

Auditor's Report

FIYTA Precision Technology Co., Ltd.

For the year ended 31 December 2019

致同会计师事务所（特殊普通合伙）

Grant Thornton

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(English Translation for Reference Only)

Auditor's Report

GTCNSZ(2020)NO.110ZA3105

To the Shareholders of FIYTA Precision Technology Co., Ltd.:

Opinion

We have audited the financial statements of FIYTA Precision Technology Co., Ltd. ("FIYTA Ltd." or the "Company"), which comprise the consolidated and Company balance sheets as at 31 December 2019, and the consolidated and Company income statements, consolidated and Company cash flow statements and consolidated and Company statements of changes in shareholders' equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and Company financial positions of FIYTA Ltd. as at 31 December 2019, and their financial performance and its their cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

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. and have fulfilled our other ethical responsibilities in accordance with the Code of Ethics for Chinese Certified Public Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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.

1. Existence of inventory and its net realizable value

Refer to Note III 12 and Note V 6 for detailed information.

(1) Description

As at 31 December 2019, the book balance, provision for decline in value, and carrying amount of inventory were RMB1,892.03 million, RMB83.21 million and RMB1,808.82 million respectively.

- (i) As the main business of FIYTA Ltd is selling FIYTA brand watches and other 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 caused difficulty in inventory physical 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 for decline in value. The determination of NRV involves significant judgment and estimates by the Management.

Inventory value is significant to the Company's assets and it requires significant judgement by the Management, as a result, we identified existence of inventory and its net realizable value as key audit matters.

(2) How our audit addressed the key audit matter

- (i) Understanding, evaluating and testing the design and operating effectiveness of internal controls of procurement and payment, production and storage, and the provision for decline in value of inventory;
- (ii) Understanding and evaluating the appropriateness of the Company's policy in provision for decline in value;
- (iii) Understanding and inquiring the locations of inventory storage,

measurement method of inventory so as to determining the scope of inventory physical observation;

- (iv) Discussing physical inventory count status with the Management and attending the physical inventory count and conducting observation and test count on site to check the quantity of the inventories and observe their condition. Circulating confirmations and inspecting contracts, goods delivery notes and account statements for those inventories not in the scope of physical observation and stored in reseller's warehouses;
- (v) Obtaining the ageing report of inventory and taking into consideration of inventory condition in order to perform analytical review on the ageing, and analyze the reasonableness of provision for decline in value together with ;
- (vi) Reviewing and evaluating the appropriateness of significant estimates made by the Management in determining the NRV of inventory;
- (vii) Obtaining the calculation of provision for decline in value of inventory, reviewing whether the provision was made in compliance with relevant accounting policies and performing recalculation of provision. Checking the movements of prior year's provision and analyzing whether the provision was adequately accrued in prior period.
- (viii) Tracing samples of large purchases in current period to their corresponding contracts and tax invoices, and inspecting their purchase requisition form and goods receipt notes.

Based on audit work conducted above, we believe that the presentation and disclosure of inventory and the judgment on NRV made by the management is supportable.

2. Revenue recognition

Refer to Note III 25 and Note V 33 for detailed information.

(1) Description

In 2019, the Company's income from main business was RMB3,686.96 million. The Company's revenue mainly comes from sales of FIYTA brand watches and distribution of other branded watches. Except for small amount of sales by

direct sales and consignment sales of FIYTA brand watches, most of the sales of FIYTA brand watches and other branded watches are sold through shops in department store and on-line shops. Refer to Note III 25 for accounting policy relating to revenue recognition.

Operating revenue represents major line item in income statement and is main source of profit, the 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, evaluating and testing the design and operating effectiveness of internal controls relating to revenue recognition;
- (ii) Obtaining and understanding accounting policies relating to revenue recognition, and reviewing whether the policies are complied with the accounting standards and are consistently adopted.
- (iii) Selecting samples from current year's transaction record, and tracing them to supporting documents such as contract, tax invoice and goods dispatch note;
- (iv) In connection with audit of accounts receivable, selecting major customers and confirming corresponding sales in current year and year end balance;
- (v) Conducting cut-off test to revenue recognized before and after the balance sheet date to evaluate whether the revenue was recorded in appropriate accounting period;

Based on audit work conducted above, we believe that the Company's revenue recognition is in conformity to its revenue recognition policy.

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 2019 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.

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 for the design, implementation and maintenance of such internal controls as the Management determine is necessary 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.

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.

Grant Thornton
China · Beijing

Auditor's signature and stamp
(Engagement partner)

Auditor's signature and stamp

18 March 2020

Consolidated and Company Balance Sheet

as at 31 December 2019

Prepared by: FIYTA Precision Technology Co., Ltd.

Expressed in RMB

Item	Note	As at 31/12/2019		As at 31/12/2018	
		Consolidated	Company	Consolidated	Company
Current assets:					
Cash at bank and on hand	V. 1	316,668,565.09	270,673,346.02	164,828,059.97	137,175,466.27
Bills receivable	V. 2	10,596,431.31	-	7,051,846.85	-
Accounts receivable	V. 3	397,471,106.98	2,848,025.39	370,545,656.61	737,636.38
Prepayments	V. 4	10,847,962.28	-	13,666,816.33	-
Other receivables	V. 5	47,239,844.58	783,647,732.22	45,870,582.26	870,739,378.37
including: interests receivables		-	-	-	-
dividend receivables		-	-	-	-
Inventories	V. 6	1,808,820,089.92	-	1,782,306,301.70	-
Assets held for sale		-	-	-	-
Non-current assets due within one year		-	-	-	-
Other current assets	V. 7	68,858,096.74	12,380,243.67	73,703,312.24	10,081,272.94
Total current assets		2,660,502,096.90	1,069,549,347.30	2,457,972,575.96	1,018,733,753.96
Non-current assets:					
Available-for-sale financial assets	V. 8			85,000.00	85,000.00
Long-term equity investments	V. 9	46,423,837.85	1,380,895,239.27	44,881,063.15	1,376,129,654.08
Other equity instrument investments	V. 10	85,000.00	85,000.00		
Investment properties	V. 11	407,503,307.24	329,970,083.18	377,319,433.03	297,042,937.87
Fixed assets	V. 12	363,997,098.94	238,594,698.50	425,649,562.85	297,517,472.81
Construction in progress	V. 13	-	-	12,041,126.00	12,041,126.00
Intangible assets	V. 14	38,711,821.26	30,925,974.54	43,545,477.61	35,337,052.82
Development costs		-	-	-	-
Goodwill		-	-	-	-
Long-term deferred expenses	V. 15	152,587,491.33	12,106,759.98	128,572,545.15	4,500,638.97
Deferred tax assets	V. 16	83,739,383.37	1,125,840.75	100,675,706.09	952,857.33
Other non-current assets	V. 17	7,373,248.48	4,707,236.86	8,949,160.42	4,493,971.35
Total non-current assets		1,100,421,188.47	1,998,410,833.08	1,141,719,074.30	2,028,100,711.23
Total assets		3,760,923,285.37	3,067,960,180.38	3,599,691,650.26	3,046,834,465.19

Consolidated and Company Balance Sheet (continued)

as at 31 December 2019

Prepared by: FIYTA Precision Technology Co., Ltd.

Expressed in RMB

Item	Note	As at 31/12/2019		As at 31/12/2018	
		Consolidated	Company	Consolidated	Company
Current liabilities:					
Short-term loans	V. 18	567,908,833.21	540,650,622.50	547,118,452.97	505,000,000.00
Bills payable		-	-	-	-
Accounts payable	V. 19	279,772,787.37	12,952,934.93	259,913,612.34	52,324,191.98
Advances from customers	V. 20	23,433,463.57	3,434,407.04	16,459,445.00	1,636,520.02
Employee benefits payable	V. 21	82,602,845.67	19,019,554.57	69,779,037.83	11,589,634.34
Taxes payable	V. 22	24,064,803.00	1,713,130.68	55,923,171.92	943,919.26
Other payables	V. 23	119,616,721.63	82,631,590.46	71,819,930.30	57,997,397.28
including: interests payables		-	-	772,351.26	685,419.80
dividend payables		848,233.27	848,233.27	-	-
Liabilities held for sale		-	-	-	-
Non-current liabilities due within one year	V. 24	360,140.00	-	347,470.00	-
Other current liabilities		-	-	-	-
Total current liabilities		1,097,759,594.45	660,402,240.18	1,021,361,120.36	629,491,662.88
Non-current liabilities:					
Long-term loans	V. 25	4,321,680.00	-	4,517,110.00	-
Provisions		-	-	-	-
Deferred income	V. 26	3,046,090.60	3,046,090.60	3,672,855.36	3,672,855.36
Deferred tax liabilities	V. 16	1,256,242.49	-	-	-
Other non-current liabilities		-	-	-	-
Total non-current liabilities		8,624,013.09	3,046,090.60	8,189,965.36	3,672,855.36
Total liabilities		1,106,383,607.54	663,448,330.78	1,029,551,085.72	633,164,518.24
Shareholder's equity:					
Share capital	V. 27	442,968,881.00	442,968,881.00	438,744,881.00	438,744,881.00
Capital reserve	V. 28	1,081,230,215.32	1,086,885,756.42	1,062,455,644.22	1,068,111,185.32
Less: treasury shares	V. 29	71,267,118.78	71,267,118.78	-	-
Other comprehensive income	V.30	-940,209.09	-	-5,442,139.78	-
Specific reserve		-	-	-	-
Surplus reserve	V. 31	235,701,180.14	235,701,180.14	223,015,793.80	223,015,793.80
Retained earnings	V. 32	966,840,818.40	710,223,150.82	851,360,603.66	683,798,086.83
Total equity attributable to shareholders of the Company		2,654,533,766.99	2,404,511,849.60	2,570,134,782.90	2,413,669,946.95
Non-controlling interests		5,910.84	-	5,781.64	-
Total shareholders' equity		2,654,539,677.83	2,404,511,849.60	2,570,140,564.54	2,413,669,946.95
Total liabilities and shareholders' equity		3,760,923,285.37	3,067,960,180.38	3,599,691,650.26	3,046,834,465.19

Legal representative:

The person in charge of accounting affairs:

The head of the accounting department:

Consolidated and Company Income Statement

For the year ended 31 December 2019

Prepared by: FIYTA Precision Technology Co., Ltd.

Expressed in RMB

Item	Note	Year ended 31/12/2019		Year ended 31/12/2018	
		Consolidated	Company	Consolidated	Company
I. Operating income	V.33	3,704,210,734.90	140,511,246.61	3,400,450,599.90	130,901,823.99
Less: operating costs	V.33	2,217,207,732.04	21,776,539.35	1,993,809,774.20	19,010,293.07
Taxes and surcharges	V.34	28,192,789.55	4,623,611.23	33,769,344.40	4,340,938.33
Selling and distribution expenses	V.35	865,792,078.61	1,130,383.07	856,970,173.10	-
General and administrative expenses	V.36	240,619,989.04	84,134,946.30	219,162,525.85	62,841,044.26
Research and development expenses	V.37	45,057,740.25	17,580,327.66	47,350,342.82	24,155,557.54
Financial expenses	V.38	32,815,277.57	7,037,707.90	35,916,240.16	9,231,733.69
Including: Interest expenses		23,975,351.93	8,393,727.80	27,552,558.81	10,189,512.00
Interest income		1,956,316.52	1,696,829.44	2,269,447.05	1,756,834.88
Add: Other income	V.39	18,428,906.18	9,066,722.30	19,375,618.48	7,689,684.27
Investment income ("-" for losses)	V.40	1,787,907.10	114,542,774.70	1,001,545.06	144,001,545.06
Including: Income from investment in associates and joint ventures ("-" for losses)		1,787,907.10	1,542,774.70	1,001,545.06	1,001,545.06
Gain from de-recognition of financial assets measured at amortized costs ("-" for losses)		-	-	-	-
Gain from net exposure hedging ("-" for losses)		-	-	-	-
Gain from fair value changes ("-" for losses)		-	-	-	-
Credit impairment losses ("-" for losses)	V.41	-16,640,961.07	-100,882.96	-	-
Asset impairment losses ("-" for losses)	V.42	-4,295,134.48	-	-3,264,956.18	-46,068.70
Gains from assets disposal ("-" for losses)	V.43	-926,118.60	-537,935.27	-181,302.24	-51,942.13
II. Operating profit ("-" for losses)		272,879,726.97	127,198,409.87	230,403,104.49	162,915,475.60
Add: Non-operating income	V.44	4,754,105.30	88,886.65	1,446,357.53	38,080.00
Less: Non-operating expenses	V.45	1,400,188.87	210,174.24	652,514.97	446,782.97
III. Profit before income tax ("-" for losses)		276,233,643.40	127,077,122.28	231,196,947.05	162,506,772.63
Less: Income tax expenses	V.46	60,324,629.25	223,258.88	47,361,851.76	405,968.14
IV. Net profit for the year ("-" for net losses)		215,909,014.15	126,853,863.40	183,835,095.29	162,100,804.49
(1) Classification according to operation continuity					
Including: Net profit from continuing operations ("-" for net loss)		215,909,014.15	126,853,863.40	183,835,095.29	162,100,804.49
Net profit from discontinued operations ("-" for net loss)		-	-	-	-
(2) Classification according to attribute					
Including: Shareholders of the company ("-" for net loss)		215,909,014.15	126,853,863.40	183,835,095.29	162,100,804.49
Non-controlling interests ("-" for net loss)		-	-	-	-
V. Other comprehensive income, net of tax		4,502,059.89	-	6,081,568.47	-
Other comprehensive income (net of tax) attributable to shareholders of the company		4,501,930.69	-	6,081,302.61	-
A. Items that will not be reclassified to profit or loss		-	-	-	-
B. Items that may be reclassified to profit or loss		4,501,930.69	-	6,081,302.61	-
a. Share of other comprehensive income of the equity method investments		-	-	-	-
b. Gains or losses arising from changes in fair value of other debt instrument investments		-	-	-	-
c. Gains or losses arising from changes in fair value of available-for-sale financial assets		-	-	-	-
d. Amount included in other comprehensive due to reclassification of financial assets		-	-	-	-
e. Gain or losses arising from reclassification of held-to-maturity investments to available-for-sale financial assets		-	-	-	-
f. Translation differences arising from translation of foreign currency financial statements		4,501,930.69	-	6,081,302.61	-
g. Others		-	-	-	-
Other comprehensive income (net of tax) attributable to non-controlling interests		129.20	-	265.86	-
VI. Total comprehensive income for the year		220,411,074.04	126,853,863.40	189,916,663.76	162,100,804.49
Attributable to: Shareholders of the company		220,410,944.84	126,853,863.40	189,916,397.90	162,100,804.49
Non-controlling interests		129.20	-	265.86	-
VII. Earnings per share:					
(1) Basic earnings per share		0.4943	-	0.4190	-
(2) Diluted earnings per share		0.4943	-	0.4190	-

Legal representative:

The person in charge of accounting affairs:

The head of the accounting department:

Consolidated and Company Cash Flow Statement

For the year ended 31 December 2019

Prepared by: FIYTA Precision Technology Co., Ltd.

Expressed in RMB

Item	Note	Year ended 31/12/2019		Year ended 31/12/2018	
		Consolidated	Company	Consolidated	Company
I. Cash flows from operating activities					
Cash received from sales of goods and rendering of services		4,058,167,395.57	129,299,543.07	3,810,404,536.16	116,016,128.07
Cash received from refund of taxes		5,510,592.39	301,416.23	4,793,245.20	-
Cash received from other operating activities	V.47	93,832,379.85	3,935,449,332.96	49,628,593.69	3,085,141,911.13
Subtotal of cash inflows from operating activities		4,157,510,367.81	4,065,050,292.26	3,864,826,375.05	3,201,158,039.20
Cash paid for purchasing goods and services		2,398,294,588.87	-	2,189,921,981.01	300,000.00
Cash paid to and for employees		584,435,566.86	74,123,969.83	583,417,253.40	58,785,131.65
Cash paid for tax and surcharges		241,905,980.66	12,227,836.75	305,622,391.83	10,909,143.22
Cash paid for other operating activities	V.47	488,053,462.81	3,807,983,200.74	454,236,959.19	3,050,352,344.19
Subtotal of cash outflows in operating activities		3,712,689,599.20	3,894,335,007.32	3,533,198,585.43	3,120,346,619.06
Net cash flows from operating activities		444,820,768.61	170,715,284.94	331,627,789.62	80,811,420.14
II. Cash flows from investing activities					
Cash received from disposal of investments		-	-	-	-
Cash received from returns on investments		-	113,000,000.00	-	143,000,000.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		626,107.64	134,060.00	53,280.03	1,430.00
Net cash received from disposal of subsidiaries and other business units		-	-	-	-
Cash received from other investing activities		-	-	-	-
Subtotal of cash inflows from investing activities		626,107.64	113,134,060.00	53,280.03	143,001,430.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		166,689,454.32	40,173,154.98	146,877,130.29	27,763,546.06
Cash paid to acquire investments		-	-	-	-
Net cash paid to acquire subsidiaries and other business units		-	-	-	-
Cash paid for other investing activities		-	-	-	-
Subtotal of cash outflows in investing activities		166,689,454.32	40,173,154.98	146,877,130.29	27,763,546.06
Net cash flows from investing activities		-166,063,346.68	72,960,905.02	-146,823,850.26	115,237,883.94
III. Cash flows from financing activities :					
Cash received from capital contributions		18,585,600.00	18,585,600.00	-	-
Including: Cash received from capital contributions by non-controlling intetests of subsidiaries		-	-	-	-
Cash received from loans		700,262,726.76	670,000,000.00	741,192,340.23	700,000,000.00
Cash received from other financing activities		-	-	-	-
Sub-total of cash inflows from financing activities		718,848,326.76	688,585,600.00	741,192,340.23	700,000,000.00
Cash repayments of borrowings		681,461,355.87	635,000,000.00	832,333,208.63	774,861,928.00
Cash paid for dividends and profits distribution and interests		111,024,929.61	110,048,303.96	116,690,155.91	115,249,277.23
Including: Cash payments for dividends or profit to non-controlling intetests of subsidiaries		-	-	-	-
Cash paid for other financing activities	V.47	53,117,325.02	53,117,325.02	-	-
Sub-total of cash outflows in financing activities		845,603,610.50	798,165,628.98	949,023,364.54	890,111,205.23
Net cash flows from financing activities		-126,755,283.74	-109,580,028.98	-207,831,024.31	-190,111,205.23
IV. Effect of foreign exchange rate changes on cash and cash equivalents		468,366.93	31,718.77	702,253.60	73,422.99
V. Net increase in cash and cash equivalents		152,470,505.12	134,127,879.75	-22,324,831.35	6,011,521.84
Add: cash and cash equivalents at beginning of year		162,623,059.97	134,970,466.27	184,947,891.32	128,958,944.43
VI. Cash and cash equivalent at end of year	V.48	315,093,565.09	269,098,346.02	162,623,059.97	134,970,466.27

Legal representative:

The person in charge of accounting affairs:

The head of the accounting department:

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019

Prepared by: FIYTA Precision Technology Co., Ltd.

Expressed in RMB

Item	Year ended 31/12/2019							
	Total shareholders' equity attributable to shareholders of the parent company							Non-controlling interests
	Share capital	Capital reserve	Less: treasury shares	Other comprehensive income	Specific reserve	Surplus reserve	Retained earnings	
I. Balance at the end of prior year	438,744,881.00	1,062,455,644.22	-	-5,442,139.78	-	223,015,793.80	851,360,603.66	5,781.64
Add: Changes in accounting policies	-	-	-	-	-	-	-	-
Correction of prior period errors	-	-	-	-	-	-	-	-
Business combination involving enterprises under common control	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
II. Balance at the beginning of current year	438,744,881.00	1,062,455,644.22	-	-5,442,139.78	-	223,015,793.80	851,360,603.66	5,781.64
III.Changes in equity during the year("- "for decrease)	4,224,000.00	18,774,571.10	71,267,118.78	4,501,930.69	-	12,685,386.34	115,480,214.74	129.20
(I)Total comprehensive income	-	-	-	4,501,930.69	-	-	215,909,014.15	129.20
(II)Shareholders' contributions and decrease of capital	4,224,000.00	18,774,571.10	71,267,118.78	-	-	-	-	-
1.Contribution by ordinary shareholders	4,224,000.00	14,361,600.00	71,267,118.78	-	-	-	-	-
2. Other equity holders' contribution	-	-	-	-	-	-	-	-
3. Increase in shareholders' equity resulted from share-based payments	-	4,440,625.91	-	-	-	-	-	-
4. Others	-	-27,654.81	-	-	-	-	-	-
(III) Appropriation of profits	-	-	-	-	-	12,685,386.34	-100,428,799.41	-
1. Appropriation for surplus reserves	-	-	-	-	-	12,685,386.34	-12,685,386.34	-
2. Accrual of general risk reserve	-	-	-	-	-	-	-	-
3. Distributions to shareholders	-	-	-	-	-	-	-87,743,413.07	-
4. Others	-	-	-	-	-	-	-	-
(IV) Transfer within equity	-	-	-	-	-	-	-	-
1.Share capital increased by capital reserves transfer	-	-	-	-	-	-	-	-
2.Share capital increased by surplus reserves transfer	-	-	-	-	-	-	-	-
3.Transfer of surplus reserve to offset losses	-	-	-	-	-	-	-	-
4. Retained earnings transferred from movements of defined benefit plan	-	-	-	-	-	-	-	-
5. Other comprehensive income transferred to retained earning	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-
(V)Specific Reserve	-	-	-	-	-	-	-	-
1. Appropriation during the year	-	-	-	-	-	-	-	-
2.Utilisation during the year	-	-	-	-	-	-	-	-
(VI)Others	-	-	-	-	-	-	-	-
IV.Balance at end of current year	442,968,881.00	1,081,230,215.32	71,267,118.78	-940,209.09	-	235,701,180.14	966,840,818.40	5,910.84

Legal representative:

The person in charge of accounting affairs:

The head of the accounting department:

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019

Prepared by: FIYTA Precision Technology Co., Ltd.

Expressed in RMB

Item	Year ended 31/12/2018								
	Total shareholders' equity attributable to shareholders of the parent company							Non-controlling interests	Total
	Share capital	Capital reserve	Less: treasury shares	Other comprehensive income	Specific reserve	Surplus reserve	Retained earnings		
I. Balance at the end of prior 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
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Correction of prior period errors	-	-	-	-	-	-	-	-	-
Business combination involving enterprises under common control	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of current 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.Changes in equity during the year("- "for decrease)	-	-	-	6,081,302.61	-	16,210,080.45	79,876,038.64	265.86	102,167,687.56
(I)Total comprehensive income	-	-	-	6,081,302.61	-	-	183,835,095.29	265.86	189,916,663.76
(II)Shareholders' contributions and decrease of capital	-	-	-	-	-	-	-	-	-
1.Contribution by ordinary shareholders	-	-	-	-	-	-	-	-	-
2. Other equity holders' contribution	-	-	-	-	-	-	-	-	-
3. Increase in shareholders' equity resulted from share-based payments	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-
(III) Appropriation of profits	-	-	-	-	-	16,210,080.45	-103,959,056.65	-	-87,748,976.20
1. Appropriation for surplus reserves	-	-	-	-	-	16,210,080.45	-16,210,080.45	-	-
2. Accrual of general risk reserve	-	-	-	-	-	-	-	-	-
3. Distributions to shareholders	-	-	-	-	-	-	-87,748,976.20	-	-87,748,976.20
4. Others	-	-	-	-	-	-	-	-	-
(IV) Transfer within equity	-	-	-	-	-	-	-	-	-
1.Share capital increased by capital reserves transfer	-	-	-	-	-	-	-	-	-
2.Share capital increased by surplus reserves transfer	-	-	-	-	-	-	-	-	-
3.Transfer of surplus reserve to offset losses	-	-	-	-	-	-	-	-	-
4. Retained earnings transferred from movements of defined benefit plan	-	-	-	-	-	-	-	-	-
5. Other comprehensive income transferred to retained earning	-	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-	-
(V)Specific Reserve	-	-	-	-	-	-	-	-	-
1. Appropriation during the year	-	-	-	-	-	-	-	-	-
2.Utilisation during the year	-	-	-	-	-	-	-	-	-
(VI)Others	-	-	-	-	-	-	-	-	-
IV.Balance at end of current year	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

Legal representative:

The person in charge of accounting affairs:

The head of the accounting department:

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019

Prepared by: FIYTA Precision Technology Co., Ltd.

Expressed in RMB

Item	Year ended 31/12/2019							
	Share capital	Capital reserve	Less: treasury shares	Other comprehensive income	Specific reserve	Surplus reserve	Retained earnings	Total
I. Balance at the end of prior year	438,744,881.00	1,068,111,185.32	-	-	-	223,015,793.80	683,798,086.83	2,413,669,946.95
Add: Changes in accounting policies	-	-	-	-	-	-	-	-
Correction of prior period errors	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
II. Balance at the beginning of current year	438,744,881.00	1,068,111,185.32	-	-	-	223,015,793.80	683,798,086.83	2,413,669,946.95
III.Changes in equity during the year("- "for decrease)	4,224,000.00	18,774,571.10	71,267,118.78	-	-	12,685,386.34	26,425,063.99	-9,158,097.35
(I)Total comprehensive income	-	-	-	-	-	-	126,853,863.40	126,853,863.40
(II)Shareholders' contributions and decrease of capital	4,224,000.00	18,774,571.10	71,267,118.78	-	-	-	-	-48,268,547.68
1.Contribution by ordinary shareholders	4,224,000.00	14,361,600.00	71,267,118.78	-	-	-	-	-52,681,518.78
2. Other equity holders' contribution	-	-	-	-	-	-	-	-
3. Increase in shareholders' equity resulted from share-based payments	-	4,440,625.91	-	-	-	-	-	4,440,625.91
4. Others	-	-27,654.81	-	-	-	-	-	-27,654.81
(III) Appropriation of profits	-	-	-	-	-	12,685,386.34	-100,428,799.41	-87,743,413.07
1. Appropriation for surplus reserves	-	-	-	-	-	12,685,386.34	-12,685,386.34	-
2. Accrual of general risk reserve	-	-	-	-	-	-	-	-
3. Distributions to shareholders	-	-	-	-	-	-	-87,743,413.07	-87,743,413.07
4. Others	-	-	-	-	-	-	-	-
(IV) Transfer within equity	-	-	-	-	-	-	-	-
1.Share capital increased by capital reserves transfer	-	-	-	-	-	-	-	-
2.Share capital increased by surplus reserves transfer	-	-	-	-	-	-	-	-
3.Transfer of surplus reserve to offset losses	-	-	-	-	-	-	-	-
4. Retained earnings transferred from movements of defined benefit plan	-	-	-	-	-	-	-	-
5. Other comprehensive income transferred to retained earning	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-
(V)Specific Reserve	-	-	-	-	-	-	-	-
1. Appropriation during the year	-	-	-	-	-	-	-	-
2.Utilisation during the year	-	-	-	-	-	-	-	-
(VI)Others	-	-	-	-	-	-	-	-
IV.Balance at end of current year	442,968,881.00	1,086,885,756.42	71,267,118.78	-	-	235,701,180.14	710,223,150.82	2,404,511,849.60

Legal representative:

The person in charge of accounting affairs:

The head of the accounting department:

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2019

Prepared by: FIYTA Precision Technology Co., Ltd.

Expressed in RMB

Item	Year ended 31/12/2018							
	Share capital	Capital reserve	Less: treasury shares	Other comprehensive income	Specific reserve	Surplus reserve	Retained earnings	Total
I. Balance at the end of prior year	438,744,881.00	1,068,111,185.32	-	-	-	206,805,713.35	625,656,338.99	2,339,318,118.66
Add: Changes in accounting policies	-	-	-	-	-	-	-	-
Correction of prior period errors	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-
II. Balance at the beginning of current year	438,744,881.00	1,068,111,185.32	-	-	-	206,805,713.35	625,656,338.99	2,339,318,118.66
III.Changes in equity during the year("- "for decrease)	-	-	-	-	-	16,210,080.45	58,141,747.84	74,351,828.29
(I)Total comprehensive income	-	-	-	-	-	-	162,100,804.49	162,100,804.49
(II)Shareholders' contributions and decrease of capital	-	-	-	-	-	-	-	-
1.Contribution by ordinary shareholders	-	-	-	-	-	-	-	-
2. Other equity holders' contribution	-	-	-	-	-	-	-	-
3. Increase in shareholders' equity resulted from share-based payments	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-
(III) Appropriation of profits	-	-	-	-	-	16,210,080.45	-103,959,056.65	-87,748,976.20
1. Appropriation for surplus reserves	-	-	-	-	-	16,210,080.45	-16,210,080.45	-
2. Accrual of general risk reserve	-	-	-	-	-	-	-	-
3. Distributions to shareholders	-	-	-	-	-	-	-87,748,976.20	-87,748,976.20
4. Others	-	-	-	-	-	-	-	-
(IV) Transfer within equity	-	-	-	-	-	-	-	-
1.Share capital increased by capital reserves transfer	-	-	-	-	-	-	-	-
2.Share capital increased by surplus reserves transfer	-	-	-	-	-	-	-	-
3.Transfer of surplus reserve to offset losses	-	-	-	-	-	-	-	-
4. Retained earnings transferred from movements of defined benefit plan	-	-	-	-	-	-	-	-
5. Other comprehensive income transferred to retained earning	-	-	-	-	-	-	-	-
6. Others	-	-	-	-	-	-	-	-
(V)Specific Reserve	-	-	-	-	-	-	-	-
1. Appropriation during the year	-	-	-	-	-	-	-	-
2.Utilisation during the year	-	-	-	-	-	-	-	-
(VI)Others	-	-	-	-	-	-	-	-
IV.Balance at end of current year	438,744,881.00	1,068,111,185.32	-	-	-	223,015,793.80	683,798,086.83	2,413,669,946.95

Legal representative:

The person in charge of accounting affairs:

The head of the accounting department:

Notes to the Financial Statements

I. Company status

1. Company's profile

FIYTA Precision Technology Co., 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 prerequisite 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 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 reserve 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 shares 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%.

On 4 January 2019, pursuant to the approval by "Reply to approval of Implementation of First Phase of Restricted Share Incentive plan of FIYTA (Group) Holding Ltd." (GuoZi KaoFen [2018] No. 936) issued by SASAC, and approved by the board of directors and shareholder's general meeting, the Company implemented the incentive plan. On 11 January 2019, the restricted share incentive plan (first phase) granted a total of 4,224,000 restricted A-shares to 128 incentive individuals. As a result, the Company's registered capital increased to RMB442,968,881.00 and the equity capital held by China National Aviation Group decreased to 36.79%.

As of 31 December 2019, total outstanding shares issued by the Company was 442,968,881 shares. Refer to Note V. 27 "Share capital" for details.

According to the "Proposal of Change the Company's name and initials for A share stock" approved by the 3rd extraordinary shareholder's meeting in 2019, and upon examination and approval by Shenzhen Administration for Industry and Commerce, the Company's name was changed from "FIYTA (Group) Co., Ltd. to "FIYTA Precision Technology Co., Ltd." since 9 January 2020.

Corporate governance established by the Company includes 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, Inspection and Audit, Finance, Human Resources, Strategy and Operating, Data and Information, and Property Management departments.

The business scope of the Company and its subsidiaries (collectively as "the Group") 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; research, design, production, sales and technical support for precise watches and components; import and export business (according to Shen Mao Guan Deng Zheng Zi No.2007-072). The legal representative of the Company is Huang Yongfeng.

The financial statements have been approved and authorised for issue by the 16th meeting of the 9th Board of Directors on 18 March 2020.

2. Scope of consolidation

There are 11 subsidiaries that are included in the Company's scope of consolidation for year 2019, see Note VII "Interests in other entities" for detail. No changes in scope of consolidation in 2019.

II. Basis of preparation

The financial statement is prepared in accordance with the requirements of Accounting Standards for Business Enterprises and associated 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).

The financial statements of the Company have been prepared on going concern basis.

Accrual basis is adopted for the Group's accounting activity. Except for some financial instruments, the financial statements are measured using historical cost. In case of impairment occurred on assets, provisions for impairment are provided for in accordance with related regulations.

III. Significant accounting policies and accounting estimates

Based on actual business characteristics, the Group determined fixed asset depreciation, intangible assets amortization and revenue recognition policies. Refer to Note III 15, Note III 18 and Note III 25 for specific accounting policies.

1. 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 2019, the results of operations and the cash flows for the year then ended of the Company.

2. Accounting period

The accounting period of the Company is the calendar year, i.e. from 1 January to 31 December of each year.

3. Operating cycle

The operating cycle of the Company is 12 months.

4. Recording currency

The Company and its domestic subsidiaries adopt Renminbi ("RMB") 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 Group's financial statements is Renminbi.

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

(1) Business combination involving entities under common control

For a business combination involving enterprises under common control, the assets acquired and liabilities assumed are measured based on their carrying amounts in the consolidated financial statements of the ultimate controlling party at the combination date, except for adjustments due to different accounting policies. The difference between the carrying amount of the net assets acquired and the consideration paid for the combination (or the total par value of shares issued) is adjusted against share premium in the capital reserve, with any excess adjusted against retained earnings.

Business combinations involving entities under common control achieved in stages that involves multiple transactions

In the separate financial statements, initial investment cost is the acquirer's share of the carrying amount of the net assets of the acquiree in the consolidated financial statements of the ultimate controlling party at the combination date. The difference between the initial investment cost and the sum of carrying amount of investment prior to combination date and carrying amount of new considerations paid for the combination at the combination date is adjusted to capital reserve (share premium). If the capital reserve is not sufficient to absorb the difference, any excess is adjusted against retained earnings.

In the consolidated financial statements, assets acquired and liabilities assumed by acquirer in a business combination are measured at their carrying amount as recorded in the consolidated financial statements of the ultimate controlling party at the combination date, except for adjustments due to different accounting policies. The difference between the carrying amount of the net assets acquired and the sum of carrying amount of investment prior to combination date and carrying amount of new considerations paid for the combination at the combination date is adjusted to capital reserve (share premium). If the capital reserve is not sufficient to absorb the difference, any excess is adjusted against retained earnings. The profit or loss, other comprehensive income and changes in other owner's equity recognized by the acquirer during the period from the later of initial investment date and the date that the acquirer and acquiree both under common ultimate control to the combination date are offset the opening retained earnings or profit for loss for the current period in the comparative statements.

(2) Business combinations involving entities not under common control

For business combinations involving enterprises not under common control, the consideration costs include acquisition-date fair value of assets transferred, liabilities incurred or assumed and equity securities issued by the acquirer in exchange for control of the acquiree. At the acquisition date, the acquired assets, liabilities and contingent liabilities of the acquiree are measured at their fair value. The acquiree's identifiable asset, liabilities and contingent liabilities, are recognised at their acquisition-date fair value.

Where the combination cost exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill, and subsequently measured on the basis of its cost less accumulated impairment provisions. Where the combination cost is less than the acquirer's interest in the fair value of the acquiree's identifiable net

assets, the difference is recognised in profit or loss for the current period after reassessment.

Business combinations involving entities not under common control achieved in stages that involves multiple transactions

In the separate 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 additional investment cost at the acquisition date. When the previously-held equity investment which was accounted for under the equity method before the acquisition date, any other comprehensive income previously recognized is not adjusted on acquisition date. When the investment is disposed of in later date, the amount that was recognized in other comprehensive income is recognized on the same basis as would be required if the investee had disposed directly of the related assets or liabilities. The owners' equity recognized as the changes of the investee's other owners' equity except for net profit or loss, other comprehensive income and profit distribution, are transferred to profit or loss for the current period when disposing the investment. When the previously-held equity investment which was measured at fair value before the acquisition date, the accumulated changes in fair value included in other comprehensive income is transferred to profit or loss for the current period upon commencement of the cost method.

In the consolidated financial statements, the combination cost is the sum of the consideration paid at the acquisition date and the fair value of equity investment of the acquiree held prior to the acquisition date. The cost of equity investment of the acquiree held prior to the acquisition date is re-measured at the fair value at the acquisition date, the difference between the fair value and carrying value is recognized as profit or loss for the current period. Other comprehensive income and changes of other owners' equity from the equity interest held in the acquiree prior to the acquisition date are transferred to profit or loss for the current period, except for other comprehensive income resulted in the change of net liabilities or assets in the investee's re-measurement of defined benefit plan.

(3) Transaction costs for business combination

The overhead for the business combination, including the expenses for audit, legal services, valuation advisory, and other administrative expenses, are recorded in profit or loss for the current period when incurred. The transaction costs of equity or debt securities issued as the considerations of business combination are included in the initial recognition amount of the equity or debt securities.

6. Consolidated financial statements

(1) Scope of consolidated financial statements

The scope of consolidated financial statements is based on control. Control exists when the Company has power over the investee; exposure, or rights to variable returns from its involvement with the investee and has the ability to affect its returns through its power over the investee. A subsidiary is an entity that is controlled by the Company (including enterprise, a portion of an investee as a deemed separate component, and structured entity controlled by the enterprise).

(2) Basis of preparation of consolidated financial statements

The consolidated financial statements are prepared by the Company based on the financial statements of the Company and its subsidiaries and other relevant information. When preparing consolidated financial statements, the accounting policies

and accounting periods of the subsidiaries should be consistent with those established by the Company, and all significant intra-group balances and transactions are eliminated.

Where a subsidiary or business has been acquired through a business combination involving enterprises under common control in the reporting period, the subsidiary or business is deemed to be included in the consolidated financial statements from the date they are controlled by the ultimate controlling party. Their operating results and cash flows are included in the consolidated income statement and consolidated cash flow statement respectively from the date they are controlled by the ultimate controlling party.

Where a subsidiary or business has been acquired through a business combination not involving enterprises under common control in the reporting period, the operating results and cash flow of the subsidiary or business after the acquisition date are included in the consolidated income statement and consolidated cash flow statement respectively.

The portion of a subsidiary's equity that is not attributable to the parent is treated as non-controlling interests and presented separately in the consolidated balance sheet within shareholders' equity. The portion of net profit or loss of subsidiaries for the period attributable to non-controlling interests is presented separately in the consolidated income statement below the "net profit" line item. When the amount of loss for the current period attributable to the non-controlling shareholders of a subsidiary exceeds the non-controlling shareholders' share of the opening owners' equity of the subsidiary, the excess is still allocated against the non-controlling interests.

(3) Acquiring non-controlling interests of subsidiary

Where the Company acquires a non-controlling interest from a subsidiary's non-controlling shareholders or disposes of a portion of an interest in a subsidiary without a change in control, the transaction is treated as equity transaction, and the book value of shareholder's equity attributed to the Company and to the non-controlling interest is adjusted to reflect the change in the Company's interest in the subsidiaries. The difference between the proportion interests of the subsidiary's net assets being acquired or disposed and the amount of the consideration paid or received is adjusted to the capital reserve in the consolidated balance sheet, with any excess adjusted to retained earnings.

(4) Losing control over the subsidiary

When the Company loses control over a subsidiary because of disposing part of equity investment or other reasons, the remaining part of the equity investment is re-measured at fair value at the date when the control is lost. A gain or loss is recognised in the current period and is calculated by the aggregate of consideration received in disposal and the fair value of remaining part of the equity investment deducting the share of net assets in proportion to previous shareholding percentage in the former subsidiary since acquisition date and the goodwill.

Other comprehensive income related to the former subsidiary is transferred to profit or loss when the control is lost, except for the comprehensive income arising from the movement of net liabilities or assets in the former subsidiary's re-measurement of defined benefit plan.

7. Joint arrangement classification 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.

(1) Joint operations

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.

The Company recognizes the following items relating to its interest in a joint operation, and account for them in accordance with relevant accounting standards:

- A、its solely-held assets, and its share of any assets held jointly;
- B、its solely-assumed liabilities, and its share of any liabilities assumed jointly;
- C、its revenue from the sale of its share of the output arising from the joint operation;
- D、its share of the revenue from the sale of the output by the joint operation; and
- E、its solely-incurred expenses, and its share of any expenses incurred jointly.

(2) Joint ventures

A joint venture is a joint arrangement whereby the joint investors have rights to the net assets of the arrangement.

The Company adopts equity method under long-term equity investment in accounting for its investment in joint venture.

8. Cash and cash equivalents

Cash comprises cash in hand and deposits that can be readily withdrawn on demand. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

9. Foreign currency transactions and translation of foreign currency financial statements

(1) Foreign currency transactions

Foreign currency transactions are translated into the functional currency of the Company, using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currencies are translated to Renminbi at the spot exchange rate at the balance sheet date. The resulting exchange differences between the spot exchange rate on balance sheet date and the spot exchange rate on initial recognition or on the previous balance sheet date are recognised in profit or loss. Non-monetary items that are measured at historical cost in foreign currencies are translated to Renminbi using the exchange rate at the transaction date. Non-monetary items that are measured at fair value in foreign currencies are translated using the exchange rate at the date the fair value is determined. The resulting exchange differences are recognised in profit or loss.

(2) Translation of foreign currency financial statements

When translating the foreign currency financial statements of overseas subsidiaries, assets and liabilities of foreign operation are translated to Renminbi at the spot exchange rate at the balance sheet date. Equity items, excluding “retained earnings”, are translated to Renminbi at the spot exchange rates at the transaction dates.

Income and expenses of foreign operation are translated to Renminbi at the spot exchange rates.

Cash flow statement of foreign operation is translated to Renminbi at the spot exchange rates [the rates determined under a systematic and rational method that approximate the spot exchange rates] at the cash flow occurrence dates. Effect of foreign exchange rate changes on cash and cash equivalents is presented separately as "Effect of foreign exchange rate changes on cash and cash equivalents" in the cash flow statement.

The resulting translation differences are recognised in other comprehensive income in shareholders' equity of balance sheet. The translation differences accumulated in shareholders' equity with respect to a foreign operation are transferred to profit or loss in the period when the foreign operation is disposed.

10. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one party and a financial liability or an equity instrument of other parties.

(1) Recognition and derecognition of financial instruments

A financial asset or financial liability is recognised when the Group becomes one party of financial instrument contracts.

If one of the following conditions is met, the financial assets are terminated:

- ① The right of the contract to receive the cash flows of financial assets terminates
- ② The financial asset has been transferred, and is in accordance with the following conditions for derecognition.

If the obligations of financial liability have been discharged in total or in part, derecognize all or part of it. If the Group (debtor) makes an agreement with the creditor to replace the current financial liability of assuming new financial liability which contract provisions are different in substance, derecognize the current financial liability and meanwhile recognize as the new financial liability.

If the financial assets are traded in regular ways, they are recognised and derecognised at the transaction date.

(2) Classification and measurement of financial assets

Financial assets are classified into the following three categories depends on the Group's business mode of managing financial assets and cash flow characteristics of financial assets: financial assets measured at amortized cost, financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss.

Financial assets measured at amortised cost

The Group shall classify financial assets that meet the following conditions and are not designated as financial assets at fair value through profit or loss as financial assets measured at amortized cost:

- The Group's business model for managing the financial assets is to collect contractual cash flows;
- The terms of the financial asset contract stipulate that cash flows generated on a specific date are only payments of principal and interest based on the amount of outstanding principal.

After initial recognition, the real interest rate method is used to measure the amortized cost of such financial assets. Profits or losses arising from financial assets measured at amortized costs and not part of any hedging relationship are included in current profits and losses when the recognition is terminated, amortized or impaired according to the real interest rate.

Financial assets at fair value through other comprehensive income

The Group shall classify financial assets that meet the following conditions and are not designated as financial assets measured at fair value and whose changes are recorded in current profits and losses as financial assets measured at fair value through other comprehensive income:

- The Group's business model for managing the financial assets is both to collect contractual cash flows and to sell the financial assets;
- The terms of the financial asset contract stipulate that cash flows generated on a specific date are only payments of principal and interest based on the amount of outstanding principal.

After initial recognition, financial assets are subsequently measured at fair value. Interest, impairment losses or gains and exchange gains calculated by the effective interest rate method are recognised in profit or loss, while other gains or losses are recognised in other comprehensive gains. When derecognized, the accumulated gains or losses previously recognised in other comprehensive gains are transferred from other comprehensive gains and recorded in current profits and losses.

Financial assets at fair value through profit or loss

In addition to the above financial assets which are measured at amortized cost or at fair value through other comprehensive income, the Group classifies all other financial assets as financial assets at fair value through profit or loss. When initial recognition, in order to eliminate or significantly reduce accounting mismatches, the Group irrevocably designates some financial assets that should have been measured at amortized cost or at fair value through other comprehensive gains as financial assets at fair value through profit or loss.

After initial recognition, the financial assets are subsequently measured at fair value, and the profits or losses (including interest and dividend income) generated from which are recognised in profit or loss, unless the financial assets are part of the hedging relationship.

However, for non-tradable equity instrument investment, when initially recognized, the Group irrevocably designates them as financial assets at fair value through other comprehensive gains. The designation is made on the basis of individual investment, and the relevant investment conforms to the definition of equity instruments from the issuer's point of view.

After initial recognition, financial assets are subsequently measured at fair value. Dividend income that meets the requirements is recognised in profit and loss, and other gains or losses and changes in fair value are recognised in other comprehensive gains. When derecognized, the accumulated gains or losses previously recognised in other comprehensive gains are transferred from other comprehensive gains to retained earnings.

The business model of managing financial assets refers to how the group manages financial assets to generate cash flow. The business model decides whether the source of cash flow of financial assets managed by the Group is to collect contract cash flow, sell financial assets or both of them. Based on objective facts and the specific business objectives of financial assets management decided by key managers, the Group determines the business model of financial assets management.

The Group evaluates the characteristics of the contract cash flow of financial assets to determine whether the contract cash flow generated by the relevant financial assets on a specific date is only to pay principal and interest based on the amount of unpaid principal. Among them, principal refers to the fair value of financial assets at the time of initial confirmation; interest

includes the consideration of time value of money, credit risk related to the amount of unpaid principal in a specific period, and other basic borrowing risks, costs and profits. In addition, the Group evaluates the terms and conditions of the contracts that may lead to changes in the time distribution or amount of cash flow in financial asset contracts to determine whether they meet the requirements of the above contract cash flow characteristics.

Only when the Group changes its business model of managing financial assets, all the financial assets affected shall be reclassified on the first day of the first reporting period after the business model changes, otherwise, financial assets shall not be reclassified after initial confirmation.

Financial assets are measured at fair value at initial recognition. For financial assets at fair value through profits and losses, the related transaction costs are directly recognized through profits and losses, and the related transaction costs of other types of financial assets are included in the initial recognition amounts.

(3) Classification and measurement of financial liabilities

On initial recognition, financial liabilities are classified as: financial liabilities at fair value through profit or loss (FVTPL), and financial liabilities measured at amortized cost. For financial liabilities not classified as at fair value through profit or loss, the transaction costs are recognised in the initially recognised amount.

Financial liabilities at fair value through profits and losses

Financial liabilities at FVTPL include transaction financial liabilities and financial liabilities designated as at fair value through profit or loss in the initial recognition. Such financial liabilities are subsequently measured at fair value, all gains and losses arising from changes in fair value and dividend and interest expense relative to the financial liabilities are recognised in profit or loss for the current period.

Financial liabilities measured at amortized cost

Other financial liabilities are subsequently measured at amortized cost using the effective interest method; gains and losses arising from derecognition or amortization is recognised in profit or loss for the current period.

Distinction between financial liabilities and equity instruments

The financial liability is the liability that meets one of following criteria:

- ① Contractual obligation to deliver cash or other financial instruments to another entity.
- ② Under potential adverse condition, contractual obligation to exchange financial assets or financial liabilities with other parties.
- ③ A contract that will or may be settled in the entity's own equity instruments and is a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity's own equity instruments.
- ④ A derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

If the group cannot unconditionally avoid fulfilling a contractual obligation by delivering cash or other financial assets, the

contractual obligation meets the definition of financial liability.

If a financial instrument must or are able to be settled by the group's own equity instrument, the group should consider whether the group's equity instrument as the settlement instrument is a substitute of cash or other financial assets or the residual interest in the assets of an entity after deducting all of its liabilities. If the former, the tool is the group's financial liability; if the latter, the tool is the equity instrument of the group.

(4) Fair value of financial instruments

Refer to Note III. 11 for determining the fair value of financial assets and financial liabilities.

(5) Impairment of financial assets

On the basis of expected credit losses, the Group performs impairment assessment on the following items and confirms the loss provision.

- financial assets measured at amortized cost;
- debt investments at fair value through other comprehensive income;

Measurement of expected credit losses

The expected credit losses refer to the weighted average of the credit losses of financial instruments that are weighted by the risk of default. Credit loss refers to the difference between all contractual cash flows receivable from the contract and all cash flows expected to be received by the Group at the original effective interest rate, that is, the present value of all cash shortages.

The Group separately measures the expected credit losses of financial instruments at different stages. The credit risk on a financial instrument has not increased significantly since initial recognition, which is in the first stage. The Group shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses. If the credit risk of financial instruments has increased significantly since the initial recognition, but no credit impairment has occurred, which is in the second stage. The Group shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses. If the financial instrument has occurred credit impairment since initial recognition, which is in the third stage, and the Group shall measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses.

For financial instruments with lower credit risk at the balance sheet date, the Group assumes that their credit risk has not increased significantly since the initial recognition, and shall measure the loss allowance for that financial instrument at an amount equal to 12-month expected credit losses.

The lifetime expected credit losses, refer to the expected credit losses caused by all possible defaults during the whole expected lifetime. The 12-month expected credit losses, refer to the expected credit losses caused by all possible defaults during the 12-month after balance sheet date (if the expected duration of financial instrument is less than 12 months, then for the expected duration), which is part of the lifetime expected credit losses.

When measure the expected credit loss, the longest contract period (including the option of renewal) that the group needs to consider is the longest contract period the enterprise facing credit risk.

For financial instruments in the first stages, second stages and with lower credit risk, the Group calculates interest income on the basis of their book balances without deduction of impairment provisions and actual interest rates. For financial instruments in the third stage, the Group calculates interest income according to their book balance minus the impairment provision and the actual interest rate.

For bills receivable, accounts receivable and contract assets, whether or not there are significant financing elements, the Group shall always measure the loss allowance for them at an amount equal to the lifetime expected credit losses.

According to the characteristics of credit risk, the group divides and combines bills receivable and accounts receivable, contract assets and leased receivables. On the basis of the combination, the group calculates the expected credit losses.

The basis of determining the combination is as follows:

A、 Bills receivable

- Bill receivable group 1: Bank acceptance bills
- Bill receivable group 2: Trade acceptance bills

B、 Accounts receivable

- Accounts receivable group 1: Amount receivables of related parties
- Accounts receivable group 2: Amount receivables of other customers

For the accounts receivable and bills receivable divided into groups, the group, taking into consideration of historical credit losses, current situation and forecast of future economic situation, prepares a comparison table between the ageing of accounts receivable and the lifetime expected credit losses rate to calculate the expected credit losses.

Other receivables

According to the characteristics of credit risk, the group divides other receivables into group. On the basis of the combination, the group calculates the expected credit losses. The basis of determining the combination is as follows:

- Other receivables group 1: Receivables of down payment and guarantee
- Other receivables group 2: Petty cash for employees
- Other receivables group 3: Social security payment paid on-behalf of employees
- Other receivables group 4: Receivables from related parties in scope of consolidation
- Other receivables group 5: Others

For other receivables that divided into groups, the Group calculates the expected credit losses through the exposure on risk of default and expected credit losses rate in the next 12 months or the lifetime of receivables.

Debt investments and other debt investments

For debt investments and other debt investments, the Group calculates the expected credit losses through risk of default and expected credit losses rate in the next 12 months or the lifetime. according to the nature of the investment, the types of counterparty and risk exposure.

Assessment of significant increase of credit risk

By comparing the default risk of financial instruments on balance sheet day with that on initial recognition day, the Group

determines the relative change of default risk of financial instruments during the expected life of financial instruments, to evaluate whether the credit risk of financial instruments has increased significantly since the initial recognition.

To determine whether credit risk has increased significantly since the initial recognition., the Group considers reasonable and valid information, including forward-looking information, that can be obtained without unnecessary additional costs or efforts.

Information considered by the Group includes:

- The debtor can't pay principal and interest on the expiration date of the contract;
- Serious deterioration of external or internal credit ratings (if any) of financial instruments that have occurred or are expected to occur;
- Serious deterioration of the debtor's operating results that have occurred or are expected to occur;
- Changes in the existing or anticipated technological, market, economic or legal environment will have a significant negative impact on the debtor's repayment capacity.

According to the nature of financial instruments, the Group evaluates whether credit risk has increased significantly on the basis of a single financial instrument or a combination of financial instruments. When assessing on the basis of the combination of financial instruments, the Group can classify financial instruments based on common credit risk characteristics, such as overdue information and credit risk rating.

Financial assets that have occurred credit impairment

On the balance sheet date, the Group assesses whether credit impairment has occurred in financial assets measured at amortized cost and debt investments measured at fair value through other comprehensive income. When one or more events adversely affect the expected future cash flow of a financial asset occur, the financial asset becomes a financial asset with credit impairment. Evidence of credit impairment of financial assets includes the following observable information:

- Significant financial difficulties occur to the issuer or debtor;
- The debtor breaches any of the contractual stipulations, for example, fails to pay or delays the payment of interests or the principal, etc.;
- For economic or contractual considerations related to the financial difficulties of the debtor, the Group grants concessions to the debtor that will not be made under any other circumstances.
- The debtor is probable to go bankrupt or undergo other financial restructuring.
- Financial difficulties of issuer or debtor lead to the disappearance of financial assets active market.

Presentation of expected credit losses allowance

In order to reflect the changes happened to the credit risk of financial instruments since the initial recognition, the Group recalculates the expected credit losses on each balance sheet day. The increase or reversal of the loss provision resulting therefrom is recognised as an impairment loss or gain in the current profit or loss. For financial assets measured at amortized cost, loss provision offsets the carrying amount of the financial assets shown on the balance sheet; for debt investments measured at fair value through other comprehensive income, the Group recognizes its loss provision through other comprehensive income and does not offset the financial assets' carrying amount.

Write off

If the Group no longer reasonably expects that the financial assets contract cash flow can be recovered fully or partially, the financial assets book balance will be reduced directly. Such reduction constitutes the derecognition of the financial assets. What usually occurs when the Group determines that the debtor has no assets or sources of income to generate sufficient cash flows to pay the amount to be reduced. However, in accordance with the Group's procedures for recovering due payment, the financial assets reduced may still be affected by enforcement activities.

If the reduced financial assets are recovered later, the returns as impairment losses shall be included in the profits and losses of the recovery period.

(6) Transfer of financial assets

Transfer of financial assets refers to the transference or deliverance of financial assets to the other party (the transferee) other than the issuer of financial assets.

The Group derecognizes a financial asset only if it transfers substantially all the risks and rewards of ownership of the financial asset to the transferee; the Group should not derecognize a financial asset if it retains substantially all the risks and rewards of ownership of the financial asset.

The Group neither transfers nor retains substantially all the risks and rewards of ownership, shows as the following circumstances: if the Group has forgone control over the financial assets, derecognize the financial assets and verify the assets and liabilities; if the Group retains its control of the financial asset, the financial asset is recognized to the extent of its continuing involvement in the transferred financial asset and recognize an associated liability is recognized.

(7) Offsetting financial assets and financial liabilities

When the Group has the legal rights to offset the recognized financial assets and financial liabilities and is capable to carry it out, the Group plans to settlement or realize the financial assets and pay off the financial liabilities in net amount, the financial assets and financial liabilities shall be presented in the balance sheet at net amount. Except this, financial assets and financial liabilities shall be listed separately in balance sheet and are not allowed to offset.

(8) Financial instruments that subject to foreign exchange rate volatility risks

Foreign exchange rate risk refers to risk of the fair value or future cash flows varies because of changes in foreign exchange. Foreign exchange rate risk arises from financial instruments that denominated in foreign currencies other than the recording currency. The overseas subsidiary of the Company mainly uses Hong Kong Dollar and Swiss Franc for settlement. The Company's monetary assets and liabilities that are denominated in foreign currencies are all subject to the impact of foreign exchange rate volatility.

11. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company measures related assets or liabilities at fair value assuming the assets or liabilities are exchanged in an

orderly transaction in the principal market; in the absence of a principal market, assuming the assets or liabilities are exchanged in an orderly transaction in the most advantageous market. Principal market (or the most advantageous market) is the market that the Company can normally enter into a transaction on measurement date. The Company adopts the presumptions that would be used by market participants in achieving the maximized economic value of the assets or liabilities.

For financial assets or financial liabilities with active markets, the Company uses the quoted prices in active markets as their fair value. Otherwise, the Company uses valuation technique to determine their fair value.

Fair value measurement of a non-financial asset takes into account market participants' ability to generate economic benefits using the asset in its best way or by selling it to another market participant that would best use the asset.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs, and using unobservable inputs only if the observable inputs aren't available or impractical.

Fair value level for assets and liabilities measured or disclosed at fair value in the financial statements are determined according to the significant lowest level input to the entire measurement: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date; Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly; Level 3 inputs are unobservable inputs for the assets or liabilities.

At the balance sheet date, the Company re-values assets and liabilities being measured at fair value continuously in the financial statements to determine whether to change the levels of fair value measurement.

12. Inventories

(1) Classification

Inventories include raw materials, work in progress, and finished goods.

(2) Measurement method of cost of inventories

Inventories are initially measured at cost. Raw materials and finished goods are calculated using weighted average method (except for branded watches) and specific identification method (for branded watches).

(3) Basis for determining the net realisable value and method for provision for obsolete inventories

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The net realisable value is measured based on the verified evidences and considerations for the purpose of holding inventories and the effect of post balance sheet events.

Any excess of the cost over the net realisable value of inventories is recognised as a provision for obsolete inventories, and is recognised in profit or loss. The Company usually recognises provision for decline in value of inventories by a single (type, group) inventory item. If the factors caused the value of inventory previously written-down have disappeared, the provision for decline in value of inventories previously made is reversed.

(4) Inventory count system

The Company maintains a perpetual inventory system.

(5) Amortization methods of low-value consumables and packaging materials

Low-value consumables and packaging materials are charged to profit or loss when they are used.

13. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries and equity investments in joint ventures and associates. An associate is an enterprise over which the Company has significant influence.

(1) Determination of initial investment cost

The initial cost of a long-term equity investment acquired through a business combination involving enterprises under common control is the Company's share of the carrying amount of the subsidiary's equity in the consolidated financial statements of the ultimate controlling party at the combination date. For a long-term equity investment obtained through a business combination not involving enterprises under common control, the initial cost is the combination cost.

A long-term equity investment acquired other than through a business combination: A long-term equity investment acquired other than through a business combination is initially recognised at the amount of cash paid if the Company acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

(2) Subsequent measurement and recognition of profit or loss

Long-term equity investments in subsidiaries are accounted for using the cost method. An investment in a joint venture or an associate is accounted for using the equity method for subsequent measurement.

For a long-term equity investment which is accounted for using the cost method, Except for cash dividends or profit distributions declared but not yet distributed that have been included in the price or consideration paid in obtaining the investments, the Company recognises its share of the cash dividends or profit distributions declared by the investee as investment income for the current period.

For a long-term equity investment which is accounted for using the equity method, where the initial cost of a long-term equity investment exceeds the Company's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at cost. Where the initial investment cost is less than the Company's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the investment is initially recognised at the investor's share of the fair value of the investee's identifiable net assets, and the difference is recognised in profit or loss.

Under the equity method, the Company recognises its share of the investee's profit or loss and other comprehensive income as investment income or losses and other comprehensive income respectively, and adjusts the carrying amount of the investment accordingly. Once the investee declares any cash dividends or profit distributions, the carrying amount of the investment is reduced by the amount attributable to the Company. Changes in the Company's share of the investee's owners' equity, other than those arising from the investee's net profit or loss, other comprehensive income or profit distribution (referred to as "other changes in owners' equity"), is recognised directly in the Company's equity, and the carrying amount of the investment is adjusted accordingly. In calculating its share of the investee's net profits or losses, other comprehensive

income and other changes in owners' equity, the Group recognises investment income and other comprehensive income after making appropriate adjustments to align the accounting policies or accounting periods with those of the Group based on the fair value of the investee's identifiable net assets at the date of acquisition.

When the Company becomes capable of exercising joint control or significant influence (but not control) over an investee due to additional investment or other reasons, the Company uses the fair value of the previously-held equity investment, together with additional investment cost, as the initial investment cost under the equity method. The difference between the fair value and carrying amount of the previously-held equity investment, and the accumulated changes in fair value included in other comprehensive income, shall be transferred to profit or loss for the current period upon commencement of the equity method. When the Company can no longer exercise joint control of or significant influence over an investee due to partial disposal of the equity investment or other reasons, the remaining equity investment shall be accounting for using Accounting Standard for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments, and the difference between the fair value and the carrying amount of the remaining equity investment shall be charged to profit or loss for the current period at the date of the loss of joint control or significant influence. Any other comprehensive income previously recognised under the equity method shall be accounted for on the same basis as would have been required if the Company had directly disposed of the related assets or liabilities for the current period upon discontinuation of the equity method. Other movement of owner's equity related to original equity investment is transferred to profit or loss for the current period.

When the Company can no longer exercise control over an investee due to partial disposal of the equity investment or other reasons, and the remaining equity after disposal can exercise joint control of or significant influence over an investee, the remaining equity is adjusted as using equity method from acquisition. When the remaining equity can no longer exercise joint control of or significant influence over an investee, the remaining equity investment shall be accounted for using Accounting Standard for Business Enterprises No. 22-Recognition and Measurement of Financial Instruments, and the difference between the fair value and the carrying amount of the remaining equity investment shall be charged to profit or loss for the current period at the date of loss of control.

When the Company can no longer exercise control over an investee due to new capital injection by other investors, and the Company can exercise joint control of or significant influence over an investee, the Company recognizes its share of the investee's new added net assets using new shareholding percentage. The difference between its new share of the investee's new added net assets and its decreased shareholding percentage of the original investment is recognized in profit or loss. And the Company adjusts to the equity method using the new shareholding percentage as if it uses the equity method since it obtains the investment.

Unrealised profits and losses resulting from transactions between the Company and its associates or joint ventures are eliminated to the extent of the Company's interest in the associates or joint ventures. Unrealised losses resulting from transactions between the Company and its associates or joint ventures are eliminated in the same way as unrealised gains but only to the extent that there is no impairment.

(3) Criteria for determining the existence of joint control or significant influence over an investee

Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. When assessing whether the Company can exercise joint control over an investee, the Company first considers whether no single participant party is in a position to control the investee's related activities unilaterally, and then considers whether strategic decisions relating to the investee's related activities require the unanimous consent of all participant parties that sharing of control. All the parties, or a group of the parties, control the arrangement collectively when they must act together to direct the relevant activities. When more than one combination of the parties can control an arrangement collectively, joint control does not exist. A party that holds only protective rights does not have joint control of the arrangement.

Significant influence is the power to participate in the financial and operating policy decisions of an investee but does not have control or joint control over those policies. When determining whether the Company can exercise significant influence over an investee, the effect of potential voting rights (for example, warrants, share options and convertible bonds) held by the Company or other parties that are currently exercisable or convertible shall be considered.

When the Company, directly or indirectly through subsidiaries, owns 20% of the investee (including 20%) or more but less than 50% of the voting shares, it has significant influence over the investee unless there is clear evidence to show that in this case the Company cannot participate in the production and business decisions of the investee, and cannot form a significant influence. When the Company owns less than 20% of the voting shares, generally it does not have significant influence over the investee, unless there is clear evidence to show that in this case the Company can participate in the production and business decisions of the investee so as to form a significant influence.

(4) Method of impairment testing and impairment provision

For investments in subsidiaries, associates and joint ventures, refer to Note III. 20 for the Company's method of asset impairment.

14. Investment property

Investment properties are properties held either to earn rental income or for capital appreciation or for both. The Company's investment properties include leased land use rights, land use right held and provided for to transfer after appreciation and leased building and construction.

Investment properties are initially measured at acquisition cost, and depreciated or amortized using the same policy as that for fixed assets or intangible assets.

For the impairment of the investment properties accounted for using the cost model, refer to Note III.20.

Gains or losses arising from the sale, transfer, retirement or disposal of an item of investment property are determined as the difference among the net disposal proceeds, the carrying amount of the item, related taxes and surcharges, and are recognised in profit or loss for current period.

Depreciation method of investment property is the same as fixed assets. Refer to Note III. 15 for details.

15. Fixed assets

(1) Recognition of fixed assets

Fixed assets represent the tangible assets held by the Company for use in production of goods, use in supply of services, rental or for administrative purposes with useful lives over one accounting year.

Fixed assets are only recognised when its related economic benefits are likely to flow to the Company and its cost can be reliably measured.

Fixed asset is initially measured at cost.

(2) Depreciation of fixed assets

The cost of a fixed asset is depreciated using the straight-line method since the state of intended use, unless the fixed asset is classified as held for sale. Not considering impairment provision, the estimated useful lives, residual value rates and depreciation rates of each class of fixed assets are as follows:

Class	Estimated useful life (years)	Residual value rate %	Depreciation rate %
Property and plant	20-35	5.00	4.80-2.70
Machinery and equipment	10	5.00-10.00	9.50-9.00
Electronic equipment	5	5.00	19.00
Motor vehicles	5	5.00	19.00
Others	5	5.00	19.00

For impaired fixed assets, cumulative amount of impairment provision is deducted in determining the depreciation rate.

(3) For the impairment of the fixed assets, please refer to Note III. 20.

(4) Useful lives, estimated residual values and depreciation methods are reviewed at least at each year-end.

The Company adjusts the useful lives of fixed assets if their expected useful lives are different with the original estimates and adjusts the estimated net residual values if they are different from the original estimates.

(5) Overhaul costs

Overhaul costs occurred in regular inspection are recognized in the cost if there is undoubted evidence to confirm that this part meets the recognition criteria of fixed assets, otherwise, the overhaul costs are recognized in profit or loss for the current period. Depreciation is provided during the period of regular overhaul.

16. Construction in progress

Construction in progress is recognized based on the actual construction cost, including all expenditures incurred for construction projects, capitalised borrowing costs and any other costs directly attributable to bringing the asset to working condition for its intended use.

Construction in progress is transferred to fixed asset when it is ready for its intended use.

For the impairment of construction in progress, please refer to Note III. 20.

17. Borrowing costs

(1) Capitalisation criteria

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalised as part of the cost of that asset. Other borrowing costs are expensed in profit or loss as incurred. The capitalisation of borrowing costs shall commence only when the following criteria are met:

- ① capital expenditures have been incurred, including expenditures that have resulted in payment of cash, transfer of other assets or the assumption of interest-bearing liabilities;
- ② borrowing costs have been incurred;
- ③ the activities that are necessary to prepare the asset for its intended use or sale have commenced.

(2) Capitalisation period

The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use, the borrowing costs incurred thereafter are recognised in profit or loss for the current period.

Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

(3) Capitalisation rate of borrowing costs and calculation basis of capitalised amount

For interest expense actually incurred on specific borrowings, the eligible capitalised amount is the net amount of the borrowing costs after deducting any investment income earned before some or all of the funds are used for expenditures on the qualifying asset. To the extent that the Company borrows funds generally and uses them for the purpose of obtaining a qualifying asset, the Company shall determine the amount of borrowing costs eligible for capitalisation by applying a capitalisation rate to the expenditures on that asset, the capitalisation rate shall be the weighted average of the borrowing costs applicable to the borrowings of the Company that are outstanding during the period, other than borrowings specifically for the purpose of obtaining a qualifying asset.

In the capitalisation period, exchange differences of specific borrowings in foreign currency shall be capitalised; exchange differences of general borrowings in foreign currency is recognised in profit or loss for the current period.

18. Intangible assets

Intangible assets include software patent rights etc.

Intangible assets are stated at actual cost upon acquisition and the useful economic lives are determined at the point of acquisition. When the useful life is finite, amortisation method shall reflect the pattern in which the asset's economic benefits are expected to be realised. If the pattern cannot be determined reliably, the straight-line method shall be used. An intangible asset with an indefinite useful life shall not be amortised.

Amortisation method for intangible assets with finite useful lives is as follows:

Categories	Useful life (years)	Amortisation methods	Remarks
Land use right	50	Straight-line method	
Software system	5	Straight-line method	
Brand usage right	5-10	Straight-line method	

The Company shall review the useful life and amortisation method of an intangible asset with a finite useful life at least at

each year end. Changes of useful life and amortisation method shall be accounted for as a change in accounting estimate.

An intangible asset shall be derecognised in profit or loss when it is not expected to generate future economic benefits.

For the impairment of intangible assets, please refer to Note III. 20.

19. Research and development expenditure

Expenditure on an internal research and development project is classified into expenditure incurred during the research phase and expenditure incurred during the development phase.

Expenditure during the research phase is expensed when incurred.

Expenditure during the development phase is capitalised if the product or process is technically and commercially feasible; the Company intends to complete the development; the intangible asset can generate economic benefits, including there is evidence that the products produced using the intangible asset has a market or the intangible asset itself has a market; if the intangible asset is for internal use, there is evidence that there is usage for the intangible asset; there is sufficient support in terms of technology, financial resources and other resources in order to complete the development and use or sell the intangible asset; and development costs can be measured reliably. Other development expenditure is recognised as an expense in the period in which it is incurred.

Research and development projects of the Company will enter into the development phase when they meet the above conditions, technical and economic feasibility research is finished and necessary approval of the project is obtained.

Capitalised expenditure on the development phase is presented as “development costs” in the balance sheet, and is transferred to intangible assets when the project is completed to its intended use.

20. Impairment of assets

The impairment of long-term equity investments in subsidiaries, associates and joint ventures, investment properties measured using a cost model, fixed assets, construction in progress, and intangible assets (excluding inventories, investment property measured using a fair value model, deferred tax assets and financial assets) is determined as follows:

At each balance sheet date, the Company determines whether there is any indication of impairment. If any indication exists, the recoverable amount of the asset is estimated. In addition, the Company estimates the recoverable amounts of goodwill, intangible assets with indefinite useful lives and intangible assets not ready for use at each year-end, irrespective of whether there is any indication of impairment.

The recoverable amount of an asset is the higher of its fair value less costs to sell and its present value of expected future cash flows. The recoverable amount is estimated for each individual asset. If it is not possible to estimate the recoverable amount of each individual asset, the Company determines the recoverable amount for the asset group to which the asset belongs. An asset group is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or asset groups.

An impairment loss is recognised in profit or loss when the recoverable amount of an asset is less than its carrying amount. A provision for impairment of the asset is recognised accordingly.

For goodwill impairment test, the carrying amount of goodwill arising from a business combination is allocated reasonably to

the relevant asset group since the acquisition date. If the carrying amount of goodwill is unable to be allocated to asset group, the carrying amount of goodwill will be allocated to asset portfolio. Asset group or portfolio of asset group is asset group or portfolio of asset group which can be benefit from synergies of a business combination and is not greater than the reportable segment of the Company.

In impairment testing, if impairment indication exists in asset group or portfolio of asset group containing allocated goodwill, impairment test is first conducted for asset group or portfolio of asset group that does not contain goodwill, and corresponding recoverable amount is estimated and any impairment loss is recognized. Then impairment test is conducted for asset group or portfolio of asset group containing goodwill by comparing its carrying amount and its recoverable amount. If the recoverable amount is less than the carrying amount, impairment loss of goodwill is recognized.

Once an impairment loss is recognised, it is not reversed in a subsequent period.

21. Long-term deferred expenses

Long-term deferred expenses are recorded at the actual cost, and amortized using a straight-line method within the benefit period. For long-term deferred expense that cannot bring benefit in future period, the Company recognized its amortised cost in profit or loss for the current period.

22. Employee benefits

(1) Scope of employee benefits

Employee benefits refer to all forms of consideration or compensation given by the Company in exchange for service rendered by employees or for the termination of employment relationship. Employee benefits include short-term employee benefits, post-employment benefits, termination benefits and other long-term employee benefits. Benefits provided to the Company's spouse, children, dependents, family members of deceased employees or other beneficiaries are also part of the employee benefits.

According to liquidity, employee benefits are presented as "employee benefits payable" and "long-term employee benefits payable" on the balance sheet.

(2) Short-term employee benefits

In the current period, the Company has accrued for the actual wages, bonuses, medical insurance for employees based on standard rate, work injury insurance and maternity insurance and other social insurance and housing fund incurred and these are recognised as liabilities and corresponding costs in the profit or loss. If these liabilities are not expected to be fully paid 12 months after the end of the reporting period in which employee renders the service to the Company, and if the financial impact is significant, these liabilities shall be discounted using the net present value method.

(3) Post-employment benefits

Post-employment benefit plan includes defined contribution plans and defined benefit plans. Defined contribution plans are post-employment benefit plans under which an enterprise pays fixed contributions into a separate fund and will have no future obligations to pay the contributions. Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Defined contribution plans

Defined contribution plans include primary endowment insurance, unemployment insurance and enterprise annuity plan.

Besides basic pension insurance, the Company establishes corporate annuity plans in accordance with the related policies of corporate pension regulations. Employees can join the pension plan voluntarily. The Company has no other significant commitment of employees' social security.

The Company shall recognise, in the accounting period in which an employee provides service, the contribution payable to a defined contribution plan as a liability, with a corresponding charge to the profit or loss for the current period or the cost of a relevant asset.

Defined benefit plan

At each balance sheet date, actuarial calculation and valuation shall be carried out by independent actuary for defined benefit plan to determine the cost of welfare using estimated cumulative welfare unit method. Employee benefit cost resulted from the Group's defined benefit plan including the followings:

- ① Service cost, which includes service cost for current period, prior period and gain or losses on settlement. Service cost for current period refers to the increase in amount of present value of liability of defined benefit plan resulted from service provided by employees in current period. Service cost for prior period refers to changes in amount of present value of liability of defined benefit plan related to prior period due to alteration of the plan.
- ② Net interest of defined benefit plan net liability or net asset include interest gain of plan asset, interest expenses of defined benefit plan liability and interest affected by the upper limit of asset.
- ③ Changes due to re-measurement of defined benefit plan net liability or net asset

Unless other accounting standards allow or permit the employee welfare cost to be charged into asset cost, the Company shall charge the item ① and ② above into current period profit or loss. Item ③ shall be included in other comprehensive income and will cannot be recycled into profit or loss in later accounting periods and when the plan is terminated, the portion that previously recorded in other comprehensive shall be transferred into retained earnings in all.

(4) Termination benefits

The Company provides for termination benefits to the employees and shall recognise an employee benefits liability for termination benefits, with a corresponding charge to the profit or loss for the current period, at the earlier of the following dates: When the Company cannot unilaterally withdraw the offer of the termination benefits because of an employment termination plan or a redundancy proposal; or when the Company recognises the costs or expenses relating to a restructuring that involves the payment of the termination benefits.

When adopting employee internal retirement plan, the economic compensation before the official retirement date shall be included in as termination benefits. The salary for internal retired employee and social security payments from the date when the employee ceases service to the date of officially retired shall be charged to current profit or loss one-off. Economic compensation after official retirement shall be dealt as post-employment benefits.

(5) Other long-term employee benefits

Other long-term employee benefits provided by the Company to the employees satisfied the conditions for classifying as a defined contribution plan; those benefits shall be accounted for in accordance with the above requirements relating to defined contribution plan. When the benefits satisfied a defined benefit plan, it shall be accounted for in accordance with the above requirements relating to defined benefit plan, but the movement of net liabilities or assets in re-measurement of defined benefit plan shall be recorded in profit or loss for the current period or cost of relevant assets.

23. Provisions

A provision is recognised for an obligation related to a contingency if all the following conditions are satisfied:

- (1) the Company has a present obligation;
- (2) it is probable that an outflow of economic benefits will be required to settle the obligation; and
- (3) the amount of the obligation can be estimated reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors pertaining to a contingency such as the risks, uncertainties and time value of money are taken into account as a whole in reaching the best estimate. Where the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows. The Company reviews the carrying amount of a provision at the balance sheet date and adjusts the carrying amount to the current best estimate.

If all or part of the expenditure necessary for settling the provision is expected to be compensated by a third party, the amount of compensation is separately recognized as an asset when it is basically certain to be received. The recognized compensation amount shall not exceed the carrying amount of the provision.

24. Share-based payment

(1) Types of share-based payment

Share-based payments are divided into equity-settled share-based payments and cash-settled share-based payments.

(2) Method of determining share-based payment

The Company determining the fair value of equity instruments such as share options granted which has active markets using public quotation. If no active markets exist, option pricing model shall be used to determine its fair value. The following factors shall be considered when selecting option pricing models: A. Exercising price of option, B. Valid period of option, C. Current price of the target share, D. Share's estimated volatility rate, E. estimated share dividend and F. risk-free interest rate during the valid period.

(3) Evidence of determining the best estimate of exercisable equity instruments

On each balance sheet date during the vesting 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. On the exercise date, the number of final estimated exercisable equity instrument shall be the same as actual exercisable equity instrument.

(4) Accounting treatment for implementation, modifying and terminating of the share-based payment plan

Equity settled share-based payment is measured using fair value of equity instruments granted to employees. If the option 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. 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 and capital reserve based on straight-line method during the vesting period using the best estimate of the amount of exercisable equity instrument. No changes to related cost or expenses and equity after the exercisable date.

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.

When the Group 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 favour of employees, the accounting treatment of it will not be changed, as if the modification never happened unless the Group 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 Group will treat it as a cancellation of the equity instrument.

25. Revenue

(1) General principle

① Sale of goods

Revenue is recognised when all the following conditions are satisfied: significant risks and rewards of ownership of goods have been transferred to the buyer; the Company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; it is probable that the economic benefits will flow to the Company; and the revenue and costs can be measured reliably.

② Rendering of services

Where the outcome of a transaction involving the rendering of services can be estimated reliably, revenue is recognised by reference to the stage of completion.

The stage of completion is based on the proportion of costs incurred to date to the estimated total progress of work performed to the total services to be performed.

Rendering of services can be estimated reliably when all the following conditions are satisfied:

- A. The revenue can be measured reliably;
- B. It is probable that the economic benefits will flow to the Company;
- C. The stage of completion can be measured reliably;
- D. The costs incurred and to be incurred in the transaction can be measured reliably.

Where the outcome cannot be estimated reliably, revenues are recognised to the extent of the costs incurred that are expected to be recoverable, and an equivalent amount is charged to profit or loss as service cost; otherwise, the costs incurred are recognised in profit or loss and no service revenue is recognised.

③ Revenue from rendering usage rights

The revenue is recognized when the economic benefits related to transfer of the right to use assets can flow in and the amount of revenue can be measured reliably.

(2) Specific revenue recognition method

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 、shop-in-shop and On-line 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 revenue after customer inspection and acceptance.

② Exclusive shop

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

③ Shop-in-shop

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

④ On-line shop

Under on-line shop mode, the Company recognizes revenue when it delivers products to customer and the customer confirmed receiving and the Company receives payment.

⑤ Consignment sales

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

26. Government grants

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant.

If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value. If fair value cannot be reliably determined, it is measured at a nominal amount of RMB 1.

Government grants related to assets are grants whose primary condition is that the Group qualifying for them should purchase, construct or otherwise acquire long-term assets. Government grants related to income are grants other than those related to assets.

For government grants with unspecified purpose, the amount of grants used to form a long-term asset is regarded as government grants related to an asset, the remaining amount of grants is regarded as government grants related to income. If it is not possible to distinguish, the amount of grants is treated as government grants related to income. A government grant related to an asset is offset against the carrying amount of the related asset, or recognised as deferred income and amortised to profit or loss over the useful life of the related asset on a reasonable and systematic manner. A grant that compensates the Group for expenses or losses already incurred is recognised in profit or loss or offset against related expenses directly. A grant that compensates the Group for expenses or losses to be incurred in the future is recognised as deferred income, and included in profit or loss or offset against related expenses in the periods in which the expenses or losses are recognised.

A grant related to ordinary activities is recognised as other income or offset against related expenses based on the economic substance. A grant not related to ordinary activities is recognised as non-operating income.

When a recognised government grant is reversed, carrying amount of the related asset is adjusted if the grant was initially recognized as offset against the carrying amount of the related asset. If there is balance of relevant deferred income, it is offset against the carrying amount of relevant deferred income. Any excess of the reversal to the carrying amount of deferred income is recognised in profit or loss for the current period. For other circumstances, reversal is directly recognized in profit or loss for the current period.

27. Deferred tax assets and deferred tax liabilities

Income tax comprises of current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that they relate to transactions or items recognised directly in equity and goodwill arising from a business combination.

Deferred tax assets and deferred tax liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

All the taxable temporary differences are recognized as deferred tax liabilities except for those incurred in the following transactions:

- (1) initial recognition of goodwill, or assets or liabilities in a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or deductible loss);
- (2) taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, and the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The Company recognises a deferred tax asset for deductible temporary differences, deductible losses and tax credits carried forward to subsequent periods, to the extent that it is probable that future taxable profits will be available against which deductible temporary differences, deductible losses and tax credits can be utilised, except for those incurred in the following transactions:

- (1) a transaction that is not a business combination and that affects neither accounting profit nor taxable profit (or deductible loss);
- (2) deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, the corresponding deferred tax asset is recognized when both of the following conditions are satisfied: it is probable that the temporary difference will reverse in the foreseeable future; and it is probable that taxable profits will be available in the future against which the temporary difference can be utilized.

At the balance sheet date, deferred tax is measured based on the tax consequences that would follow from the expected manner of recovery or settlement of the carrying amount of the assets and liabilities, using tax rates enacted at the reporting date that are expected to be applied in the period when the asset is recovered or the liability is settled.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date, and is reduced to the extent that it is no longer probable that the related tax benefits will be utilised. Such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

28. Operating leases

The Company's lease is operating lease

- (1) As a lessor

Income derived from operating leases is recognized in profit or loss using the straight-line method over the lease term. Initial direct costs are charged to profit or loss immediately.

- (2) As a lessee

Rental payments under operating leases are recognized as part of the cost of another related asset or as expenses on a straight-line basis over the lease term. Initial direct costs are charged to profit or loss immediately.

29. Re-purchase of shares

Before written-off or transfer, the shares that the Company re-purchased are dealt as treasury shares. All expenses incurred for the re-purchase are charged in the cost of treasury shares. Consideration and transaction expenses paid during the share re-purchase shall decrease shareholder's equity. No gain or losses shall be recognized during re-purchase, transfer or written-off of the Company's shares.

If the treasury shares is transferred, the difference between amount actually received and the share's carrying amount shall be charged to capital reserve, if the capital reserve is not sufficient to offset, surplus reserve and retained earnings shall be offset. If the treasury share is to written-off, the share capital shall be decreased based on the face value of shares and the difference between the carrying amount and its face value shall offset the capital reserve. If the capital reserve is not sufficient to offset, deducting surplus reserve and retained earnings.

30. Restricted share

Under the share option incentive plan, the Company grants restricted shares to the incentive individuals who will subscribe the shares first. If the unlocking condition is not reached subsequently, the Company will re-purchase the shares according to the price previously agreed. If the shares issued under the incentive plan has gone through capital increase filing procedures, the Company recognizes share capital and capital reserve (share premium) based on consideration received from the employees and, at the same time, recognizes treasury shares and other payables for the re-purchase obligation.

31. Significant accounting estimates and judgments

The Group gives continuous assessment of the reasonable expectations of future events and the critical accounting estimates and key assumptions based on its historical experience and other factors. The critical accounting estimates and key assumptions that are likely to lead to significant adjusted risks of the carrying amount of assets and liabilities for the next financial year are listed as follows:

Classification of financial assets

The Group's major judgments in determining the classification of financial assets include the analysis of business models and the characteristics of contract cash flows.

At the level of financial asset groups, the Group determines the business model for managing financial assets, taking into account factors such as the way to evaluate and report financial assets performance to key managers, the risks affecting financial assets performance and their management methods, and the way in which relevant business managers are paid.

In assessing whether the contract cash flow of financial assets is consistent with the basic lending arrangements, the Group has the following judgments: whether the principal's time distribution or amount may change during the lifetime for early repayment and other reasons; whether the interest only includes the time value of money, credit risk, other basic lending risks and the consideration of cost and profit. For example, does the amount of advance payment only reflect the unpaid principal and interest based on the unpaid principal, and reasonable compensation paid for the early termination of the contract.

Measurement of Expected Credit Loss of Receivables

The Group calculates the expected credit losses of accounts receivable by default risk exposure and expected credit losses rate of accounts receivable, and determines the expected credit losses rate based on default probability and default loss rate. In determining the expected credit losses rate, the Group uses internal historical credit loss and other data, and adjusts the historical data with current situation and forward-looking information. In considering forward-looking information, the indicators used by the Group include the risks of economic downturn, external market environment, technological environment and changes in customer conditions. The Group regularly monitors and reviews assumptions related to the calculation of expected credit losses.

Accrual of provision for obsolete inventories

The Group recognises provision for obsolete inventories based on the lower of cost of inventory and its net realisable value. In determining the net realisable value of inventories, the management uses judgments to estimate the selling price, cost to complete production, selling expenses and associated taxes.

Deferred income tax assets

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The management needs significant judgment to estimate the time and extent of the future taxable profits and tax planning strategy to recognise the appropriate amount of deferred income tax assets. Where the expectation is different from the original estimate of the future taxable profits, such differences will impact the recognition of deferred tax assets and taxation in the years when the estimates are changed.

32. Changes in significant accounting policies and accounting estimates

(1) Changes in significant accounting policies

① New financial instrument standards

In 2017, the Ministry of Finance have issued “Accounting Standards for Business Enterprises No. 22 - Recognition and Measurement of Financial Instruments (Revised)”, “Accounting Standards for Business Enterprises No. 23 - Finance Asset Transfer (Revised)”, “Accounting Standards for Business Enterprises No.24 - Hedge Accounting(Revised)”, “Accounting Standards for Business Enterprises No.37 - Financial Instruments Presentation (Revised)”(hereinafter referred to as the “New Financial Instruments Standards”). The Group has implemented the New Financial Instruments Standards since 1 January 2019 after the approval of the board of directors, and adjusted the relevant accounting policies. Refer to Note III. 10 for accounting policies after the adjustment.

According to the new financial instruments standards, financial assets are classified into the following three categories depends on the Group's business mode of managing financial assets and cash flow characteristics of financial assets: (1) financial assets measured at amortized cost, (2) financial assets at fair value through other comprehensive income, and (3) financial assets at fair value through profit or loss. For hybrid contract, if the main contract belongs to financial assets, the embedded derivative should not be separated from the hybrid contract, and should be applied to the relevant standards in the corresponding classification of financial assets to as a whole.

Except for financial guarantee contract liabilities, the adoption of new financial instrument standards has no significant impact on the accounting policy of the Group's financial liabilities.

On 1 January 2019, the Group neither designated any financial assets or liabilities as financial assets or liabilities measured at fair value through profits and losses, nor revoked its previous designation.

The New Financial Instruments Standards replaces the method of recognizing impairment provision according to actual impairment loss stipulated in the original financial instrument standard with the method of "expected credit losses method". The "expected credit losses method" model requires continuous assessment of the credit risk of financial assets. Therefore, under the New Financial Instruments Standards, the Group's credit loss is recognised earlier than the original financial instrument standards.

On the basis of expected credit losses, the Group performs impairment assessment on the following items and recognises the loss allowance.

- Financial assets measured at amortized cost;
- Debt investments at fair value through other comprehensive income;

In accordance with the provisions of the New Financial Instruments Standards, except in certain specific cases, the Group retrospectively adjusts the classification and measurement of financial instruments (including impairment), and calculates the difference between the original carrying value of financial instruments and the new carrying value on the date of implementation of the New Financial Instruments Standards (i.e. 1 January 2019) into the retained earnings or other comprehensive earnings at the beginning of 2019. At the same time, the Group did not adjust the comparative financial statements data.

On 1 January, 2019, the results of classification and measurement of financial assets in accordance with the previous financial instrument standards and the New Financial Instruments Standards are as follows:

Previous financial instrument standards			New financial instrument standards		
Item	Categories	Carrying value	Item	Categories	Carrying value
Available-for-sale financial assets	Measured at cost (equity instrument)	85,000.00	Other equity instrument investment	Fair value through other comprehensive income	85,000.00
Bill receivable	Amortized cost	7,051,846.85	Bill receivable	Amortized cost	7,051,846.85
			Receivables financing	Fair value through other comprehensive income	-
Accounts receivable	Amortized cost	370,545,656.61	Accounts receivable	Amortized cost	370,545,656.61
			Receivables financing	Fair value through other comprehensive income	-
Other receivables	Amortized cost	45,870,582.26	Other current assets	Amortized cost	-
			Other receivables	Amortized cost	45,870,582.26

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Notes to the Financial Statements
For the year ended 31 December 2019 (All amounts in RMB unless otherwise stated)

On 1 January 2019, the adjustment table of the financial instruments classification and carrying value, at the implementation of the New Financial Instruments Standards, were as follows:

Item	Pre-adjustment carrying value (31 December 2018)	Reclassification	Remeasurement	Adjusted carrying value (January 1, 2019)
Assets:				
Bill receivables	7,051,846.85	--	--	7,051,846.85
Accounts receivables	370,545,656.61	--	--	370,545,656.61
Other receivables	45,870,582.26	--	--	45,870,582.26
Available-for-sale financial assets	85,000.00	-85,000.00	-	-
Other equity instrument investments	--	85,000.00	-	85,000.00
Shareholder's equity				
Capital reserve	1,062,455,644.22	--	--	1,062,455,644.22
Other comprehensive income	-5,442,139.78	--	--	-5,442,139.78
Surplus reserve	223,015,793.80	--	--	223,015,793.80
Undistributed profit	851,360,603.66	--	--	851,360,603.66
Minority interests	5,781.64	--	--	5,781.64

The reconciliation of bad debt provision accrued by the Group at the end of 2018 based on previous financial instrument standards and credit losses recognized at the beginning of 2019 based on New Financial Instruments Standards are presented as follows:

Category	Pre-adjustment carrying value (31 December 2018)	Reclassification	Remeasurement	Adjusted carrying value (January 1, 2019)
Bad debt provision for accounts receivable	12,688,807.19	--	--	12,688,807.19
Bad debt provision for other receivables	10,037,542.11	--	--	10,037,542.11

② Financial statements format

According to "the Announcement of the revision of general enterprise financial statements format for 2018" (Accounting [2018] No. 15) issued by MOF, the Group revised the financial statement format as follows:

A、Balance sheet

Added line item of “financial assets held for sale”, “debt investment”, “other debt investment”, “other equity instrument investment”, “other non-current financial asset” and “financial liability held for sale”. Deleted line item of “financial assets at fair value through profit or loss”, “available-for-sale” financial assets, “held-to-maturity” financial assets and “financial liabilities at fair value through profit or loss”;

Divided “bills and accounts receivable” into “bills receivable” and “accounts receivable”;

Divided “bills and accounts payable” into “bills payable” and “accounts payable”;

Added “receivables financing” item.

B. Income statement

Added sub-item of “Gain from de-recognition of financial assets measured at amortized cost” under “investment gain” item.

Added “Gain from net exposure hedging” item.

Added “credit impairment loss” item. “Changes of re-measurement in net liabilities or net assets of defined benefit plans” is replaced by “The amount of changes of re-measurement in defined benefit plans”. “Share of other comprehensive income to in the investee cannot be reclassified into profit or loss under equity method” is changed to “other comprehensive income that cannot be transferred to profit or loss under the equity method”. Added “Fair value changes in the entity’s own credit risk”. “Share of other comprehensive income in the investee shall be reclassified into profit or loss under equity method” is changed to “Transfer of other comprehensive income into profits or losses under equity method”. Added “fair value changes of other debt investment”, “Re other comprehensive income due to reclassification of financial assets” and “credit impairment allowance of other debt investments”. Deleted “gain or losses from fair value changes of available-for-sale financial assets and “gains from reclassification of held-to-maturity investment to available-for-sale financial asset”. “The effective portion of gain or losses of cash flows hedge” is changed to “reserve of cash flows hedge”.

C. Statement of changes in shareholder’s equity

Under the “internal transfer of shareholders’ equity” line item, the original “Changes of re-measurement in net liabilities or net assets of defined benefit plans” was changed to “Change in amount of defined benefit plans transfer to retained earnings”.

Added “transfer of other comprehensive income into retained earnings”.

The Group adjusted comparative figures for comparable periods in accordance with CaiKuai [2019] No. 6.

The revision of the financial statement format has no impact on the Group’s total assets, total liabilities, net profit and other comprehensive income.

(2) Changes in accounting estimates

The Group has no significant changes in accounting estimates in current reporting period.

(3) Adjustement of beginning balance of financial statements on the first year adoption of the New Financial Instruments Standards

Because of the implementation of New Financial Instruments Standards, the Company reclassified the presentation of “available-for-sale” line item to “other equity instrument investment” and the amount is RMB85,000. No changes to other financial statement line items.

IV. Taxation

1. Main types of taxes and corresponding tax rates

Tax type	Tax basis	Tax rate %
VAT (note (1))	Taxable revenue	16、13、10、9、6、5
Consumption tax	Taxable income	20
Urban maintenance and construction tax	Turnover tax payable	5、7
Property tax (note (2))	Original cost of property or rental income	1.2、12
Corporate income tax	Taxable income	Refer to Note (3) for details

Note (1): Value-added tax

Value-added tax rate originally applied to 16%, 10% when the Company have VAT taxable sales or import goods. According to "Announcement of the Ministry of Finance and the State Administration of Taxation and General Administration of Customs Regarding Policies of Deepening Reform of Value-added Tax" ((2019) No. 39), applicable tax rate adjusted to 13% and 9% respectively since 1 April 2019.

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
Harbin Harmony World Watches Distribution Co., Ltd. (Harbin Company) (Note ⑤)	20.00
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, all of these entities can enjoy a 75% super deduction on top of the R&D expenses that allowed to deduct before income tax during the period from 1 January 2018 to 31 December 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.

Note ⑦ According to "Notice of Ministry of Finance and State Administration of Taxation on implementation of the Inclusive Income Tax Deduction and Exemption Policies for Small Low-Profit Enterprises" (Cai Shui (2019) No.13), the portion of annual taxable income of small low-profit enterprise that is below RMB1,000,000.00, it is not taxed at 25% and will be taxed at a rate of 20%.

2. Preferential treatment and corresponding approval

- (1) 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 Land 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.
- (2) According to "Notice of Ministry of Finance and State Administration of Taxation in Extending Expiration Period of Utilizing Losses for High-Tech Enterprises and Scientific Oriented Medium and Small Enterprises" (Cai Shui [2018] No. 76), unutilized losses incurred in prior 5 years before obtaining the status of High and New Tech Enterprise can be carried forward and utilized in future years. The longest period was extended from 5 years to 10 years.

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1. Cash at bank and on hand

Item	As at 31/12/2019			As at 31/12/2018		
	Foreign currency amount	Exchange rate	RMB equivalent	Foreign currency amount	Exchange rate	RMB equivalent
Cash on hand:	--	--	229,258.38	--	--	420,783.85
RMB	--	--	179,848.59	--	--	393,789.09
HKD	2,018.63	0.8958	1,808.24	2,018.63	0.8762	1,768.72
USD	605.00	6.9762	4,220.60	105.00	6.8632	720.64
EUR	1,453.19	7.8749	11,443.74	1,041.45	7.8473	8,172.57
CHF	4,434.00	7.2028	31,937.21	2,350.25	6.9494	16,332.83
Cash at bank:	--	--	285,306,297.62	--	--	160,135,454.62
RMB	--	--	255,981,925.11	--	--	148,287,154.41
HKD	9,732,871.02	0.8887	8,649,900.97	3,644,178.41	0.8762	3,193,027.05
USD	2,558,762.50	6.9287	17,728,876.60	634,426.28	6.8632	4,354,194.44
EUR	59,904.49	7.9290	474,983.98	902.13	7.8473	7,079.28
CHF	343,007.02	7.2028	2,470,610.96	617,894.99	6.9494	4,293,999.44
Including: deposit in finance company	--	--	237,118,456.45	--	--	128,255,699.54
RMB	--	--	237,118,456.45	--	--	128,255,699.54
Other monetary funds:	--	--	31,133,009.09	--	--	4,271,821.50
RMB	--	--	31,133,009.09	--	--	4,271,821.50
Total	--	--	316,668,565.09	--	--	164,828,059.97
Including: Total overseas deposits	--	--	3,641,389.51	--	--	9,192,653.31

Details of other monetary funds:

Item	2019.12.31	2018.12.31
Security deposit for letter of guarantee	1,575,000.00	1,575,000.00
Balance in investment account	26,448,679.71	-
Others	3,109,329.38	2,696,821.50
Total	31,133,009.09	4,271,821.50

At the end of year, the Group does not have balance of cash or other monetary funds that are restricted because being pledged as security, guaranteed or blocked frozen or overseas balances that have restriction on remittance back to the home country except for security deposit for letter of guarantee mentioned above.

2. Bill receivables

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Type	2019.12.31			2018.12.31		
	Book value	Provision	Carrying amount	Book value	Provision	Carrying amount
Bank acceptance bills	6,187,353.98	-	6,187,353.98	-	-	-
Commercial acceptance bills	4,626,260.06	217,182.73	4,409,077.33	7,051,846.85	-	7,051,846.85
Total	10,813,614.04	217,182.73	10,596,431.31	7,051,846.85	-	7,051,846.85

Note:

- (1) There is no pledge of notes at the end of the period.
- (2) There is no endorsed bills that is not yet due at the end of the period.
- (3) Bill receivable that transferred to receivables due to issuer's default at the end of the period.

Type	Amount transferred to accounts receivable
Commercial acceptance bills	300,000.00

- (4) Classification based on method of accrual of bad debt provision.

Type	2019.12.31					2019.01.01				
	Book value		Provision		Carrying amount	Book value		Provision		Carrying amount
	Amount	Percentage (%)	Amount	ECL rate (%)		Amount	Percentage (%)	Amount	ECL rate (%)	
Standalone accrual	-	-	-	-	-	-	-	-	-	-
Accrued based on group including	10,813,614.04	100.00	217,182.73	2.01	10,596,431.31	7,051,846.85	100.00	-	-	7,051,846.85
Commercial acceptance bills	4,626,260.06	42.78	217,182.73	4.69	4,409,077.33	7,051,846.85	100.00	-	-	7,051,846.85
Bank acceptance bills	6,187,353.98	57.22	-	-	6,187,353.98	-	-	-	-	-
Total	10,813,614.04	100.00	217,182.73	2.01	10,596,431.31	7,051,846.85	100.00	-	-	7,051,846.85

Bad debt provision accrued based on groups:

Item: Commercial acceptance bills

Name	2019.12.31		
	Bill receivables	Bad debt provision	ECL rate (%)
Within 1 year	4,626,260.06	217,182.73	4.69

- (5) Status of accrual, retrieved or reversal of bad debt

	Amount of bad debt provision
2018.12.31	-

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Adjustment for first implementation of new financial instrument standards	-
2019.01.01	-
Accrual	217,182.73
Reversal	-
Written-off	-
2019.12.31	217,182.73

3. Accounts receivable

(1) Presentation by ageing

Ageing	2019.12.31	2018.12.31
Within 1 year	412,028,202.94	368,270,203.02
1-2 years	9,278,600.90	10,632,348.03
2-3 years	1,196,515.64	3,091,413.67
Over 3 years	4,013,110.09	1,240,499.08
Subtotal	426,516,429.57	383,234,463.80
Less: provision for bad debt	29,045,322.59	12,688,807.19
Total	397,471,106.98	370,545,656.61

(2) Presentation by method of providing bad debt

Category	2019.12.31				Carrying amount
	Book value		Bad debt provision		
	Amount	Percentage (%)	Amount	ECL rate (%)	
Individually significant and assessed for impairment individually	24,140,377.57	5.66	17,562,041.15	72.75	6,578,336.42
Collectively assessed for impairment based on credit risk characteristics	402,376,052.00	94.34	11,483,281.44	2.85	390,892,770.56
Receivables from other customers	402,376,052.00	94.34	11,483,281.44	2.85	390,892,770.56
Total	426,516,429.57	100.00	29,045,322.59	6.81	397,471,106.98

(continued)

Category	2019.01.01				Carrying amount
	Book value		Bad debt provision		
	Amount	Percentage (%)	Amount	ECL rate (%)	
Individually significant and assessed for impairment individually	1,799,519.78	0.47	1,799,519.78	100.00	-
Collectively assessed for impairment based on credit risk characteristics	381,434,944.02	99.53	10,889,287.41	2.85	370,545,656.61

Receivables from other customers	381,434,944.02	99.53	10,889,287.41	2.85	370,545,656.61
Total	383,234,463.80	100.00	12,688,807.19	3.31	370,545,656.61

Specific bad debt provision provided

Category	2019.12.31			
	Book value	Bad debt provision	ECL rate (%)	Reason
Receivables from other customers	24,140,377.57	17,562,041.15	72.75	Unable to recover

Bad debt provision based on groups

Group: Receivables from other customers

Category	2019.12.31		
	Accounts receivable	Bad debt provision	ECL rate (%)
Within 1 year	398,474,804.41	11,042,487.31	2.77
1-2 years	3,639,298.75	269,502.55	7.41
2-3 years	122,592.64	31,935.38	26.05
Over 3 years	139,356.20	139,356.20	100.00
Total	402,376,052.00	11,483,281.44	2.85

Bad debt provision as of 31 December 2018:

Category	2018.12.31				
	Book value	Percentage (%)	Bad debt provision	Percentage of providing (%)	Carrying amount
Individually significant and assessed for impairment individually	1,702,371.94	0.44	1,702,371.94	100.00	-
Collectively assessed for impairment based on credit risk characteristics					
Including: ageing group	189,655,491.08	49.49	10,889,287.41	5.74	178,766,203.67
Specific receivables group	191,779,452.94	50.04	-	-	191,779,452.94
Subtotal of groups	381,434,944.02	99.53	10,889,287.41	2.85	370,545,656.61
Individually insignificant but assessed for impairment individually	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

(3) Addition, recovery or reversals of provision during the year:

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	Bad debt provision
2018.12.31	12,688,807.19
Adjustment amount for the first implementation of the new financial instrument standards	-
2019.01.01	12,688,807.19
Addition	16,613,020.51
Reversal	266,383.33
Written-off	-
Others	9,878.22
2019.12.31	29,045,322.59

(4) There were no receivables that are written-off during the period.

(5) Top five accounts receivable are analyzed as follows:

The total amount of receivables from top five accounts amounts to RMB108,313,007.08, accounted for 25.39% of total balance of accounts receivable as of the period end. Corresponding bad debt provision accrued is RMB2,040,175.21.

4. Prepayments

(1) Presented by ageing

Ageing	2019.12.31		2018.12.31	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	10,221,061.48	94.23	12,886,273.93	94.29
1-2 years	284,733.40	2.62	-	-
Over 2 years	342,167.40	3.15	780,542.40	5.71
Total	10,847,962.28	100.00	13,666,816.33	100.00

(2) Top 5 prepayment accounts as of period end

Total amount of prepayments to top five accounts amounts to RMB7,084,498.24, accounted for 65.31% of total balance of prepayments as of the period end.

5. Other receivable

Item	2019.12.31	2018.12.31
Interest receivable	-	-
Dividends receivable	-	-
Other receivables	47,239,844.58	45,870,582.26
Total	47,239,844.58	45,870,582.26

(1) Other receivables

① Presented by ageing

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Ageing	2019.12.31	2018.12.31
Within 1 year	49,453,416.07	46,770,037.27
1-2 years	11,101.80	1,438,499.45
2-3 years	186,180.00	1,365,400.00
Over 3 years	7,933,538.12	6,334,187.65
Subtotal	57,584,235.99	55,908,124.37
Less: bad debt provision	10,344,391.41	10,037,542.11
Total	47,239,844.58	45,870,582.26

② Presented by nature

Item	2019.12.31			2018.12.31		
	Book value	Provision	Carrying amount	Book value	Provision	Carrying amount
Petty cash	2,147,617.27	-	2,147,617.27	2,478,447.48	-	2,478,447.48
Security deposit	45,014,657.70	3,093,646.11	41,921,011.59	38,091,767.87	3,201,718.39	34,890,049.48
Promotion expense	2,518,891.09	579,905.66	1,938,985.43	7,827,524.03	391,376.20	7,436,147.83
Others	7,903,069.93	6,670,839.64	1,232,230.29	7,510,384.99	6,444,447.52	1,065,937.47
Total	57,584,235.99	10,344,391.41	47,239,844.58	55,908,124.37	10,037,542.11	45,870,582.26

③ Status of bad debt provision

Bad debt provision at the first stage as of period end:

Category	Book value	ECL rate in next 12 month (%)	Bad debt Provision	Carrying amount	Reason
Individually significant and assessed for impairment individually	-	-	-	-	
Collectively assessed for impairment based on credit risk characteristics	49,690,747.87	4.93	2,450,903.29	47,239,844.58	
Petty cash	2,147,617.27	-	-	2,147,617.27	
Security deposit	44,214,657.70	5.19	2,293,646.11	41,921,011.59	
Social security payment on-behalf	526,453.88	-	-	526,453.88	
Others	2,802,019.02	5.61	157,257.18	2,644,761.84	
Total	49,690,747.87	4.93	2,450,903.29	47,239,844.58	

As of the period end, the Company does not have other receivables at the second stage.

Bad debt provision at the third stage as of the period end:

Category	Book value	ECL rate of the life time receivables (%)	Provision	Carrying amount	reason
----------	------------	---	-----------	-----------------	--------

Individually significant and assessed for impairment individually					
Beat Blattman Marketing	4,189,004.42	100.00	4,189,004.42	-	Chances of recovery is remote
Liberty Time Center GmbH	2,333,707.20	100.00	2,333,707.20	-	Chances of recovery is remote
China Resources (Chong Qing) Industrial Co., Ltd.	800,000.00	100.00	800,000.00	-	Chances of recovery is remote
Huaming Hang Co., Ltd.	480,000.00	100.00	480,000.00	-	Unable to recover
Others	90,776.50	100.00	90,776.50	-	Unable to recover
Total	7,893,488.12	100.00	7,893,488.12	-	—

Bad debt provision as of 31 December 2018:

Category	2018.12.31				
	Book value	Percentage (%)	Bad debt provision	Percentage of providing (%)	Carrying amount
Individually significant and assessed for impairment individually	7,093,237.65	12.69	7,093,237.65	100.00	-
Collectively assessed for impairment based on credit risk characteristics					
Including: ageing group	45,771,039.24	81.87	2,378,904.46	5.20	43,392,134.78
Specific receivables group	2,478,447.48	4.43	-	-	2,478,447.48
Subtotal of groups	48,249,486.72	86.30	2,378,904.46	4.93	45,870,582.26
Individually insignificant but assessed for impairment individually	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

④ Addition, recovery or reversals of provision during the year

	1 st stage ECL in next 12 month	2 nd stage ECL for the life time of receivables (no impairment yet)	3 rd stage ECL for the life time of receivables (impaired)	Total
2018.12.31	2,378,904.46	-	7,658,637.65	10,037,542.11
Adjustment amount for the first implementation of the new financial instrument standards	-	-	-	-
2019.01.01	2,378,904.46	-	7,658,637.65	10,037,542.11
Current period				
--transferred to 2 nd stage	-	-	-	-
--transferred to 3 rd stage	-5,376.50	-	5,376.50	-
--Reversed to 2 nd stage	-	-	-	-
--Reversed to 3 rd stage	-	-	-	-

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Accrued	132,893.73	-	-	132,893.73
Reversed	55,752.57	-	-	55,752.57
Realized	-	-	-	-
Written-off	-	-	-	-
Other changes	234.17	-	229,473.97	229,708.14
Balance as of 2019.12.31	2,450,903.29	-	7,893,488.12	10,344,391.41

⑤ There was no other receivables that are written-off during the period.

⑥ Top five other receivable are analyzed as follows:

The total amount of other receivables from top five accounts amounts to RMB23,576,874.51, accounted for 40.94% of total balance of other receivable as of the period end. Corresponding bad debt provision accrued is RMB8,127,554.59.

6. Inventory

(1) Category

Item	2019.12.31			2018.12.31		
	Book value	Provision	Carrying amount	Book value	Provision	Carrying amount
Raw material	195,644,341.20	21,197,269.90	174,447,071.30	183,679,226.95	28,296,729.51	155,382,497.44
WIP	11,707,382.99	-	11,707,382.99	10,787,777.81	-	10,787,777.81
Stored goods	1,684,674,585.69	62,008,950.06	1,622,665,635.63	1,675,548,898.56	59,412,872.11	1,616,136,026.45
Total	1,892,026,309.88	83,206,219.96	1,808,820,089.92	1,870,015,903.32	87,709,601.62	1,782,306,301.70

(2) Provision for inventory

Item	2019.01.01	Increase		Decrease		2019.12.31
		Accrual	Others	Reverse or realized	Others	
Raw material	28,296,729.51	1,727,018.41	321,750.41	9,148,228.43	-	21,197,269.90
Stored goods	59,412,872.11	2,568,116.07	27,961.88	-	-	62,008,950.06
Total	87,709,601.62	4,295,134.48	349,712.29	9,148,228.43	-	83,206,219.96

Provision for inventory (continued)

Item	Evidence of determine NRV and future selling cost	Reason for reversal or realized
Raw material	Estimated selling price less estimated cost to complete and selling and distribution expenses and associated taxes	Disposed

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Stored goods	Estimated selling price less estimated selling and distributing expenses and associated taxes	sold				
7. Other current assets						
Item	2019.12.31	2018.12.31				
VAT prepaid	4,255,892.19	7,272,789.77				
Input VAT	47,626,820.11	45,171,658.90				
Prepaid corporate income tax	1,313,954.49	7,846,471.11				
Others	15,661,429.95	13,412,392.46				
Total	68,858,096.74	73,703,312.24				
8. Available-for-sale financial assets						
Item	2019.12.31			2018.12.31		
	Book value	Provision	Carrying amount	Book value	Provision	Carrying amount
Available-for-sale financial asset	—	—	—	385,000.00	300,000.00	85,000.00
Measured at cost	—	—	—	385,000.00	300,000.00	85,000.00

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9. Long-term equity investment

Investee	2019.01.01	Changes during the period								2019.12.31	Balance of impairment provision as of period end
		Addition/new	Withdrawn	Investment gains and losses recognised by equity method	Adjustment of other comprehensive income	Changes in other equity	Cash dividend declared	Impairment provision	Others		
① Associate											
Shanghai Watch Co., Ltd. (Shanghai Watch)	44,881,063.15	-	-	1,542,774.70	-	-	-	-	-	46,423,837.85	-

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10. Other equity instrument investment

Item	2019.12.31	2018.12.31
Shenzhen Zhonghang Culture Co. Ltd	-	—
Xi'an Tangcheng Limited	85,000.00	—
Total	85,000.00	—

Because the equity investment to Shenzhen Zhonghang Culture Co. Ltd and Xi'an Tangcheng Limited is based on long term holding for strategic purpose, the Group designated them as fair value through other comprehensive income.

11. Investment properties

Item	Property and plant
I. Original cost	
1.2018.12.31	546,695,433.81
2.addition	57,191,213.54
(1) purchase	-
(2) transferred from inventory/CIP	57,191,213.54
(3) increased due to business combination	-
3.Decrease	-
(1) Disposal	-
(2) Others	-
4.2019.12.31	603,886,647.35
II.Accumulated depreciation	
1.2018.12.31	169,376,000.78
2.Addition	27,007,339.33
(1) accrual	13,704,422.70
(2) business combination	-
(3) Others	13,302,916.63
3.Decrease	-
(1) Disposal	-
(2) Others	-
4.2019.12.31	196,383,340.11
三、 Impairment provision	
1.2018.12.31	-
2.Increase	-
(1) Accrual	-
(2) Others	-

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For the year ended 31 December 2019 (All amounts in RMB unless otherwise stated)

3、Decrease	-
(1) Disposal	-
(2) Others	-
4.2019.12.31	-
IV.Carrying amount	
1.2019.12.31	407,503,307.24
2.2018.12.31	377,319,433.03

Note:

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

As of 31 December 2019, there was no investment property without the certificate for property right.

(2) Changes of purpose of property

During the reporting period, certain self-use property of the Group were changed to lease out and they were transferred from fixed assets to investment properties measured at cost model.

12. Fixed assets

Item	2019.12.31	2018.12.31
Fixed asset	363,997,098.94	425,649,562.85
Fixed asset disposal	-	-
Total	363,997,098.94	425,649,562.85

(1) Fixed asset

① Status

Item	Property and buildings	Machinery	Transportation vehicles	Electronic devices	Other equipment	Total
I. Total cost						
1.2018.12.31	458,621,315.96	80,799,655.00	15,572,717.72	44,137,536.41	58,422,164.62	657,553,389.71
2. Additions	11,735,172.54	9,191,908.86	763,979.65	2,859,430.11	4,194,666.50	28,745,157.66
(1) Purchasing	244,585.68	7,337,542.92	763,979.65	2,494,316.65	2,209,983.31	13,050,408.21
(2) Transfer from construction in progress	9,887,489.97	1,023,760.56	-	347,820.61	1,860,829.46	13,119,900.60
(3) Increase due to business combination	-	-	-	-	-	-
(4) Others	1,603,096.89	830,605.38	-	17,292.85	123,853.73	2,574,848.85
3. Decrease	70,472,306.13	1,414,588.09	978,818.00	1,512,268.86	16,354,078.93	90,732,060.01
(1) Disposal or retired	13,281,092.59	1,414,588.09	978,818.00	1,512,268.86	16,354,078.93	33,540,846.47

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(2) transferred into investment property	57,191,213.54	-	-	-	-	57,191,213.54
4.2019.12.31	399,884,182.37	88,576,975.77	15,357,879.37	45,484,697.66	46,262,752.19	595,566,487.36
II. Accumulated depreciation						
1.2018.12.31	97,899,718.69	43,012,974.47	13,664,912.06	28,707,685.36	48,618,536.28	231,903,826.86
2.increase	14,553,080.62	7,430,970.23	747,205.85	4,846,289.12	4,122,796.00	31,700,341.82
(1) accrual	13,881,041.32	7,016,135.34	747,205.85	4,834,941.77	4,022,372.19	30,501,696.47
(2) others	672,039.30	414,834.89	-	11,347.35	100,423.81	1,198,645.35
3.Decrease	13,318,042.52	1,118,076.16	919,427.10	1,369,639.50	15,309,594.98	32,034,780.26
(1) disposal or retirement	15,125.89	1,118,076.16	919,427.10	1,369,639.50	15,309,594.98	18,731,863.63
(2) transferred into investment properties	13,302,916.63	-	-	-	-	13,302,916.63
4.2019.12.31	99,134,756.79	49,325,868.54	13,492,690.81	32,184,334.98	37,431,737.30	231,569,388.42
III. Impairment provision						
1.2018.12.31	-	-	-	-	-	-
2.Increase	-	-	-	-	-	-
(1) accrual	-	-	-	-	-	-
(2) others	-	-	-	-	-	-
3.Decrease	-	-	-	-	-	-
(1) disposal or retirement	-	-	-	-	-	-
(2) Others	-	-	-	-	-	-
4.2019.12.31	-	-	-	-	-	-
IV.Carrying amount						
1.2019.12.31	300,749,425.58	39,251,107.23	1,865,188.56	13,300,362.68	8,831,014.89	363,997,098.94
2.2018.12.31	360,721,597.27	37,786,680.53	1,907,805.66	15,429,851.05	9,803,628.34	425,649,562.85

Note:

①As of the period, fixed assets used to pledge for the Group's loan amounted to RMB14,303,281.92.

②Fixed assets that do not have certificate for property right

Item	Book value	Reason for not having certificate for property rights
Office rooms of Harbin Branch	255,135.96	Issues relating to property right

13. Construction in progress

Item	2019.12.31	2018.12.31
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Construction in progress	-	12,041,126.00
Construction materials	-	-
Total	-	12,041,126.00

(1) Construction in progress

① Details

Item	2019.12.31			2018.12.31		
	Book value	Provision	Carrying amount	Book value	Provision	Carrying amount
Clock & Watch base in Guangming New District auxiliary projects	-	-	-	12,041,126.00	-	12,041,126.00

② Changes to major construction in progress projects

Name	2019.01.01	Addition	Transferred to fixed asset	Other decrease	Capitalization of interest	Including: capitalized in current year	Rate of capitalization in current year (%)	2019.12.31
Clock & Watch base in Guangming New District auxiliary projects	12,041,126.00	1,232,979.46	13,119,900.60	154,204.86	-	-	-	-

Changes to major construction in progress projects(continued):

Name	budget	Percentage of investment to budget (%)	Progress	Source of funding
Clock & Watch base in Guangming New District auxiliary projects	34,050,900.00	38.98%	100.00%	Self-raised

14. Intangible assets

Item	Land-use right	Software system	Right to use trademarks	Total
I. Total original cost				
1.2018.12.31	34,933,822.40	23,887,215.08	10,093,308.61	68,914,346.09
2. Additions	-	226,911.28	1,837,222.77	2,064,134.05
(1) Purchase	-	226,911.28	1,837,222.77	2,064,134.05
(2) Internal R&D	-	-	-	-
(3) Increased due to business combination	-	-	-	-
(4) Others	-	-	-	-

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3. Decreases	-	-	-	-
(1) Disposal	-	-	-	-
(2) Others	-	-	-	-
4.2019.12.31	34,933,822.40	24,114,126.36	11,930,531.38	70,978,480.14
II. Total accumulated amortization				
1.2018.12.31	13,581,708.89	8,076,111.69	3,711,047.90	25,368,868.48
2. Additions	733,553.28	4,372,411.78	1,791,825.34	6,897,790.40
(1) Accrual	733,553.28	4,372,411.78	1,791,825.34	6,897,790.40
(2) others	-	-	-	-
3. Decreases	-	-	-	-
(1) Disposal	-	-	-	-
(2) other	-	-	-	-
4. 2019.12.31	14,315,262.17	12,448,523.47	5,502,873.24	32,266,658.88
III. Total impairment provision				
1.2018.12.31	-	-	-	-
2. Additions	-	-	-	-
(1) Accrual	-	-	-	-
(2) other	-	-	-	-
3.decrease	-	-	-	-
(1) disposal	-	-	-	-
(2) others	-	-	-	-
4.2019.12.31	-	-	-	-
IV. Total carrying amount				
1.2019.12.31	20,618,560.23	11,665,602.89	6,427,658.14	38,711,821.26
2.2018.12.31	21,352,113.51	15,811,103.39	6,382,260.71	43,545,477.61

15. Long-term deferred expenses

Item	2018.12.31	Addition	Decrease		2019.12.31
			Amortized	Others	
Counter fabrication expenses	49,305,000.11	42,163,751.28	49,506,803.50	-	41,961,947.89
Renovation expenses	74,651,287.13	66,284,944.54	45,670,030.81	-	95,266,200.86
Others	4,616,257.91	18,447,813.57	7,704,728.90	-	15,359,342.58
Total	128,572,545.15	126,896,509.39	102,881,563.21	-	152,587,491.33

16. Deferred income tax assets/Deferred income tax liabilities

(1) Detail of deferred income tax before offsetting

Item	2019.12.31		2018.12.31	
	Deductible temporary differences	Deferred income tax asset	Deductible temporary differences	Deferred income tax asset

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Deferred tax asset:				
Impairment provision	100,912,679.00	22,188,996.64	79,775,704.17	17,676,690.28
Unrealized profit for related party transactions	179,676,673.34	44,654,504.04	272,840,911.63	67,717,517.83
Deferred income	3,046,090.60	761,522.65	3,672,855.36	918,213.84
Deductible losses	50,678,682.32	12,074,057.61	61,529,125.81	14,363,284.14
Restricted shares	4,440,625.91	1,062,967.67	-	-
Advertisement expenses that allowed to deduct in future years	14,988,443.65	2,997,334.76	-	-
Subtotal	353,743,194.82	83,739,383.37	417,818,596.97	100,675,706.09
Deferred tax liability				
One-off deduction of fixed asset before Corporate income tax	8,374,949.93	1,256,242.49	-	-
Subtotal	8,374,949.93	1,256,242.49	-	-

(2) Details of deductible temporary difference and deductible losses that does not recognize as deferred income tax asset

Item	2019.12.31	2018.12.31
Impairment provision	22,200,437.70	30,660,246.75
Deductible losses	64,205,351.75	65,181,936.05
Total	86,405,789.45	95,842,182.80

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.

(3) Deductible losses that are not recognized as deferred tax asset will due in the following years:

Year	2019.12.31	2018.12.31	Note
2019	—	-	
2020	-	-	
2021	-	-	
2022	-	3,393,863.46	
2023	2,417,279.16	7,798,677.32	
2024	7,798,677.32	11,684,299.22	
2025	11,684,299.22	18,449,678.50	
2026	18,449,678.50	23,855,417.55	
2027	23,855,417.55	-	
2028	-	-	
2029	-	-	

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2030	-	—		
Total	64,205,351.75	65,181,936.05		
17. Other non-current assets				
Item	2019.12.31	2018.12.31		
Prepayment for construction and equipment	7,373,248.48	8,949,160.42		
18. Short-term loans				
Item	2019.12.31	2018.12.31		
Guaranteed loans	37,271,502.38	187,118,452.97		
Credit loans	530,637,330.83	360,000,000.00		
Total	567,908,833.21	547,118,452.97		
Refer to Note XII. 2 for details of guaranteed loans between parent companies and subsidiaries.				
19. Accounts payable				
Item	2019.12.31	2018.12.31		
Trade payables	254,887,129.91	188,957,240.00		
Payables for material purchased	11,932,722.53	18,632,180.36		
Payables for project	12,952,934.93	52,324,191.98		
Total	279,772,787.37	259,913,612.34		
20. Advances from customer				
Item	2019.12.31	2018.12.31		
Advances received for trade	19,999,056.53	14,822,924.98		
Rental received	3,434,407.04	1,636,520.02		
Total	23,433,463.57	16,459,445.00		
21. Employee benefit payable				
Item	2018.12.31	Accrued	Decrease	2019.12.31
Short-term employee benefits	63,805,261.48	549,103,500.51	537,474,216.99	75,434,545.00
Post-employment benefits - defined contribution plans	5,973,776.35	44,528,366.42	43,434,631.25	7,067,511.52
Termination benefits	-	3,627,507.77	3,526,718.62	100,789.15
Other benefits due within one year	-	-	-	-
Total	69,779,037.83	597,259,374.70	584,435,566.86	82,602,845.67
(1) Short-term employee benefits				
Item	2018.12.31	Accrued	Decrease	2019.12.31
Salaries, bonus, allowances	63,306,958.06	493,200,688.43	481,587,869.68	74,919,776.81
Staff welfare	-	10,123,091.04	10,123,091.04	-

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Social insurances	-	20,177,698.15	20,177,698.15	-
Including: 1. Medical insurance	-	17,960,886.79	17,960,886.79	-
2. Work-related injury insurance	-	674,579.45	674,579.45	-
3. Maternity insurance	-	1,542,231.91	1,542,231.91	-
Housing Fund	-	17,858,952.38	17,858,952.38	-
Labor union fees and education fee	498,303.42	7,743,070.51	7,726,605.74	514,768.19
Short-term paid absences	-	-	-	-
Short-term profit –sharing plan	-	-	-	-
Non-monetary benefits	-	-	-	-
Other short-term employee benefits	-	-	-	-
Total	63,805,261.48	549,103,500.51	537,474,216.99	75,434,545.00

(2) Defined contribution plans

Item	2018.12.31	Accrued	Decrease	2019.12.31
Post-employment benefits	5,973,776.35	44,528,366.42	43,434,631.25	7,067,511.52
Including: 1. Basic pension insurance	473,306.78	40,186,669.43	40,404,404.74	255,571.47
2. Unemployment insurance	-	1,117,187.90	1,117,187.90	-
3. Annuity	5,500,469.57	3,224,509.09	1,913,038.61	6,811,940.05
4. Others	-	-	-	-
Total	5,973,776.35	44,528,366.42	43,434,631.25	7,067,511.52

22. Taxes payable

Taxes	2019.12.31	2018.12.31
VAT	6,929,833.12	32,344,121.18
Corporate income tax	15,512,840.60	21,599,264.54
Individual income tax	1,227,923.78	998,190.73
Urban maintenance and construction tax	91,612.52	321,914.01
Educational surcharges	65,887.11	229,955.09
Others	236,705.87	429,726.37
Total	24,064,803.00	55,923,171.92

23. Other payables

Item	2019.12.31	2018.12.31
Interests payable	-	772,351.26
Dividends payable	848,233.27	-
Other payables	118,768,488.36	71,047,579.04

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Total	119,616,721.63	71,819,930.30
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(1) Interests payable

Item	2019.12.31	2018.12.31
Interests for short-term loan	-	772,351.26

(2) Dividends payable

Item	2019.12.31	2018.12.31
Dividends for ordinary shares	848,233.27	-

(3) Other payables

Item	2019.12.31	2018.12.31
Security deposit	45,114,205.97	22,954,307.95
Shop activity fund	16,636,771.40	17,461,589.65
Personal accounts payable	1,321,518.82	3,058,122.71
Decoration expenses	4,556,469.41	6,096,460.99
Repurchase liability for restricted shares	17,737,366.73	-
Other	33,402,156.03	21,477,097.74
Total	118,768,488.36	71,047,579.04

24. Non-current liabilities due within one year

Item	2019.12.31	2018.12.31
Long-term loan due within one year	360,140.00	347,470.00

(1) Long-term loan due within one year

Item	2019.12.31	2018.12.31
Long-term loan due within one year	360,140.00	347,470.00

See Note V.25 for type and amount of mortgaged assets.

25. Long-term loan

Item	2019.12.31	Interests rate	2018.12.31	Interests rate
Mortgage loans	4,681,820.00	3.00%	4,864,580.00	3.00%
Total	4,681,820.00		4,864,580.00	
Less: Long-term loan due within one year	360,140.00		347,470.00	
Total	4,321,680.00		4,517,110.00	

As of 31 December 2019, the carrying amount of fixed assets used in mortgage for the Group's loan amounted to RMB14,303,281.92.

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26. Deferred income

Item	2018.12.31	Addition	Decrease	2019.12.31	Reason
Government grant	3,672,855.36	-	626,764.76	3,046,090.60	Criteria of recognizing gain is not reached

See Note XIV. 1 Government grant for details of government grants that are included in deferred income.

27. Share capital

Item	2018.12.31	Movements (+, -)					2019.12.31
		Newly issued	Bonus share	Capitalization of capital reserves	Others	subtotal	
Total shares	438,744,881	4,224,000	-	-	-	4,224,000	442,968,881

On 11 January 2019, the restricted share incentive plan (first phase) had granted a total of 4,224,000 restricted A-shares to 128 incentive individuals. As a result, the Company's registered capital increased by RMB4,224,000.00 and capital reserve increased by RMB14,361,600.00. See Note V. 28 Capital reserve for detail.

28. Capital reserve

Item	2018.12.31	Increase	Decrease	2019.12.31
Share premium	1,047,963,195.57	14,361,600.00	27,654.81	1,062,297,140.76
Other capital reserve	14,492,448.65	4,440,625.91	-	18,933,074.56
Total	1,062,455,644.22	18,802,225.91	27,654.81	1,081,230,215.32

Note:

(1) On 4 January 2019, pursuant to the examination and approval given by SASAC under "Reply to Examination and approval of Implementation of First Phase of Restricted Share Incentive plan of FIYTA (Group) Holding Ltd." (GuoZi KaoFen [2018] No. 936), and approved by the board of directors and shareholder's general meeting, the Company implemented the incentive plan. On 11 January 2019, the restricted share incentive plan (first phase) had granted a total of 4,224,000 restricted A-shares to 128 incentive individuals. Total consideration received from subscription of restricted shares was RMB18,585,600.00, of which RMB4,224,000.0 increased share capital of the Company and RMB14,361,600.00 increased the capital reserve of the Company. At the same time the Company recognized restricted share re-purchase liability as other payables of RMB18,585,600.00 and increased treasury shares of RMB18,585,600.00 accordingly. In 2019, the Group increased RMB4,440,625.91 in capital reserve and charged the amount to related cost or expenses in exchange of the incentive individuals' service.

(2) Pursuant to "The Resolution of Plan of Re-purchase B Shares" which was approved on the 7th meeting of the 9th Board of Directors and the 2nd extraordinary shareholder's meeting of 2019, the Company repurchased B Shares of 10,010,000 in total as of 31 December 2019. Total consideration paid was RMB 53,524,330.10. Trading fee paid was RMB 27,654.81, which was deducted from capital reserve.

29. Treasury shares

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Item	2018.12.31	Increase	Decrease	2019.12.31
Treasury shares	-	71,267,118.78	-	71,267,118.78

Note:

(1) The Company repurchased B Shares of 10,010,000 in total as of 31 December 2019. Total consideration paid was RMB 53,524,330.10, which increased the amount of treasury shares.

(2) As described in Note V. 28 Capital reserve (1), the Group recognized restricted shares re-purchase obligation and the treasury share increased by RMB18,585,600.00 accordingly.

(3) According to 2018 profit distribution proposal that had been passed on 2018 shareholder's meeting on 19 June 2019, the Company distributed cash dividend of RMB2.008128 (tax inclusive) for every 10 shares held by shareholders based on the total 436,968,881 shares. A-share registration date was 9 August 2019. The Company granted total 4,224,000 A shares to employee on 11 January 2019. After deducting 27,000 shares that cannot be exercised in future, the cash dividend of the rest of 4,197,000.00 shares deducted treasury shares accordingly.

30. Other comprehensive income

Item	2018.12.31	Movements in 2019					2019.12.31
		Before tax	Less: recorded in other comprehensive income in prior period and transferred to profit or loss in current period	Less: tax expense	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 may be reclassified subsequently to profit or loss							
Including: translation difference of foreign currency financial statements	5,442,139.78	4,502,059.89	-	-	4,501,930.69	129.20	940,209.09
Total other comprehensive income	5,442,139.78	4,502,059.89	-	-	4,501,930.69	129.20	940,209.09

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Note: Net-of-tax amount of other comprehensive income during the year 2019 is RMB4,502,059.89, in which net-of-tax amount of other comprehensive income attributable to shareholders of the Company is RMB4,501,930.69, and net-of-tax amount of other comprehensive income attributable to non-controlling interests is RMB129.20.

31. Surplus reserve

Item	2018.12.31	Increase	Decrease	2019.12.31
Statutory surplus reserve	161,030,899.80	12,685,386.34	-	173,716,286.14
Discretionary surplus reserve	61,984,894.00	-	-	61,984,894.00
Total	223,015,793.80	12,685,386.34	-	235,701,180.14

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 will be 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.

32. Undistributed profit

Item	2019	2018
Undistributed profit at the end of prior year before adjustments	851,360,603.66	771,484,565.02
Adjustments to undistributed profit at the beginning of year	-	-
Undistributed profit at the beginning of year after adjustment	851,360,603.66	771,484,565.02
Plus: Net profit attributable to the owner of the parent company for the year	215,909,014.15	183,835,095.29
Less: statutory surplus reserve drawn	12,685,386.34	16,210,080.45
Dividends payable to ordinary shares	87,743,413.07	87,748,976.20
Undistributed profit at the end of year	966,840,818.40	851,360,603.66
Including: appropriation to surplus reserves made by the Company's subsidiaries attributable to the Company	10,229,847.23	9,410,363.47

33. Operating income and operating cost

Item	2019		2018	
	Operating income	Operating cost	Operating income	Operating cost
Main business	3,686,955,944.86	2,211,874,573.32	3,382,346,730.19	1,992,905,841.56
Other business	17,254,790.04	5,333,158.72	18,103,869.71	903,932.64
Total	3,704,210,734.90	2,217,207,732.04	3,400,450,599.90	1,993,809,774.20

(1) Main business presented by industry

Industry	2019	2018
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	Operating income	Operating cost	Operating income	Operating cost
Watch	3,463,608,966.45	2,109,978,800.45	3,193,280,311.30	1,910,998,452.65
Precision manufacturing	91,341,945.34	73,717,603.23	70,742,449.85	59,432,940.99
Lease	132,005,033.07	28,178,169.64	118,323,969.04	22,474,447.92
Total	3,686,955,944.86	2,211,874,573.32	3,382,346,730.19	1,992,905,841.56

(2) Main business presented by product

Product	2019		2018	
	Operating income	Operating cost	Operating income	Operating cost
Watch retail and service	2,352,930,477.41	1,779,026,456.80	2,090,970,707.50	1,576,862,763.43
Branded watch retail	1,110,678,489.04	330,952,343.65	1,102,309,603.80	334,135,689.22
Precision manufacturing	91,341,945.34	73,717,603.23	70,742,449.85	59,432,940.99
Lease	132,005,033.07	28,178,169.64	118,323,969.04	22,474,447.92
Total	3,686,955,944.86	2,211,874,573.32	3,382,346,730.19	1,992,905,841.56

(3) Main business presented by geographical area

Area	2019		2018	
	Operating income	Operating cost	Operating income	Operating cost
Southern China	1,806,673,205.47	1,091,723,846.59	1,518,807,270.87	874,695,822.56
Northwest China	586,521,631.97	340,309,728.35	588,628,213.03	353,457,194.81
Northern China	204,386,707.45	118,165,568.05	249,884,958.89	137,166,812.45
Eastern China	502,541,659.80	280,319,276.42	439,292,101.70	262,001,509.80
North-east China	230,662,172.16	163,383,316.18	269,671,243.83	187,589,738.67
Southwest China	356,170,568.01	217,972,837.73	316,062,941.87	177,994,763.27
Total	3,686,955,944.86	2,211,874,573.32	3,382,346,730.19	1,992,905,841.56

34. Taxes and surcharges

Item	2019	2018
Urban maintenance and construction tax	11,435,460.45	14,746,181.35
Educational surcharge	4,891,150.79	6,338,803.59
Local educational surcharge	3,216,962.37	4,221,251.51
Property tax	4,037,914.43	3,858,983.33
Land use tax	391,201.52	387,741.44
Stamp duty	2,384,290.09	2,216,200.85
Others	1,835,809.90	2,000,182.33

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Total	28,192,789.55	33,769,344.40
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Note: The criteria of business taxes and surcharges accrued and paid refer to Note IV. Taxation.

35. Selling and distribution expenses

Item	2019	2018
Salary	359,640,526.77	351,918,381.60
Department store expense and rental	181,211,260.52	137,788,340.17
Market promotion expenses	155,102,618.44	186,814,362.00
Depreciation and amortization	92,468,987.37	91,887,577.80
Packaging expenses	11,125,541.27	17,013,895.11
Utilities and property management expenses	19,283,177.10	18,464,692.62
Shipping fees	14,689,427.89	12,444,864.89
Office expenses	5,827,092.35	10,934,189.89
Travel expenses	10,479,738.66	12,076,624.12
Entertainment expenses	4,549,777.07	5,035,117.75
Others	11,413,931.17	12,592,127.15
Total	865,792,078.61	856,970,173.10

36. Administration expenses

Item	2019	2018
Salary	170,242,331.00	160,762,765.81
Depreciation and amortization	30,001,693.96	23,465,976.86
Travel expenses	7,543,194.55	7,436,745.07
Office expenses	3,966,450.49	4,411,920.54
Agents fees	5,146,625.69	7,322,437.54
Rental and utilities	6,140,097.22	3,943,256.92
Others	17,579,596.13	11,819,423.11
Total	240,619,989.04	219,162,525.85

37. R&D expenses

Item	2019	2018
Salary	25,225,831.95	27,781,676.08
Material and mould	1,654,367.12	3,872,770.91
Sample fee	1,874,392.46	2,042,439.14
Depreciation and amortization	5,120,979.03	4,869,828.83
Technical cooperation fee	5,488,880.26	1,254,524.99
Others	5,693,289.43	7,529,102.87

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Total	45,057,740.25	47,350,342.82	
38. Financial expense			
Item	2019	2018	
Total interest expenses	23,975,351.93	27,552,558.81	
Less: Interest capitalization	-	-	
Interest income	1,956,316.52	2,269,447.05	
Exchange gain	-2,920.03	713,080.72	
Bank charges	10,799,162.19	9,920,047.68	
Total	32,815,277.57	35,916,240.16	
39. Other income			
Item	2019	2018	Asset or income related
Headquarters enterprise award	4,843,500.00	-	income related
Corporate Research and Development Funding	3,156,000.00	1,890,000.00	income related
Special subsidy to promoting consuming	1,655,200.00	-	income related
Economic development special fund of Guangming District to support intellectual property right, standardization certification project	1,033,000.00	-	income related
Subsidy to support major enterprise to expanding production and improving efficiency	1,000,000.00	-	income related
Subsidy to support innovation development for business and trading	712,664.00	-	income related
Subsidy to support investment in R&D and domestic economic and trading exhibition	669,545.00	1,268,000.00	income related
Special fund of Nanshan district to support self-innovation industry development	718,600.00	2,246,200.00	income related
Examine intellectual property right using big data	500,000.00	-	income related
Commission on IIT payment	469,005.01	-	income related
Shenzhen Standard Special Fund	543,000.00	496,000.00	income related
Subsidy for SME to expanding market	387,940.49	-	income related
Shenzhen Science and Technology Award	300,000.00	-	income related
Expanding production and improving efficiency	300,000.00	-	income related
State certified R&D center	293,147.06	488,578.43	income related
Subsidy to projects of economic development special fund	286,000.00	-	income related
Subsidy for stabilizing job position	209,468.63	229,106.17	income related
Special fund for Shenzhen industrial designing	203,066.21	1,066,988.78	income related
Self-innovative industry development subsidy	200,000.00	-	income related

The 20 th Guangdong Provincial China Patent Award	150,000.00	-	income related
Associated award to the 20 th Guangdong Provincial China Patent Award	150,000.00	-	income related
Provincial industry and information special subsidy	130,551.49	137,615.17	income related
Basel watch fair subsidy	114,333.32	-	income related
Maternity insurance	100,789.68	-	income related
Nanshan Economic Promoting Bureau subsidy for SME	100,000.00	-	income related
Promotion of human resource quality	100,000.00	100,000.00	income related
Subsidy to promoting international operating ability	31,163.00	60,000.00	income related
State level high and new technology certificate subsidy	30,000.00	-	income related
Short term export credit insurance	20,200.00	57,605.00	income related
Expanding domestic marketing from Shenzhen SME Affairs Department	14,670.00	-	income related
Subsidy for Disabled person	7,062.29	8,882.30	income related
Watch fair subsidy from Guangming District	-	50,000.00	income related
Shenzhen Patent Award	-	2,000.00	income related
Special fund for industry transformation and upgrading	-	500,000.00	income related
Special fund for application of industry transformation and upgrading	-	4,480,000.00	income related
Merging of industrialization and information	-	400,000.00	income related
Domestic marketing expanding for example enterprise practicing innovation	-	128,920.00	income related
Foreign trade subsidy for Basel watch fair	-	779,907.74	income related
High and new tech enterprise in Baoan District	-	30,000.00	income related
2 nd International Brand Week Guangming Branch	-	28,301.89	income related
18 th China Appearance Designing Excellence award	-	250,000.00	income related
Domestic innovation patent annual subscription fee subsidy	-	2,000.00	income related
Import exhibition participating	-	6,154.00	income related
Economic and trade commission service industry special development fund	-	1,000,000.00	income related
Crystal Products Exhibition Special Funding	-	103,267.00	income related
Corporate R&D Funding by Science and Technology Commission	-	1,155,000.00	income related
Creating excellence and rating funding project by Economic Promotion Bureau, Nanshan District	-	200,000.00	income related
Funding for Informatization and Industrialization Integration project by Economic Promotion Bureau, Nanshan District	-	100,000.00	income related

Project funded by Commerce Circulation Industry	-	360,800.00	income related
Patent subsidy by Shenzhen Municipal Market and Quality Supervision and Administration Committee, 2017	-	10,000.00	income related
The 19th China Patent Award of the Market and Quality Committee	-	330,000.00	income related
Funds on Enterprise Intellectual Property Management Standards Certification by Market Supervision Committee	-	200,000.00	income related
Demonstration special fund, financial aid project in exhibition industry, for small and micro enterprise entrepreneurship innovation base	-	159,810.00	income related
Watch exhibition subsidy of small and micro enterprises	-	128,008.00	income related
Government exhibition industry special fund	-	128,008.00	income related
China Light Industry Federation's international standards funding	-	16,000.00	income related
16-26 batch special subsidy for Central Foreign Trade and Economic	-	60,000.00	income related
Government special subsidy fund for central foreign economic and trade projects	-	114,466.00	income related
Key technology research and development project of DF101 aircraft benchmark timing system	-	480,000.00	income related
Development Special Fund for Independent Innovation Industry, Nanshan District	-	124,000.00	income related
Total	18,428,906.18	19,375,618.48	—

Note: Refer to Note XIV. 1 Government grant for detailed information.

40. Investment gain

Item	2019	2018
Gain from long-term equity investments accounted for using the equity method	1,787,907.10	1,001,545.06

41. Credit impairment loss ("—" for loss)

Item	2019	2018
Bad debt for bill receivable	-217,182.73	—
Bad debt for accounts receivable	-16,346,637.18	—
Bad debt for other receivables	-77,141.16	—
Total	-16,640,961.07	—

42. Asset impairment loss ("—" for loss)

Item	2019	2018
Bad debt loss	—	5,488,944.07
Inventory impairment loss	-4,295,134.48	-8,753,900.25
Total	-4,295,134.48	-3,264,956.18

43. Gains from assets disposal

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Item	2019	2018
Gains from assets disposal ("-" for loss)	-926,118.60	-181,302.24

44. Non-operating income

Item	2019	2018	Amount included in non-recurring gains or losses for the year ended 31/12/2019
Gain from non-current asset scrap	-	1,000.00	-
Compensation	2,700,000.00	-	2,700,000.00
Payables cannot be paid	275,162.46	2,810.50	275,162.46
Others	1,778,942.84	1,442,547.03	1,778,942.84
Total	4,754,105.30	1,446,357.53	4,754,105.30

45. Non-operating expenses

Item	2019	2018	Amount included in non-recurring gains or losses for the year ended 31/12/2019
Fine	44,727.07	154,626.88	44,727.07
Donation	200,000.00	380,000.00	200,000.00
Others	1,155,461.80	117,888.09	1,155,461.80
Total	1,400,188.87	652,514.97	1,400,188.87

46. Income expenses

(1) Details of income expenses

Item	2019	2018
Current tax expense for the year based on tax law and regulations	42,132,064.04	42,131,613.05
Changes in deferred tax assets/liabilities	18,192,565.21	5,230,238.71
Total	60,324,629.25	47,361,851.76

(2) Reconciliation between income tax expenses and accounting profit is as follows:

Item	2019	2018
Profits before tax	276,233,643.40	231,196,947.05
Income tax calculated based on statutory tax rate	69,058,410.86	57,799,236.76
Effect of different tax rates applied by subsidiaries	-4,251,519.66	-12,360,815.15
Adjustment to income tax of previous years	965,521.61	413,122.52
Effect of gains or losses from joint ventures and associates accounted for using the equity method	-385,693.68	-250,386.27
Effect of non-taxable income (use "-" for presentation)	-	-

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Effect of non-deductible costs, expenses and losses	1,178,297.49	1,286,216.68
Effect on opening balance of deferred tax due to changes in tax rate	-	-
Effect of using the deductible temporary differences or deductible losses for which no deferred tax asset was recognized in previous (use "-" for presentation)	-	-250,920.28
Effect of deductible temporary differences or deductible losses for which no deferred tax asset was recognized this year	174,634.92	7,158,514.85
Effect of research and development expenses super deduction (use "-" for presentation)	-6,415,022.29	-6,433,117.35
Others	-	-
Income tax expenses	60,324,629.25	47,361,851.76

47. Notes to cash flow statement

(1) Cash received from other operating activities

Item	2019	2018
Government grant	17,802,141.42	17,144,473.84
Promotion expenses	14,023,190.48	7,388,696.14
Security deposit	31,127,235.94	9,977,697.98
Interest income	1,956,316.52	2,269,447.05
Return of petty cash	3,817,075.69	4,066,408.69
Penalty	4,298,036.35	-
Legal action security	8,958,057.64	-
Others	11,850,325.81	8,781,869.99
Total	93,832,379.85	49,628,593.69

(2) Cash paid for other operating activities

Item	2019	2018
Current period expenses	478,806,783.39	415,838,192.35
Security deposit	4,393,654.88	19,915,997.96
Petty cash advanced to employee	734,763.81	5,131,463.98
Others	4,118,260.73	13,351,304.90
Total	488,053,462.81	454,236,959.19

(3) Cash paid for other financing activities

Item	2019	2018
Cash paid for re-purchase of shares	53,117,325.02	-

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48. Supplement to cash flow statement

(1) Supplement to cash flow statement

Item	2019	2018
1、Reconciliation of net profit/loss to cash flows from operating activities:		
Net profit	215,909,014.15	183,835,095.29
Add: Impairment for assets	4,295,134.48	3,264,956.18
Credit impairment loss	16,640,961.07	—
Depreciation of fixed assets, and investment property	44,206,119.17	44,860,943.06
Intangible asset amortization	6,897,790.40	5,285,858.86
Amortization of long-term deferred expenses	102,881,563.21	88,256,496.82
Loss on disposal of fixed assets, intangible assets, and other long-term assets ("—" for gain)	926,118.60	181,302.24
Loss on scrap of fixed assets ("—" for gain)	-	-1,000.00
Loss on changes of fair value ("—" for gain)	-	-
Financial expenses ("—" for income)	23,975,351.93	27,552,558.81
Investment loss ("—" for gain)	-1,787,907.10	-1,001,545.06
Decrease in deferred tax assets ("—" for increase)	16,936,322.72	5,230,238.71
Increase in deferred tax liabilities ("—" for decrease)	1,256,242.49	-
Decrease in inventories ("—" for increase)	-30,808,922.70	30,900,223.04
Decrease in operating receivables ("—" for increase)	-41,745,826.01	-36,309,812.09
Increase in operating payables ("—" for decrease)	85,238,806.20	-20,427,526.24
Others	-	-
Net cash flows from operating activities	444,820,768.61	331,627,789.62
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	315,093,565.09	162,623,059.97
Less: cash at beginning of year	162,623,059.97	184,947,891.32
Plus: cash equivalents at end of year	-	-
Less: cash equivalents at beginning of year	-	-

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Net increase in cash and cash equivalents	152,470,505.12	-22,324,831.35
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(2) Cash and cash equivalents

Item	31/12/2019	31/12/2018
I. Cash	315,093,565.09	162,623,059.97
Incl. Cash on hand	229,258.38	420,783.85
Bank deposit available for immediate payment	285,306,297.62	160,135,454.62
Other monetary funds available for immediate payment	29,558,009.09	2,066,821.50
II. Cash equivalents	-	-
Including Bond investment due in three months	-	-
III. Cash and cash equivalents at the end of year	315,093,565.09	162,623,059.97
Including Restricted cash and cash equivalents for the Company and its subsidiaries	3,641,389.51	9,192,653.31

49. Assets of restricted ownership or use rights

Item	Carrying amount as at 31 Dec 2019	Reason
Cash in banks	1,575,000.00	Security deposit for letter of guarantee
Fixed assets	14,303,281.92	Pledged
Total	15,878,281.92	—

50. Monetary item denominated in foreign currency

(1) Monetary item denominated in foreign currency

Item	Balance denominated in foreign currency as at 31 Dec 2019	Exchange rate	Balance translated in RMB as at 31 Dec 2019
Cash and bank balances			
Including: HKD	9,734,889.65	0.8887	8,651,709.21
USD	2,559,367.50	6.9287	17,733,097.20
EUR	61,357.68	7.9277	486,427.72
CHF	347,441.02	7.2028	2,502,548.17
Accounts receivable			
Including: HKD	2,178,760.46	0.89578	1,951,690.04
USD	4,054,616.59	6.9762	28,285,816.26
EUR	393,890.14	7.8155	3,078,448.39
CHF	3,602,942.07	7.2028	25,951,271.14
Other receivables			
Including: HKD	138,711.23	0.89578	124,254.75

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EUR	4,250.00	7.8155	33,215.88
CHF	905,580.00	7.2028	6,522,711.62
Short-term loan			
Including: HKD	19,123,916.44	0.89578	17,130,821.87
CHF	1,406,035.62	7.2028	10,127,393.36
Accounts payable			
Including: HKD	2,527,248.49	0.89578	2,263,858.65
CHF	305,396.81	7.2028	2,199,712.14
Non-current liability that due in one year			
Including: CHF	50,000.00	7.2028	360,140.00
Long-term loan			
Including: CHF	600,000.00	7.2028	4,321,680.00

(2) Overseas operational entity

For main business location and recording currency of important overseas operational entity, refer to Note III. 4.

VI. Changes to the scope of consolidation

In 2019, there was no changes to the scope of consolidation.

VII. Interests in other entities

1. Equity in subsidiary

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
Manufacturing Company	Shenzhen	Shenzhen	Commerce	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	Manufacture	-	60.00	Establishment or investment
Harbin Company	Harbin	Harbin	Commerce	100.00	-	Establishment or investment
Technology Company	Shenzhen	Shenzhen	Commerce	100.00	-	Establishment or investment
TEMPORAL Company	Shenzhen	Shenzhen	Commerce	100.00	-	Establishment or investment
Emile Choureit Shenzhen Company	Shenzhen	Shenzhen	Commerce	100.00	-	Business combination under common control
FIYTA Sales Company	Shenzhen	Shenzhen	Commerce	100.00	-	Business combination not under common control

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Hengdarui Company	Shenyang	Shenyang	Commerce	100.00	-	Establishment or investment
Swiss Company	Switzerland	Switzerland	Commerce	-	100.00	Establishment or investment

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	2019.12.31	2018.12.31
Current assets	117,096,911.21	99,901,286.09
Non-current assets	13,556,720.58	15,459,207.08
Total assets	130,653,631.79	115,360,493.17
Current liabilities	22,661,506.61	10,833,917.48
Non-current liabilities	7,978,869.84	10,684,419.15
Total liabilities	30,640,376.45	21,518,336.63
Net assets	100,013,255.34	93,842,156.54
Including: minority shareholder's interest	-	-
Owners' equity attributable to parent company	100,013,255.34	93,842,156.54
Owners' equity attributable to parent company	25,003,313.84	23,460,539.14
Adjustment matters		
- Goodwill	-	-
- Unrealized profit or losses from internal transaction	-	-
- impairment provisions	-	-
- Others	-	-
Carrying value of investment to associates	46,423,837.85	44,881,063.15
Fair value of equity investment that has public quotation	-	-

Continued:

Item	2019	2018
Operating income	101,660,357.29	97,282,978.95
Net profit	6,171,098.80	4,006,180.22

Net profit from discontinued operation	-	-
Other comprehensive income	-	-
Total comprehensive income	6,171,098.80	4,006,180.22
Dividends received from associated company during the year	-	-

VIII. Risk management to financial instrument

Main financial instruments of the Company include cash at bank and in hand, bills receivable, accounts receivable, other receivables, other equity instruments investment, accounts payable, other payables, short-term loans, non-current liabilities due within one year and long-term loans. Details of financial instruments refer to related notes. 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.

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.

Risks associated with the financial instrument mainly include credit risk, liquidity risk, market risk (including exchange rate risk, interest rate risk and commodity price risk).

The board of director is responsible to plan and establish the Group's risk management structure, make risk management policies and related guidelines, and supervise the implementation of risk management. The Group has already made risk management risks to identify and analyse risks that the Group face. These policies mentioned specific risks, covering market, credit risk and liquidity risk etc. The Group regularly assesses market environment and the operation changes to determine if to make alteration to risk management policy and systems. The Group's risk management is implemented by Risk Management Committee according to the approval of the board of directors. Risk Management Committee work closely with other business department of the Group to identify, evaluating and avoiding certain risks. The Group's internal audit department will audit the risk management control and procedures regularly and report the result to audit committee of the Group.

The Group spreads risks through diverse investment and business lines, and through making risk management policy to reduce risks of single industry, specific area and counterpart.

(1) Credit risks

Credit risk refers to risk associated with the default of contract obligation of a transaction counterparty.

The Group manages credit risk based category. Credit risks mainly arose from bank deposit, bills receivable, accounts

receivable, and other receivables.

The Group's bank deposit mainly deposits in banks with good reputation and with higher credit rating. The Group anticipated that the bank deposit does not have significant credit risk.

For bill receivable, accounts receivables and other receivables, the Group set related policies to control exposure of credit risks. The Group evaluate client's credit quality and set related credit period based on the client's financial status, credit records and other factors such as current market situation etc. The Group keep monitor the client's credit record and for client with deteriorate credit records, the Group will ensure the credit risk is under control in whole by means of written notice of payment collection, shorten or cancel credit period.

The Group's debtor spread over different industry and area. The Group continued to assess the credit evaluation to receivables and purchase credit guarantee insurance if necessary.

The biggest credit risk exposure of the Group is the carrying amount of each financial assets in the balance sheet. The Group also faces credit risks because of providing financial guarantee. Refer to Note XII. 2 for details.

The amount of top 5 accounts receivable of the Group accounted for 25.39% (2018: 21.95%) of the Group's total accounts receivables. The amount of top 5 other receivable of the Group accounted for 40.94% (2018: 22.73%) of the Group's total other receivables.

(2) Liquidity risk

Liquidity risk refers to the risks that the Group will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or other financial assets.

Regarding to the management of liquidity risk, the subsidiaries of the Group are responsible for cash flow forecast. The Group's finance center monitors cash and cash equivalents to meet operational needs at group level based on subsidiaries' cash forecast. The Group set up cash pool with major banks to arrange the Group's cash and ensure that each subsidiary has sufficient cash reserve to fulfil payment liability. Besides, the Group also signed facility agreement with banks to support the Group to fulfil liabilities fall due.

Operating cash were generated from daily operation and bank loan. As of 31 December 2019, the Group's unused bank loan credit is RMB1,970.39 million (2018: 1,981.03 million)

As at the period end, the financial liabilities of the Group at the reporting date are analysed by their maturity date as below at their undiscounted contractual cash flows (in ten thousand RMB):

Item	2019.12.31				
	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Financial liabilities:					
Short-term loans	57,945.57	-	-	-	57,945.57
Accounts payable	27,977.28	-	-	-	27,977.28
Other payables	11,961.66	-	-	84.82	12,046.48
Non-current liabilities due in one year	37.09	-	-	-	37.09

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Long-term loans	12.97	11.89	441.62	-	466.48
Total financial liabilities	97,934.57	11.89	441.62	84.82	98,472.90

As at the beginning of the period, the financial liabilities of the Group at the reporting date are analysed by their maturity date as below at their undiscounted contractual cash flows (in ten thousand RMB):

Item	2018.12.31				Total
	Within 1 year	1-2 years	2-3 years	Over 3 years	
Financial liabilities:					
Short-term loans	56,116.70	-	-	-	56,116.70
Accounts payable	25,991.36	-	-	-	25,991.36
Other payables	7,181.99	-	-	-	7,181.99
Non-current liabilities due in one year	35.79	-	-	-	35.79
Long-term loans	13.55	47.26	46.22	391.01	498.04
Total financial liabilities	89,339.39	47.26	46.22	391.01	89,823.88

The financial liabilities disclosed above are based on cash flows that are not discounted and may differ from the carrying amount of the line items.

(3) Market risk

Market risk includes interest rate risk and currency risk, refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the changes in market price.

Interest risk

Interest rate risk refers to the risk that the fair value or future cash flow of a financial instrument will be fluctuated due to the floating rate. Interest rate risk arises from recognised interest-bearing financial instrument and unrecognised financial instrument (e.g. loan commitments).

The Group's interest rate risk arises from cash and cash equivalents, borrowings and interest-bearing liabilities. Financial liabilities issued at floating rate expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rate expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions and to maintain an appropriate combination of financial instruments at fixed rate and floating rate through regular reviews and monitors.

The Group's finance department continuously monitors the interest rate position of the Group. The Group did not enter into any interest rate hedging arrangements. But the management is responsible to monitor the risks of interest rate and consider to hedge significant interest risk if necessary. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate interest-bearing borrowings, and therefore could have a material adverse effect on the Group's financial result. The management will make adjustments with reference to the latest market conditions. These adjustments may include enter into interest swap agreement to mitigate its exposure to the interest

rate risk.

Interest bearing financial instrument held by the Group are as follows (in ten thousand RMB):

Item	2019	2018
Fixed interest rate		
Financial liability		
Including: short term loans	48,710.37	54,711.85
Long term loans	468.18	486.46
Subtotal	49,178.55	55,198.31
Floating interest rate:		
Financial liabilities		
Including: short term loans	8,000.00	-
Total	57,178.55	55,198.31

As at 31 December 2019, it is estimated that a general increase or decrease 50 basis points in the borrowings with floating interest rates, with all other variables held constant, the Group's net profit and shareholder's equity for the year will decrease or increase by approximately RMB400 thousand (2018: no floating interest rate loan).

The financial instruments held by the Group at the reporting date expose the Group to fair value interest rate risk. This sensitivity analysis as above has been determined assuming that the change in interest rates had occurred at the reporting date and arisen from the recalculation of the above financial instrument issued at new interest rates. The non-derivative tools issued at floating interest rate held by the Group at the reporting date expose the Group to cash flow interest rate risk. The effect to the net profit and shareholder's equity illustrated in the sensitivity analysis as above is arisen from the effect to the annual estimate amount of interest expenses or revenue at the floating interest rate. The analysis is performed on the same basis for last year.

Exchange rate risk

Exchange risk refers to the risk that the fair value or future cash flows of a financial instrument will be fluctuated due to the changes in foreign currency rates. Foreign currency risk arises on financial instruments that are denominated in a currency other than the functional currency in which they are measured.

The Group's exchange risk mainly are financial position and cash flow that are affected by foreign exchange fluctuation. The Group's major operational activities are carried out in the PRC except for Swiss company which held currency of CHF and Hong Kong company which uses HKD for settlement. But risks also exist for the Group's asset and liability denominated in foreign currency and future foreign exchange transaction.

The following table details the financial assets and liabilities held by the Group which denominated in foreign currencies and amounted to RMB as at 31 December 2019 are as follows (in RMB ten thousands):

Item	Liabilities denominated in foreign currency		Asset denominated in foreign currency	
	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018

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USD	-	-	4,601.89	907.81
HKD	1,939.47	3,160.74	1,072.77	872.08
CHF	1,700.89	1,852.08	3,497.65	1,189.40
EUR	-	-	359.81	31.75
Total	3,640.36	5,012.82	9,532.12	3,001.04

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.

As at 31 December 2019, for cash balances, bank loans and other financial instruments that denominated in foreign currency, if Renminbi appreciate or depreciate of 5% to foreign currency (mainly USD, HKD and CHF) and other factors remain unchanged, the shareholder's equity and net profit will increase or decrease about RMB 2.9459 million (31 Dec 2018: 1.0059 million).

2. Capital management

The objective of the Group's capital risk management is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the number of dividends paid to shareholders, return capital to shareholders, issue new shares or disposes assets to reduce its liabilities.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net liabilities divided by total capital.

As at 31 December 2019, the Group's gearing ratio is 29.42% (31 December 2018: 28.60%).

IX. Fair value

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement. The levels are defined as follows:

Level 1 inputs: unadjusted quoted prices in active markets that are observable at the measurement date for identical assets or liabilities.

Level 2 inputs: inputs other than Level 1 inputs that are either directly or indirectly observable for underlying assets or liabilities.

Level 3 inputs: inputs that are unobservable for underlying assets or liabilities.

(1) Fair value of assets and liabilities measured at fair value

As at 31/12/2019, assets and liabilities measured at fair value are shown as follows:

Item	Level 1 fair value measurement	Level 2 fair value measurement	Level 3 fair value measurement	Total
I.Recurring fair value measurement				
(I) other equity instrument investment	-	-	85,000.00	85,000.00

There have been no transfers between level 1 and level 2 and no transfer into or out of Level 3 during the year ended 31

December 2019.

(2) Fair values of assets and liabilities not measured at fair value

Financial assets and financial liabilities measured at amortized cost include: cash at bank and on hand, notes receivable, accounts receivable, other receivables, short-term loans, accounts payable, other payables, long-term loans due within one year, and long-term loans.

The difference between fair value and carrying amount of the above financial assets and liabilities that measured at cost is insignificant.

X. Related party and related transaction

1. 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	1,166,161,996	36.79	36.79

Note: CATIC Shenzhen Company holds 36.85% 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 91.13% (ultimate beneficiary shares 91.897%) of the equity of CASI. Therefore, the ultimate controlling party of the Company is AVIC.

2. Subsidiaries

Details of subsidiaries refer to Note VII.1.

3. Joint venture and association

Details of joint ventures and associates refer to Note VII.2.

4. Other related parties

Name	Relationship with the Company
Shenzhen CATIC Property Management Limited (CATIC Property Management)	Associate company of the controlling shareholder
Shenzhen CATIC Building Equipment Co., Ltd. (CATIC Building Company)	Associate company of the controlling shareholder
China Merchants Property Operation & Service Co., Ltd (China Merchants Property OS)	Associate company of the controlling shareholder
CATIC Guanlan Property Development Co., Ltd. (CATIC Guanlan Property)	Associate company of the controlling shareholder
Shenzhen CATIC Jiufang Asset Management Limited (CATIC Jiufang Asset Mgmt Company)	Associate company of the controlling shareholder
Shenzhen CATIC City Investment Co., Ltd (CATIC City Investment)	Associate company of the controlling shareholder
Ganzhou CATIC 9 Square Trading Co, Ltd (Ganzhou 9 Square Company)	Associate company of the controlling shareholder

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CATIC City Estate (Kunshan) Co, Ltd (Kunshan Company)	Associate company of the controlling shareholder
Shenzhen AVIC Security Service Co., Ltd (AVIC Security Service)	Associate company of the controlling shareholder
Shenzhen AVIC Property Asset Management Co., Ltd. (AVIC Property Asset Management)	Associate company of the controlling shareholder
Jiujiang 9 Square Business Management Co., Ltd (Jiufang Business Management)	Associate company of the controlling shareholder
Shenzhen CATIC Property Development Co., Ltd (CATIC Property)	Associate company of the controlling shareholder
Rainbow Department Store Co., Ltd. and its associated companies (Rainbow Department Store)	Controlled by the same party
Shennan Circuits Co., Ltd. and its associated companies (Shennan Circuits)	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 Huacheng Real Estate Development Co, Ltd (CATIC Huacheng Company)	Controlled by the same party
Shenzhen CATIC City Parking Management Co, Ltd (CATIC City Parking Management Company)	Controlled by the same party
Shenzhen CATIC Technical Testing Institute (CATIC Technical Testing Institute)	Controlled by the same party
Tianma Micro-electronics Co., Ltd. (Tianma)	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
CATIC Changtai Investment Development Co., Ltd. (CATIC Changtai Company)	Controlled by the same party
AVIC Training Center	Controlled by the same party
Shenzhen Grand Skylight Hotel Management Co., Ltd (Grand Skylight Hotel Management Company)	Controlled by the same party
AVIC Finance Co., Ltd. (AVIC Finance Company)	Controlled by the same party
Shenzhen CATIC Grand Skylight Hotel Co., Ltd (Grand Skylight Hotel)	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
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

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Zhong Hongming	Key management member
Tang Xiaofei	Key management member
Wang Baoying	Key management member
Sheng Qing	Key management member
Fang Jiasheng	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
Tang Haiyuan	Key management member
Xu Chuangyue	Key management member
Zou Zhixiang	Key management member
Lu Bingqiang	Key management member

5. Related party transactions

(1) Related purchase and sales

① Purchase good and receiving service

Related party	Nature of transaction	2019	2018
CATIC Management	Property management	11,480,515.57	8,208,102.96
Rainbow Store	Department store expenses/ Commodity purchase	5,646,879.21	5,865,816.91
AVIC Training Center	Training fee	159,408.67	273,596.25
Shennan Circuits	Material purchase	-	29,914.50
Ganzhou 9 Square Company	Department store expense	185,711.09	177,372.93
CATIC City Estate (Kunshan) Company	Department store expense	39,921.62	76,674.66
Jiufang Business Management	Department store expense	54,731.80	58,322.11
AVIC	Purchase of goods	415,077.98	-
AVIC Information Center	Training expenses	1,603.77	-
Shanghai Watch	Purchase of goods	6,048.24	-
Tianma	Purchase of goods	969,091.14	-
CATIC Building Company	Renovation	17,390.67	-
Skytel Hotel	Maintenance and management fee	28,886.00	-
CATIC City Real Estate Company	Department store expense	76,275.91	-

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The pricing strategy for Group's related transaction are based on market price.

② Sale of goods and providing services

Related party	Nature of transaction	2019	2018
Rainbow Department Store	Product and service	73,641,080.14	71,764,856.50
Grand Skylight Hotel Management Company	Sale of product	-	5,982.91
Ganzhou 9 Square Company	Product and service	93,750.40	960,563.85
Shennan Circuit	Sale of material and providing service	10,573,861.17	5,883,132.72
Gongqingcheng Culture Investment Company	Sale of product	-	655,161.45
CASI	Sale of product	-	10,215.52
CATIC City Real Estate Company	Sale of product	-	4,051.28
AVIC-INTL Project Engineering Company	Sale of product	-	15,351.72
CATIC Property Management	Share of Utilities and management fee	12,506,097.43	3,670,113.63
Grand Skylight Hotel	Sale of product	140,867.25	-
Shanghai Watch	Sale of product	4,821,299.97	-
AVIC Training Center	Others	3,270.80	-

The pricing strategy for Group's related transaction are based on market price.

(2) Related party lease

① The 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	3,972,425.13	3,327,785.46
China Merchants Property OS	Property	1,887,345.86	1,813,948.87
Skytel Hotel	Property	2,793,650.79	4,190,476.18
CATIC City Investment)	Property	271,560.56	364,293.91
AVIC Securities Company	Property	1,280,028.55	1,231,342.83
CATIC City Real Estate Company	Property	304,781.46	342,330.05
Rainbow Department Store	Property	684,393.11	529,166.26
CATIC Huacheng Company	Property	239,471.14	257,234.48
CATIC 9 Square Asset Mgmt Company	Property	2,023,126.13	1,560,410.13

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AVIC Security Service	Property	1,438,139.41	1,160,868.75
CATIC Guanlan Property	Property	135,780.28	119,748.00
AVIC Property Asset Management	Property	-	57,154.70
CATIC Property Management	Property	272,692.07	165,612.56
CATIC City Parking Management Company	Property	-	9,916.44

The pricing strategy for Group's related transaction are based on market price.

② The Company as 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	894,582.84
Kunshan Company	Property	132,960.04	156,942.79
Jiufang Business Management	Property	320,208.22	337,541.02
CATIC City Real Estate Company	Property	285,668.33	-

The pricing strategy for Group's related transaction are based on market price.

(3) Related party funds lending

Related Party	Amount	starting date	Expiring date	Note
Borrowing:				
AVIC Finance Company	150,000,000.00	2018-5-14	2019-5-14	
AVIC Finance Company	50,000,000.00	2019-3-26	2020-3-26	
AVIC Finance Company	100,000,000.00	2019-4-2	2020-4-2	
AVIC Finance Company	60,000,000.00	2019-8-1	2019-10-25	
AVIC Finance Company	60,000,000.00	2019-10-25	2020-10-25	

Note: The Company paid interest to AVIC Finance Company up to RMB 6,980,130.55 during the year.

(4) Remuneration to key management

The Company has 21 (including resigned) key management personnel in 2019, and 22 (including resigned) key management personnel in 2018. Information about remuneration is as follows:

Item	2019	2018
Remuneration to key management	17,845,000.00	13,123,100.00

(5) Other related party transactions

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The year-end balance of the Company's cash was RMB237,118,456.45, which was deposited with AVIC Finance Company.

Interests received from the deposit during the year were RMB362,818.00.

6. Receivables from and payables to related parties

(1) Receivables

Item	Related party	2019.12.31		2018.12.31	
		Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Bill receivable					
	Shennan Circuit	2,263,719.32	-	-	-
Accounts receivable					
	Rainbow Department Store	6,387,871.47	318,754.79	2,305,867.79	115,293.39
	Shennan Circuit	1,704,634.58	85,061.27	1,659,077.38	82,953.87
	Ganzhou 9 Square Company	-	-	4,000.00	200.00
	Gongqingcheng CATIC Culture Investment Company	-	-	28,269.36	1,413.47
	Jiufang Business Management	-	-	4,288.00	214.40
	AVIC Securities Company	-	-	101,428.57	5,071.43
	CATIC City Real Estate Company	-	-	3.00	0.15
	CATIC 9 Square Asset Mgmt Company	-	-	33,331.01	1,666.55
	CATIC Guanlan Property	-	-	8,315.43	415.77
	CATIC Property	-	-	148,915.46	7,445.77
	CATIC Property Management	-	-	0.52	0.03
	Shanghai Watch	140,000.00	6,986.00	-	-
Other receivables					
	Rainbow Department Store	975,867.00	50,647.50	761,860.00	38,093.00
	CATIC Property Management	-	-	10,100.00	505.00

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	Ganzhou 9 Square Company	122,665.60	6,366.34	122,665.60	6,133.28
	Kunshan Company	32,000.00	1,660.80	50,400.00	2,520.00
	Skytel Hotel	-	-	32,000.00	1,600.00
	Gongqingcheng CATIC Culture Investment Company	-	-	5,500.00	275.00
	Jiufang Business Management	50,000.00	2,595.00	50,000.00	2,500.00
	CATIC City Real Estate Company	59,923.00	3,110.00	54,923.00	2,746.15
	China National Aviation Group	11,101.80	576.18	11,101.80	555.09
Prepayment:					
	Tianma	31,309.90	-	-	-

(2) Payables to related parties

Item	Related party	2019.12.31	2018.12.31
Accounts payables:			
	CATIC Building Company	23,300.97	24,000.00
	CATIC Property Management	-	40,821.05
	Tianma	3,415.84	-
Other payables:	CATIC Property Management	1,237,403.65	1,131,164.13
	CATIC Property	442,407.92	442,407.92
	CATIC City Investment	309,732.00	309,732.00
	AVIC Securities Company)	213,000.00	213,000.00
	CATIC Building Company	54,691.44	116,960.23
	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	378,483.84
	Rainbow Department Store	155,672.90	60,000.00
	CATIC Changtai Company	-	4,064.81
	CATIC Property	51,014.88	51,014.88
	CATIC Guanlan Property	25,401.60	25,401.60

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AVIC Security Service	226,603.44	10,533.44
Ganzhou 9 Square Company	-	3,446.22
Shennan Circuits	-	150,000.00
Skytel Hotel	28,886.00	-

XI. Share-based payments

1. General information about share-based payments

Total equity instruments granted by the Company in current period	4,224,000
Total equity instruments exercised by the Company in current period	4,224,000
Total equity instruments voided in current period	-
Scope of outstanding share option exercise price and remaining contract term	First phase restricted share exercise price: RMB4.4/share, remaining term 48 months.
Scope of outstanding other equity instrument exercise price and remaining contract term.	Not applicable

2. Equity settled share-based payment

Method of determining fair value of equity instrument on grant date	Close price of share on grant date
Evidence to determine the number of exercisable equity instrument	Term of employee service, status of target completion, and personal performance assessment
Reasons for significant difference between current period estimation and prior period estimation.	NIL
Accumulated amount charged to capital reserve for equity settled share-based payment	18,802,225.91
Total expenses for equity settled share-based payment recognized in current period	4,440,625.91

XII. Commitment and contingency

1. Significant commitments

(1) Operating lease commitments

As at the balance sheet date, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

The total future minimum lease payments under non-cancellable operating leases	2019.12.31	2018.12.31
Within 1 year	69,420,770.36	54,382,100.37
1-2 years	40,749,688.35	28,501,337.58
2-3 years	15,620,420.28	12,406,400.37
After 3 years	11,333,148.34	9,533,027.43

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Total	137,124,027.33	104,822,865.75
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(2) Other commitments

As at 31 December 2019, the Group does not have other commitments that required to disclose.

2. Contingencies

(1) Contingent liabilities arising from guarantee provided to other entities and related financial effects.

As at 31 December 2019, the intra-Group guarantees is as followings (in RMB Ten thousands):

Guarantee	Guarantor	Guaranteed matter	Credit line granted	Credit line used	Period
FIYTA Hong Kong	The Company	Loan	3,583.12	2,710.37	2018-7-1 to 2020-5-31
FIYTA Hong Kong	The Company	Loan	7,166.24	-	2018-12-17 to 2020-11-12
The Company	HARMONY Company	Loan	30,000.00	1,000.00	2018-12-4 to 2020-3-8
HARMONY Company	The Company	Guarantee letter	10,000.00	10,000.00	2019-12-30 to 2020-12-29
Total	—	—	50,749.36	13,710.37	—

(2) Other contingent liabilities

As at 31 December 2019, the Group does not have other contingent liabilities that required to disclose.

XIII. Post balance sheet date events

1. Profit appropriations after the balance sheet date

Profit distributions or dividends proposed	Cash dividend of RMB2.00 (tax inclusive) for every 10 shares held
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2. Other events after the balance sheet date

(1) Pursuant to “The Resolution of Plan of Re-purchase B Shares” which was approved on the 7th meeting of the 9th Board of Directors on 4 April 2019 and the 2nd extraordinary shareholder’s meeting of 2019 on 23 April 2019, the Company repurchased B Shares of 13,470,000 in total as of 18 March 2020, accounted for 3.04% of the Company’s total shares. The highest deal price was HKD6.56 and the lowest was HKD5.71. Total consideration paid was HKD 81,883,172.32 (excluding stamp duty and commission).

(2) Since the outbreak of Novel Coronavirus Pneumonia in the beginning of 2020, the Company has actively responded and strictly implemented various regulation and requirements pronounced by the China Communist Party and national government authorities at all level for virus epidemic prevention and control in order achieve operation production while preventing the epidemic. In responding to the outbreak of epidemic, the Company has quickly adjusted the operating strategies, promoted full marketing and increased investment in e-commerce to minimize market impact.

The epidemic would have certain impact on the business operations and overall economic operation of the entire country and consequently have impact to the Company’s merchandise retail and manufacturing businesses to a certain extent. The degree of impact is uncertain as of now and is subjected to the development of epidemic prevention, duration of the epidemic

and implementation of all kinds of control measures. The Company will closely monitor, evaluate and actively address the impact of the epidemic to the Group's financial position, as well as the operating performance.

(3) Financing and guarantee after the balance sheet date

① On 18 March 2020, pursuant to approval by the 16th meeting the 9th Board of directors, the Company proposed to apply for financing facility of no more than RMB1,200 million by means of credit, pledge and mortgage. The resolution is pending for approval by the shareholder's meeting.

② On 18 March 2020, pursuant to approval by the 16th meeting the 9th Board of directors, the Company proposed to provide guarantee for the Company's wholly-owned subsidiary to borrow from banks of no more than RMB1,000 million. The credit line is included in the actual usage limit of RMB1,200 million mentioned above. The resolution is waiting approval from the shareholder's meeting.

(4) As at 18 March 2020, the Group does not have other post-balance sheet events that requires to disclose.

XIV. Other Significant matters

1. Government grant

(1) Government grants recognized in deferred income, and subsequently measured using the gross presentation method

Item	Type	As at 31/12/2018	Additions during the year	Recognition in profit and loss	Other changes	As at 31/12/2019	Presentation item recognized in profit and loss	Related to asset/income
Special fund for Shenzhen industrial design industry development (A)	State treasury	933,011.22	-	203,066.21	-	729,945.01	Other income	Asset related
Funding project for construction of National Enterprise Technology Center (B)	State treasury	1,511,421.57	-	293,147.06	-	1,218,274.51	Other income	Asset related
2017 Provincial Specialized Fund for Industrial and Information Technology (C)	State treasury	1,162,384.83	-	130,551.49	-	1,031,833.34	Other income	Income related
Special funds for consumer goods standards and quality improvement	State treasury	66,037.74	-	-	-	66,037.74	—	Income related
Total	—	3,672,855.36	-	626,764.76	-	3,046,090.60	—	—

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Note:

- A. 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.
- B. 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).
- C. 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.

(2) Government grants recognized in profit and loss using gross method

Item	Type	Recognised in profit and loss for the year ended 31/12/2018	Recognised in profit and loss for the year ended 31/12/2019	Presentation item recognized in profit and loss	Related to asset/income
Headquarters enterprise award (A)	State treasury	-	4,843,500.00	Other income	Income related
Corporate Research and Development Funding (B)	State treasury	1,890,000.00	3,156,000.00	Other income	Income related
Special subsidy to promoting consuming (C)	State treasury	-	1,655,200.00	Other income	Income related
Economic development special fund of Guangming District to support intellectual property right, standardization certification project (D)	State treasury	-	1,033,000.00	Other income	Income related
Subsidy to support major enterprise to expanding production and improving efficiency (E)	State treasury	-	1,000,000.00	Other income	Income related
Subsidy to support innovation development for business and trading (F)	State treasury	-	712,664.00	Other income	Income related
Subsidy to support investment in R&D	State treasury	1,268,000.00	669,545.00	Other income	Income related

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and domestic economic and trading exhibition (G)					
Special fund of Nanshan district to support self-innovation industry development (H)	State treasury	2,246,200.00	718,600.00	Other income	Income related
Examine intellectual property right using big data (I)	State treasury	-	500,000.00	Other income	Income related
Commission on IIT payment	State treasury	-	469,005.01	Other income	Income related
Shenzhen Standard Special Fund (J)	State treasury	496,000.00	543,000.00	Other income	Income related
Subsidy for SME to expanding market (K)	State treasury	-	387,940.49	Other income	Income related
Shenzhen Science and Technology Award (L)	State treasury	-	300,000.00	Other income	Income related
Expanding production and improving efficiency (M)	State treasury	-	300,000.00	Other income	Income related
Subsidy to projects of economic development special fund (N)	State treasury	-	286,000.00	Other income	Income related
Subsidy for stabilizing job position	State treasury	229,106.17	209,468.63	Other income	Income related
Self-innovative industry development subsidy (O)	State treasury	-	200,000.00	Other income	Income related
The 20 th Guangdong Provincial China Patent Award (P)	State treasury	-	150,000.00	Other income	Income related
Associated award to The 20 th Guangdong Provincial China Patent Award (Q)	State treasury	-	150,000.00	Other income	Income related
Basel watch fair subsidy	State treasury	-	114,333.32	Other income	Income related
Maternity insurance	State treasury	-	100,789.68	Other income	Income related
Nanshan Economic Promoting Bureau subsidy for SME (R)	State treasury	-	100,000.00	Other income	Income related
Promotion of human resource quality	State treasury	100,000.00	100,000.00	Other income	Income related
Subsidy to promoting international operating ability (S)	State treasury	60,000.00	31,163.00	Other income	Income related

State level high and new technology certificate subsidy (T)	State treasury	-	30,000.00	Other income	Income related
Short term export credit insurance	State treasury	57,605.00	20,200.00	Other income	Income related
Expanding domestic marketing from Shenzhen SME Affairs Department (V)	State treasury	-	14,670.00	Other income	Income related
Subsidy for Disabled person (W)	State treasury	8,882.30	7,062.29	Other income	Income related
Watch fair subsidy from Guangming District	State treasury	50,000.00	-	Other income	Income related
Shenzhen Patent Award	State treasury	2,000.00	-	Other income	Income related
Special fund for industry transformation and upgrading	State treasury	500,000.00	-	Other income	Income related
Special fund for application of industry transformation and upgrading	State treasury	4,480,000.00	-	Other income	Income related
Merging of industrialization and information	State treasury	400,000.00	-	Other income	Income related
Domestic marketing expanding for example enterprise practicing innovation	State treasury	128,920.00	-	Other income	Income related
Foreign trade subsidy for Basel watch fair	State treasury	779,907.74	-	Other income	Income related
High and new tech enterprise in Baoan District	State treasury	30,000.00	-	Other income	Income related
2 nd International Brand Week Guangming Branch	State treasury	28,301.89	-	Other income	Income related
18 th China Appearance Designing Excellence award	State treasury	250,000.00	-	Other income	Income related
Domestic innovation patent annual subscription fee subsidy	State treasury	2,000.00	-	Other income	Income related
Import exhibition participating	State treasury	6,154.00	-	Other income	Income related
Economic and trade commission service	State treasury	1,000,000.00	-	Other income	Income related

industry special development fund					
Crystal Products Exhibition Special Funding	State treasury	103,267.00	-	Other income	Income related
Corporate R&D Funding by Science and Technology Commission	State treasury	1,155,000.00	-	Other income	Income related
Creating excellence and rating funding project by Economic Promotion Bureau, Nanshan District	State treasury	200,000.00	-	Other income	Income related
Funding for Informatization and Industrialization Integration project by Economic Promotion Bureau, Nanshan District	State treasury	100,000.00	-	Other income	Income related
Project funded by Commerce Circulation Industry	State treasury	360,800.00	-	Other income	Income related
Patent subsidy by Shenzhen Municipal Market and Quality Supervision and Administration Committee, 2017	State treasury	10,000.00	-	Other income	Income related
The 19th China Patent Award of the Market and Quality Committee	State treasury	330,000.00	-	Other income	Income related
Funds on Enterprise Intellectual Property Management Standards Certification by Market Supervision Committee	State treasury	200,000.00	-	Other income	Income related
Demonstration special fund, financial aid project in exhibition industry, for small and micro enterprise entrepreneurship innovation base	State treasury	159,810.00	-	Other income	Income related
Watch exhibition subsidy of small and micro enterprises	State treasury	128,008.00	-	Other income	Income related
Government exhibition industry	State treasury	128,008.00	-	Other income	Income related

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special fund					
China Light Industry Federation's international standards funding	State treasury	16,000.00	-	Other income	Income related
16-26 batch special subsidy for Central Foreign Trade and Economic	State treasury	60,000.00	-	Other income	Income related
Government special subsidy fund for central foreign economic and trade projects	State treasury	114,466.00	-	Other income	Income related
Key technology research and development project of DF101 aircraft benchmark timing system	State treasury	480,000.00	-	Other income	Income related
Development Special Fund for Independent Innovation Industry, Nanshan District	State treasury	124,000.00	-	Other income	Income related
Total	—	17,682,436.10	17,802,141.42	—	—

Note:

- A. It is the award granted by Development and Reform Commission of Shenzhen Municipality according to “Encourage Headquarters Enterprise Development” (Shen Fu Gui (2017) No. 7).
- B. It is obtained according to “Measures to Promoting Science Innovation” (Shen fa (2016) No.7) and “Management Measures of Shenzhen Science and Technology Research and Development Fund” issued by Shenzhen Finance Committee and Shenzhen Science and Technology Innovation Committee.
- C. It is received according to “Notice of Circulating Application Guidance of 2019 Promoting Consuming Supporting Plan” issued by Shenzhen Bureau of Commerce (Shen Shangwu Shichang Zi (2019) NO. 202).
- D. It is received according to “Notice of Circulating “Guangming Market Supervision and Management Bureau Regarding 2019 Economic Development Specific Fund to Support Intellectual, standardization Certificate Project” (Shen Shijian Guang (2019) No. 160)
- E. It is subsidy received for 2019 enterprise expanding capacity and increase efficiency based on “Notice of Publicity Plans to Subsidy 2019 Enterprise Expanding Capacity and Increasing Efficiency” (Shen Gongxin Dianzi Zi (2019) No. 75) issued by Shenzhen Industrial and Information Bureau.
- F. It is received based on “Notice of Publicity of 2019 Support Projects of Commerce and Trading Innovation Development” issued by Shenzhen Bureau of Commerce.
- G. It is 2018 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.

- H. It is received according to "Management Rules of Nanshan District Self-innovation Industrial Development Specific Fund (Trial)" and "Nanshan District Details of Application of Human Resource Specific Fund under Self Innovation Industrial Development" (Shennan Fubangui 92019) No.3).
- I. It is received based on the following notices: "Notice of Circulating "Several Measures to Increase Enterprise Competitive Strength" issued by Shenzhen Municipal Government (Shen Fa (2019) No. 8), "Notice of Circulating "Application Guideline of Supporting Enterprise to Improve Competitive Strength"" (Shen Jingmao Xinxi Zi (2017) No. 37.
- J. The 2017 Shenzhen Standard special funds obtained according to "The Publicity for the 2018 Construction of the Shenzhen Standard Special Fund Standards Project" issued by Shenzhen Municipal Market and Quality Supervision and Management Committee.
- K. It is received according to "Notice of Publicity 2018 Supporting SME to Expanding Market Projects" issued by Shenzhen Bureau of Commerce.
- L. It is received based on "Shenzhen Science and Technology Award Management Method" (Shen Fu (2016) No. 87 and associated application guidelines.
- M. It is received in accordance with "Shenzhen Guangming New District Economic Development Specific Fund Management Method and Associated Application Guidelines".
- N. It is received in accordance with "Notice of Receiving Application of 2019 Guangming District Economic Development Specific Fund to Support Enterprise to Get Bigger and Stronger".
- O. It is received in accordance "Notice of Receiving Application the 3rd Batch Of 2019 Human Resource Sub-fund Subsidy" issued by Nanshan District Bureau of Human Resources.
- P. Associated Patent award obtained from Shenzhen Market Supervision and Administration Bureau according to the "Decision on the Award of the 20th China Patent Award" issued by the State Intellectual Property Office (Guo Zhi Fa Guan Zi [2018] No. 36).
- Q. Patent award obtained in accordance with "Decision on the Award of the 20th China Patent Award" issued by the State Intellectual Property Office (Guo Zhi Fa Guan Zi [2018] No. 36).
- R. It is received from Nanshan District Government about enterprise that reached certain scale. For SME that first time reaches certain scale, an award of 100 thousand to 500 thousand will granted. It is based on "Nanshan District 2018 Plan to Encourage SME to Rapidly Grow".
- S. It is received based on "Notice on Application Guideline of Organizing and Implementing 2017 Central Foreign Economy and Trade Development Fund".

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- T. It is received based on "Notice of Subsidy to 2018 Enterprise Get State High and New Technology Certificate" (Shen Keji Chuagnxin (2019) No. 160).
- U. It is short-term export credit insurance subsidy received by "Application Guideline of Shenzhen Nanshan Self-innovation Industrial Development Specific Fund Economic Development Sub-fund".
- V. 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).
- W. It is received based on "Administration Measures for Disabled People Job Position Security Fund".

2. De-registration of subsidiary

Station 68 is in process of de-registration. As of 31 December 2019, the cancellation is still in process.

3. Others

(1) 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 2019.

(2) On 2 October 2019, CASI signed merger agreement with CATIC Shenzhen and China National Aviation Group. According to the agreement, CASI will absorb CATIC Shenzhen and China National Aviation Group and undertakes all their assets and liabilities. CATIC Shenzhen and China National Aviation Group will be cancelled. After the merger, CASI will become the controlling shareholder of the Company. As of 31 December 2019, the deal has not yet been completed.

(3) According to the "Proposal of Change the Company's name and initials for A share stock" approved by the 3rd extraordinary shareholder's meeting in 2019, and upon examination and approval by Shenzhen Administration for Industry and Commerce, the Company's name has been changed from "FIYTA (Group) Co., Ltd. to "FIYTA Precision Technology Co., Ltd." since 9 January 2020.

XV. Notes to the Company's financial statements

1. Accounts receivable

(1) Presented by ageing

Ageing	2019.12.31	2018.12.31
Within 1 year	2,997,921.46	776,459.35
Subtotal	2,997,921.46	776,459.35

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Less: bad debt provision	149,896.07	38,822.97
Total	2,848,025.39	737,636.38

(2) Presentation by method of providing bad debt

Category	2019.12.31				
	Book value		Bad debt provision		Carrying amount
	Amount	Percentage (%)	Amount	ECL rate (%)	
Individually significant and assessed for impairment individually	-	-	-	-	-
Collectively assessed for impairment based on credit risk characteristics					
Receivables from related parties within scope of consolidation	-	-	-	-	-
Receivables from other customers	2,997,921.46	100.00	149,896.07	5.00	2,848,025.39
Total	2,997,921.46	100.00	149,896.07	5.00	2,848,025.39

(continued)

Category	2019.01.01				
	Book value		Bad debt provision		Carrying amount
	Amount	Percentage (%)	Amount	ECL rate (%)	
Individually significant and assessed for impairment individually	-	-	-	-	-
Collectively assessed for impairment based on credit risk characteristics					
Receivables from related parties within scope of consolidation	-	-	-	-	-
Receivables from other customers	776,459.35	100.00	38,822.97	5.00	737,636.38
Total	776,459.35	100.00	38,822.97	5.00	737,636.38

Bad debt provision based on groups

Group: Receivables from other customers

Category	2019.12.31		
	Accounts receivable	Bad debt provision	ECL rate (%)
Within 1 year	2,997,921.46	149,896.07	5.00

Bad debt provision as of 31 December 2018:

Category	2018.12.31				
	Book value	Percentage (%)	Bad debt provision	Percentage of provision (%)	Carrying amount
Individually significant and assessed for impairment individually	-	-	-	-	-

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Collectively assessed for impairment based on credit risk characteristics					
Including: ageing group	776,459.35	100.00	38,822.97	5.00	737,636.38
Specific receivables group	-	-	-	-	-
Subtotal of groups	776,459.35	100.00	38,822.97	5.00	737,636.38
Individually insignificant but assessed for impairment individually	-	-	-	-	-
Total	776,459.35	100.00	38,822.97	5.00	737,636.38

(3) Addition, recovery or reversals of provision during the year:

	Bad debt provision
2018.12.31	38,822.97
Adjustment amount for the first implementation of the new financial instrument standards	-
2019.01.01	38,822.97
Addition	111,073.10
Reversal	-
Written-off	-
2019.12.31	149,896.07

(4) There were no receivables that are written-off during the period.

(5) Top five accounts receivable are analyzed as follows:

The total amount of receivables from top five accounts amounts to RMB2,983,039.56, accounted for 99.50% of total balance of accounts receivable as of the period end. Corresponding bad debt provision accrued is RMB149,151.98.

2. Other receivables

Item	2019.12.31	2018.12.31
Interest receivable	-	-
Dividends receivable	-	-
Other receivables	783,647,732.22	870,739,378.37
Total	783,647,732.22	870,739,378.37

(1) Other receivables

① Presented by ageing

Ageing	2019.12.31	2018.12.31
Within 1 year	673,518,552.61	870,591,025.37
1-2 years	109,992,510.47	208,054.00

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2-3 years	186,180.00	-
Over 3 years	40,050.00	40,050.00
Subtotal	783,737,293.08	870,839,129.37
Less: bad debt provision	89,560.86	99,751.00
Total	783,647,732.22	870,739,378.37

② Presented by nature

Item	2019.12.31			2018.12.31		
	Book value	Provision	Carrying amount	Book value	Provision	Carrying amount
Related party balance	783,005,800.85	-	783,005,800.85	868,980,990.06	-	868,980,990.06
Security deposit	235,761.90	76,355.60	159,406.30	248,104.00	40,830.40	207,273.60
Petty cash	-	-	-	431,623.24	-	431,623.24
Others	495,730.33	13,205.26	482,525.07	1,178,412.07	58,920.60	1,119,491.47
Total	783,737,293.08	89,560.86	783,647,732.22	870,839,129.37	99,751.00	870,739,378.37

③ Status of bad debt provision

Bad debt provision at the first stage as of period end:

Category	Book value	ECL rate in next 12 month (%)	Bad debt Provision	Carrying amount	Note
Individually significant and assessed for impairment individually		-	-	-	
Collectively assessed for impairment based on credit risk characteristics					
Petty cash		-	-	-	
Security deposit	235,761.90	32.39	76,355.60	159,406.30	
Social security payment on-behalf	242,726.90	-	-	242,726.90	
Receivables from related party that within consolidation scope	783,005,800.85	-	-	783,005,800.85	
Other receivables	253,003.43	5.22	13,205.26	239,798.17	
Total	783,737,293.08	0.01	89,560.86	783,647,732.22	

As of the period end, the Company does not have other receivables at the second stage.

As of the period end, the Company does not have other receivables at the third stage.

Bad debt provision as of 31 Dec2018:

Category	2018.12.31				
	Book value	Percentage (%)	Bad debt provision	Percentage of providing (%)	Carrying amount

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Individually significant and assessed for impairment individually	-	-	-	-	-
Collectively assessed for impairment based on credit risk characteristics					
Including: ageing group	1,426,516.07	0.16	99,751.00	6.99	1,326,765.07
Specific receivables group	869,412,613.30	99.84	-	-	869,412,613.30
Subtotal of groups	870,839,129.37	100.00	99,751.00	0.01	870,739,378.37
Individually insignificant but assessed for impairment individually	-	-	-	-	-
Total	870,839,129.37	100.00	99,751.00	0.01	870,739,378.37

④ Addition, recovery or reversals of provision during the year

	1 st stage ECL in next 12 month	2 nd stage ECL for the life time of receivables (no impairment yet)	3 rd stage ECL for the life time of receivables (impaired)	Total
2018.12.31	99,751.00	-	-	99,751.00
Adjustment amount for the first implementation of the new financial instrument standards	-	-	-	-
2019.01.01	99,751.00	-	-	99,751.00
Current period				
--transferred to 2 nd stage	-	-	-	-
-- transferred to 3 rd stage	-	-	-	-
--Reversed to 2 nd stage	-	-	-	-
--Reversed to 3 rd stage	-	-	-	-
Accrued	-	-	-	-
Reversed	10,190.14	-	-	10,190.14
Realized	-	-	-	-
Written-off	-	-	-	-
Other changes	-	-	-	-
Balance as of 31 Dec 2019	89,560.86	-	-	89,560.86

⑤ There was no other receivables that are written-off during the period.

⑥ Top five other receivable are analyzed as follows:

The total amount of other receivables from top five accounts amounts to RMB783,005,800.85, accounted for 99.91% of total balance of other receivable as of the period end.

3. Long-term equity investment

Item	2019.12.31			2018.12.31		
	Book value	Impairment provision	Carrying amount	Book value	Impairment provision	Carrying amount
Investment to subsidiaries	1,334,471,401.42	-	1,334,471,401.42	1,331,248,590.93	-	1,331,248,590.93
Investment to associates	46,423,837.85	-	46,423,837.85	44,881,063.15	-	44,881,063.15
Total	1,380,895,239.27	-	1,380,895,239.27	1,376,129,654.08	-	1,376,129,654.08

(1) Investment in subsidiaries

Investee	2018.12.31	Increase	Decrease	2019.12.31	Provision	Balance of provision
HARMONY Company	601,307,200.00	1,231,561.04	-	602,538,761.04	-	-
Haerbin Company	2,184,484.39	-	-	2,184,484.39	-	-
Manufacturing Company	9,000,000.00	344,923.49	-	9,344,923.49	-	-
Technology Company	10,000,000.00	126,964.71	-	10,126,964.71	-	-
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	1,377,582.46	-	451,377,582.46	-	-
Hengdarui Company	36,867,843.96	-	-	36,867,843.96	-	-
Emile Chourei Shenzhen Company	79,151,542.58	141,778.79	-	79,293,321.37	-	-
Total	1,331,248,590.93	3,222,810.49	-	1,334,471,401.42	-	-

(2) Investment in associates

Investee	2019.01.01	Changes during the period								2019.12.31	Balance of impairment provision as of period end
		Addition/new	Withdrawn	Investment gains and losses confirmed by the equity method	Adjustment of other comprehensive income	Changes in other equity	Cash dividend declared	Impairment provision	Others		
① Associate											
Shanghai Watch Co., Ltd. (Shanghai Watch)	44,881,063.15	-	-	1,542,774.70	-	-	-	-	-	46,423,837.85	-

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4. Operating income and operating cost

Item	2019		2018	
	Operating income	Operating cost	Operating income	Operating cost
Main business	140,511,246.61	21,776,539.35	130,886,023.99	19,010,293.07
Other business	-	-	15,800.00	-
Total	140,511,246.61	21,776,539.35	130,901,823.99	19,010,293.07

5. Investment gain

Item	2019	2018
Gain from long-term equity investments accounted for using the cost method	113,000,000.00	143,000,000.00
Gain from long-term equity investments accounted for using the equity method	1,542,774.70	1,001,545.06
Total	114,542,774.70	144,001,545.06

XVI. Supplementary information

1. Details of non-recurring gain or loss for the year

Item	2019	Note
Disposal gain or loss of non-current assets	-926,118.60	
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)	18,428,906.18	
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	-	

FIYTA Precision Technology Co., Ltd.
Notes to the Financial Statements
For the year ended 31 December 2019 (All amounts in RMB unless otherwise stated)

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 -

Gain from disposal of tradable financial asset financial liabilities and debt investment -

Impairment provision reversal of accounts receivable under standalone impairment test -

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 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 3,353,916.43

Profit and loss items pursuant to the definition of non-recurring profit and loss -

Subtotal 20,856,704.01

Effect of income tax of non-recurring profit or loss 4,626,350.95

Net amount of non-recurring profit or loss 16,230,353.06

Less: Effect of non-recurring profit or losses attributable to minority shareholders (after tax) -

attributable to shareholders of the parent company 16,230,353.06

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	8.21	0.4943	0.4943
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	7.60	0.4570	0.4570

FIYTA Precision Technology Co., Ltd.

18 March 2020