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

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

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

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

18. Intangible assets

(1) Intangible assets

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

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

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

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

Method of amortization for intangible asset with finite useful life is as follows:

Category	Useful life (year)	Method of amortization
Land use right	50	straight-line
Software	5	straight-line
Brand use right	5-10	straight-line

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

(2) Research and development expenditure

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

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

Expenditure on the development phase is capitalized and recognized as intangible asset only when all of the following conditions are satisfied. Expenditures on the development phase, failing to meet the below conditions, are recognized in profit or loss in the period it is incurred:

①The technical feasibility of completing the intangible asset so that it will be available for use or sale;

②The intention to complete the intangible asset and use or sell it;

③The intangible asset will generate economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;

④The availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and

⑤The expenditure attributable to the intangible asset during its development phase can be measured reliably.

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

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

For impairment test and impairment provision recognition for intangible asset, please refer to Note IV. 20 "Impairment of Long-term asset".

19. Long-term deferred expenses

Long-term deferred expenses refer to expenditures which are incurred but shall be expensed over the beneficiary period of more than one year. The Company's long-term deferred expenses mainly include counter fabrication and decoration expenses. Long-term deferred expenses shall be amortized on straight-line basis over its beneficiary period.

20. Impairment of Long-term assets

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

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

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

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

21. Employee benefit

Employee benefit include short-term employee benefit, post-employment benefits and termination benefits.

Short-term benefit mainly includes employee salary, bonus, allowance, employee welfare, maternity insurance, work injury insurance, housing fund, labor union fee, employee education fund and non-monetary welfare etc… The Company recognize short-term benefit as liabilities through profit or loss or related cost of assets for the financial year in which the employees render the related services. Non-monetary welfare is measured at fair value.

Post-employment benefit mainly include basic endowment insurance, unemployment insurance and annuity etc… Post-employment benefit plan includes defined contribution plans. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into an escrow fund and the amount shall be charged to cost of related asset or current period profit or loss.

When the Company terminates the employment relationship with employees before the employment contracts expire or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision shall be recognized at the date earlier of the Company cannot unilaterally withdraw from the termination plan or the redundancy offer and the Company determined the reconstruction cost related with the payment of termination benefit. Termination benefit shall be recognized as employee benefit payable and charged to the profit or loss for the current accounting period. If the termination benefit cannot be paid within 12 month after the balance sheet date, it shall be treated as long-term employee benefit.

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

If other long-term employee welfare provided by the Company meets the criteria of defined contribution plan, it shall be accounted for according to defined contribution plan, otherwise, defined benefit plan accounting treatment is applicable.

22. Provision

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

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

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

(1) Onerous contract

An onerous contract is a contract in which the aggregate cost required to fulfil the agreement is higher than the economic benefit to be obtained from it. If the contract to be executed becomes an onerous contract, and the obligation arising from the onerous contract meets the conditions for the recognition of the above-mentioned provision, the portion of the contract's estimated loss that exceeds the recognized impairment loss (if any) of the contracted asset is recognized as a provision.

(2) Restructuring obligations

For detailed and formal restructuring plans that have been publicly announced, if it meets the recognition conditions of a liability mentioned above, a provision is determined based on the direct expenses related to the restructuring.

23. Share-based payment

(1) Accounting treatment of share-based payment

A share-based payment is a transaction that grants an equity instrument or assumes a liability determined on the basis of an equity instrument in order to obtain services from employees or other parties. Share-based payments are divided into equity-settled share-based payments and cash-settled share-based payments.

① Equity-settled share-based payments

The equity-settled share-based payment in exchange for the services provided by the employee is measured at the fair value of the equity instruments granted to employees at the grant date. If the option can only be exercised after completing the service within the vesting period or meeting the required performance conditions, the amount of the fair value shall be charged to cost or expenses based on straight-line method during the vesting period using the best estimate of the amount of exercisable equity instrument. If the right can be exercised immediately after the grant, the relevant costs or expenses are included in the grant date, and the capital reserve are increased accordingly.

On each balance sheet date during the waiting period, the Company makes the best estimate based on the latest information on the changes in the number of employees with vesting rights, and corrects the number of equity instruments that are expected to be exercised. The impact of the above estimates is recognized in the current related costs or expenses, and the capital reserve is adjusted accordingly.

Equity-settled share-based payments in exchange for other parties' services, if the fair value of other parties' services can be reliably measured, is measured at the fair value of other services on the date of acquisition. If the fair value cannot be measured reliably, it is measured at the fair value of the equity instrument on the acquisition date, and is included in the relevant cost or expense, which increases the shareholders' equity accordingly.

②Cash-settled share-based payments

The cash-settled share-based payment is measured at the fair value of the liabilities determined by the Company based on shares or other equity instruments. If the right can be exercise immediately after the grant, the relevant costs or expenses are included in the grant date, and the liabilities are increased accordingly. If the option can only be exercised after completing the service within the vesting period or meeting the required performance conditions, the service obtained by the Company in current period shall be charged to profit or loss based on fair value of the liabilities undertake by the Company, calculated on the basis of the best estimation of the exercisable option on each balance sheet date of the vesting period. The liabilities shall be increased accordingly.

The fair value of the liability is re-measured at each balance sheet date and settlement date before the settlement of related liabilities, the changes are included in the current profit and loss.

(2) Modifying and terminating the relevant accounting treatment of the share-based payment plan

When the Company changes the share-based payment plan, if the modification increases the fair value of the granted equity instruments, the increase in the fair value of the equity instruments is recognized accordingly. The increase in the fair value of equity instruments refers to the difference between the fair value, measured on the modification date, of the equity instruments before and after the modification. If the modification reduces the total fair value of the share-based payment or adopts other methods that are not in favor of employees, the accounting treatment of it will not be changed, as if the modification never happened unless the Company cancelled part or all of the granted equity instruments.

During the vesting period, if the granted equity instrument is cancelled, the Company shall treat the cancelled equity instrument as accelerated exercise, and shall immediately charge the amount that should be recognized in the remaining vesting period into the current profit and loss and adjusting the capital reserves at the same time. If the employee or other party can choose to meet the non-vesting conditions but fails during the vesting period, the Company will treat it as a cancellation of the equity instrument.

(3) Accounting treatment involving share-based payment transactions between the Company and its shareholders or actual controllers of the Company

In respect of the share-based payment transaction between the Company and its shareholders or actual controllers of the Company, if one of the settlement company and the service recipient is in the Company, and the other is outside the Company, the accounting treatment is carried out in the consolidated financial statements of the Company according to the following rules:

① If the settlement company settles with its own equity instrument, the share-based payment transaction shall be treated as equity-settled share-based payment; otherwise, it shall be treated as a cash-settled share-based payment.

If the settlement company is the investor of the service recipient, it shall recognized as the long-term equity investment to the service recipient according to the fair value of the equity instrument at the grant date or the fair value of the liability to be undertaken. The capital reserve (other capital reserve) or liabilities shall be recognized at the same time.

② If the service recipient does not have a settlement obligation or the equity instruments granted to its employees are its own equity instruments, the share-based payment transaction shall be treated as equity-settled share-based payment. If the enterprise that accepts service has the settlement obligation and the equity instrument granted to employees are not its own equity instrument, the share payment transaction shall be treated as a cash-settled share-based payment.

For share-based payment transactions occurred between companies within the Company, if the service recipient and the settlement company are not the same entity, the recognition and subsequent measurement of the share-based payment transaction in their individual financial statements shall be treated in accordance with principles above.

24. Revenue

(1) General principal

①Revenue from sale of goods

Revenue from the sale of goods shall be recognized only when all of the following conditions are satisfied: (a) significant risk and rewards of ownership of the goods have been transferred to the buyer; (b) the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c)the amount of revenue can be measured reliably; (d) it is probable that the associated economic benefits will flow to the seller, and (e) the associated costs incurred or to be incurred can be measured reliably.

②Revenue from rendering of service

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

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

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

③Revenue from rendering usage rights

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

④Interest income

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

(2) Detailed method of revenue recognition

The watches sold by the Company includes two types, one is the self-manufactured FIYTA watch, the sales of which is managed by branch offices and provincial-level sale sections by regions set up by Sales Company, a subsidiary of the Company. The other is brand watches, the sales of which are controlled by Shenzhen HARMONY World Watch Center Co., Ltd., a subsidiary of the Company, and the Company act as agent Regarding to sales modes, a portion of the sales of self-manufactured FIYTA watches is sold through direct sales to customer and consignment sales while most of the self-manufactured FIYTA watches and brand watches are sold under two sales modes, namely exclusive shop and shop-in-shop. Detailed method of revenue recognition as follows:

① Direct sales to the customer

Under direct sales to the customer mode, the Company delivers products to customers and recognizes sales income after customer inspection and acceptance.

② Exclusive shop

Under exclusive shop mode, the Company delivers products to customers and recognizes sales income after customer inspection, acceptance and pay.

③Shop-in-shop

Under shop-in-shop mode, the Company delivers products to customers, sales staff issues notes to retail customers and recognizes sales revenue after customer inspection and acceptance and the department store collects the payment from the customer.

④Consignment sales

Under consignment sales mode, the Company receives the detail of the sales list from distributors and recognizes revenue while issuing invoice to distributors.

25. Government grants

Government grants are monetary assets or non-monetary assets obtained by the Company from the government free of charge. It does not include capital contributions from the government as an owner. Government grants are classified into government grants related to assets and government grants related to income. The Company defines the government grants obtained for the acquisition or other formation of long-term assets as the government grants related to the assets; the remaining government grants are defined as the government grants related to income. If the government documents do not clearly define the object of subsidy, the subsidy shall be divided into the government grant related to income and the government grant related to assets in the following ways: (1) If the government document specifies the specific project for which the subsidy is targeted, the budget of the project will be divided into the relative proportion of the expenditure amount of the assets and the expenses included in the expenses, and the division ratio shall be reviewed on each balance sheet date and changed when necessary; (2) If the government documents use only for general statement, and not specify a specific project, it will be as income-related government grants. If a government grant is in form of monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of non-monetary asset, is measured at fair value. If the fair value cannot be measured reliably, it is measured at a nominal amount and recognize directly in the current profit or loss.

The Company usually confirms and measures government grants according to the actual amount received.

However, when there is conclusive evidence that can meet the financial support policies and regulations related to the conditions expected to be able to receive financial support funds for the end of the year, it will measure according to the actual amount received. The government grants measured according to the receivable amount shall meet the following conditions at the same time: (1) The amount of the grants receivable has been authorized by the government department to issue the documents or can be reasonably measured according to the relevant provisions of the formally promulgated financial capital management measures; (2) It is based on the financial support items formally promulgated by the local finance department and proactively disclosed in accordance with the provisions of the "Regulations Governing the Disclosure of Government Information" and the fiscal fund management measures, and the management measures should be generalized (any eligible enterprises can apply), rather than specifically for a specific company; (3) the relevant grant approval has been clearly committed to the deadline for disbursement, and the disbursement of funds has corresponding budget as a guarantee, so that it can reasonably ensure that it can be received within the prescribed time limit; (4) Other relevant conditions (if any) that should be satisfied according to the Company and the specific circumstances of the grants.

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

Government grants including assets-related parts and income-related parts at the same time should be treated separately. If it is difficult to distinguish them, they will be classified as income-related government grants completely.

The government grants related to the daily activities of the Company are included in other gain or offset the related costs according to the essence of the economic business. The government grants that are not related to the daily activities are included in the non-operating income and expenses.

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

26. Deferred tax asset / deferred tax liability

(1) Current period corporate income tax

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

(2) Deferred tax asset and deferred tax liability

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

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

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

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

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

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

(3) Corporate income tax

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

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

(4) Offsetting of income tax

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

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

27. Leasing

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

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

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

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

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

(3) Accounting treatment for the Company as lessee under finance leases

On the lease beginning date, the Company shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. Besides, the initial direct costs directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded in the asset value of the current period. The balance through deducting unrecognized financing charges from the minimum lease payments shall be respectively stated in long-term liabilities and long-term liabilities due within 1 year.

Unrecognized financing charges shall be adopted by the effective interest rate method in the lease term, so as to calculate and recognize current financing charges. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

(4) Accounting treatment for the Company as lessor under finance leases

On the beginning date of the lease term, the Company shall recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the financing lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sum of the minimum lease receipts, the initial direct costs and the unguaranteed residual value and the sum of their present values shall be recognized as unrealized financing income. The balance through deducting unrealized financing incomes from the finance lease accounts receivable shall be respectively stated in long-term claims and long-term claims due within 1 year.

Unrecognized financing incomes shall be adopted by the effective interest rate method in the lease term, so as to calculate and recognize current financing revenues. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

28. Other main accounting policies and estimates

Discontinued operation

Discontinued operation refer to the components that can be separated and disposed of or classified as held for sale separately by one of the following conditions: ①The component represents an independent main business or a separate main operation area; ② This component is part of a related plan to be disposed of by an independent major business or a separate major operating area; ③This component is a subsidiary acquired exclusively for resale.

Refer to Note IV.12 "Description of Assets Held-for-Sale and Disposal Group" for details of accounting treatment of discontinued operations.

29. Changes in main accounting policies and estimates

(1) Change of accounting policies

There was no changes of accounting policies of the Company in the reporting period.

(2) Changes of accounting estimates

There was no changes of accounting estimate of the Company in the reporting period.

30. Significant accounting judgment and estimates

When adopting the accounting policies, the Company needs to make judgments, estimates and assumptions for the carrying amount of items which are presented in financial statements and cannot be measured accurately due to internal uncertainties of business. The judgments, estimates and assumptions that are made according to historical experience of the management and with consideration of other relevant factors will have effects on the reported amounts of revenue, expenses, assets as well as liabilities and the disclosure of contingent liabilities at the balance sheet date. The uncertainties of these estimates will probably result in significant adjustments on the carrying amounts of assets or liabilities which will be affected by those judgments, estimates and assumptions in future accounting periods.

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

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

(1) The classification of lease

According to the “CAS No. 21– Leasing”, the Company classifies leases as operating leases and finance leases. When categorizing, management needs to make analysis and judgment on whether all the risks and rewards associated with the ownership of the leased asset be transferred substantially to lessee, or whether the Company took all the risks and rewards associated with the ownership of the leased assets substantially.

(2) Bad debt provision recognition

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

(3) Provision for impairment of inventories

According to the accounting policies of inventories, it is measured at lower of cost and the net realizable value (NRV). For inventory cost that is higher than its NRV and obsolete and slow moving inventory, impairment provision shall be accrued. Evaluating the impairment of inventories needed the management level gain the valid evidence and take full consideration of the purpose of inventories, influence of events after balance sheet date and other factors, and then made relevant judgments and estimates. The actual amount and the difference of previous estimate would affect the book value of inventories and the accrual and reversal of provision.

(4) The impairment of available-for-sale financial assets

Whether an available-for-sale financial asset is impaired relies largely on the judgment and assumption of the management, so as to decide whether recognized the impairment losses in the income statement. During the process of making the judgment and assumption, the Company needed to appraise the balance of the cost of the investment exceeding its fair value and the continuous period, the financial status and business forecast in a short period, including the industrial situation, technical reform, credit level, default rate and risk of counterparty.

(5) Impairment provision for long-term asset

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

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

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

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

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

(6) Depreciation and amortization

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

(7) Deferred income tax asset

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

(8) Corporate income tax

For some transactions in the Company's ordinary course of business, uncertainties exist in their tax treatment and calculation. An approval from the tax authority is needed to determine whether an item is deductible before tax. If the final confirmation from the tax authority differs with the original estimation, the difference will have effects on the current income tax and deferred income tax of the period in which the final confirmation is made by the tax authority.

(9) Provision

The Company estimates and accrues related provision on its after-sale quality warranty commitment to customers with respect to the goods sold, estimated onerous contract and penalty for delay in delivery based on contract terms, current knowledge and historical experience. In case that the contingent event becomes a current obligation and performance of the current obligation may be very likely to cause economic benefit flow out of the Company, the Company recognizes provision based on the best estimates for fulfilling the related current obligation. Recognition and measurement of contingent liability is largely depend on the management's judgment. In the course of making judgement, the Company need to evaluate factors of risk, uncertainty and time value of money related to the contingent event.

The Company will make provision for after sale quality commitment for product sold, maintenance and re-fabrication of product sold. When accruing the provision, it needs to consider the recent maintenance data which may not be likely to reflect the future maintenance situations. Any increase or reduction of the provision may possibly affect the profit or loss in future years.

V. Taxation

1. Main taxes and tax rates

Tax	Tax rate
Value-added tax（Note（1））	Output tax is calculated at 3%、5%、6%、10%、16% of taxable income and VAT is paid after offset the output tax with input tax allowed at current period

Tax	Tax rate
Consumption tax	Consumption tax is applicable for imported or manufactured luxury watches with unit price above 10,000 (inclusive).
Urban maintenance and construction tax	5%、7% on the turnover tax actually paid
Property tax（Note（2））	1.2% on the basis of 70% of the original cost of the property and 12% for rental income.
Corporate income tax	See Note (3) for detail.

Note (1): Value-added tax

Value-added tax rate originally applied to 17%, 11% when the Company have VAT taxable sales or import goods. According to "Notice of the Ministry of Finance and the State Administration of Taxation on Adjusting the Value-Added Tax Rate"（with Cai Shui (2018) No. 32）, applicable tax rate adjusted to 16%,10% since May 1st, 2018

Other taxable income arising from the Company is calculated on the basis of the applicable tax rate.

Note (2): Property Tax

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

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

Note (3): Corporate income tax

Name of entity subject to corporate income tax	Applicable tax rate
The Company（Note ①②⑤）	25.00%
Shenzhen HARMONY World Watch Center Co., Ltd.（HARMONY Company）（Note ①⑤）	25.00%
Shenzhen FIYTA Precision Timer Manufacturing Co., Ltd. (Manufacturing Company)（Note ②③）	15.00%
FIYTA Hong Kong（Note ④）	16.50%
Station 68（Note ④）	16.50%
Shenzhen FIYTA Technology Development Co., Ltd (Technology Company)（Note ②③）	15.00%
TEMPORAL (Shenzhen) Co., Ltd.（TEMPORAL Company）（Note ⑤）	25.00%

Name of entity subject to corporate income tax	Applicable tax rate
Harbin Harmony World Watches Distribution Co., Ltd. (Harbin Company)（Note ⑤）	25.00%
Emile Choureit Timing (Shenzhen) Ltd. (Emile Choureit Shenzhen Company)（Note ⑤）	25.00%
FIYTA Sales Co., Ltd (Sales Company)（Note ①⑤）	25.00%
Liaoning Hengdarui Commercial & Trade Co., Ltd (Hengdarui Company)（Note ⑤）	25.00%
Swiss Company（Note ⑥）	30.00%

Note ①:According to the regulations stated in Guo Shui Fa (2008) No. 28, “Interim Administration Method for Levy of Corporate Income Tax to Enterprise that Operates Cross-regionally”, the head office of the Company and its branch offices, the head office of HARMONY Company and its branch offices, and the head office of Sales Company and its branch offices adopt tax submission method of “unified calculation, managing by classes, pre-paid in its registered place, settlement in total, and adjustment by finance authorities” starting from 1 January 2008. Branch offices mentioned above share 50% of the enterprise income tax and prepay locally; and 50% will be prepaid by the head offices mentioned above.

Note ②: According to “Notice of the Ministry of Finance, the State Administration of Taxation and Ministry of Science on Improving the Pre-tax Super Deduction Ratio of Research and Development Expenses” (Cai Shui (2018) No. 99), if the research and development costs, which were incurred for developing new technologies, new products, and new processes by the Company, the Manufacturing Company and the Technology Company, are not capitalized as intangible assets but charged to current profits and losses, the companies can enjoy a 75% super deduction on top of the R&D expenses that allowed to deduct before income tax during the period from January 1, 2018 to December 31, 2020.

Note ③:The company enjoyed for “Reduction and Exemption in Corporate Income Tax Rate for High and New Technology Enterprises that Require Key Support from the State”.

Note ④: These companies are registered in Hong Kong and the income tax rate of Hong Kong applicable is 16.50% this year.

Note ⑤: According to the People's Republic of China Enterprise Income Tax Law, the income tax rate is 25% for residential enterprises since 1 January 2008.

Note ⑥: The comprehensive tax rate of 30% is applicable for Swiss Company as it registered in Switzerland.

2. Preferential treatment and corresponding approval

According to clause 2 in Shen Dishui Fa (2003) No. 676 “Notice of Forwarding State Administration of Taxation on Policies Related to Property Tax and Urban Lan Usage Tax”, for newly constructed or purchased property by tax payer, property tax is exempted for 3 years from the next month it is constructed or purchased. The property tax for FIYTA Watch Building owned by the Company located in Shenzhen Guangming New District is exempted for 3 years from the next month when construction is completed.

VI. Notes to the consolidated financial statements

Unless otherwise indicated, the beginning of the year for items (including notes for the Company's financial statements) list below refers to 1 January 2018 and the end of the year refers to 31 December 2018. Prior year refers to year 2017 and current year refers to year 2018.

1. Cash and bank balances

Item	31 Dec 2018	1 Jan 2018
Cash on hand	420,783.85	414,210.14
Bank deposit	160,135,454.62	184,528,160.32
Other monetary funds	4,271,821.50	2,210,520.86
Total	164,828,059.97	187,152,891.32
Incl: deposit outside Mainland China	9,192,653.31	7,880,620.64

Note: Amount of RMB1,575,000.00 (RMB1,575,000.00 as at 31 Dec 2017) in other monetary funds is the security deposit with Bank for issuing of unconditional and irrevocable letter of guarantee; amount of RMB630,000.00 was judicial freeze due to the legal proceedings.

2. Note and accounts receivables

Item	31 Dec 2018	1 Jan 2018
Notes receivables	7,051,846.85	9,693,883.68
Accounts receivables	370,545,656.61	326,254,624.94
Total	377,597,503.46	335,948,508.62

(1) Notes receivable

①Notes receivable classification

Item	31 Dec 2018	1 Jan 2018
Banker's acceptance bill	-	2,398,579.72
Commercial acceptance bill	7,051,846.85	7,295,303.96
Total	7,051,846.85	9,693,883.68

②There is no pledge of notes at the end of the period.

③Endorsed notes that is not yet due at the end of the period.

Item	Amount derecognized at year end	Amount not derecognized at year end
Banker's acceptance bill	1,294,584.13	-

④There is no notes receivable transferred to receivables due to issuer's default at the end of the period.

(2) Accounts receivable

① Accounts receivables presented by types

Types	31 Dec 2018				
	Book balance		Bad debt provision		Carrying amount
	Amount	Percentage（%）	Amount	Percentage（%）	
Receivables that are individually significant in amount and provided for bad debt separately	1,702,371.94	0.44	1,702,371.94	100.00	-
Receivables provided for bad debt by portfolio	381,434,944.02	99.53	10,889,287.41	2.85	370,545,656.61
Incl. Aging portfolio	189,655,491.08	49.49	10,889,287.41	5.74	178,766,203.67
Portfolio of specific accounts	191,779,452.94	50.04	-	-	191,779,452.94
Receivables that are individually insignificant in amount but provided for bad debt separately	97,147.84	0.03	97,147.84	100.00	-
Total	383,234,463.80	100.00	12,688,807.19	3.31	370,545,656.61

(Continued)

Types	1 Jan 2018				
	Book balance		Bad debt provision		Book Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Receivables that are individually significant in amount and provided for bad debt separately	6,985,493.80	2.04	6,985,493.80	100.00	-
Receivables provided for bad debt by portfolio	334,903,968.85	97.93	8,649,343.91	2.58	326,254,624.94
Incl. Aging portfolio	160,056,201.19	46.80	8,649,343.91	5.40	151,406,857.28
Portfolio of specific accounts	174,847,767.66	51.13	-	-	174,847,767.66
Receivables that are individually insignificant in amount but provided for bad debt separately	97,147.84	0.03	97,147.84	100.00	-

Types	1 Jan 2018				
	Book balance		Bad debt provision		Book Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Total	341,986,610.49	100.00	15,731,985.55	4.60	326,254,624.94

A. Year-end balance of receivables that are individually significant in amount and provided for bad debt separately

Accounts receivable （by company）	31 Dec 2018			
	Accounts receivable	Bad debt provision	Percentage (%)	Reason
Ginwa Xi'an Qujiang Shopping Center Co., Ltd.	1,702,371.94	1,702,371.94	100.00	Chances of recovering is remote due to management condition

B. Amongst portfolio, accounts receivable that are provided for bad debt based on aging analysis

Aging	31 Dec 2018		
	Accounts receivable	Bad debt provision	Percentage (%)
Within 1 year	176,490,750.08	8,818,234.89	5.00
1~2 years	10,632,348.03	1,063,234.80	10.00
2~3 years	1,291,893.89	387,568.17	30.00
over 3 years	1,240,499.08	620,249.55	50.00
Total	189,655,491.08	10,889,287.41	5.74

C. Among the portfolio, accounts receivable that are provided for bad debt using other method

Name of portfolio	31 Dec 2018		
	Accounts receivable	Bad debt provision	Account Percentage (%)
Portfolio of specific accounts	191,779,452.94	-	-

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

②Status of bad debt accrual, recovery or reversed in current year

In 2018, bad debt accrual is RMB4,506,633.93, and the amount of recovery or reversal of bad debt provision is RMB7,549,812.29.

Incl. the amount of significant recovery or reversal of bad debt provision this year

Name of accounts	The amount of recovery or reversal	Recovery method
Ginwa Xinjiang Time Squire Shopping Center Co., Ltd	2,250,000.00	Bank deposit
Ginwa Xi'an Century Shopping Co., Ltd.	5,283,121.86	Bank deposit
Total	7,533,121.86	-

③No accounts receivable was written-off during the year

④Top 5 receivable accounts

The amount of top 5 receivables based on year-end receivable balance is RMB65,652,234.68, accounts for 17.13% of total receivables as at 31 Dec 2018. Corresponding bad debt provision is RMB602,002.24.

3. Prepayments

(1) Prepayments presented by aging

Account aging	31 Dec 2018		1 Jan 2018	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	12,886,273.93	94.29	20,284,829.30	82.25
1~2 years	-	-	2,034,407.41	8.25
2~3 years	780,542.40	5.71	2,344,077.82	9.50
Over 3 years	-	-	-	-
Total	13,666,816.33	100.00	24,663,314.53	100.00

(2) Top 5 prepayment accounts

The amount of top 5 prepayment accounts based on year-end balance is RMB9,393,700.19, accounts for 68.73% of total prepayments as at 31 Dec 2018.

4. Other receivables

Item	31 Dec 2018	1 Jan 2018
Other receivables	45,870,582.26	34,990,539.09

(1) Other receivables

①Other receivables presented by types

Types	31 Dec 2018				
	Book balance		Bad debt provision		Carrying amount
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that individually significant in amount and provided for bad debt separately	7,093,237.65	12.69	7,093,237.65	100.00	-
Other receivables provided for bad debt by portfolio	48,249,486.72	86.30	2,378,904.46	4.93	45,870,582.26
Incl. Aging portfolio	45,771,039.24	81.87	2,378,904.46	5.20	43,392,134.78
Portfolio of specific accounts	2,478,447.48	4.43	-	-	2,478,447.48
Other receivables that individually insignificant in amount but provided for bad debt separately	565,400.00	1.01	565,400.00	100.00	-
Total	55,908,124.37	100.00	10,037,542.11	17.95	45,870,582.26

(Continued)

Types	1 Jan 2018				
	Book balance		Bad debt provision		Carrying amount
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that individually significant in amount and provided for bad debt separately	6,847,372.68	15.23	6,847,372.68	100.00	-
Other receivables provided for bad debt by portfolio	38,090,257.88	84.73	3,099,718.79	8.14	34,990,539.09
Incl. Aging portfolio	33,690,435.20	74.94	3,099,718.79	9.20	30,590,716.41
Portfolio of specific accounts	4,399,822.68	9.79	-	-	4,399,822.68
Other receivables that individually insignificant in amount but provided for bad debt separately	20,000.00	0.04	20,000.00	100.00	-
Total	44,957,630.56	100.00	9,967,091.47	22.17	34,990,539.09

A. Year-end balance of other receivables that are individually significant in amount and provided for bad debt separately

Accounts	31 Dec 2018			
	Other receivable	Bad debt provision	Percentage (%)	Reasons
China Resources (Chong Qing) Industrial Co., Ltd.	800,000.00	800,000.00	100.00	The possibility of recovery is remote due to the termination of cooperative project.
Beat Blattman Marketing	4,041,632.05	4,041,632.05	100.00	Business faces bankruptcy, the possibility of recovery is remote.
Liberty Time Center GmbH	2,251,605.60	2,251,605.60	100.00	Business faces bankruptcy, the possibility of recovery is remote.
Total	7,093,237.65	7,093,237.65	—	—

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

Ageing	31 Dec 2018		
	Other receivable	Bad debt provision	Percentage (%)
Within 1 year	44,291,589.79	2,214,579.51	5.00
1 to 2 years	1,438,499.45	143,849.95	10.00
2 to 3 years	-	-	-
Over 3 years	40,950.00	20,475.00	50.00
Total	45,771,039.24	2,378,904.46	5.20

C. Among the portfolio, other receivables that are provided for bad debt using other methods

Name of portfolio	31 Dec 2018		
	Other receivable	Bad debt provision	Percentage (%)
Portfolio of specific accounts	2,478,447.48	-	-

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

②Among the portfolio, other receivables that are provided for bad debt using other methods

Nature	31 Dec 2018	1 Jan 2018
Employee petty cash	2,478,447.48	4,399,822.68
Down payment and deposit	38,091,767.87	30,200,936.65
Product promotion expenses	7,827,524.03	3,387,360.70
Others	7,510,384.99	6,969,510.53
Total	55,908,124.37	44,957,630.56

③Status of bad debt accrual, recovery or reversed in current year:

In 2018, bad debt accrual is RMB70,450.64. There was no recovery or reversal of bad debt provision this year.

④There was no other receivables actually written-off during this year

⑤Top 5 other receivable accounts

Name of accounts	Nature	Amount	Aging	Percentage of total other receivables (%)	Balance of provision
Beat Blattman Marketing	Trade receivables	4,041,632.05	Over 3 years	7.23	4,041,632.05
China Resources (Shenzhen) Co., Ltd	Deposit	3,010,024.00	Within 1 year	5.38	150,501.20
Liberty Time Center GmbH	Trade receivables	2,251,605.60	Over 3 years	4.03	2,251,605.60
Beijing Jingdong Century Trading Co., Ltd.	Deposit	1,906,697.76	Within 1 year	3.41	95,334.89
China Resources Sun Hung Kai Real Estate (Hangzhou) Co., Ltd.	Deposit	1,497,003.00	Within 1 year	2.68	74,850.15
Total	——	12,706,962.41	——	22.73	6,613,923.89

5. Inventory

(1) Inventory classification

Item	31 Dec 2018		
	Book balance	Provision	Carrying amount
Raw material	183,679,226.95	28,296,729.51	155,382,497.44

Item	31 Dec 2018		
	Book balance	Provision	Carrying amount
Work-in-progress	10,787,777.81	-	10,787,777.81
Goods in stock	1,675,548,898.56	59,412,872.11	1,616,136,026.45
Total	1,870,015,903.32	87,709,601.62	1,782,306,301.70

(Continued)

Item	1 Jan 2018		
	Book balance	Provision	Carrying amount
Raw material	192,872,336.46	26,899,506.29	165,972,830.17
Work-in-progress	16,744,428.79	-	16,744,428.79
Goods in stock	1,708,413,402.70	70,603,985.40	1,637,809,417.30
Total	1,918,030,167.95	97,503,491.69	1,820,526,676.26

(2) Provision

Item	1 Jan 2018	Increase		Decrease		31 Dec 2018
		Accrual	Others	Reversed	Others	
Raw materials	26,899,506.29	3,625,562.93	-	2,228,339.71	-	28,296,729.51
Goods in stock	70,603,985.40	5,922,928.30	-	17,114,041.59	-	59,412,872.11
Total	97,503,491.69	9,548,491.23	-	19,342,381.30	-	87,709,601.62

(3) Reasons for accruing inventory impairment provision and the reason for reversal of provision or written-off this year.

Item	Basis for recognizing provision	Reason for reversal of provision this year	Reasons for written-off
Raw materials	NRV is lower than cost	—	Disposed
Goods in stock	NRV is lower than cost	—	Sales

6. Other current assets

Item	31 Dec 2018	1 Jan 2018
Deductible input tax of VAT	52,444,448.67	18,745,349.24
CIT prepaid	7,846,471.11	314,917.39

Item	31 Dec 2018	1 Jan 2018
Others	13,412,392.46	5,556,548.58
Total	73,703,312.24	24,616,815.21

7. AFS financial assets

(1) Status of AFS financial assets

Item	31 Dec 2018			1 Jan 2018		
	Book balance	Impairment provision	Carrying amount	Book balance	Impairment provision	Carrying amount
AFS equity instrument	385,000.00	300,000.00	85,000.00	385,000.00	300,000.00	85,000.00
Incl: measured at cost	385,000.00	300,000.00	85,000.00	385,000.00	300,000.00	85,000.00
Total	385,000.00	300,000.00	85,000.00	385,000.00	300,000.00	85,000.00

(2) AFS financial assets measured at cost

Investee	Book balance				Provision				% of equity held in investee	Cash dividend
	1 Jan 2018	increase	decrease	31 Dec 2018	1 Jan 2018	increase	decrease	31 Dec 2018		
Shenzhen Zhonghang Culture Co. Ltd	300,000.00	-	-	300,000.00	300,000.00	-	-	300,000.00	15.00	-
Xi'an Tangcheng Limited	85,000.00	-	-	85,000.00	-	-	-	-	0.10	-
Total	385,000.00	-	-	385,000.00	300,000.00	-	-	300,000.00	—	-

(3) Movements of impairment provision for AFS financial asset

Types of AFS financial asset	AFS equity instrument	Total
Balance of impairment provision at the beginning of the year	300,000.00	300,000.00
Accrual in current year	-	-
Incl: transferred from other comprehensive income	-	-

Decrease in current year	-	-
Incl: reversed due to fair value increases	——	——
Balance of impairment provision at the end of the year	300,000.00	300,000.00

8. Long-term equity investment

Investee	1 Jan 2018	Changes during 2018				
		Addition	Withdraw	Investment gain recognized under equity method	Adjustment of other comprehensive income	Changes of other equity item
I. Associated company						
Shanghai Watch Co., Ltd. (Shanghai Watch)	43,879,518.09	-	-	1,001,545.06	-	-

(Continued)

Investee	Changes during 2018			31 Dec 2018	Balance of impairment provision as at 31 Dec 2018
	Cash dividend declared or profit distribution	Impairment provision accrued	Others		
I. Associated company					
Shanghai Watch Co., Ltd. (Shanghai Watch)	-	-	-	44,881,063.15	-

9. Investment property

(1) Details of investment property measured at cost

Item	Property and buildings
I. Total original cost	
1. Balance at the beginning of the year	449,153,501.16
2. Increased in current year	97,541,932.65

Item	Property and buildings
(1) purchased	-
(2) Transferred from fixed asset	97,541,932.65
(3) increased due to business combination	-
3. Decreased in current year	-
(1) Disposal	-
(2) Other decrease	-
4. Balance at the end of the year	546,695,433.81
II. Total accumulated depreciation and amortization	
1. Balance at the beginning of the year	143,659,513.39
2. Increased in current year	25,716,487.39
(1) Accrual or amortization	13,170,394.47
(2) Transferred from fixed asset	12,546,092.92
3. Decreased in current year	-
(1) Disposal	-
(2) Other decrease	-
4. Balance at the end of the year	169,376,000.78
III. Impairment provision	
1. Balance at the beginning of the year	-
2. Increased in current year	-
(1) Accrual	-
3. . Decreased in current year	-
(1) Disposal	-
(2) Other decrease	-
4. Balance at the end of the year	-
IV. Total book value	
1. Book value at the end of the year	377,319,433.03
2. Book value at the beginning of the year	305,493,987.77

(2) Reason of the investment property without the certificate for property right:

As of 31 December 2018, investment property without the certificate for property right did not exist.

(3) Changes of purpose of property

In July 2018, the Company leases out a property previously used itself. The property is transferred from fixed asset to investment property and accounted for using cost method. The book value of it was RMB84,995,839.73 at the time changed.

10. Fixed asset

Item	31 Dec 2018	1 Jan 2018
Fixed asset	425,649,562.85	523,699,592.65

(1) Fixed asset

①Detail of fixed asset

Item	Property and buildings	Machinery	Transportation vehicles	Electronic devices	Other equipments	Total
I. Total cost						
1.Balance at beginning of year	548,203,064.99	76,359,195.91	15,572,717.72	43,168,802.82	56,767,439.55	740,071,220.99
2. Additions	7,960,183.62	4,481,681.31	-	3,481,827.98	3,127,468.34	19,051,161.25
(1)Purchasing	7,960,183.62	4,481,681.31	-	3,481,827.98	3,127,468.34	19,051,161.25
(2)Transfer from construction in progress	-	-	-	-	-	-
(3)Increase due to business combination	-	-	-	-	-	-
3. Decrease	97,541,932.65	41,222.22	-	2,513,094.39	1,472,743.27	101,568,992.53
(1)Disposal or retired	-	41,222.22	-	2,513,094.39	1,472,743.27	4,027,059.88
(2) transferred into investment property	97,541,932.65	-	-	-	-	97,541,932.65
4.Balance at end of the year	458,621,315.96	80,799,655.00	15,572,717.72	44,137,536.41	58,422,164.62	657,553,389.71
II. Accumulated depreciation						
1.Balance at beginning	94,955,404.27	36,106,695.76	12,805,115.03	25,960,630.90	46,543,782.38	216,371,628.34

Item	Property and buildings	Machinery	Transportation vehicles	Electronic devices	Other equipments	Total
of year						
2. Increase	15,490,407.34	6,940,310.81	859,797.03	5,027,186.68	3,372,846.73	31,690,548.59
(1)Accrual	15,490,407.34	6,940,310.81	859,797.03	5,027,186.68	3,372,846.73	31,690,548.59
3. Decrease	12,546,092.92	34,032.10	-	2,280,132.22	1,298,092.83	16,158,350.07
(1)Disposal or retire	-	34,032.10	-	2,280,132.22	1,298,092.83	3,612,257.15
(2)Transferred into investment property	12,546,092.92	-	-	-	-	12,546,092.92
4.Balance at end of the year	97,899,718.69	43,012,974.47	13,664,912.06	28,707,685.36	48,618,536.28	231,903,826.86
III. Provision for impairment						
1.Balance at beginning of the year	-	-	-	-	-	-
2. Additions	-	-	-	-	-	-
(1)Accrual	-	-	-	-	-	-
3. Decrease	-	-	-	-	-	-
(1)Disposal or retire	-	-	-	-	-	-
4.Balance at end of the year	-	-	-	-	-	-
IV. Total book value						
1.Balance at end of the year	360,721,597.27	37,786,680.53	1,907,805.66	15,429,851.05	9,803,628.34	425,649,562.85
2.Balance at the beginning of the year	453,247,660.72	40,252,500.15	2,767,602.69	17,208,171.92	10,223,657.17	523,699,592.65

②Fixed assets that do not have certificate for property right

Item	Book value	Reason for not having certificate for property rights
Office rooms for Harbin Branch	287,345.82	Defective in property right
Property for Zhengzhou Branch	6,138,196.00	Under application process

11. Construction in progress

Item	31 Dec 2018	1 Jan 2018
Construction in progress	12,041,126.00	10,947,300.53

(1) Construction in progress

①Details of construction in progress

Item	31 Dec 2018			1 Jan 2018		
	Book balance	Impairment provision	Carrying amount	Book balance	Impairment provision	Carrying amount
Clock & Watch base in Guangming New District auxiliary projects	12,041,126.00	-	12,041,126.00	10,947,300.53	-	10,947,300.53

②Changes for material construction-in-progress projects

Project name	Budget	31 Dec 2017	Increase	Transferred to fixed asset in current year	Other decrease	31 Dec 2018
Clock & Watch base in Guangming New District auxiliary projects	34,050,900.00	10,947,300.53	1,093,825.47	-	-	12,041,126.00

(Continued)

Project name	Percentage of investment to budget (%)	Progress (%)	Total capitalized interest	Incl. capitalized in current year	Rate of capitalization in current year (%)	Source of funding
Clock & Watch base in Guangming New District auxiliary projects	35.36	35.36	-	-	-	Self-raised

12. Intangible assets

(1) Details of intangible assets

Item	Land-use right	Software system	Right to use trademarks	Total
I. Total original cost				

Item	Land-use right	Software system	Right to use trademarks	Total
1.Balance at beginning of the year	34,854,239.40	19,904,736.57	9,547,313.86	64,306,289.83
2. Additions	79,583.00	3,982,478.51	545,994.75	4,608,056.26
(1)Purchase	79,583.00	3,982,478.51	545,994.75	4,608,056.26
(2)Internal R&D	-	-	-	-
(3)Increased due to business combination	-	-	-	-
3. Decreases	-	-	-	-
(1)Disposal	-	-	-	-
4.Balance at end of the year	34,933,822.40	23,887,215.08	10,093,308.61	68,914,346.09
II. Total accumulated amortization				
1.Balance at beginning of the year	9,887,164.24	6,951,113.14	3,244,732.24	20,083,009.62
2. Additions	3,694,544.65	1,124,998.55	466,315.66	5,285,858.86
(1)Accrual	3,694,544.65	1,124,998.55	466,315.66	5,285,858.86
3. Decreases	-	-	-	-
(1)Disposal	-	-	-	-
4.Balance at end of the year	13,581,708.89	8,076,111.69	3,711,047.90	25,368,868.48
III. Total impairment provision				
1.Balance at beginning of the year	-	-	-	-
2. Additions	-	-	-	-
(1)Accrual	-	-	-	-
3. Decreases	-	-	-	-
(1)Disposal	-	-	-	-
4.Balance at end of the year	-	-	-	-
IV. Total book value				

Item	Land-use right	Software system	Right to use trademarks	Total
1. Balance at end of the year	21,352,113.51	15,811,103.39	6,382,260.71	43,545,477.61
2. Balance at beginning of the year	24,967,075.16	12,953,623.43	6,302,581.62	44,223,280.21

13. Long-term deferred expenses

Item	1 Jan 2018	Increase	Amortization	Other decrease	31 Dec 2018
Counter fabrication expenses	49,334,415.56	49,200,596.00	49,230,011.46	-	49,305,000.10
Renovation expenses	58,392,053.11	50,885,181.89	34,625,947.87	-	74,651,287.13
Others	1,683,316.82	7,333,478.59	4,400,537.49	-	4,616,257.92
Total	109,409,785.49	107,419,256.48	88,256,496.82	-	128,572,545.15

14. Deferred income tax assets/Deferred income tax liabilities

(1) Detail of deferred income tax before offsetting

Item	31 Dec 2018		1 Jan 2018	
	Deductible temporary differences	Deferred income tax asset	Deductible temporary differences	Deferred income tax asset
Asset impairment provision	79,775,704.17	17,676,690.28	93,805,178.33	22,891,430.26
Unrealized profit for related party transaction	272,840,911.63	67,717,517.83	309,982,920.90	76,608,130.54
Deferred income	3,672,855.36	918,213.84	5,904,000.00	1,476,000.00
Deductible loss	61,529,125.81	14,363,284.14	27,342,976.03	4,930,384.00
Total	417,818,596.97	100,675,706.09	437,035,075.26	105,905,944.80

(2) Details of unrecognized deferred income tax asset

Item	31 Dec 2018	1 Jan 2018
Impairment of assets	30,660,246.75	29,691,944.68
Deductible loss	65,181,936.05	41,326,518.50
Total	95,842,182.80	71,018,463.18

Note: Deductible losses of Swiss Company, which are subsidiaries of the Company, is not recognized as deferred income tax asset as it’s uncertain that the companies can get sufficient taxable income in future.

Hong Kong Company, a subsidiary of the Company, does not need to recognize the deferred income tax assets for impairment provision according to the local tax policy.

15. Other non-current asset

Item	31 Dec 2018	1 Jan 2018
Prepayment for project and equipment purchase	8,949,160.42	8,246,538.33

16. Short-term loan

(1) Short-term loan classification

Item	31 Dec 2018	1 Jan 2018
Guaranteed loan	187,118,452.97	120,990,510.00
Credit Loan	360,000,000.00	405,000,000.00
Total	547,118,452.97	525,990,510.00

(2) There are no overdue short-term loans.

(3) Refer to Note XIV. 2 for details of guaranteed loans between parent companies and subsidiaries.

17. Note and accounts payables

Item	31 Dec 2018	1 Jan 2018
Accounts payable	259,913,612.34	263,256,495.65

(1) Accounts payables

Item	31 Dec 2018	1 Jan 2018
Trade payables	188,957,240.00	197,139,603.70
Payables for material purchased	18,632,180.36	5,596,017.29
Payables for project	52,324,191.98	60,520,874.66
Total	259,913,612.34	263,256,495.65

18. Advances from customer

(1) Presentation of advances received

Item	31 Dec 2018	1 Jan 2018
Advances received for trade	14,822,924.98	10,928,657.72
Rental received	1,636,520.02	4,212,930.07
Total	16,459,445.00	15,141,587.79

19. Employee benefit payable

(1) Presentation of employee benefit payable

Item	1 Jan 2018	Increase	Decrease	31 Dec 2018
I. Short-term benefit	67,145,581.32	533,345,700.37	536,685,964.81	63,805,316.88
II. Post-employment welfare-defined contribution plans	4,418,785.82	46,014,765.45	44,459,830.32	5,973,720.95
III. Dismissal welfare	-	2,271,458.27	2,271,458.27	-
IV. Other welfare within one year	-	-	-	-
Total	71,564,367.14	581,631,924.09	583,417,253.40	69,779,037.83

(2) Short-term employee benefits

Item	1 Jan 2018	Increase	Decrease	31 Dec 2018
1. Wages, bonuses and allowances	66,712,129.20	477,129,729.95	480,534,845.69	63,307,013.46
2. Employee Welfare	-	9,959,168.00	9,959,168.00	-
3. Social insurance	-	19,465,988.82	19,465,988.82	-
Incl.: (1) medical insurance	-	17,305,121.22	17,305,121.22	-
(2) work-related injury insurance	-	814,287.85	814,287.85	-
(3) maternity insurance	-	1,346,579.75	1,346,579.75	-
4. Housing fund	-	17,311,498.67	17,311,498.67	-
5. Expenditure for labor union and employee training	433,452.12	9,479,314.93	9,414,463.63	498,303.42
6. Other short-term benefits	-	-	-	-
Total	67,145,581.32	533,345,700.37	536,685,964.81	63,805,316.88

(3) Defined contribution plans

Item	1 Jan 2018	Increase	Decrease	31 Dec 2018
1. Endowment insurance	1,044.89	42,071,562.15	41,599,355.66	473,251.38
2. Unemployment insurance	-	1,136,009.40	1,136,009.40	-
3. Enterprise annuity payment	4,417,740.93	2,807,193.90	1,724,465.26	5,500,469.57
Total	4,418,785.82	46,014,765.45	44,459,830.32	5,973,720.95

20. Taxes payable

Item	31 Dec 2018	1 Jan 2018

Item	31 Dec 2018	1 Jan 2018
Value added tax	32,344,121.18	28,234,436.08
Corporate income tax	21,599,264.54	24,051,749.74
Property tax	248,795.56	640,117.90
City maintenance & construction tax	321,914.01	948,001.89
Individual income tax	998,190.73	779,154.31
Educational surcharges	229,955.09	677,393.80
Others	180,930.81	526,382.87
Total	55,923,171.92	55,857,236.59

21. Other payables

Item	31 Dec 2018	1 Jan 2018
Interest payable	772,351.26	1,464,729.11
Other payables	71,047,579.04	57,767,536.64
Total	71,819,930.30	59,232,265.75

(1) Interest payable

Item	31 Dec 2018	1 Jan 2018
Interest payable for instalment long-term loan	-	152,151.14
Interest payable for short-term loan	772,351.26	1,312,577.97
Total	772,351.26	1,464,729.11

(2) Other payables

①Other payables presented by nature

Item	31 Dec 2018	1 Jan 2018
Security deposit	22,954,307.95	23,026,920.95
Shop activity fund	17,461,589.65	15,096,271.16
Personal accounts payable	3,058,122.71	4,911,856.36
Decoration expenses	6,096,460.99	3,175,612.64
Down payment	612,659.73	1,132,084.26
Others	20,864,438.01	10,424,791.27

Item	31 Dec 2018	1 Jan 2018
Total	71,047,579.04	57,767,536.64

②Significant other payables with aging over 1 year:

Item	Balance as at 31 Dec 2018	Reasons for unpaid or unsettled
Shenzhen Tencent Computer System Co., Ltd.	4,693,429.16	within lease term
Shenzhen Zhongshen Commercial Property Service Co., Ltd.	903,166.80	within lease term
Oracle Research and Development Center (Shenzhen) Co., Ltd.	804,000.00	within lease term
Tropical Rainforest Restaurant, Nanshan District, Shenzhen	791,320.00	within lease term
Shenzhen Keman Medical Equipment Co., Ltd.	734,775.68	within lease term
China Merchants Bank Co., Ltd. Shenzhen Branch	654,532.30	within lease term
Beijing Yuante Technology Co., Ltd. Shenzhen Branch	519,007.36	within lease term
Shenzhen Beigaozhi Electronics Co., Ltd.	506,358.16	within lease term
AVIC Property Management Co., Ltd.	678,154.06	within lease term
Total	10,284,743.52	——

22. Non-current liabilities that fall due within one year

Item	31 Dec 2018	1 Jan 2018
Long-term loans due within 1 year (Note VI. 23)	347,470.00	35,000,000.00

23. Long-term loan

Item	31 Dec 2018	1 Jan 2018
Pledge loans	4,864,580.00	5,008,425.00
Guaranteed loan	-	109,861,928.00
Less: Long-term loan due within one year (Note VI. 22)	347,470.00	35,000,000.00
Total	4,517,110.00	79,870,353.00

Note: (1) There is no overdue long-term loans.

(2) See Note VI.46 for type and amount of pledged assets.

(3) There is no guarantee in the balance of long-term loan.

(4) The interest rate for long-term loan is 3.00%.

24. Deferred income

Item	1 Jan 2018	Increase	Decrease	31 Dec 2018	Forming reasons
Government grant	5,904,000.00	66,037.74	2,297,182.38	3,672,855.36	Income to be recognized in later periods

Incl: items involving government grant

Subsidized project	1 Jan 2018	Increase	Recognized in non-operating Income	Recognized in other gains	Other Changes	31 Dec 2018	Related to assets/income
Special fund for Shenzhen industrial design industry development (Note (1))	2,000,000.00	-	-	1,066,988.78	-	933,011.22	Asset related
Funding project for construction of National Enterprise Technology Center (Note (2))	2,000,000.00	-	-	488,578.43	-	1,511,421.57	Asset related
Researching project for key technique of benchmark timing system of DF101(Note (3))	480,000.00	-	-	480,000.00	-	-	Income related
2017 Nanshan District Independent Innovation Industry Development Special Fund	124,000.00	-	-	124,000.00	-	-	Income related
2017 Provincial Specialized Fund for Industrial and Information Technology (Note	1,300,000.00	-	-	137,615.17	-	1,162,384.83	Income related

Subsidized project	1 Jan 2018	Increase	Recognized in non-operating Income	Recognized in other gains	Other Changes	31 Dec 2018	Related to assets/income
(4))							
Special funds for consumer goods standards and quality improvement	-	66,037.74	-	-	-	66,037.74	Income related
Total	5,904,000.00	66,037.74	-	2,297,182.38	-	3,672,855.36	——

Note (1): Special fund for Shenzhen industrial design industry development was obtained according to the Shen Jingmao Xinxi Jishu Zi (2013) No. 227 - Operating Specification for Affirmation and Fund Plan of Shenzhen Industrial Design Center (Trial) which is jointly issued by Economy, Trade and Information Commission of Shenzhen Municipality and Finance Commission of Shenzhen Municipality.

Note (2)：Funding project for construction of Shenzhen Enterprise Technology Center was obtained according to the Notice for the 1st Supportive Project in 2015 of Funding Project for Construction of Shenzhen Enterprise Technology Center which was issued by Shenzhen Development and Reform Commission (Shen Jing Mao Xin Xi Yu[2015] No. 129).

Note (3)：Special fund for university-industry cooperation in 2013 was obtained according to Yue Ke Gong Shi [2014] No. 13 – Publicity about Projects which would be Supported by Special Fund of Comprehensive Strategic Cooperation between Province and College and Special Fund of Province-Ministry University-Industry Cooperation in 2013, issued by Guangdong Science and Technology Department.

Note (4): According to the Notice of Guangdong Provincial Economic and Information Technology Commission on Doing a Good Job of Applying for Provincial Special Projects in Production and Service Industry in 2017 (the Circular of the Ministry of Economic Affairs and Information Technology of Guangdong Province and Guangdong Provincial Department of Finance) Guangdong Letter of Manufacture [2016] No. 53) obtained provincial 2017 special funds for industrial and informatization.

25. Share capital

Item	1 Jan 2018	Additions or reduction (+, -)					31 Dec 2018
		Issuance of new share	Bonus shares	Capitalization of capital reserves	Others	Subtotal	

Item	1 Jan 2018	Additions or reduction (+, -)					31 Dec 2018
		Issuance of new share	Bonus shares	Capitalization of capital reserves	Others	Subtotal	
Total shares	438,744,881	-	-	-	-	-	438,744,881

26. Capital reserve

Item	1 Jan 2018	Increase	Decrease	31 Dec 2018
Share premium	1,047,963,195.57	-	-	1,047,963,195.57
Other capital reserves	14,492,448.65	-	-	14,492,448.65
Total	1,062,455,644.22	-	-	1,062,455,644.22

27. Other comprehensive income

Item	1 Jan 2018	Movement					31 Dec 2018
		Amount incurred before income tax in current period	Less: recorded in other comprehensive income in prior period and transferred to profit or loss in current period	Less: Income tax expenses	Attribute to parent company after tax	Attribute to minority shareholders after tax	
I. Other comprehensive income items which will not be reclassified subsequently to profit or loss	-	-	-	-	-	-	-
II. Other comprehensive income items which will be reclassified subsequently to profit or loss	-11,523,442.39	6,081,568.47	-	-	6,081,302.61	265.86	-5,442,139.78
Incl. translation difference of foreign currency financial statements	-11,523,442.39	6,081,568.47	-	-	6,081,302.61	265.86	-5,442,139.78
Total other comprehensive income	-11,523,442.39	6,081,568.47	-	-	6,081,302.61	265.86	-5,442,139.78

28. Surplus reserve

Item	1 Jan 2018	Increase	Decrease	31 Dec 2018
Statutory surplus reserve	144,820,819.35	16,210,080.45	-	161,030,899.80
Discretionary surplus reserve	61,984,894.00	-	-	61,984,894.00
Total	206,805,713.35	16,210,080.45	-	223,015,793.80

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

The Company can draw discretionary surplus reserve after drawing statutory surplus reserve. If approved, discretionary surplus reserve can be used to make up for losses in previous years or increase share capital.

29. Undistributed profit

Item	2018	2017
Undistributed profit at the end of prior year before adjustments	771,484,565.02	687,986,807.74
Adjustments to undistributed profit at the beginning of year	-	-
Undistributed profit at the beginning of year after adjustment	771,484,565.02	687,986,807.74
Plus: Net profit attributable to the owner of the parent company for the year	183,835,095.29	140,216,258.28
Less: statutory surplus reserve drawn	16,210,080.45	12,844,012.90
Dividends payable to ordinary shares	87,748,976.20	43,874,488.10
Undistributed profit at the end of year	851,360,603.66	771,484,565.02

Note: Information on distribution of dividend

Pursuant to the “Resolution of Equity Distribution for Year 2017” approved at the 2017 Annual General Meeting held on 21 June 2018, the Company distributed to all shareholders cash dividend of RMB2.00 (tax inclusive) for every 10 shares held based on total shares of 438,744,881 as at 31 December 2017. Total cash dividend distributed was RMB87,748,976.20.

30. Operating revenue and operating cost

Item	2018		2017	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Revenue from main business	3,382,346,730.19	1,992,905,841.56	3,326,715,761.43	1,982,954,953.59

Item	2018		2017	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Revenue from other business	18,103,869.71	903,932.64	19,093,942.55	3,697,637.98
Total	3,400,450,599.90	1,993,809,774.20	3,345,809,703.98	1,986,652,591.57

31. Tax and surcharges

Item	2018	2017
Urban maintenance and construction tax	14,746,181.35	14,218,262.08
Educational surcharge	6,338,803.59	6,122,809.94
Local educational surcharge	4,221,251.51	4,099,162.87
Property tax	3,858,983.33	4,057,806.73
Stamp duty	2,216,200.85	2,322,319.03
Land use tax	387,741.44	461,094.63
Consumption tax	56,184.87	68,144.07
Tax for usage of vehicle and ship	7,785.00	8,085.00
Others	1,936,212.46	1,513,574.23
Total	33,769,344.40	32,871,258.58

Note: The criteria of business taxes and surcharges accrued and paid refer to Note V. Taxation.

32. Selling and distribution expenses

Item	2018	2017
Salary	284,754,162.08	282,332,694.94
Employee welfare	5,639,512.33	5,021,378.47
Housing fund	11,646,901.18	10,766,215.15
Social insurance	45,976,594.63	40,320,843.22
Department store expense and rental	137,788,340.17	129,811,336.38
Market promotion expenses	186,814,362.00	177,352,152.54
Depreciation and amortization	91,323,930.38	90,339,654.46
Packaging expenses	17,013,895.11	13,166,738.72
Utilities and property management expenses	18,464,692.62	12,459,271.35

Item	2018	2017
Shipping fees	12,444,864.89	11,637,994.76
Office expenses	10,934,189.89	6,953,441.44
Travel expenses	12,076,624.12	11,774,153.69
Others	22,092,103.70	19,502,056.89
Total	856,970,173.10	811,437,932.01

33. Administrative expenses

Item	2018	2017
Salary	132,152,678.81	116,005,739.67
Social insurance	11,333,830.56	13,262,398.74
Depreciation and amortization	23,465,976.86	20,786,423.56
Enterprise annuity	2,318,455.78	3,706,212.20
Union funds	4,967,113.07	2,748,390.12
Training fee	2,817,832.13	1,431,427.23
Travel expenses	7,436,745.07	5,917,863.79
Office expenses	4,411,920.54	4,896,447.32
Housing fund	4,217,069.96	4,134,079.62
Agents fees	2,397,253.16	2,632,061.65
Employee welfare	2,908,900.50	2,645,453.19
Others	20,734,749.41	12,423,085.15
Total	219,162,525.85	190,589,582.24

34. R & D expenses

Item	2018	2017
Salary	24,158,997.53	22,773,695.65
Employee welfare	466,603.29	301,488.36
Social insurance	2,270,552.06	1,560,336.14
Housing fund	705,146.39	747,618.62
Material cost	3,062,922.51	4,216,717.28

Item	2018	2017
Sample fee	2,042,439.14	4,620,567.85
Processing fee	2,150,154.58	198,047.66
Depreciation and amortization	4,869,828.83	4,559,562.30
Technical cooperation fee	1,254,524.99	2,611,783.01
Others	6,369,173.50	7,864,082.48
Total	47,350,342.82	49,453,899.35

35. Finance expenses

Item	2018	2017
Interest expense	27,552,558.81	41,825,035.34
Less: Interest capitalization	-	-
Less: Interest income	2,269,447.05	2,915,602.99
Exchange gain or losses	713,080.72	1,082,289.43
Bank charges and others	9,920,047.68	9,195,021.13
Total	35,916,240.16	49,186,742.91

36. Impairment losses

Item	2018	2017
Bad debt loss	-5,488,944.07	11,818,649.06
Inventory impairment loss	8,753,900.25	50,608,850.55
Total	3,264,956.18	62,427,499.61

37. Other gains

Item	2018	2017	Amount included in current year's non-recurring profit or loss
Government grant	19,375,618.48	17,508,255.98	19,375,618.48

For details of government grants, refer to Note VI. 48.

38. Investment gain

Item	2018	2017
Investment gain from the long-term equity investment measured by equity	1,001,545.06	455,893.22

Item	2018	2017
method		

39. Gain on disposal of assets

Item	2018	2017	Amount included in current year's non-recurring profit or loss
Total gain/loss on disposal of the non-current assets	-181,302.24	7,321,993.36	-181,302.24

40. Non-operating income

Item	2018	2017	Amount included in current year's non-recurring profit or loss
Total gain on damage and retirement of non-current assets	1,000.00	-	1,000.00
Clearing of payables that cannot be paid	2,810.50	2,256,661.00	2,810.50
Others	1,442,547.03	350,992.91	1,442,547.03
Total	1,446,357.53	2,607,653.91	1,446,357.53

41. Non-operating expenses

Item	2018	2017	Amount included in non-recurring profit or loss in current year
Fines and late payment expenses	154,626.88	-	154,626.88
External donation	380,000.00	399,250.00	380,000.00
Others	117,888.09	969,430.92	117,888.09
Total	652,514.97	1,368,680.92	652,514.97

42. Income tax expenses

(1) Details of income taxes expenses

Item	2018	2017
Current income tax	42,131,613.05	57,825,323.60
Deferred income tax	5,230,238.71	-10,726,369.54
Total	47,361,851.76	47,098,954.06

(2) Reconciliation between income tax expenses and accounting profits is as follows:

Item	2018
Profit before tax	231,196,947.05
Income tax expenses calculated at legal (or applicable) tax rate	57,799,236.76
Impact of different tax rate in certain subsidiaries	-12,360,815.15
Adjustment for income tax in prior year	413,122.52
Income not subject to tax	-250,386.27
Expenses not deductible for tax purposes	1,286,216.68
Taxation influence by using unrecognized deductible loss and deductible temporary difference of prior periods	-250,920.28
Taxation influence of unrecognized deductible loss and deductible temporary difference	7,158,514.85
Effect of tax rate change on carrying amount of opening deferred income tax asset	-
Effect of super deduction of R&D expenses	-6,433,117.35
Income tax expenses	47,361,851.76

43. Other comprehensive income

Details of other comprehensive income refer to Note VI. 27.

44. Notes to cash flow statement

(1) Cash received from other operating activities

Item	2018	2017
Government grant	17,144,473.84	17,432,255.98
Product promotion fee	7,388,696.14	7,256,201.41
Security deposit	9,977,697.98	9,327,099.78
Interest income	2,269,447.05	2,915,602.99
Petty cash	4,066,408.69	4,615,494.88
Others	8,781,869.99	7,631,989.59
Total	49,628,593.69	49,178,644.63

(2) Cash paid for other operating activities

Item	2018	2017
Marketing promotion fee	158,123,421.13	116,083,360.98

Item	2018	2017
Rental	88,198,420.82	80,557,649.30
Departmental store expenses	27,617,954.29	40,296,610.32
Advertising fee	25,754,222.71	32,028,348.16
Travel expenses	16,716,869.03	15,287,674.97
R & D expenses	18,696,076.85	22,883,770.79
Office expenses	14,807,127.70	10,087,223.06
Transportation expenses	13,966,858.83	10,445,774.44
Exhibition expenses	7,794,285.04	10,686,979.91
Posting and telecommunication expenses	1,284,007.36	4,942,120.45
Business entertainment	3,881,281.50	5,909,392.82
Packaging expenses	2,123,627.83	1,010,445.61
Utilities	18,131,634.75	15,035,484.37
Petty cash	5,131,463.98	4,405,955.94
Agents fees	3,417,891.86	3,602,250.55
Conference expenses	1,856,933.80	3,477,562.92
Insurance expense	2,447,666.64	2,720,711.50
Security deposit	19,915,997.96	2,803,293.12
Vehicle expenses	1,296,416.06	2,110,291.06
Bank charges	9,723,496.15	9,036,367.69
Others	13,351,304.90	18,515,949.06
Total	454,236,959.19	411,927,217.02

45. Supplement to cash flow statement

(1) Supplement to Cash Flow Statement

Supplement	2018	2017
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	183,835,095.29	142,616,359.20

Supplement	2018	2017
Add: Impairment for assets	3,264,956.18	62,427,499.61
Depreciation of fixed assets, and gas assets, and productive biological assets	44,860,943.06	43,011,539.25
Amortization of intangible assets	5,285,858.86	3,453,462.25
Amortization of long-term deferred expenses	88,256,496.82	92,532,517.56
Loss on disposal of fixed assets, intangible assets, and other long-term assets ("-" for gain)	181,302.24	-7,321,993.36
Loss on retirement of fixed assets ("-" for gain)	-1,000.00	-
Loss on changes of fair value ("-" for gain)	-	-
Financial expenses ("-" for income)	27,552,558.81	41,825,035.34
Investment loss ("-" for gain)	-1,001,545.06	-455,893.22
Decrease in deferred tax assets ("-" for increase)	5,230,238.71	-10,726,369.54
Increase in deferred tax liabilities ("-" for decrease)	-	-
Decrease in inventories ("-" for increase)	30,900,223.04	126,768,439.60
Decrease in operating receivables ("-" for increase)	-36,309,812.09	-19,073,303.46
Increase in operating payables ("-" for decrease)	-20,427,526.24	89,897,268.74
Others	-	-
Net cash flows from operating activities	331,627,789.62	564,954,561.97
2. Significant investment or financing activities not involving cash:		
Debts converted to capital	-	-
Convertible debts mature within one year	-	-
Fixed assets acquired under finance leases	-	-
3. Net changes in cash and cash equivalents:		
Cash at end of year	162,623,059.97	184,947,891.32
Less: cash at beginning of year	184,947,891.32	427,227,755.81
Plus: cash equivalents at end of year	-	-
Less: cash equivalents at beginning of year	-	-
Net increase in cash and cash equivalents	-22,324,831.35	-242,279,864.49

(2) Cash and cash equivalents

Item	31 Dec 2018	31 Dec 2017
I. Cash	162,623,059.97	184,947,891.32
Incl. Cash on hand	420,783.85	414,210.14
Bank deposit available for immediate payment	160,135,454.62	184,528,160.32
Other monetary funds available for immediate payment	2,066,821.50	5,520.86
II. Cash equivalents		
Incl. Bond investment due in three months	-	-
III. **Cash and cash equivalents at the end of year**	162,623,059.97	184,947,891.32
Incl. Restricted cash and cash equivalents for the Company		-

Note: Restricted cash and cash equivalents for the Company are not included in cash and cash equivalents amounts.

46. Assets of restricted ownership or use rights

Item	Amount as of 31 Dec 2018	Restriction reason
Currency funds	2,205,000.00	Security deposit of RMB1,575,000.00, judicial frozen fund of RMB 630,000.00.
Fixed assets	14,978,058.58	Guarantee
Total	17,183,058.58	—

47. Monetary item denominated in foreign currency

(1) Monetary item denominated in foreign currency

Item	Balance denominated in foreign currency as at 31 Dec 2018	Exchange rate	Balance translated in RMB as at 31 Dec 2018
Currency fund			
Incl: USD	634,531.28	6.8632	4,354,915.08
HKD	3,646,197.04	0.8762	3,194,797.85
CHF	620,245.24	6.9494	4,310,332.27
EUR	1,943.58	7.8473	15,251.86

Item	Balance denominated in foreign currency as at 31 Dec 2018	Exchange rate	Balance translated in RMB as at 31 Dec 2018
Accounts receivable			
Incl: USD	688,191.90	6.8632	4,723,198.65
HKD	6,007,034.35	0.8762	5,263,363.50
EUR	34,266.75	7.8473	268,901.47
CHF	185,687.50	6.9494	1,290,416.71
Prepayments			
Incl : CHF	681,143.82	6.9494	4,733,540.86
Other receivable			
Incl: HKD	299,737.08	0.8762	262,629.63
EUR	4,250.00	7.8473	33,351.03
CHF	905,580.00	6.9494	6,293,237.65
Accounts payable			
Incl: HKD	3,030,447.60	0.8762	2,655,278.19
Advances from customer			
Incl: HKD	74,499.32	0.8762	65,276.30
Other payable			
Incl: HKD	42,812.50	0.8762	37,512.31
CHF	65,094.65	6.9494	452,368.76
Short-term loan			
Incl: HKD	33,000,000.00	0.8762	28,914,600.00
CHF	1,900,000.00	6.9494	13,203,860.00
Non-current liability that due in one year			
Incl: CHF	50,000.00	6.9494	347,470.00
Long-term bank loan			
Incl： CHF	650,000.00	6.9494	4,517,110.00

(2) Overseas operational entity

For main business location and recording currency of important overseas operational entity, refer to Note IV. 3.

48. Government grant

(1) The status of the government grants

Item	Amount	Accounting subject	Amount included in current profit or loss
2017 Shenzhen Standard Special Fund (Note(1))	496,000.00	Other income	496,000.00
2017 Guangming District Watch Exhibition Funding	50,000.00	Other income	50,000.00
Science and Technology Commission 2017 Corporate Research and Development Funding (Note (2))	1,890,000.00	Other income	1,890,000.00
2017 Shenzhen Patent Award	2,000.00	Other income	2,000.00
Special fund for industrial transformation and upgrading in 2018 (Note (3))	500,000.00	Other income	500,000.00
2018 annual industrial transformation and upgrading special fund and innovation rewards (Note (4))	4,480,000.00	Other income	4,480,000.00
2018 Independent Innovation Industry Development Special Fund, Nanshan District	6,000.00	Other income	6,000.00
Special Fund for the Development of Independent Innovation Industry, Nanshan District, 2018 (Note (5))	479,200.00	Other income	479,200.00
Funding for Informatization and Industrialization Integration project,2018 (Note(6))	400,000.00	Other income	400,000.00
Funding for the domestic market development of the demonstration enterprise under Chinese Entrepreneurship and Innovation Strategy in 2018	128,920.00	Other income	128,920.00
Basel Watch and Clock Exhibition International Trade Development Fund(Note (7))	779,907.74	Other income	779,907.74
High-tech Enterprise Recognition Award, Baoan District	30,000.00	Other income	30,000.00
China Disabled Persons' Federation subsidy	6,000.00	Other income	6,000.00
Export credit insurance	57,605.00	Other income	57,605.00
Activity fund for Guangming division during the Second International Brand Week	28,301.89	Other income	28,301.89

Item	Amount	Accounting subject	Amount included in current profit or loss
The 18th China Design Excellence Award (Note (8))	250,000.00	Other income	250,000.00
Special support fund for economic development in Guangmign District (Note (9))	208,000.00	Other income	208,000.00
Standardization Strategy Funding, Guangming New District (Note (9))	600,000.00	Other income	600,000.00
Convention and Exhibition Industry Financial Subsidy, Guangming New District (Note (9))	50,000.00	Other income	50,000.00
Disabled care and medical insurance subsidy for the first half of the year in 2018, GuangMing New district	2,882.30	Other income	2,882.30
R&D Funding, Guangming New District (Note (10))	360,000.00	Other income	360,000.00
Exhibition Subsidy, Guangming New District (Note (10))	50,000.00	Other income	50,000.00
Annual fee incentive for domestic patent invention	2,000.00	Other income	2,000.00
Government funds granted for admission to the China International Import Expo	6,154.00	Other income	6,154.00
Special Fund for the Development of the Service Industry of the Economic and Trade Commission (Note (11))	1,000,000.00	Other income	1,000,000.00
Crystal Products Exhibition Special Funding	103,267.00	Other income	103,267.00
Corporate R&D Funding by Science and Technology Commission, 2017 (Note (12))	1,155,000.00	Other income	1,155,000.00
Creating excellence and rating funding project by Economic Promotion Bureau, Nanshan District	200,000.00	Other income	200,000.00
Funding for Informatization and Industrialization Integration project by Economic Promotion Bureau, Nanshan District	100,000.00	Other income	100,000.00
Special fund for independent innovation industry development by Nanshan District Science and Technology Commission	250,000.00	Other income	250,000.00
Project funded by Commerce Circulation Industry	360,800.00	Other income	360,800.00
Subsidy under Shenzhen Nanshan Finance Bureau Headquarters Corporate Office Housing Support Project	724,900.00	Other income	724,900.00

Item	Amount	Accounting subject	Amount included in current profit or loss
(Note (13))			
Commerce Circulation Industry Funding Project by Shenzhen Nanshan District Finance Bureau (Note (13))	549,500.00	Other income	549,500.00
Commerce Circulation Industry Funding Project by Shenzhen Nanshan District Economic Promotion Bureau (Note (13))	215,100.00	Other income	215,100.00
Funding for the Talent Quality Improvement Project of the Industrial Innovation Talents by the Human Resources Bureau of Nanshan District, Shenzhen (Note (13))	21,500.00	Other income	21,500.00
Patent subsidy by Shenzhen Municipal Market and Quality Supervision and Administration Committee, 2017	10,000.00	Other income	10,000.00
The 19th China Patent Award of the Market and Quality Committee (Note (14))	330,000.00	Other income	330,000.00
Funds on Enterprise Intellectual Property Management Standards Certification by Market Supervision Committee (Note (15))	200,000.00	Other income	200,000.00
Subsidy for enhancing international operating capacity	60,000.00	Other income	60,000.00
Subsidy for keeping stable job positions	229,106.17	Other income	229,106.17
Demonstration special fund, financial aid project in exhibition industry, for small and micro enterprise entrepreneurship innovation base (Note(16))	159,810.00	Other income	159,810.00
Watch exhibition subsidy of small and micro enterprises	128,008.00	Other income	128,008.00
Government exhibition industry special fund	128,008.00	Other income	128,008.00
Government Talent Quality Improvement Project Subsidy	100,000.00	Other income	100,000.00
China Light Industry Federation's international standards funding	16,000.00	Other income	16,000.00
16-26 batch special subsidy for Central Foreign Trade and Economic	60,000.00	Other income	60,000.00
Government special subsidy fund for central foreign economic and trade projects	114,466.00	Other income	114,466.00

Item	Amount	Accounting subject	Amount included in current profit or loss
Shenzhen Industrial Design Industry Development Special Fund (Note VI. 24 note (1))	2,000,000.00	Deferred income	1,066,988.78
Nationally Recognized Enterprise Technology Center Construction Funding Project (Note VI.24. note (2))	2,000,000.00	Deferred income	488,578.43
Key technology research and development project of DF101 aircraft benchmark timing system (Note VI. 24. note (3))	480,000.00	Deferred income	480,000.00
Development Special Fund for Independent Innovation Industry, Nanshan District, 2017	124,000.00	Deferred income	124,000.00
2017 provincial industrial and information special funds (Note VI.24. (note (4))	1,300,000.00	Deferred income	137,615.17
Special funds for consumer goods standards and quality improvement	66,037.74	Deferred income	-
Total	23,048,473.84	—	19,375,618.48

Note (1): The 2017 Shenzhen Standard special funds obtained according to “The Publicity for the 2017 Construction of the Shenzhen Standard Special Fund Standards Project” issued by Shenzhen Municipal Market and Quality Supervision and Management Committee.

Note (2): The 2017 Shenzhen Enterprise Research and Development Funding obtained according to “Management Measures of Shenzhen Science and Technology Research and Development Fund” issued by Shenzhen Finance Committee and Shenzhen Science and Technology Innovation Committee (Shen Caike [2012] No. 168).

Note (3): The special funds for industrial transformation and upgrading obtained according to the Notice of the Shenzhen Economic and Trade and Informatization Commission on the “Application of 2018 Annual Industrial Transformation and Upgrading Special Funds for Developing Industrial Zone of Community Joint-stock Companies” (Shen Jingmao Xinxi Guihua Zi [2017] No. 243)

Note (4): The 2018 annual industrial transformation and upgrading special fund and innovation rewards obtained according to the Notice issued by the Shenzhen Economic and Trade Information Commission, on the publicity of projects to be funded by 2018 annual industrial transformation and upgrading of special fund (Shen Jingmao Xinxi Xinxing Zi [2018] No. 208).

Note (5): Special Fund for the Development of Independent Innovation Industry, Nanshan District, obtained according to the “Management Measures for Special Funds for Independent Innovation Industry Development in Nanshan District (Trial)” (Shen Nan Fuban Gui [2018] No. 3).issued by the Office of the People's Government of

Nanshan District, Shenzhen.

Note (6): Fund for Informatization and Industrialization Integration project obtained according to the “Shenzhen City Industrial Transformation and Special Fund Management Measures” (Shen Caigui [2016] No. 9), issued by Shenzhen Municipal Finance Committee and the Shenzhen Municipal Commission of Economy, Trade and Information Technology.

Note (7): International Trade Development Fund granted by Shenzhen Municipal Government, obtained according to the “Notice on the Relevant Work on the Special Fund for Foreign Economic and Trade Development in 2017” issued by the Ministry of Commerce (Shang Caihan [2017] No. 314) and “Implementation Rules for the Administration of Funds for Enhancing International Operational Capabilities of Less than US$65 Million” issued by the Municipal Economic and Trade Information Committee and the Municipal Finance Committee (Shen Jingmao Xinxi Yusuan Zi[2015] No. 180).

Note (8): Patent award obtained according to the “Decision on the Award of the 18th China Patent Award” issued by the State Intellectual Property Office (Guo Zhi Fa Guan Zi [2016] No. 95).

Note (9): Project funding for the Economic Development Special Fund Standardization Strategic Project in the first half of 2018, Guangming New District, the International Certification Project and activity support for economic and trade exhibition funded by Economic Development Special Fund in Guangming District. Funds are obtained according to the “Guangming New District Economic Development Special Fund Management Measures and Supporting Implementation Rules” issued by the Shenzhen Guangming New District Management Committee (Shen Guanggui [2017] No. 16)

Note (10): 2017 Guangming New District Economic Development Special Fund for R&D Investment and activity support for Domestic Trade Exhibition obtained according to "Shenzhen Guangming New District Economic Development Special Fund Management Measures and Supporting Implementation Rules" (Shen Guang Gui [2017] No. 16) issued by Shenzhen Guangming New District Management Committee.

Note (11): The second batch of Shenzhen City e-commerce development special fund project award in 2018 obtained according to “Notice of the Municipal Economic and Trade Information Commission on the Public Announcement of the Second Batch of Shenzhen E-Commerce Development Special Fund Projects” issued by the Shenzhen Economic and Trade Information Commission (Shen Jingmao Xinxi Shengchan Zi [2018] No. 100)

Note (12): Subsequent subsidies for corporate research and development grants obtained according to the "Shenzhen City-level Industry Special Funds Disbursement Operation Regulations" (Shen Caike [2010] No. 173) and "Release of <Shenzhen City Special Funds Entrusted Commercial Bank Supervision Scheme>" (Shen Caike [2012] No. 1) issued by Shenzhen Municipal Science and Technology Innovation Committee.

Note (13): Special funds for Nanshan district independent innovation industry development obtained according to “Nanshan District Independent Innovation Industry Development Special Fund Management Measures (Trial)” issued by the Office of the People's Government of Nanshan District, Shenzhen (Shennan Fuban Gui [2017] No. 2)

Note (14): Patent award obtained according to “Notice of the Shenzhen Municipal Market and Quality Supervision Commission on distributing the Fifth Guangdong Patent Award and the 19th China Patent Award for Guangdong Province Intellectual Property Support A

Note(15): Fund for Enterprise Intellectual Property Management Standard Certification obtained according to “Shenzhen Municipal People's Government of Shenzhen Municipality’s notice on Several Measures for Promoting Scientific and Technological Innovation" issued by the Shenzhen Municipal Market and Quality Supervision and Management Committee (Shenfa [2016] No. 7) and the Shenzhen Municipal People's Government of Shenzhen Municipal Committee of the Communist Party of China Printing and Distributing the Notice on Several Measures to Support Enterprises to Enhance Their Competitiveness (Shenfa [2016] No. 8)

Note (16): 2018 Small and Medium Enterprises Development Special Fund (Under “Innovation and Entrepreneurship” Strategy), Enterprise Domestic Market Development Project Funding, obtained according to the "Interim Measures for the Administration of Special Funds for the Development of Private and SMEs in Shenzhen" issued by Shenzhen Municipal Commission of Economy, Trade and Information and Shenzhen Municipal Finance Committee (Shen Jingmao Xinxi Gui [2017] No. 8), and “The Detailed Rules for the Implementation of the Special Demonstration Fund for the Small and Medium Enterprise Entrepreneurship Innovation Base in Shenzhen” issued by Shenzhen Economic and Trade and Information Commission (Shen Jingmao Xinxi Zhongxiao Zi [2016] No. 217).

VII. Changes of consolidation scope

1. Changes of consolidation scope for other reasons

On 9 March, 2018, World Watches International obtained the company revocation announcement (No. 1554) issued by the Hong Kong Companies Registry. At the end of the period, the Company did not include it in the scope of consolidation.

VIII. Equity in other entities

1. Equity in subsidiaries

(1) Structure of enterprise group

Name of subsidiary	Main business location	Place of registration	Nature of business	Shareholding ratio%		Ways acquired
				Direct	Indirect	
HARMONY Company	Shenzhen	Shenzhen	Commerce	100.00	-	Establishment or investment

Name of subsidiary	Main business location	Place of registration	Nature of business	Shareholding ratio%		Ways acquired
				Direct	Indirect	
Manufacturing Company	Shenzhen	Shenzhen	Manufacture	90.00	10.00	Establishment or investment
FIYTA Hong Kong	Hong Kong	Hong Kong	Commerce	100.00	-	Establishment or investment
Station 68	Hong Kong	Hong Kong	Commerce	-	60.00	Establishment or investment
Harbin Company	Harbin	Harbin	Commerce	100.00	-	Establishment or investment
Technology Company	Shenzhen	Shenzhen	Manufacture	100.00	-	Establishment or investment
TEMPORAL Company	Shenzhen	Shenzhen	Commerce	100.00	-	Establishment or investment
Emile Choureit Shenzhen Company	Shenzhen	Shenzhen	Commerce	100.00	-	Establishment or investment
FIYTA Sales Company	Shenzhen	Shenzhen	Commerce	100.00	-	Establishment or investment
Hengdarui Company	Shenyang	Shenyang	Commerce	100.00	-	Business combination under common control
Swiss Company	Switzerland	Switzerland	Commerce	-	100.00	Business combination not under common control

2. Equity in joint arrangement or associates

(1) Significant associates

Name	Principal place of business	Registration place	Business nature	Shareholding ratio (%)		Accounting treatment for associates
				Direct	Indirect	
Shanghai Watch	Shanghai	Shanghai	Manufacture	25.00	-	Equity method

(2) Principal financial information of significant associate company:

Item	Balance as of 31 Dec 2018 or 2018	Balance as of 1 Jan 2018 or 2017
Current assets	99,901,286.09	88,035,307.16
Non-current assets	15,459,207.08	17,515,363.92
Total assets	115,360,493.17	105,550,671.08
Current liabilities	10,833,917.48	5,527,973.92
Non-current liabilities	-	-

Item	Balance as of 31 Dec 2018 or 2018	Balance as of 1 Jan 2018 or 2017
Total liabilities	10,833,917.48	5,527,973.92
Minority shareholders' interests	-	-
Owners' equity attributable to parent company	104,526,575.69	100,022,697.16
Share of net assets calculated as shareholding percentage	26,131,643.92	25,005,674.29
Adjustment matters		
- Goodwill	-	-
- Unrealized profit or losses from internal transaction	-	-
- Others	-	-
Book value of investment to associates	44,881,063.15	43,879,518.09
Operating revenue	97,282,978.95	79,475,581.06
Net profit	4,006,180.22	1,823,572.89
Other comprehensive income	-	-
Total comprehensive income	4,006,180.22	1,823,572.89
Dividends received from associated company during the year	-	-

IX. Risk related to financial instruments

Main financial instruments of the Company include monetary fund, note and accounts receivable, other receivables, available-for-sale financial assets, equity investment, note and accounts payable, other payables, and loans etc. Details of financial instruments refer to related items in Note VI. The risks associated with these financial instruments and the risk management policies adopted by the Company to mitigate these risks are described below. The management of the Company manages and monitors these exposures to ensure that the above risks are controlled in a limited extent.

The Company adopts sensitivity analysis technique to analyse the reasonability of risk variables, impact of possible change on current profit and loss or shareholder's equity. Since risk variables barely change in isolation, and correlation between variables have significant impact on the final amount affected by one variable, the following content is based on the assumption that each variable changes in isolation.

1. **Risk management goals and policies**

The goal of risk management is to keep proper balance between risk and profit, to reduce negative influence of financial risk to financial performance of the Company to the minimum and maximize the benefit of shareholders and other equity investors. Based on the goal, the fundamental risk management policies of the Company are to identify and analyse risks the Company faces, set proper acceptable risk level to manage risk, supervise various risk reliably and timely and control risk within limited range.

(1) Market Risk

① Exchange rate risk

Exchange rate risk refers to the risk of loss caused by exchange rate change. The main exchange rate risk the company undertakes is relevant to Hong Kong dollar and Swiss Franc. Except several subsidiaries which purchase and sell with Hong Kong dollar and Swiss Franc, other major business transactions are settled in RMB. On 31 December, 2018, except balance of following assets and liabilities shown in the table are in Hong Kong dollar, Swiss Franc and US dollar, balance of other assets and liabilities of the company are in RMB. The exchange rate risk due to these assets and liabilities with balance in foreign currency could have impact on the financial performance of the Company.

Item	Balance as of 31 Dec 2018	Balance as of 1 Jan 2018
Cash and bank balance	11,875,297.06	9,103,319.22
Note and accounts receivables	11,545,880.33	11,193,694.31
Prepayments	4,733,540.86	12,872,520.90
Other receivables	6,589,218.31	6,290,491.67
Note and accounts payables	2,655,278.19	1,330,403.14
Advances from customers	65,276.30	185,101.44
Other payables	489,881.07	794,190.64
Short-term loans	42,118,460.00	50,990,510.00
Non-current liabilities due within one year	347,470.00	-
Long-term loans	4,517,110.00	5,008,425.00

The Company closely monitors the impact of exchange rate changes on the Company's foreign exchange risk. The Company has not taken any measures to avoid foreign exchange risks.

Foreign exchange rate risk sensitivity analysis:

Foreign exchange rate risk sensitivity analysis assumption：all the hedges of the net investment in an overseas operation and cash flow hedging are highly effective. Under this assumption, controlling other variables, the pre-tax impact on current profit and shareholders' equity due to reasonable change of exchange rate, are shown as following.

Item	Fluctuation in exchange rate	2018		2017	
		Impact on profit	Impact on shareholders' equity	Impact on profit	Impact on shareholders' equity
Cash and bank balance	Appreciate against RMB by 5%	593,764.85	593,764.85	455,165.96	455,165.96
	Depreciate against RMB by 5%	-593,764.85	-593,764.85	-455,165.96	-455,165.96
Note and account s receivables	Appreciate against RMB by 5%	577,294.02	577,294.02	559,684.72	559,684.72
	Depreciate against RMB by 5%	-577,294.02	-577,294.02	-559,684.72	-559,684.72
Prepayments	Appreciate against RMB by 5%	236,677.04	236,677.04	643,626.05	643,626.05
	Depreciate against RMB by 5%	-236,677.04	-236,677.04	-643,626.05	-643,626.05
Other receivables	Appreciate against RMB by 5%	329,460.92	329,460.92	314,524.58	314,524.58
	Depreciate against RMB by 5%	-329,460.92	-329,460.92	-314,524.58	-314,524.58
Note and accounts payables	Appreciate against RMB by 5%	-132,763.91	-132,763.91	-66,520.16	-66,520.16
	Depreciate against RMB by 5%	132,763.91	132,763.91	66,520.16	66,520.16
Advances from customer	Appreciate against RMB by 5%	-3,263.82	-3,263.82	-9,255.07	-9,255.07

Item	Fluctuation in exchange rate	2018		2017	
		Impact on profit	Impact on shareholders' equity	Impact on profit	Impact on shareholders' equity
	Depreciate against RMB by 5%	3,263.82	3,263.82	9,255.07	9,255.07
Other payables	Appreciate against RMB by 5%	-24,494.05	-24,494.05	-39,709.53	-39,709.53
	Depreciate against RMB by 5%	24,494.05	24,494.05	39,709.53	39,709.53
Short-term loans	Appreciate against RMB by 5%	-2,105,923.00	-2,105,923.00	-2,549,525.50	-2,549,525.50
	Depreciate against RMB by 5%	2,105,923.00	2,105,923.00	2,549,525.50	2,549,525.50
Non-current liabilities due within one year	Appreciate against RMB by 5%	-17,373.50	-17,373.50	-	-
	Depreciate against RMB by 5%	17,373.50	17,373.50	-	-
Long-term loans	Appreciate against RMB by 5%	-225,855.50	-225,855.50	-250,421.25	-250,421.25
	Depreciate against RMB by 5%	225,855.50	225,855.50	250,421.25	250,421.25

②Interest risk-risk of change in cash flow

The risk of change in cash flow in the Company due to the change of interest rate is mainly relevant to floating interest rate bank loans. The strategy of the Company is to maintain the floating rate of these loans.

Interest rate sensitivity analysis:

Interest rate sensitivity analysis is based on following assumption:

- The income and expense of financial instruments with variable interest rate is influenced by change of market interest rate
- For fixed interest rate financial instruments measured by fair value, change of market interest rate only influences the interest income and expense

- For derivative financial instruments that designated as hedging instruments, change of market interest rate influence the fair value and interest rate hedging is estimated to be highly effective
- The change in fair value of derivative financial instruments and other financial assets and liabilities is calculated with market interest rate on balance sheet date under discount cash flow method

On the basis of above assumptions, with other variables not changed, the pre-tax impact on current profit and shareholders' equity due to reasonable change of interest rate is as follows:

On December 31, 2018, the Company did not have a loan with floating interest rate (On 31 December 2017, if the borrowing rate calculated with floating interest rate increases of decreases by 50 basis points, and other factors remain unchanged, the net profit and shareholders' equity was estimated to decrease or increase by around RMB326,300 yuan)

③Other price risk.

Available-for-sale financial assets held by the Company are measured at cost on balance sheet date, so there is no price risk to be disclosed

(2) Credit risk

The biggest credit risk exposure which possibly leads to financial loss of the Company on 31 December 2018 is default of contract obligation of transaction counterparty, which may lead to the loss on financial assets of the Company. Specifically, it includes the book balance of financial assets recognized in consolidated balance sheet and the failure of not setting any guarantees to any other credit risks that the Company may bear.

To reduce credit risk, based on the financial status of debtor, external rating, guarantee possibility, credit record gained from the third party and other factors including current market status and that the Company evaluates credit qualification of debtor and set corresponding debt limit and credit period. The Company will regularly supervise credit record of debtor. For debtor with bad credit record, the Company will ensure the whole credit risk of the Company within controllable range in the forms of written reminder letter, reducing credit period and cancelling credit period. Additionally, the Company examines the collection of receivables on every balance sheet date to ensure sufficient provision for bad debts. Hence, the management of the Company suppose that the credit risk undertaken by the Company has been reduced significantly.

The working capital of the Company is deposited in bank with high credit rating, so the credit risk of working capital is low.

For amount of accounts receivable, the amount of top 5 accounts receivable accounts for 17.13% of total accounts receivable of the Company. In other receivables, the amount of top 5 accounts receivable accounts for 22.73% of total other receivable of the Company.

(3) Liquidity risk

In managing liquidity risk, the Company keeps the cash and cash equivalents that the Company deems sufficient and controls them to meet operating needs, reduce influence of cash liquidity fluctuation. The Company management monitors the use of bank loans and ensures to comply with borrowing agreement.

The main source of capital is generated by the cash from Company's business operations and bank loans. As at 31 December 2018, bank borrowing facility that the Company has not yet used is about RMB1,981,030,000(31 December 2017: RMB2,723,970,000).

The maturity of financial assets and financial liabilities held by the Company according to the undiscounted remaining contractual obligations is as follows (Unit: in RMB ten thousands):

Item	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Financial assets:					
Cash and bank balance	16,482.81	-	-	-	16,482.81
Note and accounts receivables	38,848.67	-	-	-	38,848.67
Incl: Notes receivable	705.18	-	-	-	705.18
Accounts receivable	38,143.49	-	-	-	38,143.49
Other receivables	4,824.95	-	-	-	4,824.95
Total financial assets	60,156.43	-	-	-	60,156.43
Financial liabilities:					
Short-term loans	54,711.85	-	-	-	54,711.85
Note and accounts payables	25,991.36	-	-	-	25,991.36
Incl: Accounts payable	25,991.36	-	-	-	25,991.36
Other payables	7,181.99	-	-	-	7,181.99
Incl: Interest payable	77.23	-	-	-	77.23
Other payables	7,104.76	-	-	-	7,104.76
Non-current liabilities due in one year	34.75	-	-	-	34.75
Long-term loan	-	34.75	34.75	382.21	451.71
Financial guarantee	26,711.85	-	-	-	26,711.85
Total of financial liabilities	114,631.80	34.75	34.75	382.21	115,083.51

Item	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
and contingent liabilities					

2. Transfer of financial assets

(1) Notes receivable that have been endorsed at the end of the year and have not expired on the balance sheet date

Item	Amount derecognized at the end of 2018	Amount not derecognized at the end of 2018
Banker's acceptance bill	1,294,584.13	-

X. Fair value

1. Financial assets and liabilities measured at fair value

On 31 December 2018, the Company did not have assets and liabilities measured at fair value.

2. Financial assets and liabilities not measured at fair value

The Company's financial assets and financial liabilities measured at amortized cost mainly include: cash and bank balances, note and accounts receivables, other receivables, short-term loans, note and accounts payables, other payables, and long-term loans, etc…

The difference between the book value and fair value of financial assets and liabilities that are not measured at fair value is small.

XI. Related party relationship and transactions

1. Details of the parent company of the Company

Name	Registration place	Type of business	Registered capital	Shareholding ratio of parent company to the Company %	Ratio of vote right of parent company to the Company%
China National Aviation Group	Shenzhen	Investment in industries, domestic trade, material supply and distribution	1,166,161,996	37.15	37.15

Note: CATIC Shenzhen Company holds 33.93% shareholding of China National Aviation Group. CATIC Shenzhen Company is a wholly owned subsidiary of China Aero Space International Holdings Limited (CASI), and China

Aviation Industry Corporation (AVIC) directly holds 62.52% of the equity of CASI. Therefore, the ultimate controlling party of the Company is AVIC.

2. Subsidiaries

Details of subsidiaries refer to Note VIII.1 “Equity in subsidiary”.

3. Joint venture and association

Details of joint ventures and associates refer to NoteVIII.2 “Equity in joint arrangement or joint venture”.

4. Other related parties

Name	Relationship with the Company
Shenzhen CATIC Property Management Limited (CATIC Property Management)	Controlled by the same party
Shenzhen CATIC Building Equipment Co., Ltd. (CATIC Building Company)	Controlled by the same party
Rainbow Department Store Co., Ltd. (Rainbow Department Store)	Controlled by the same party
Shennan Circuits Co., Ltd. (Shennan Circuits)	Controlled by the same party
CATIC Real Estate Company	Controlled by the same party
AVIC Securities Co., Ltd. (AVIC Securities Company)	Controlled by the same party
Xi’an Skytel Hotel Co., Ltd. (Skytel Hotel)	Controlled by the same party
Shenzhen CATIC City Real Estate Development Co., Ltd. (CATIC City Real Estate Company)	Controlled by the same party
Shenzhen CATIC City Development Co., Ltd. (CATIC City Development Company)	Controlled by the same party
CATIC Guanlan Property Development Co., Ltd. （CATIC Guanlan Property）	Controlled by the same party
CATIC Changtai Investment Development Co., Ltd. (CATIC Changtai Company)	Controlled by the same party
Shenzhen CATIC Jiufang Asset Management Limited (CATIC Jiufang Asset Mgmt Company)	Controlled by the same party
Shenzhen CATIC City Investment Co., Ltd (CATIC City Investment)	Controlled by the same party
AVIC Training Center	Controlled by the same party
Ganzhou CATIC 9 Square Trading Co, Ltd (Ganzhou 9 Square Company)	Controlled by the same party
CATIC City Estate (Kunshan) Co, Ltd (Kunshan Company)	Controlled by the same party
Shenzhen CATIC Huacheng Real Estate Development Co, Ltd (CATIC Huacheng Company)	Controlled by the same party
AVIC Finance Co., Ltd. (AVIC Finance Company)	Controlled by the same party
Shenzhen AVIC Security Service Co., Ltd (AVIC Security Service)）	Controlled by the same party
Shenzhen AVIC Property Asset Management Co., Ltd.(AVIC Property Asset Management)	Controlled by the same party
Jiujiang 9 Square Business Management Co., Ltd (Jiufang Business Management)	Controlled by the same party

Name	Relationship with the Company
Shenzhen CATIC Grand Skylight Hotel Co., Ltd (Grand Skylight Hotel)	Controlled by the same party
Shenzhen CATIC City Parking Management Co, Ltd (CATIC City Parking Management Company)	Controlled by the same party
Shenzhen Grand Skylight Hotel Management Co., Ltd (Grand Skylight Hotel Management Company)	Controlled by the same party
Shenzhen CATIC Technical Testing Institute (CATIC Technical Testing Institute)	Controlled by the same party
Gongqingcheng CATIC Culture Investment Co., Ltd (Gongqingcheng CATIC Culture Investment Company)	Controlled by the same party
AVIC-INTL Project Engineering Co., Ltd (AVIC-INTL Project Engineering Company)	Controlled by the same party
Shenzhen CATIC Property Development Co., Ltd (CATIC Property)	Controlled by the same party
Jiujiang CIATIC City Real Estate Development Co., Ltd (Jiujiang CATIC Real Estate Company)	Controlled by the same party
Huang Yongfeng	Key management member
Wang Mingchuan	Key management member
Fu Debin	Key management member
Xiao Zhanglin	Key management member
Wang Bo	Key management member
Chen Libin	Key management member
Wang Jianxin	Key management member
Zhong Hongming	Key management member
Tang Xiaofei	Key management member
Wang Baoying	Key management member
Sheng Qing	Key management member
Zou Zhixiang	Key management member
Lu Bingqiang	Key management member
Lu Wanjun	Key management member
Liu Xiaoming	Key management member
Pan Bo	Key management member
Li Ming	Key management member
Chen Zhuo	Key management member

Name	Relationship with the Company
Zhang Hongguang	Key management member
Zhang Shunwen	Key management member
Wang Yan	Key management member
Wang Jingqi	Key management member

5. Transactions with related parties

(1) Related transactions for the purchase and sale of goods, provision and receipt of services

①Purchasing goods and receiving services

Related party	Type of transaction	2018	2017
CATIC Property Management	Property management	8,208,102.96	8,243,916.72
Rainbow Department Store	Department store expenses/ Commodity purchase	5,865,816.91	5,868,872.26
AVIC Training Center	Training	273,596.25	-
AVIC Technical Testing Institute	Testing	-	3,207.55
Shennan Circuits	Material purchase	29,914.50	4,273.50
Ganzhou 9 Square Company	Department store expenses	177,372.93	-
CATIC City Estate (Kunshan) Company	Department store expenses	76,674.66	-
Jiufang Business Management	Department store expenses	58,322.11	-

②Selling products and providing services

Related party	Type of transaction	2018	2017
Rainbow Department Store	Product sales and services	71,764,856.50	77,301,661.83
Grand Skylight Hotel Management Company	Product sales and services	5,982.91	6,837.60
Ganzhou 9 Square Company	Product sales and services	960,563.85	1,763,367.26
Shennan Circuits	Material sales and services	5,883,132.72	3,810,125.07
Gongqingcheng CATIC Culture Investment Company	Product sales	655,161.45	-
AVIC-INTL	Product sales	10,215.52	-
CATIC City Estate Company	Product sales	4,051.28	-

Related party	Type of transaction	2018	2017
AVIC-INTL Project Engineering Company	Product sales	15,351.72	-

(2) Lease between related party

①The Company as a lessor

Lessee	Type of leased assets	Recognized rental income in current year	Recognized rental income in prior year
CATIC Property Management	Property	6,997,899.09	6,761,603.07
Skytel Hotel	Property	4,190,476.18	4,190,476.18
CATIC Real Estate Company	Property	1,813,948.87	1,719,424.99
CATIC City Investment	Property	364,293.91	1,154,505.27
AVIC Securities Company	Property	1,231,342.83	1,182,657.15
CATIC City Real Estate Company	Property	342,330.05	702,125.82
Rainbow Department Store	Property	529,166.26	532,715.48
CATIC Huacheng Company	Property	257,234.48	404,075.33
Jiufang Asset Mgmt Company	Property	1,560,410.13	392,865.14
AVIC Security Service	Property	1,160,868.75	618,958.25
CATIC Guanlan Property	Property	119,748.00	98,012.11
AVIC Property Asset Management	Property	57,154.70	132,279.06
CATIC City Development Company	Property	2,428.57	27,131.52
CATIC Real Estate Company	Property	165,612.56	-
CATIC City Parking Management Company	Property	9,916.44	-

②The Company as a lessee

Lessor	Type of leased assets	Rental expenses charged in current year	Rental expenses charged in prior year
Ganzhou 9 Square Company	Property	894,582.84	1,053,882.06
CATIC Changtai Company	Property	-	244,255.29
CATIC City Estate (Kunshan) Company	Property	156,942.79	211,572.02

Jiufang Business Management	Property	337,541.02	334,028.93

(3) Related party funds lending

Related Party	Amount	Effective date	Expiring date	Recognized interest expenses in current year
Borrowing:				
AVIC Finance Company	150,000,000.00	2018-5-14	2019-5-14	3,805,804.17

(4) Benefit for key management members

Item	2018	2017
Remuneration for key management members	13,123,100.00	13,564,900.00

(5) Other related transactions

The year-end balance of the Company's cash was RMB128,255,699.54, which was deposited with AVIC Finance Company. Interests received from the deposit during the year were RMB365,094.51.

6. Receivables from and payables to related parties

(1) Receivables

Item	31 Dec 2018		1 Jan 2018	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt Provision
Accounts receivable:				
Rainbow Department Store	2,305,867.79	115,293.39	1,782,356.36	89,117.82
Shennan Circuits	1,659,077.38	82,953.87	786,443.94	39,322.20
Ganzhou 9 Square Company	4,000.00	200.00	115,742.00	5,787.10
Gongqingcheng CATIC Culture Investment	28,269.36	1,413.47	-	-
Jiufang Business Management Company	4,288.00	214.40	-	-
AVIC Securities Company	101,428.57	5,071.43	-	-
CATIC City Real Estate Company	3.00	0.15	-	-
CATIC Jiufang Asset Mgmt Company	33,331.01	1,666.55	-	-
CATIC Guanlan Property	8,315.43	415.77	-	-

Item	31 Dec 2018		1 Jan 2018	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt Provision
CATIC Real Estate Company	148,915.46	7,445.77	-	-
CATIC Property Management	0.52	0.03	-	-
Total:	4,293,496.52	214,674.83	2,684,542.30	134,227.12
Notes receivable:				
Shennan Circuits	-	-	2,398,579.72	-
Total	-	-	2,398,579.72	-
Other receivables:				
Rainbow Department Store	761,860.00	38,093.00	832,774.30	41,638.72
CATIC Property Management	10,100.00	505.00	100.00	5.00
Ganzhou 9 Square Company	122,665.60	6,133.28	122,665.60	6,133.28
Jiujiang CATIC Estate Company	-	-	50,000.00	2,500.00
CATIC City Estate (Kunshan) Company	50,400.00	2,520.00	35,000.00	1,750.00
Grand Skylight Hotel	32,000.00	1,600.00	32,000.00	1,600.00
AVIC Training Center	-	-	150,000.00	7,500.00
CATIC Building Company	-	-	126,598.73	6,329.94
Gongqingcheng CATIC Culture Investment	5,500.00	275.00	-	-
Jiufang Business Management	50,000.00	2,500.00	-	-
CATIC Real Estate Company	54,923.00	2,746.15	-	-
AVIC-INTL	11,101.80	555.09	-	-
Total	1,098,550.40	54,927.52	1,349,138.63	67,456.94

(2) Payables

Item	31 Dec 2018	1 Jan 2018
Accounts Payable：		
CATIC Building Company	24,000.00	24,000.00
CATIC Property Management	40,821.05	40,821.05

Item	31 Dec 2018	1 Jan 2018
Total	64,821.05	64,821.05
Advances from customers:		
CATIC Real Estate Company	-	148,915.46
CATIC Guanlan Property	-	8,315.43
CATIC Jiufang Asset Mgmt Company	-	33,331.01
AVIC Securities Company	-	101,428.57
Total	-	291,990.47
Other payables:		
CATIC Property Management	1,131,164.13	472,032.00
CATIC Real Estate Company	442,407.92	442,407.92
CATIC City Investment Company	309,732.00	309,732.00
AVIC Securities Company	213,000.00	213,000.00
CATIC Building Company	116,960.23	89,289.47
CATIC City Real Estate Company	99,052.32	99,052.32
CATIC Huacheng Company	73,819.68	73,819.68
CATIC Jiufang Asset Mgmt Company	378,483.84	66,666.60
Rainbow Department Store	60,000.00	60,000.00
CATIC City Development Company	-	5,100.00
CATIC Changtai Company	4,064.81	4,064.81
CATIC Real Estate Company	51,014.88	-
CATIC Guanlan Property	25,401.60	-
AVIC Security Service	10,533.44	-
Ganzhou 9 Square Company	3,446.22	-
Shennan Circuits	150,000.00	-
Total	3,069,081.07	1,835,164.80

XII. Commitments and contingencies

1. Significant commitments

(1) Operating lease commitment

As of the balance sheet date, the irrevocable operating lease contracts signed by the Company are as follows:

Item	31 Dec 2018	1 Jan 2018
Minimum lease payment for irrevocable operating lease:		
The 1st year after the balance sheet date	54,382,100.37	29,799,099.00
The 2nd year after the balance sheet date	28,501,337.58	14,570,632.00
The 3rd year after the balance sheet date	12,406,400.37	7,533,388.00
Years in arrears	9,533,027.43	1,121,206.00
Total	104,822,865.75	53,024,325.00

(2) Other commitments

As of 31 December, 2018, the Company has no commitment that shall be disclosed.

2. Contingencies

(1) Contingent liabilities and financial influence formed by providing liability guarantee to other units

Refer to Note XIV. 2 for details of guarantee between parent company and subsidiaries.

(2) Other contingent liabilities and its financial influence

As of 31 December 2018, there is no other contingency that shall be disclosed by the Company.

XIII. Post balance sheet date events

1. Restricted stock incentive plan

In 2018, the Company implemented a restricted stock incentive plan (the “Incentive Plan”) to motivate and reward individuals who contribute to the Company's operations. Incentives include company’s directors, senior management, middle management, core technical staff and senior management and core backbone of subsidiaries.

On 11 January, 2019, after the first extraordinary general meeting of 2019 and the fifth meeting of the ninth board of directors, the Company intends to grant 4,224,000 A-share restricted shares to 128 incentive individuals at a price of RMB4.40 per share. As of 11 January, 2019 (grant date), the actual number of individual received the grant was 128, and a total of 4,224,000 restricted stocks were granted. The total amount of subscriptions received by the incentive individuals was RMB18,585,600.00, of which RMB4,224,000.00 increased share capital and RMB14,361,600.00 was included in capital reserve (share premium).

The incentive program is valid for 5 years (60 months), including a lock-up period of 2 years (24 months) and an unlock period of 3 years (36 months).

2. Profit distribution

The resolution of 2018 profit distribution proposal has been passed on the 6th Board Meeting of the 9th Board of Directors on 13 March 2019. It proposed to distribute cash dividend of RMB2.00 (tax inclusive) for every 10 shares held by shareholders based on the total 438,744,881 shares as at 31 December 2018. Cash dividend that proposed to be distributed amounts to RMB87,748,976.20, no bonus shares and no capitalization of reserves. The proposal is subject to approval from Annual General Shareholders' Meeting.

3. Impact of the implementation of the new accounting standards from 1 January, 2019

On 31 March, 2017, the Ministry of Finance issued the "Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments (Revised in 2017)" (Caikuai [2017] No. 7) and "Accounting Standards for Business Enterprises No. 23" Transfer of Financial Assets (Revised in 2017) (Caikuai [2017] No. 8), "Accounting Standards for Business Enterprises No. 24 - Hedge Accounting (Revised in 2017)" (Caikuai [2017] No. 9), and issued the "Accounting Standards for Business Enterprises No. 37 – Financial Instruments Presentation (Revised in 2017)" (Caikuai [2017] No. 14) in 2 May, 2017, (the above-mentioned standards are collectively referred to as the "New Financial Instruments Standards"), and the domestic list companies shall adopt the new guidelines from 1 January, 2019. The Company will implement the above New Financial Instruments Standards from 1 January, 2019, and will change the relevant accounting policies in accordance with the New Financial Instrument Standards.

The following are the main contents of the accounting policy changes that will be involved:

All financial assets currently recognized shall be subsequently measured at amortised cost or fair value under the New Financial Instrument Standards.

On the implementation date of the New Financial Instrument Standards, the business model of managing financial assets is evaluated based on the facts and circumstances of the Company on the day, and the contractual cash flow characteristics on the financial assets are evaluated based on the facts and circumstances at the initial confirmation of the financial assets. Financial assets are classified into three categories: measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss. When fair value through other comprehensive income equity instrument is derecognised, the accumulated gain or loss previously recognised in other comprehensive income shall be transferred from other comprehensive income to retained earnings, but not included in current profit and loss.

Under the New Financial Instrument Standard, the Company adopts expected credit losses model to make provision and recognize impairment of credit losses for financial assets measured at amortized cost, debt instrument investments measured at fair value through other comprehensive income, lease receivables, contract assets and the financial guarantee contract.

4. Other significant non-adjusting events after balance sheet date

(1) On 13 March, 2019, approved by the 6th meeting of the 9th Board of Directors of the Company, the Company intends to apply credit facility for no more than RMB900,000,000 from banks in various ways including credit, guarantee and mortgage in 2019. The above-mentioned proposal of the total credit line of the bank is subject to the approval of the general meeting of the Company.

(2) On 13 March, 2019, approved by the 6th meeting of the 9th Board of Directors of the Company, the Company intends to apply for a guarantee loan of not exceeding RMB 600,000,000 for the wholly owned subsidiary at relevant banks in 2019. The line of credit is included in the actual line of bank loans applied by the Company in 2019, which is RMB 900,000,000. The above guarantee amount is subject to the approval of the general meeting of the Company.

XIV. Other significant events

1. Deregistration of subsidiary

Station 68 Company is going through the deregistration procedure and has not finished until 31 December 2018

2. Guarantee situation

In 2018, the Company and China Merchants Bank Co., Ltd. Shenzhen Branch signed a credit facility agreement with a credit limit of RMB200,000,000. The Company's subsidiary, Harmony Company, provided guarantee, and the guarantee method is joint liability guarantee. The guarantee period is from the date of the guarantee agreement (2 July, 2018) to each debt maturity date under the credit agreement plus three years. The agreement credit limit is valid from 18 June, 2018 to 17 June, 2019. As of 31 December, 2018, the total balance of loans under the credit agreement was RMB110,000,000.

In May 2018, the Company and China Agricultural Bank of China Shenzhen Central Branch signed a comprehensive credit facility agreement with a credit limit of RMB200,000,000 (can be used in form of bank loan, bank guarantee etc…). The credit limit is valid from 21 May 2018 to 21 May 2019. As of 31 Dec 2018, balance of bank loans under this facility was RMB10,000,000. In November 2018, the Company applied to open a RMB80,000,000 performance guarantee letter with joint liability. The beneficiaries of the performance guarantee letter are suppliers of HARMONY Company, one of the Company’s subsidiary. The valid period of the performance guarantee letter is from 30 December 2018 to 29 December 2019.

In July 2018, the Company's subsidiary, FIYTA Hong Kong Co., Ltd. and China Trust Commercial Bank Co., Ltd. signed a credit line contract with a credit limit of HKD 40,000,000. The guarantee is provided by the Company, and the expiration date of the guarantee is 31 May, 2020. The contract maturity date is 31 May, 2020. As of December 31, 2018, the total loan balance under the credit agreement is HKD18,070,000.

In December 2018, the Company's subsidiary, FIYTA Hong Kong Co., Ltd. and Nanyang Commercial Bank (China)

Co., Ltd. Shenzhen Branch signed a credit line agreement with a credit limit of HKD80,000,000. The Company provided guarantee, and the guarantee method was joint liability guarantee. The term of guarantee shall be two years from the date of expiration of the repayment period of the principal claim. The credit facility is valid from 17 December, 2018 to 12 November, 2020. As of December 31, 2018, the total loan balance under the credit agreement is HKD 30,000,000.

In December 2018, the Company signed a comprehensive financing contract with China Construction Bank Co., Ltd. Shenzhen Branch with a credit limit of RMB300,000,000. The Company's subsidiary, Harmony Company, provided guarantee, and the guarantee method is joint liability guarantee. The guarantee period starts from the date of the single credit extension and ends three years after the maturity of the debt. The contract credit facility is valid from 4 December, 2018 to 8 March, 2020. As of 31 December, 2018, the total loan balance under the credit agreement is RMB35,000,000.

3. Others

The proposal about acquiring wholly-owned sub-subsidiary Montres Chouriet SA has been passed in the 16th Board Meeting of the eighth Board of Directors on 2 June 2017. The Company is going to acquire 100% share of Swiss Company, owned by the subsidiary of the Company, FIYTA Hong Kong. The consideration of CHF12 million was made on the basis of audited net asset as at 31 December 2016. The acquisition has not been finalized as of 31 December 2018.

XV. Notes to the Company's financial statements

1. Note and accounts receivables

Item	31 Dec 2018	1 Jan 2018
Accounts receivable	737,636.38	6,832,006.11

(1) Accounts receivable

①Accounts receivable presented by categories:

Category	31 Dec 2018				
	Book balance		Provision for bad debts		Carrying amount
	Amount	Percentage%	Amount	Percentage%	
Receivables that are individually significant in	-	-	-	-	-

Category	31 Dec 2018				
	Book balance		Provision for bad debts		Carrying amount
	Amount	Percentage%	Amount	Percentage%	
amount and provided for bad debt separately					
Receivables provided for bad debt by portfolio	776,459.35	100.00	38,822.97	5.00	737,636.38
Incl：Portfolio of aging	776,459.35	100.00	38,822.97	5.00	737,636.38
Portfolio of specific accounts	-	-	-	-	-
Receivables that are individually insignificant in amount but provided for bad debt separately	-	-	-	-	-
Total	776,459.35	100.00	38,822.97	5.00	737,636.38

(Continued)

Category	1 Jan 2018				
	Book balance		Provision for bad debt		Carrying amount
	Amount	Percentage%	Amount	Provision rate %	
Receivables that are individually significant in amount and provided for bad debt separately	-	-	-	-	-
Receivables provided for bad debt by portfolio	6,871,446.35	100.00	39,440.24	0.57	6,832,006.11
Incl：Portfolio of aging	788,804.75	11.48	39,440.24	5.00	749,364.51
Portfolio of specific accounts	6,082,641.60	88.52	-	-	6,082,641.60
Receivables that are individually insignificant in amount but provided for bad debt separately	-	-	-	-	-
Total	6,871,446.35	100.00	39,440.24	0.57	6,832,006.11

A. Accounts receivable that are provided for bad debt based on aging analysis in aging portfolio:

Aging	1 Jan 2018		
	Amount	Provision	Provision Rate (%)
Within one year	776,459.35	38,822.97	5.00

② Bad debt provisions accrued, received or reversed in the current period

The amount of Bad debt provision accrued in current year is RMB16,073.16; The amount of the reversal of bad debt provision in current year is RMB16,690.43.

③ Top 5 accounts receivable as at the year end

The amount of top 5 receivables based on year-end receivable balance is RMB776,458.78, accounts for 100% of total receivables as at 31 Dec 2018. Corresponding bad debt provision is RMB38,822.93.

2. Other receivables

Item	31 Dec 2018	1 Jan 2018
Other receivables	870,739,378.37	831,952,437.86

(1) Other receivable

①Other receivables disclosed by categories:

Category	31 Dec 2018				
	Book balance		Provision for bad debt		Carrying amount
	Amount	Percentage %	Amount	Provision rate %	
Other receivables that are individually significant in amount and provided for bad debt separately	-	-	-	-	-
Other receivables provided for bad debt by portfolio	870,839,129.37	100.00	99,751.00	0.01	870,739,378.37
Incl：Portfolio of aging	1,426,516.07	0.16	99,751.00	6.99	1,326,765.07
Portfolio of specific accounts	869,412,613.30	99.84	-	-	869,412,613.30
Receivables that are individually insignificant in amount but provided for bad debt separately	-	-	-	-	-
Total	870,839,129.37	100.00	99,751.00	0.01	870,739,378.37

(Continued)

Category	1 Jan 2018				
	Book balance		Provision for bad debt		Carrying amount
	Amount	Percentage %	Amount	Provision rate %	
Other receivables that are individually significant in amount and provided for bad debt separately	-	-	-	-	-
Other receivables provided for bad debt by portfolio	832,005,502.89	100.00	53,065.03	0.01	831,952,437.86
Incl：Portfolio of aging	727,550.50	0.09	53,065.03	7.29	674,485.47
Portfolio of specific accounts	831,277,952.39	99.91	-	-	831,277,952.39
Receivables that are individually insignificant in amount but provided for bad debt separately	-	-	-	-	-
Total	832,005,502.89	100.00	53,065.03	0.01	831,952,437.86

A. Other receivables that are provided for bad debt based on aging analysis:

Aging	31 Dec 2018		
	Other receivable	Provision	Provision rate (%)
Within 1 year	1,178,412.07	58,920.60	5.00
1-2 years	208,054.00	20,805.40	10.00
2-3 years	-	-	-
Above 3 years	40,050.00	20,025.00	50.00
Total	1,426,516.07	99,751.00	6.99

B. Other receivables that are provided for bad debt based on other methods:

Portfolio of specific accounts	31 Dec 2018		
	Other receivable	Provision	Provision rate%
petty cash advanced to employees	431,623.24	-	-
Subsidiary funds within the	868,980,990.06	-	-

Portfolio of specific accounts	31 Dec 2018		
	Other receivable	Provision	Provision rate%
scope of consolidation			
Total	869,412,613.30	-	-

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

②Other receivables classified by nature

The nature of receivables	31 Dec 2018	1 Jan 2018
Related party balances within consolidated scope	868,980,990.06	831,217,702.17
Petty cash	431,623.24	60,250.22
Security deposit	248,104.00	352,131.00
Others	1,178,412.07	375,419.50
Total	870,839,129.37	832,005,502.89

③Bad debt provision accrued, received or reversed in the current period

The amount of Bad debt provision accrued is RMB46,685.97 in current year. There is no received or reversed of bad debt provision in current year.

④The top 5 other receivable accounts as at the year end

Company name	Nature	Balance	Aging	Percentage in total closing balance of other receivables (%)	Provision for bad and doubtful debts
TEMPORAL Company	Inter-group movement	20,819,991.24	Within 1 year	2.39	-
FIYTA Sales Company	Inter-group movement	229,966,446.75	Within 1 year	26.41	-
HARMONY Company	Inter-group movement	488,575,998.73	Within 1 year	56.10	-
Hengdarui Company	Inter-group movement	100,860,500.00	Within 1 year	11.58	-
Emile Choureit Shenzhen Company	Inter-group movement	28,758,053.34	Within 1 year	3.30	-
Total	—	868,980,990.06	—	99.78	-

3. Long-term equity investments

(1) Types of long-term equity investment

Item	31 Dec 2018			1 Jan 2018		
	Book balance	Provision	Carrying amount	Book balance	Provision	Carrying amount
Investment in subsidiaries	1,331,248,590.93		1,331,248,590.93	1,331,248,590.93	-	1,331,248,590.93
Investment to associated and joint venture companies	44,881,063.15	-	44,881,063.15	43,879,518.09	-	43,879,518.09
Total	1,376,129,654.08		1,376,129,654.08	1,375,128,109.02	-	1,375,128,109.02

(2) Investment in subsidiaries

Invested units	1 Jan 2018	Increase	Decrease	31 Dec 2018	Provision accrued in 2018	Balance of provision as at 31 Dec 2018
HARMONY Company	601,307,200.00	-	-	601,307,200.00	-	-
Harbin Company	2,184,484.39	-	-	2,184,484.39	-	-
Manufacturing Company	9,000,000.00	-	-	9,000,000.00	-	-
Technology Company	10,000,000.00	-	-	10,000,000.00	-	-
FIYTA Hong Kong	137,737,520.00	-	-	137,737,520.00	-	-
TEMPORAL Company	5,000,000.00	-	-	5,000,000.00	-	-
FIYTA Sales Company	450,000,000.00	-	-	450,000,000.00	-	-
Hengdarui Company	36,867,843.96	-	-	36,867,843.96	-	-
Emile Choureit Shenzhen Company	79,151,542.58	-	-	79,151,542.58	-	-
Total	1,331,248,590.93	-	-	1,331,248,590.93	-	-

(3) Investment to associates and joint venture companies

Invested units	1 Jan 2018	Changes in 2018

		Addition	Withdraw	Investment income/loss recognized under the equity method	Adjustment of other comprehensive income	Changes of other equity
Associates						
Shanghai Watch	43,879,518.09	-	-	1,001,545.06	-	-

(Continued)

Invested units	Changes in 2018			31 Dec 2018	Balance of provision at 31 Dec 2018
	Cash dividend or profit announced to be issued	Provision for impairment	Other		
Associates					
Shanghai Watch	-	-	-	44,881,063.15	-

4. Operating revenue and operating cost

Item	2018		2017	
	Revenue	Cost	Revenue	Revenue
Main businesses	130,886,023.99	19,010,293.07	117,673,738.22	17,785,254.56
Other businesses	15,800.00	-	72,649.57	-
Total	130,901,823.99	19,010,293.07	117,746,387.79	17,785,254.56

5. Investment income

Item	2018	2017
Investment income from long-term equity investment measured by cost method	143,000,000.00	117,000,000.00
Investment income from long-term equity investment measured by equity method	1,001,545.06	455,893.22
Total	144,001,545.06	117,455,893.22

XVI. Supplementary information

1. Details of non-recurring gain or loss for the year

Item	Amount	Note
Disposal gain or loss of non-current assets	-180,302.24	
Overridden approval, or without official approval document, or incidental tax return or exemption	-	
Government grants included in current profit or loss (except for the fixed or quantitative government grants, enjoyed in a consecutive way, which closely related to the enterprise businesses and according to nation policies)	19,375,618.48	
Charges for the possessions of funds collected from non-monetary enterprises	-	
Investment cost of subsidiaries, joint venture and cooperative enterprises less than the profit incurred in identifiable net asset fair value of invested unit when investment	-	
Profit and loss of non-monetary assets exchange	-	
Profit and loss from entrusting others to invest or manage assets	-	
Asset impairment provision accrued due to force majeure such as natural disasters	-	
Profit and loss of debt restructuring	-	
Enterprise restructuring expenses, such as expenses for arranging employees, integrating cost	-	
Profit and loss over fair value part accrued in transactions of unreasonable transaction price	-	
Current net profit and loss of subsidiaries from business combination under common control from the opening period to combination date	-	
Profit and loss incurred contingent matters unrelated to normal operating business	-	
Except for effective hedging business related to normal operating business, profit and loss from changes in fair value incurred in financial assets and financial liabilities, and the investment gain from disposal of financial assets, financial liabilities and available-for-sale financial assets	-	
Impairment provision reversal of accounts receivable under standalone impairment test	7,533,121.86	
Profit and loss obtained in external entrusting loans	-	
Profit and loss incurred in fair value change of investment property subsequently measured in fair value mode	-	
Influence on current profit and loss caused by one-off adjustment according to requirements of	-	

Item	Amount	Note
laws and regulations about taxation and accounting		
Income from trustee fee obtained by trusting operation	-	
Other non-operating income and expenses other than the above items	792,842.56	
Profit and loss items pursuant to the definition of non-recurring profit and loss	-	
Subtotal	27,521,280.66	
Effect of income tax of non-recurring profit or loss	6,444,246.37	
Effect of non-recurring profit or losses attributable to minority shareholders (after tax)	-	
Total	21,077,034.29	

Note: “+” refer to gain or income and “-” means loss or expense.

The Company recognize non-recurring gain or loss according to “Interpretation Announcement to Information Disclosure of Companies with Shares Offered Publicly No. 1 – Non-recurring gain or loss” (CSRC (2008) No. 43.)

2. Return on Equity (ROE) and Earnings per share (EPS)

Profit of the reporting period	Weighted average ROE %	EPS	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders of the Company	7.30	0.4190	0.4190
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	6.46	0.3710	0.3710

Section 12 Documents Available for Inspection

I. Financial Statements signed by and under the seal of the legal representative, chief accountant and accounting supervisors;

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

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

Board of Directors of

FIYTA HOLDINGS LTD.

March 15, 2019