

FIYTA Precision Technology Co., Ltd.

Independent Auditor's Report

D.H.S.Z. [2023]000189

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Da Hua Certified Public Accountants (Special General Partnership)

FIYTA Precision Technology Co., Ltd.
Independent Auditor's Report and Financial Statements

(1 January 2022 to 31 December 2022)

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Independent Auditor's Report

D.H.S.Z.[2023]000189

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

I. Audit Opinion

We have audited the accompanying financial statements of FIYTA Precision Technology Co., Ltd. (herein after "FIYTA Ltd." or the Company), which comprise the consolidated and the parent company's balance sheet as at 31 December 2021, the consolidated and the parent company's statement of comprehensive income, the consolidated and the parent company's cash flow statements and the consolidated and the parent company's statement of changes in equity for the year then ended, and notes to the financial statements.

In our opinion, the accompanying financial statements present in all material respects in accordance with the requirements of Accounting Standards for Business Enterprises, and fairly reflect FIYTA Ltd.'s financial position at 31 December 2021 and the financial performance and cash flows for the year then ended.

II. Basis for Audit Opinion

We conducted our audit in accordance with CICPA Standards on Auditing ("CSAs"). In '*Certified Public Accountant's Responsibilities for the Audit of Financial Statements*' of this report, our responsibilities under these standards are described. Those standards require that we comply with CICPA professional ethical requirements, that we are independent from FIYTA Ltd. and have fulfilled all other ethical obligations. We believe that we have obtained sufficient and appropriate audit evidence as basis of for our opinion.

III. Key Audit Matters

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

We have determined the following key audit matters that need to be communicated in audit report.

(I) Existence of inventory and its net realizable value

1. Description

As at 31 December 2022, the book balance, provision for decline in value, and carrying amount of inventory were RMB2,255.18million, RMB113.86 million and RMB2,141.32 million respectively. The carrying amount of inventory accounts for 52.01% of the total assets of the Company.

(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

Major audit procedures we have conducted include:

(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) Using the work of experts to conduct IT audit to information system and evaluating the authenticity and accuracy of business data which related to financial statements.

(iii) Understanding and evaluating the appropriateness of the Company's policy in provision for decline in value;

(iv) Understanding and inquiring the locations of inventory storage, measurement method of inventory so as to determining the scope of inventory physical observation;

(v) 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.

(vi) Obtaining the ageing report of inventory and taking into consideration of inventory condition in order to perform analytical review on the ageing as well as analyze the reasonableness of provision for decline in value;

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

(viii) 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.

(ix) 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 inventory exists and the measurement is reasonable stated according to the Company's policies.

(II) Revenue recognition

1. Description

In 2022, the Company's income from main business was RMB4,354.10 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 31 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

Major audit procedures we have conducted include:

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

(ii) Using the work of experts to conduct IT audit to information system and evaluating the authenticity and accuracy of business data which related to financial statements.

(iii) Obtaining and understanding accounting policies relating to revenue recognition, and reviewing and evaluating whether the point in time of control right transfer, measurement of transaction price and accounting for special transactions are complied with the accounting standards;

(iv) Selecting samples from current year's transaction records, and tracing them to supporting documents such as contract, tax invoice and goods dispatch note (if applicable) and courier waybill (if applicable) ;

(v) In connection with audit of accounts receivable, selecting major customers and confirming corresponding sales in current year and year-end balance;

(vi) Conducting cut-off test to revenue recognized before and after the balance sheet date by selecting samples to check supporting documents such as contract, tax invoice and goods dispatch note (if applicable) and courier waybill (if applicable) 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.

IV. Other Information

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

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

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

audit or otherwise appears to be materially misstated.

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

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

The Management of the Company 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.

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

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

4. Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required, according to China Standards on Auditing, to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within FIYTA Ltd to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be

thought to bear on our independence, and where applicable, related safeguards.

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

Da Hua Certified Public Accountants
(Special General Partnership)



CICPA:



Engagement partner Long Jiao

CICPA:



Wang Dong

16 March 2023

Consolidated Balance Sheet

As at 31 December 2022

Prepared by: FIYTA Precision Technology Co., Ltd.

(Unless otherwise indicated, the currency is expressed in RMB)

Assets	Note V	Closing Balance	Closing Balance of prior period
Current assets:			
Monetary funds	note 1	313,747,463.64	210,254,737.14
Financial assets held for trading			
Derivative financial assets			
Notes receivable	note 2	32,214,912.10	61,258,145.80
Accounts receivable	note 3	305,290,959.68	388,885,601.28
Accounts receivable financing			
Prepayments	note 4	8,039,794.97	7,946,750.81
Other receivables	note 5	56,918,019.48	61,553,267.82
Inventories	note 6	2,141,320,373.67	2,050,148,750.89
Contract assets			
Held-for-sale assets			
Current portion of non-current assets			
Other current assets	note 7	66,339,505.32	72,698,692.72
Total current assets		2,923,871,028.86	2,852,745,946.46
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	note 8	58,182,086.90	55,155,605.31
Investment in other equity instruments	note 9	85,000.00	85,000.00
Other non-current financial assets			
Investment properties	note 10	374,979,494.71	383,425,916.35
Fixed assets	note 11	364,628,765.17	349,495,316.65
Construction in progress			
Productive biological assets			
Oil and gas assets			
Right-of-use assets	note 12	110,330,512.03	147,932,475.42
Intangible assets	note 13	33,200,218.63	34,035,330.43
Development expenditure			
Goodwill			
Long-term deferred expenses	note 14	144,488,452.18	163,790,333.44
Deferred tax assets	note 15	95,784,611.94	81,233,274.65
Other non-current assets	note 16	11,593,741.57	42,680,753.78
Total non-current assets		1,193,272,883.13	1,257,834,006.03
Total assets		4,117,143,911.99	4,110,579,952.49

(Attached notes to statements are part of the consolidated financial statements)

Legal Representative:

Finance Officer (CFO):

Financial Manager:

Consolidated Balance Sheet (Continued)

As at 31 December 2022

Prepared by: FIYTA Precision Technology Co., Ltd.

(Unless otherwise indicated, the currency is expressed in RMB)

Liability and Equity	Note V	Closing Balance	Closing Balance of prior period
Current liabilities:			
Short-term borrowings	note 17	290,237,111.11	265,994,595.43
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable	note 18	2,000,600.00	21,223.10
Accounts payable	note 19	170,589,456.67	254,588,895.34
Payments received in advance	note 20	16,960,128.83	11,025,664.72
Contract liabilities	note 21	16,844,437.47	22,505,426.65
Employee benefits payable	note 22	136,587,939.38	145,936,150.06
Tax payables	note 23	60,770,168.30	67,769,880.01
Other payables	note 24	165,060,122.58	167,808,759.95
Held-for-sale liabilities			
Current portion of non-current liabilities	note 25	71,546,316.16	86,949,906.35
Other current liabilities	note 26	1,686,806.01	2,798,738.32
Total current liabilities		<u>932,283,086.51</u>	<u>1,025,399,239.93</u>
Non-current liabilities:			
Long-term borrowings	note 27		
Bonds payable			
Including: Preferred stock			
Including: Perpetual debt			
Lease liabilities	note 28	41,642,561.58	64,918,722.10
Long-term payables			
Long-term employee benefits payable			
Provisions			
Deferred income	note 29	1,295,926.80	1,792,833.90
Deferred tax liabilities	note 15	5,498,844.95	5,236,514.03
Other non-current liabilities			
Total non-current liabilities		<u>48,437,333.33</u>	<u>71,948,070.03</u>
Total liabilities		<u>980,720,419.84</u>	<u>1,097,347,309.96</u>
Equity:			
Share capital	note 30	417,627,960.00	426,051,015.00
Other equity instruments			
Including: Preferred stock			
Including: Perpetual debt			
Capital reserves	note 31	1,007,086,643.48	1,040,908,194.13
Less: Treasury stock	note 32	50,759,806.16	60,585,678.92
Other comprehensive income	note 33	5,739,589.89	-7,658,346.40
Special reserves	note 34	2,012,064.91	1,062,731.13
Surplus reserve	note 35	275,010,401.50	275,010,401.50
Retained earnings	note 36	1,479,706,638.53	1,338,444,326.09
Equity attributable to parent company		<u>3,136,423,492.15</u>	<u>3,013,232,642.53</u>
Non-controlling interests			
Total shareholders' equity		<u>3,136,423,492.15</u>	<u>3,013,232,642.53</u>
Total liabilities and shareholders' equity		<u>4,117,143,911.99</u>	<u>4,110,579,952.49</u>

(Attached notes to statements are part of the consolidated financial statements)

Legal Representative:

Finance Officer (CFO):

Financial Manager:

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2022

Prepared by: FIYTA Precision Technology Co., Ltd.

(Unless otherwise indicated, the currency is expressed in RMB)

Items	Note V	Current Period	Prior Period
1. Operating revenue	note 37	4,354,096,880.36	5,243,733,540.93
Less: Operating costs	note 37	2,738,972,791.11	3,285,656,229.13
Taxes and surcharges	note 38	30,800,199.73	37,563,586.80
Selling expenses	note 39	931,832,830.40	1,049,898,223.28
Administrative expenses	note 40	219,014,508.52	261,626,762.41
Research and development expenses	note 41	61,088,585.61	57,802,569.17
Finance expenses	note 42	21,188,742.11	34,677,073.65
Including: Interest expenses		16,846,749.14	23,159,963.74
Interest income		3,923,999.48	3,589,649.85
Add: Other income	note 43	18,648,210.06	21,328,673.21
Income from investments	note 44	3,026,481.59	3,754,939.39
Including: Investment income from associates and joint ventures		3,026,481.59	3,754,939.39
Derecognition of financial assets at amortized cost			
Gains or losses from net exposure hedging			
Gains or losses from changes in fair values			
Credit impairment losses	note 45	4,845,379.45	-11,075,001.77
Impairment losses	note 46	-37,625,482.96	-25,861,394.56
Gains or losses from asset disposals	note 47	91,925.06	730,134.87
2. Operating profit		<u>340,185,736.08</u>	<u>505,386,447.63</u>
Add: Non-operating income	note 48	1,287,202.08	627,435.03
Less: Non-operating expenses	note 49	2,351,266.31	3,686,166.55
3. Profit before tax		<u>339,121,671.85</u>	<u>502,327,716.11</u>
Less: Income tax	note 50	72,440,220.01	114,467,375.88
4. Net profit		<u>266,681,451.84</u>	<u>387,860,340.23</u>
Including: Net profit realized before business combinations under common control			
I. Net profit classified by going concern			
Net profit from continuing operations ("-" for net loss)		266,681,451.84	387,860,340.23
Net profit from discontinuing operations ("-" for net loss)			
II. Net profit classified by ownership			
Net profit attributable to parent company		266,681,451.84	387,840,282.95
Net profit attributable to non-controlling interests			20,057.28
5. Other comprehensive income after tax		<u>13,397,936.29</u>	<u>-8,635,217.81</u>
Other comprehensive income after tax attributable to parent company		<u>13,397,936.29</u>	<u>-8,635,217.81</u>
I. Items of other comprehensive income that will not be reclassified to profit			
i. Changes in remeasurement of defined benefit plans			
ii. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
iii. Changes in fair value of investments in equity instruments			
iv. Changes in fair value of the Company's own credit risk			
II. Items of other comprehensive income that will be reclassified to profit or loss		<u>13,397,936.29</u>	<u>-8,635,217.81</u>
i. Other comprehensive income that can be transferred to profit or loss under the equity method			
ii. Changes in fair value of other debt investments			
iii. Amount of financial assets reclassified into other comprehensive income			
iv. Provisions for credit impairment of other debt investments			
v. The effective portion of gains or losses arising from cash flow hedging			
vi. Translation differences arising from financial statements in foreign currencies		13,397,936.29	-8,635,217.81
Other comprehensive income attributable to non-controlling interests after tax			
6. Total comprehensive income		<u>280,079,388.13</u>	<u>379,225,122.42</u>
Total comprehensive income attributable to parent company		280,079,388.13	379,205,065.14
Total comprehensive income attributable to non-controlling interests			20,057.28
7. Earnings per share			
I. Basic earnings per share		0.6398	0.9036
II. Diluted earnings per share		0.6398	0.9036

(Attached notes to statements are part of the consolidated financial statements)

Legal Representative:

Finance Officer (CFO):

Financial Manager:

Consolidated Cash Flows Statement

For the year ended 31 December 2022

Prepared by: FIYTA Precision Technology Co., Ltd.

(Unless otherwise indicated, the currency is expressed in RMB)

Items	Note V	Current Period	Prior Period
1. Cash flows from operating activities			
Cash received from sales and services		4,910,473,741.41	5,857,726,359.18
Tax and surcharge refunds		7,793,409.24	1,466,381.60
Other cash receipts related to operating activities	note 51	79,656,853.28	85,387,457.56
Total cash inflows from operating activities		<u>4,997,924,003.93</u>	<u>5,944,580,198.34</u>
Cash paid for goods and services		3,266,497,299.47	3,862,745,653.01
Cash paid to and for employees		659,058,385.84	710,102,185.80
Taxes and surcharges paid		272,103,882.56	346,383,502.98
Other cash payments related to operating activities	note 51	324,035,659.54	478,099,748.10
Total cash outflows from operating activities		<u>4,521,695,227.41</u>	<u>5,397,331,089.89</u>
Net cash flows from operating activities		<u>476,228,776.52</u>	<u>547,249,108.45</u>
2. Cash flows from investing activities			
Cash received from withdrawal of investments			
Cash received from investment income			
Net proceeds from disposals of fixed assets, intangible assets and other long-term assets		138,721.29	59,657.53
Net proceeds from disposal of subsidiaries and other business units			
Other cash receipts related to investing activities			
Total cash inflows from investing activities		<u>138,721.29</u>	<u>59,657.53</u>
Cash paid for fixed assets, intangible assets and other long-term assets		114,090,573.97	204,422,787.61
Cash paid for investments			
Net cash paid for acquiring subsidiaries and other business units			
Other cash payments related to investing activities			
Total cash outflows from investing activities		<u>114,090,573.97</u>	<u>204,422,787.61</u>
Net cash flows from investing activities		<u>-113,951,852.68</u>	<u>-204,363,130.08</u>
3. Cash flows from financing activities			
Cash received from investments by others			58,216,000.00
Including: Cash received by subsidiaries from non-controlling investors			
Cash received from borrowings		845,155,704.29	1,155,724,412.23
Other cash receipts related to other financing activities			
Total cash inflows from financing activities		<u>845,155,704.29</u>	<u>1,213,940,412.23</u>
Cash repayments for debts		794,083,975.00	1,386,708,158.95
Cash paid for distribution of dividends and profit and for interest expenses including: Dividends or profit paid by subsidiaries to non-controlling investors		134,519,807.76	187,069,913.31
Other cash payments related to financing activities	note 51	177,477,740.46	124,710,390.58
Total cash outflows from financing activities		<u>1,106,081,523.22</u>	<u>1,698,488,462.84</u>
Net cash flows from financing activities		<u>-260,925,818.93</u>	<u>-484,548,050.61</u>
4. Effect of changes in foreign exchange rates on cash and cash equivalents			
		2,132,547.59	-1,140,476.33
5. Net increase in cash and cash equivalents			
		103,483,652.50	-142,802,548.57
Add: Opening balance of cash and cash equivalents		210,254,737.14	353,057,285.71
6. Closing balance of cash and cash equivalents	note 52	<u>313,738,389.64</u>	<u>210,254,737.14</u>

(Attached notes to statements are part of the consolidated financial statements)

Legal Representative:

Finance Officer (CFO):

Financial Manager:

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

Prepared by: FIYTA Precision Technology Co., Ltd.

(Unless otherwise indicated, the currency is expressed in RMB)

Items	Current Period							Total shareholders' equity	
	Equity attributable to parent company								
	Share capital	Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserves	Retained earnings	Non-controlling interests	
1. Closing balance of prior year	426,051,015.00	1,040,908,194.13	60,885,678.92	-7,658,246.40	1,062,731.13	275,010,401.50	1,338,444,326.09		3,013,232,642.53
Add: Increase/decrease due to changes in accounting policies									
Increase/decrease due to corrections of errors in prior period									
Business combination under common control									
Others									
2. Opening balance of current year	426,051,015.00	1,040,908,194.13	60,885,678.92	-7,658,246.40	1,062,731.13	275,010,401.50	1,338,444,326.09		3,013,232,642.53
3. Increase/decrease for current year	-8,423,055.00	-33,821,560.65	-9,825,872.76	13,397,906.29	949,333.78		141,262,312.44		123,190,849.62
I. Total comprehensive income				13,397,906.29			266,681,451.84		280,079,368.13
II. Owner's contributions to and withdrawals of capital	-8,423,055.00	-33,821,560.65	-9,825,872.76						-32,418,732.89
I. Common stock contributed/paid in capital by shareholders/owners	-7,987,217.00	-42,265,614.88							-50,252,831.88
II. Capital contributed by other equity instruments holders									
III. Share-based payments to owners' equity	-435,838.00	8,459,107.40	-9,825,872.76						17,849,142.16
IV. Others		-15,043.17							-15,043.17
III. Profits distribution							-125,419,139.40		-125,419,139.40
I. Appropriation of surplus reserve									
II. Distribution to owners									
III. Others									
IV. Transfers within owners' equity							-125,419,139.40		-125,419,139.40
I. Capital reserves transferred to paid-in capital									
II. Surplus reserve transferred to paid-in capital									
III. Use of surplus reserve to cover previous losses									
IV. Changes in remeasurement of defined benefit plans transferred to retained earnings									
V. Other comprehensive income transferred to retained earnings									
VI. Others									
V. Special reserves					949,333.78				949,333.78
I. Appropriated during current year					1,246,390.69				1,246,390.69
II. Used during current year					-297,056.91				-297,056.91
VI. Others									
4. Closing balance of current year	417,627,960.00	1,007,086,633.48	50,759,806.16	5,739,599.89	2,012,064.91	275,010,401.50	1,479,706,638.53		3,136,423,492.15

(Attached notes to statements are part of the consolidated financial statements.)

Legal Representative:

Finance Officer (CFO):

Financial Manager:

Consolidated Statement of Changes in Equity

For the year ended 31 December 2022

Prepared by: FIYTA Precision Technology Co., Ltd

(Unless otherwise indicated, the currency is expressed in RMB)

Items	Prior Period							Total shareholders' equity	
	Equity attributable to parent company						Non-controlling Interests		
	Share capital	Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserves			Retained earnings
1. Closing balance of prior year	428,091,881.00	1,021,490,387.78	61,633,530.48	976,871.41		246,531,866.87	1,164,490,911.51	12,283.34	2,799,960,671.43
Add: Increase/decrease due to changes in accounting policies									
Increase/decrease due to corrections of errors in prior period									
Business combination under common control									-11,188,268.01
Others									
2. Opening balance of current year	428,091,881.00	1,021,490,387.78	61,633,530.48	976,871.41		246,531,866.87	1,153,302,643.50	12,283.34	2,788,772,403.42
3. Increase/decrease for current year	-2,040,896.00	19,417,806.35	-1,047,851.56	-8,635,217.81	1,062,731.13	28,478,534.63	185,141,662.99	-12,283.34	224,400,239.11
I. Total comprehensive income									
II. Owners' contributions to and withdrawals of capital	-2,040,896.00	19,417,806.35	-1,047,851.56				387,840,282.95	20,057.28	379,225,122.42
I. Common stock contributed/paid-in capital by shareholders/owners	-8,994,086.00	-41,132,596.76	-45,068,941.80						
ii. Capital contributed by other equity instruments holders									
iii. Share-based payments to owners' equity	6,953,220.00	60,553,780.11	44,321,080.24						
iv. Others		-3,377.00							
III. Profits distribution									
I. Appropriation of surplus reserve						28,478,534.63	-202,698,000.36		23,185,909.87
ii. Distribution to owners							-28,478,534.63		-35,717.62
iii. Others						28,478,534.63	-174,220,065.73		-174,220,065.73
IV. Transfers within owners' equity									
I. Capital reserves transferred to paid-in capital									
ii. Surplus reserve transferred to paid-in capital									
iii. Use of surplus reserve to cover previous losses									
iv. Changes in remeasurement of defined benefit plans transferred to retained earnings									
v. Other comprehensive income transferred to retained earnings									
vi. Others									
V. Special reserves					1,062,731.13				1,062,731.13
i. Appropriated during current year					1,421,605.68				1,421,605.68
ii. Used during current year					-358,874.55				-358,874.55
vi. Others									
4. Closing balance of current year	426,051,015.00	1,040,908,194.13	60,585,678.92	-7,659,346.40	1,062,731.13	275,010,401.50	1,338,444,326.09		3,013,232,642.63

(Attached notes to statements are part of the cons

Legal Representative:

Finance Officer (CFO):

Financial Manager:

Parent Company's Balance Sheet

As at 31 December 2022

Prepared by: FIYTA Precision Technology Co., Ltd.

(Unless otherwise indicated, the currency is expressed in RMB)

Assets	Note XV	Closing Balance	Closing Balance of prior period
Current assets:			
Monetary funds		274,691,023.16	171,022,392.92
Financial assets held for trading			
Derivative financial assets			
Notes receivable			
Accounts receivable	note 1	603,216.03	129,880.48
Accounts receivable financing			
Prepayments			
Other receivables	note 2	839,782,543.07	717,183,139.00
Inventories			
Contract assets			
Held-for-sale assets			
Current portion of non-current assets			
Other current assets		14,107,604.63	13,389,835.13
Total current assets		1,129,184,386.89	901,725,247.53
Non-current assets:			
Debt investments			
Other debt investments			
Long-term receivables			
Long-term equity investments	note 3	1,552,310,486.50	1,542,067,945.03
Investment in other equity instruments		85,000.00	85,000.00
Other non-current financial assets			
Investment properties		305,676,084.09	311,379,234.57
Fixed assets		209,495,642.59	222,462,397.20
Construction in progress			
Productive biological assets			
Oil and gas assets			
Right-of-use assets			
Intangible assets		23,522,355.93	23,910,597.39
Development expenditure			
Goodwill			
Long-term deferred expenses		8,240,653.62	9,966,739.10
Deferred tax assets		1,904,597.73	1,671,761.28
Other non-current assets		2,051,932.75	1,435,800.93
Total non-current assets		2,103,286,753.21	2,112,979,475.50
Total assets		3,232,471,140.10	3,014,704,723.03

(Attached notes to statements are part of the consolidated financial statements)

Legal Representative:

Finance Officer (CFO):

Financial Manager:

Parent Company's Balance Sheet (Continued)

As at 31 December 2022

Prepared by: FIYTA Precision Technology Co., Ltd.

(Unless otherwise indicated, the currency is expressed in RMB)

Liability and Equity	Note XV	Closing Balance	Closing Balance of prior period
Current liabilities:			
Short-term borrowings		290,237,111.11	250,256,666.67
Financial liabilities held for trading			
Derivative financial liabilities			
Notes payable			
Accounts payable		1,048,201.41	1,232,967.42
Payments received in advance		16,960,128.83	11,025,664.72
Contract liabilities			
Employee benefits payable		27,139,007.97	24,758,938.89
Tax payables		778,299.01	2,676,682.58
Other payables		299,198,966.56	230,594,166.14
Held-for-sale liabilities			
Current portion of non-current liabilities			
Other current liabilities			
Total current liabilities		635,361,714.89	520,545,086.42
Non-current liabilities:			
Long-term borrowings			
Bonds payable			
Including: Preferred stock			
Including: Perpetual debt			
Lease liabilities			
Long-term payables			
Long-term employee benefits payable			
Provisions			
Deferred income		1,295,926.80	1,792,833.90
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		1,295,926.80	1,792,833.90
Total liabilities		636,657,641.69	522,337,920.32
Equity:			
Share capital		417,627,960.00	426,051,015.00
Other equity instruments			
Including: Preferred stock			
Including: Perpetual debt			
Capital reserves		1,010,917,776.19	1,045,449,410.67
Less: Treasury stock		50,759,806.16	60,585,678.92
Other comprehensive income			
Special reserves			
Surplus reserve		275,010,401.50	275,010,401.50
Retained earnings		943,017,166.88	806,441,654.46
Total owners' equity		2,595,813,498.41	2,492,366,802.71
Total liabilities and owners' equity		3,232,471,140.10	3,014,704,723.03

(Attached notes to statements are part of the consolidated financial statements)

Legal Representative:

Finance Officer (CFO):

Financial Manager:

Parent Company's Statement of Comprehensive Income

For the year ended 31 December 2022

Prepared by: FIYTA Precision Technology Co., Ltd.

(Unless otherwise indicated, the currency is expressed in RMB)

Items	Note XV	Current Period	Prior Period
1. Operating revenue	note 4	155,284,801.05	179,455,712.71
Less: Operating costs	note 4	41,765,441.70	38,852,252.32
Taxes and surcharges		5,984,017.16	7,760,628.42
Selling expenses		4,340,253.59	6,483,523.47
Administrative expenses		64,698,540.45	72,514,603.81
Research and development expenses		16,464,924.76	21,461,359.36
Finance expenses		-1,030,335.57	3,650,109.37
Including: Interest expenses		3,264,769.63	6,662,862.52
Interest income		3,699,364.22	3,158,156.74
Add: Other income		1,221,085.39	2,603,212.27
Income from investments	note 5	243,622,178.29	263,673,435.95
Including: Investment income from associates and joint ventures		3,026,481.59	3,754,939.39
Derecognition of financial assets at amortized cost			
Gains or losses from net exposure hedging			
Gains or losses from changes in fair values			
Credit impairment losses		108,040.61	192,081.60
Impairment losses			
Gains or losses from asset disposals		-14,615.44	-63,188.36
2. Operating profit		267,998,647.81	295,138,777.42
Add: Non-operating income		191,981.02	41,001.96
Less: Non-operating expenses		21,262.34	216,805.57
3. Profit before tax		268,169,366.49	294,962,973.81
Less: Income tax		6,174,714.67	7,887,674.19
4. Net profit		261,994,651.82	287,075,299.62
Net profit from continuing operations ("-" for net loss)		261,994,651.82	287,075,299.62
Net profit from discontinuing operations ("-" for net loss)			
5. Other comprehensive income after tax			
I. Items of other comprehensive income that will not be reclassified to profit			
i. Changes in remeasurement of defined benefit plans			
ii. Other comprehensive income that cannot be transferred to profit or loss under the equity method			
iii. Changes in fair value of investments in equity instruments			
iv. Changes in fair value of the Company's own credit risk			
II. Items of other comprehensive income that will be reclassified to profit or			
i. Other comprehensive income that can be transferred to profit or loss under the equity method			
ii. Changes in fair value of other debt investments			
iii. Amount of financial assets reclassified into other comprehensive income			
iv. Provisions for credit impairment of other debt investments			
v. The effective portion of gains or losses arising from cash flow hedging			
vi. Translation differences arising from financial statements in foreign currencies			
6. Total comprehensive income		261,994,651.82	287,075,299.62

(Attached notes to statements are part of the consolidated financial statements)

Legal Representative:

Finance Officer (CFO):

Financial Manager:

Parent Company's Cash Flows Statement

For the year ended 31 December 2022

Prepared by: FIYTA Precision Technology Co., Ltd.

(Unless otherwise indicated, the currency is expressed in RMB)

Items	Note XV	Current Period	Prior Period
1. Cash flows from operating activities			
Cash received from sales and services		166,402,067.64	183,608,762.33
Tax and surcharge refunds		7,647.56	
Other cash receipts related to operating activities		4,309,971,160.78	5,194,227,139.68
Total cash inflows from operating activities		<u>4,476,380,875.98</u>	<u>5,377,835,902.01</u>
Cash paid for goods and services			
Cash paid to and for employees		59,513,788.17	68,672,552.40
Taxes and surcharges paid		20,686,403.89	22,768,419.51
Other cash payments related to operating activities		4,383,872,472.45	5,359,975,023.49
Total cash outflows from operating activities		<u>4,464,072,664.51</u>	<u>5,451,415,995.40</u>
Net cash flows from operating activities		<u>12,308,211.47</u>	<u>-73,580,093.39</u>
2. Cash flows from investing activities			
Cash received from withdrawal of investments			
Cash received from investment income		240,595,696.70	259,918,496.56
Net proceeds from disposals of fixed assets, intangible assets and other long-term assets		3,973,887.69	5,740.00
Net proceeds from disposal of subsidiaries and other business units			
Other cash receipts related to investing activities			
Total cash inflows from investing activities		<u>244,569,584.39</u>	<u>259,924,236.56</u>
Cash paid for fixed assets, intangible assets and other long-term assets		5,810,205.37	21,039,730.26
Cash paid for investments			
Net cash paid for acquiring subsidiaries and other business units			
Other cash payments related to investing activities			
Total cash outflows from investing activities		<u>5,810,205.37</u>	<u>21,039,730.26</u>
Net cash flows from investing activities		<u>238,759,379.02</u>	<u>238,884,506.30</u>
3. Cash flows from financing activities			
Cash received from investments by others			58,216,000.00
Cash received from borrowings		830,000,000.00	1,110,000,000.00
Other cash receipts related to other financing activities			
Total cash inflows from financing activities		<u>830,000,000.00</u>	<u>1,168,216,000.00</u>
Cash repayments for debts		790,000,000.00	1,260,000,000.00
Cash paid for distribution of dividends and profit and for interest expenses		134,389,016.01	185,045,678.32
Other cash payments related to financing activities		53,390,338.09	9,178,101.51
Total cash outflows from financing activities		<u>977,779,354.10</u>	<u>1,454,223,779.83</u>
Net cash flows from financing activities		<u>-147,779,354.10</u>	<u>-286,007,779.83</u>
4. Effect of changes in foreign exchange rates on cash and cash equivalents		380,393.85	-329,409.90
5. Net increase in cash and cash equivalents		103,668,630.24	-121,032,776.82
Add: Opening balance of cash and cash equivalents		171,022,392.92	292,055,169.74
6. Closing balance of cash and cash equivalents		<u>274,691,023.16</u>	<u>171,022,392.92</u>

(Attached notes to statements are part of the consolidated financial statements)

Legal Representative:

Finance Officer (CFO):

Financial Manager:

Parent Company's Statement of Changes in Equity

For the year ended 31 December 2022

(Unless otherwise indicated, the currency is expressed in RM)

Prepared by: FIYTA Precision Technology Co., Ltd.

Items	Current Period						Total shareholders' equity	
	Share capital	Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves	Surplus reserves		Retained earnings
1. Closing balance of last year	426,051,015.00	1,045,449,410.67	60,585,678.92			275,010,401.50	806,441,654.46	2,492,366,802.71
Add: Increase/decrease due to changes in accounting policies								
Increase/decrease due to corrections of errors in prior period								
Others								
2. Opening balance of current year	426,051,015.00	1,045,449,410.67	60,585,678.92			275,010,401.50	806,441,654.46	2,492,366,802.71
3. Increase/decrease for current year	-8,423,055.00	-34,531,634.48	-9,825,872.76				136,575,512.42	103,446,695.70
I. Total comprehensive income							261,994,651.82	261,994,651.82
II. Owner's contributions to and withdrawals of capital	-8,423,055.00	-34,531,634.48	-9,825,872.76					-33,128,816.72
i. Common stock contributed/paid-in capital by shareholder/sponsors								
ii. Capital contributed by other equity instruments holders	-7,987,217.00	-42,265,614.88						-50,252,831.88
iii. Share-based payments to owners' equity								
iv. Others	-435,838.00	7,749,023.57	-9,825,872.76					17,139,058.33
III. Profits distribution								-15,043.17
i. Appropriation of surplus reserve								
ii. Distribution to owners								-125,419,139.40
iii. Others								
IV. Transfers within owners' equity								
i. Capital reserves transferred to paid-in capital								
ii. Surplus reserve transferred to paid-in capital								
iii. Use of surplus reserve to cover previous losses								
iv. Changes in remeasurement of defined benefit plans transferred to retained earnings								
v. Other comprehensive income transferred to retained earnings								
vi. Others								
V. Special reserves								
i. Appropriated during current year								
ii. Used during current year								
VI. Others								
4. Closing balance of current year	417,627,960.00	1,010,917,776.19	50,759,806.16			275,010,401.50	943,017,166.88	2,595,813,498.41

(Attached notes to statements are part of the consolidated financial statements)

Legal Representative:

Finance Officer (CFO):

Financial Manager:

Parent Company's Statement of Changes in Equity

For the year ended 31 December 2022

(Unless otherwise indicated, the currency is expressed in RMB)

Prepared by: FIYTA Precision Technology Co., Ltd.

Items	Prior Period					Total shareholders' equity		
	Share capital	Capital reserves	Less: Treasury stock	Other comprehensive income	Special reserves		Surplus reserves	Retained earnings
1. Closing balance of last year	428,091,881.00	1,027,145,928.88	6,1633,530.48			246,531,866.87	722,064,955.20	2,362,201,101.47
Add: Increase/decrease due to changes in accounting policies								
Increase/decrease due to corrections of errors in prior period								
Others								
2. Opening balance of current year	428,091,881.00	1,027,145,928.88	6,1633,530.48			246,531,866.87	722,064,955.20	2,362,201,101.47
3. Increase/decrease for current year	-2,040,866.00	18,303,481.79	-1,047,851.56			28,478,534.63	84,376,689.26	130,165,701.24
I. Total comprehensive income								
II. Owner's contributions to and withdrawals of capital	-2,040,866.00		-1,047,851.56					17,310,467.35
i. Common stock contributed/ward-in capital by shareholders/owners	-8,994,066.00	-41,132,596.76	-45,368,941.80					-4,757,740.96
ii. Capital contributed by other equity instruments holders								
iii. Share-based payments to owners' equity	6,953,220.00	59,439,455.55	44,321,000.24					22,071,585.31
iv. Others		-3,377.00						-3,377.00
III. Profits distribution								
i. Appropriation of surplus reserve						28,478,534.63	-202,898,600.36	-174,220,065.73
ii. Distribution to owners						28,478,534.63	-28,478,534.63	
iii. Others							-174,220,065.73	-174,220,065.73
IV. Transfers within owners' equity								
i. Capital reserves transferred to paid-in capital								
ii. Surplus reserve transferred to paid-in capital								
iii. Use of surplus reserve to cover previous losses								
iv. Changes in remeasurement of defined benefit plans transferred to retained earnings								
v. Other comprehensive income transferred to retained earnings								
vi. Others								
V. Special reserves								
i. Appropriated during current year								
ii. Used during current year								
VI. Others								
4. Closing balance of current year	426,051,015.00	1,046,449,410.67	60,585,678.92			275,010,401.50	806,441,654.46	2,492,366,802.71

(Attached notes to statements are part of the conr

Legal Representative:

Finance Officer (CFO):

Financial Manager:

FIYTA Precision Technology Co., Ltd.
Notes to the Financial Statements
For the year ended 31 December 2022

I. Company status

1. Registered place, organization and address of headquarters

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. On 3 June 1993, both the Company was listed on Shenzhen Stock Exchange. The Company holds business license with the Unified Social Credit Code of 91440300192189783K.

As at 31 December 2022, the outstanding shares issued by the Company was 417.628 million shares and the registered capital was RMB417.628 million after a series of share dividend, right offering, share capital conversion from retained earnings, and issuing of new shares. The Company’s registered address is FIYTA Hi-Tech Building, Gao Xin Nan Yi Dao, Nanshan District, Shenzhen, Guangdong Province, where the Company’s headquarters locates. The parent company of the Company is CATIC Shenzhen Holdings Limited (CATIC Shenzhen) and the ultimate controlling party of the Company is Aviation Industry Corporation of China, Ltd. (AVIC).

2. Nature of the Company’s business and main operating activities

The business nature and main operating activities of the Company and its subsidiaries mainly include: producing and selling of analogue indication mechanical watches, quartz watches and its movements, components, various timing devices, processing and wholesaling karat gold jewelry 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).

3. Scope of consolidation

There were 12 subsidiaries that are included in the Company’s scope of consolidation for year 2022, see Note VI for details. The scope of consolidation was the same as last year.

4. Authorization for issue

The financial statements have been approved and authorized for issue by the Board of Directors on 16 March 2023.

II. Basis of preparation

1. 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 Disclosure of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports” (revised in 2014) issued by China Securities Regulatory Commission (CSRC).

2. Going concern

The Company assesses the going concern ability to the extent of 12 month after the balance sheet date. No issues that would result in significant doubt about the Company’s going concern is noted. As a result, the financial statements of the Company have been prepared on going concern basis.

3. Basis and principles of accounting

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

1. Highlight to specific accounting policies and estimates

(1) The Company make specific accounting policies and estimates according to its nature of business. Accounting policies and estimates mainly includes: method of estimated credit loss accrual (Note III. 12, Note III. 13 and Note III. 14), measurement of inventory (Note III. 15), depreciation of investment property and fixed asset and amortization of intangible asset (Note III. 18, Note III. 19 and Note III. 23), revenue (Note III. 31) etc.

(2) Based on historical experience and other factors including reasonable estimation to future events, the Company continues to evaluate significant accounting estimates and key assumptions. If material changes to following accounting estimate and key assumption incurred, material impact would happened to the carrying value of the Company’s assets and liabilities in coming accounting year.

1) Measurement of Expected Credit Loss of accounts receivable and other receivables

The management estimates impairment loss provision to accounts receivable and other receivables based on the judgments to estimated credit loss of accounts receivable and other

receivables. If any events occurred that indicated the Company may not be able to recover the balance amount, estimation is needed in provision accrual. If the expected number is different with the estimated figure, the difference will affect the carrying value of accounts receivable and other receivables and the impairment loss expenses in corresponding accounting period.

2) Impairment to inventory. The Company recognizes provision for obsolete inventories based on the excess of the cost of inventory over its net realizable value. In determining the net realizable value of inventories, the management uses significant judgments to estimate the selling price, cost to finish manufacturing, and selling expenses and associated taxes. If the management revises estimated selling price and cost to finish manufacturing and selling expenses, the NAV estimation would be affected and the difference would have an effect to the inventory provision.

3) Estimation of long-term asset impairment. When evaluating whether there is impairment to long-term asset, the management mainly considers the following: (a) whether the events affect the asset impairment have already incurred; (b) whether the discounted cash flow from continue usage of the asset or disposal is lower than its carrying amount; and (c) whether major assumption used in estimating the future cash flow is appropriate.

Changes to related assumption adopted in determining impairment such as profitability, discounting rate and growth rate may have material impact to the present value used in impairment test and result in impairment to above mentioned long-term assets.

(a) Depreciation and amortization. The estimated residual value and useful life of investment property, fixed asset and intangible asset that used by the Company are based on historical actual useful life and actual residual value of assets with similar nature or functions. In the process of using such assets, estimated useful life and residual value may vary depending on the economic environment, technological environment and other environment that the assets located. If there is difference between the expectation and previous estimation, proper adjustments will be made by the management.

(b) Share-based payments. The management makes best estimation based on up-to-date number of employees who have exercisable shares and adjusting the number of exercisable equity instrument on each balance sheet date in the vesting period. If there is difference between current year exercisable employee and previous estimation, proper adjustments will be made by the management.

(c) Deferred tax asset. Deferred tax asset of taxable losses shall be recognized to the extent that there will have sufficient taxable income to offset. This involves significant judgments to estimate the timing and amount of future taxable profit and taking into consideration of tax planning so as to determine the amount of deferred tax asset.

(d) Corporate income tax. The final tax treatment of many transaction and events are with uncertainty in the normal course of operation. Significant judgments involves in accrual of corporate

income tax. If there is difference between the final discretion and the amount recorded in books, the difference will affect the amount of tax in the period of final discretion.

2. Statement of compliance with Accounting Standards for Business Enterprises

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 2021, the results of operations and the cash flows for the year then ended of the Company.

3. Accounting period

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

4. Operating cycle

The operating cycle refer to the period from purchasing assets for process to realizing cash or cash equivalent. The Company's operating cycle is 12 months which is also used as standard to determine the liquidity of asset and liabilities.

5. Recording currency

The Company and its domestic subsidiaries adopt Renminbi ("RMB") as the recording currency. FIYTA (Hong Kong) Limited ("FIYTA Hong Kong"), a subsidiary of the Company outside mainland China, and Station 68 Limited ("Station 68"), a subsidiary of FIYTA Hong Kong, use Hong Kong Dollar ("HKD") as the recording currency according to the main economic environment where the companies operated in. Montres Chouriet SA, a subsidiary of FIYTA Hong Kong ("Swiss Company"), uses Swiss Franc as the recording currency according to the main economic environment where the Swiss Company operated in. The recording currencies mentioned above will be translated to Renminbi when preparing financial statements. The currency used in preparing the Group's financial statements is Renminbi.

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

(1) If a business combination is achieved through multiple steps, of which the terms, condition and economical effect is in line with one or more criteria as followed, the multiple transactions shall be dealt with as one-basket transaction.

- 1) the transactions were entered into at the same time or by considering each other's influence;
- 2) a complete business result can only be achieved by combining all these transactions together;
- 3) the performing of one transaction is depended on at least one other transaction;
- 4) a transaction is not economical if it is considered stand along but it will become economical if it is considered in combination with other transactions.

(2) 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.

If there is contingent consideration and provision or assets are required to be recognized, the difference between the provision or assets and the contingent consideration shall adjust the capital reserve, with any excess adjusted against retained earnings.

If business combinations involving entities under common control achieved in stages that involves multiple transactions belongs to one-basket transaction, all transactions shall be dealt with as one transaction. If not, the accounting treatment is as follows: 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. 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.

(3) Business combinations involving entities not under common control

The purchase date refers to the date that the Company actually acquired control over the acquiree i.e. the date when the control over the acquiree's net assets or decision of business operation has been transferred to the Company. If the Company fulfills the following conditions at the same time, it is considered that the control has been transferred:

① the contract or agreement of business combination has been approved by internal power department:

② related matters has been approved by state supervisory authorities, if needed;

③ procedures of asset transfer has been completed;

④ the Company has been made majority of payments and has the ability and plan to make the residual payments:

⑤ the Company is in substances acquired the business and operating policies and enjoyed corresponding interests and undertaking risks of the acquire.

On the purchase date, assets transferred, liabilities incurred or assumed as the consideration paid shall be measured at fair value. The difference between the fair value and carrying amount shall be charged to current period profit or loss.

Where the combination cost exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognized 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 recognized in profit or loss for the current period after reassessment.

If business combinations involving entities not under common control achieved in stages that involves multiple transactions belong to one-basket transaction, all the transactions shall be treated as one. Otherwise, it shall be treated as follows: 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 e Accounting treatment for business combinations involving entities under common control and not under common control 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.

(4) 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.

7. Consolidated financial statements

(1) Scope of consolidation

The scope of consolidated financial statements is based on control. All subsidiaries (including standalone entity that controlled by the Company) are all included in the scope of consolidation.

(2) Procedures of consolidation

The consolidated financial statements are prepared by the Company based on the financial statements of the Company and its subsidiaries and other relevant information. The whole enterprise is considered as one accounting body when preparing consolidated financial statement and reflect the whole group's financial position, performance and cash flow according to unified accounting policies based on accounting standards.

All subsidiaries that are included in the scope of consolidation adopt same accounting policies, and accounting period. If there are differences, the subsidiaries shall adjust its policies and accounting period accordingly.

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. If the treatment based on enterprise group angle is different with the angle from subsidiaries', it shall be treated based on enterprise group angle.

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.

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 financial statements of subsidiaries shall be adjusted on the basis of fair value of identifiable net assets on purchase date.

1) Addition of subsidiaries or business operation

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.

If the Company can exert control over the investee under common control because of addition of investment, adjustments shall be made as if all the combining party are at the current condition in the angle of ultimate controlled party. Equity investment held before acquired control, profit or loss, other comprehensive income and other net asset changes that have already recognized between the later of acquiring original equity and the date under common control, and combination date shall offset opening retained earnings or current period profit or loss respectively.

In the reporting period, if there is subsidiary or business addition involving entities not under common control, no adjustments shall be made to the consolidated balance sheet. The revenue, expenses and profit from the purchasing date to period end shall be included in consolidated income statement. The cash flows from the purchasing date to period end shall be included in consolidated cash flow statement.

Where a subsidiary or business has been acquired through a business combination not involving enterprises under common control by means of investment addition in the reporting period, equity held before the purchase date shall be re-measured at fair value. Difference between the fair value and the carrying amount shall be charged to current period investment gain. Changes related to equity method such as other comprehensive income and other equity changes beside net profit, other comprehensive income and profit distribution shall be transferred to current period investment gain.

2) Disposal subsidiary or business

a) General principal

In the reporting period, if the Company dispose of subsidiary or business, the subsidiary's revenue, expenses, profit and cash flows from the beginning of the period to the disposal date shall be included in consolidated financial statements.

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 recognized 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.

b) Disposal of subsidiary through multiple steps

In the event that the Company losses control over a subsidiary through multiple transactions, if one or more conditions below are fulfilled, it shall be treated as one-basket transaction:

- i) the transactions were entered into at the same time or by considering each other's influence;
- ii) a complete business result can only be achieved by combining all these transactions together;
- iii) the performing of one transaction is depended on at least one other transaction;

iv) a transaction is not economical if it is considered stand along but it will become economical if it is considered in combination with other transactions.

If the disposal was categorized as one-basket transaction, the Company dealt with all transactions as one transaction that resulted in lost control over subsidiary. But, before losing control, the difference between disposal consideration and the portion of net asset of the disposal part shall be recognized in other comprehensive income each time of disposal and charged to income statement in whole in the period loss control.

If the disposal does not belong to one-basket transaction, the accounting treatment before lost control shall be in accordance with policies of disposal equity but not losing control. At the time control lost, deal with as normal subsidiary disposal.

3) Acquiring non-controlling interests of subsidiary

Where the Company acquires a non-controlling interest from a subsidiary's non-controlling shareholders, 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) Partially disposal subsidiary equity without losing control

The difference between the consideration received from partial disposal of the long-term equity investment in the subsidiary without losing control and the share of net assets of the subsidiary that is continuously calculated from the purchase date or the merger date corresponding to the disposal of the long-term equity investment, to adjust the share premium in the capital reserve in the consolidated balance sheet, if the share premium in the capital reserve is insufficient to offset, adjust the retained earnings.

8. Joint arrangement classification and accounting treatment for joint operation

(1) Classification

The Company classifies joint arrangements into joint operations and joint ventures based on the structure, legal form, terms and conditions in the arrangement, and other related facts.

Joint operations means joint arrangement that does not realized through independent entity. Joint arrangement that realized through independent entity is normally recognized as joint venture but it also can be classified as joint operation if clear evidence showed that one of the following condition is met:

- 1) The legal form of an joint arrangement showed that the joint parties enjoyed rights over related assets and undertake liability respectively;
- 2) The contract showed that the joint parties enjoyed rights over related assets and undertake liability respectively;

3) Other facts and situation indicated that the joint parties enjoyed rights over related assets and undertake liability respectively;

(2) Accounting treatment to joint operation

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

- 1) its solely-held assets, and its share of any assets held jointly;
- 2) its solely-assumed liabilities, and its share of any liabilities assumed jointly;
- 3) its revenue from the sale of its share of the output arising from the joint operation;
- 4) its share of the revenue from the sale of the output by the joint operation; and
- 5) its solely-incurred expenses, and its share of any expenses incurred jointly.

The Company contribute or disposal of assets (except that asset constitute business) . Before these assets are sold to third party, the Company only recognizes the portion of profit or losses that attributes to the other party. If the assets incurred impairment (meets the requirements of the "Accounting Standards for Business Enterprises No. 8 - Impairment of Assets"), the Company recognizes losses in full.

For the assets purchased from joint operation (except that constitutes business) , before it is sold to third party, only the portion that attributable to the other parties. If assets incurred impairment (meets the requirements of the "Accounting Standards for Business Enterprises No. 8 - Impairment of Assets"), the Company recognizes losses based on its share.

The Company does not enjoy joint control to joint operation. If the Company enjoys joint operation's asset and undertaking related liabilities, the accounting treatment is the same. Otherwise, it shall be accounted for based on accounting standards.

9. Cash and cash equivalents

When preparing cash flow statement, the Company recognizes cash in hand and bank deposit that available for payment as cash. Cash equivalents include short-term (generally expires within three months from the date of purchase),highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of change in value.

10. 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 recognized 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 recognized in profit or loss or other comprehensive income.

(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.

When disposing overseas operations, foreign translation difference that related to the overseas business shall be charged to current period profit or losses from other comprehensive income. If the disposal resulted in decrease in shareholding but still maintain control, the translation difference will be included in non-controlling interest. If the disposal related to associate entity or joint venture entities, the translation difference will be included in current period profit or loss.

11. Financial instruments

The Company recognizes financial assets or financial liabilities when the Company become a party of the financial instruments.

Effective interest rate method refer to calculating the amortized cost of financial assets or liabilities and amortizes interest income or expenses into corresponding accounting period accordingly.

Effective interest rate refers to the interest that is used to discount the estimated future cash flows of existing financial assets or financial liabilities to its amortized cost. When determining the effective interest rate, the cash flow is estimated taking consideration of all contractual terms of financial assets or financial liabilities but does not including estimated credit loss.

Amortized cost of financial assets or financial liabilities is the initial recognition amount deduct principal and add or less accumulated amortization to the difference between initial recognition and the amount at maturity and less accumulated loss provision (for financial assets only) .

(1) Recognition and derecognition of financial instruments

Financial assets are classified into the following three categories depends on the Company’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
- 3) Financial assets at fair value through profit or loss

Financial assets are measured at fair value at initial recognition. But it is recognized using trading price for accounts receivable or notes receivable arose from sale of goods or providing of service that does not including material financing component or does not consider financing component within one year.

For financial assets at fair value through profit or loss, the related transaction costs are directly recognized through profit or loss, and the related transaction costs of other types of financial assets are included in the initial recognition amounts.

Only when the Company 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.

1) Financial assets measured at amortized cost

The Company 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 Company'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. Financial assets measured at amortized cost of the Company includes cash and bank balances, notes receivable, accounts receivables and other receivables.

After initial recognition, the effective 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 profit or loss when the recognition is terminated, amortized or impaired according to the effective interest rate.

a) for financial assets that already impaired when it is acquired, the Company determines its interest income using adjusted effective interest rate based on its amortized cost.

b) for financial assets that does not impaired when it is acquired but impaired latterly, the Company determines its interest income using adjusted effective interest rate based on its amortized cost. If there is no credit impairment in later period due to changes to risk factors, the Company uses effective interest rate times of carrying amount of the financial asset to determine interest income.

2) Financial assets at fair value through other comprehensive income

The Company 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 profit or loss 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, and 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 recognized in profit or loss, while other gains or losses are recognized in other comprehensive income. When derecognized, the accumulated gains or losses previously recognized in other comprehensive income are transferred from other comprehensive income and recorded in current profit or loss.

Notes receivable and accounts receivable measured at fair value through other comprehensive income are listed as receivables financing, and other such financial assets are listed as other debt investments, of which: one year from the balance sheet date Other debt investments due within one year are listed as non-current assets due within one year, and other debt investments with an original maturity date within one year are listed as other current assets.

3) Financial assets designated as fair value through other comprehensive income

At initial recognition, the Company may designate non-trading equity instrument investments as financial assets at fair value through other comprehensive income, presented as other equity instrument investment, and recognize dividend income when the conditions are met (the designation cannot be revoked once it is made) .

The fair value changes of this kind of financial asset shall be included in other comprehensive income and no impairment provision is needed. When de-recognizing the financial asset, accumulated gain or loss in other comprehensive income shall be transferred out of other comprehensive income and charged to retained earnings. During the investing period when the Company holds equity instruments, the Company recognizes dividends in current period profit or loss when the right of receiving dividends is confirmed and the associated economic benefit is probable to flow into the Company and that the amount can be measured reliably. The Company treated this kind of financial instrument under other equity investment.

The designated equity instrument investment does not belong to the following: the purpose of obtaining the financial asset is mainly for the recent sale; it is part of the identifiable financial asset instrument combination under centralized management at initial recognition, and there is objective evidence that the short-term gain actually exists in the near future; it is a derivative (except for derivatives that meet the definition of a financial guarantee contract and are designated as effective hedging instruments) .

4) Financial assets at fair value through profit or loss

The financial assets other than financial assets measured at amortized cost and financial assets at fair value through other comprehensive income are classified 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 generated from which are recognized in profit or loss.

The Company present the financial assets as financial asset held for trade, other non-current financial assets.

5) Financial assets designated at fair value through profit or loss.

At initial recognition, if the accounting mismatch can be eliminated or significantly reduced, the financial assets can be designated as financial assets at fair value through profit or loss.

If the hybrid contract includes one or more embedded derivatives and the main contract does not belong to the above financial assets, the Company may designate the whole as a financial instrument that is measured at fair value through profit or loss, except in the following cases:

a) Embedded derivatives do not materially change the cash flow of a hybrid contract

b) When it is first determined whether a similar hybrid contract requires a spin-off, there is little need for analysis to make it clear that the embedded derivatives it contains should not be split. If the prepayment right of the embedded loan allows the holder to repay the loan in advance with an amount close to the amortized cost, the prepayment right does not need to be split.

After initial recognition, the financial assets are subsequently measured at fair value, and the profits or losses generated from which are recognized in profit or loss.

The Company present the financial assets as financial asset held for trade, other non-current financial assets.

(2) Classification and measurement of financial liabilities

The Company categorizes financial liabilities into financial liabilities and equity instrument based on the contract terms and economical nature rather than solely on its legal form. Financial liabilities initially recognized as financial liabilities at fair value through profit or loss, other financial liabilities and derivative instrument designated as effective hedging instrument.

The financial liabilities of the Company are initially measured at fair value. The related transaction costs of financial liabilities at fair value through profit or loss are directly recognized in profit or loss. The related transaction costs of other categories of financial liabilities are included in the initial recognition amount.

Subsequent measurement of financial liabilities depends on its category:

1) Financial liabilities at fair value through profit or loss

This category includes financial liabilities held for trade (including derivatives that are financial liabilities) and financial liabilities designated at fair value through profit or loss.

At initial recognition, in order to provide more relevant accounting information, the Company classifies financial liabilities that meet one of the following conditions as financial liabilities at fair value through profit or loss (the designation cannot be revoked once it is made) : the aim of undertaking related financial liabilities is to sell or repurchase in the short run; it is part of identifiable financial instruments and there is objective evidence indicated that the enterprise adopts short-term profitability mode; belong to derivative instrument except for derivative instrument designated as effective hedging instrument and financial guarantee contract. Financial liabilities

held for trade are measured at fair value subsequently and all fair value changes except for hedging accounting shall be included in current period profit or loss.

At initial recognition, in order to provide more relevant accounting information, the Company classifies financial liabilities that meet one of the following conditions as financial liabilities designated at fair value through profit or loss (the designation cannot be revoked once it is made) :

a) accounting mismatches can be eliminated or significantly reduced.

b) management and performance evaluation of financial liability portfolios or combinations of financial assets and financial liabilities based on fair value according to corporate risk management or investment strategies as stated in formal written documents, and report to key management personnel on this basis.

When the Company initially recognizes a financial liability and designates it at fair value through profit or loss according to stipulations of standards, the changes in the fair value of the financial liability arising from changes in the company's own credit risk are included in other comprehensive income, and other changes in fair value are recognized in profit or loss for the period. However, if the accounting causes or expands the accounting mismatch in profit or loss, the entire gain or loss of the financial liability (including the affected amount from changes in the company's own credit risk) is included in the current profit or loss.

2) Other financial liabilities

Except for the following items, the Company classifies financial liabilities as financial liabilities measured at amortized cost:

a) Financial liabilities at fair value through profit or loss.

b) The transfer of financial assets does not meet the conditions for derecognition or financial liabilities arising from the continued involvement in the transferred financial assets.

c) Financial guarantee contracts that are not in the first two categories of this article, and loan commitments granted at a rate lower than market interest rates and that are not in the first category of this article

Financial guarantee contracts that are not designated as financial liabilities measured at fair value through profit or loss are initially recognized at fair value. Subsequent to initial recognition, the subsequent measurement is determined according to the higher loss allowance of contingent liabilities under expected credit loss model and the initial recognition amount deducting by the accumulated amortization.

(3) Derecognition of financial instruments

1) If a financial asset meets one of the following conditions, it shall be derecognized:

a) The contractual right to receive the cash flow of the financial asset is terminated.

b) The financial asset has been transferred, and the transfer meets the requirements of the "Accounting Standards for Business Enterprises No. 23 – Transfer of Financial Assets" regarding

derecognition of financial assets.

2) Conditions of derecognition of financial liabilities

If the current obligation of a financial liability (or a part thereof) has been discharged, the financial liability (or such part of financial liability) is derecognized.

When the Company and the lender sign an agreement to replace the original financial liability with a new financial liability, and the new financial liability is substantially different from the original financial liability, the original financial liability is derecognized and a new financial liability is recognized. The difference between the carrying amount and the consideration paid (including the transferred non-cash assets or liabilities assumed) is recognized in profit or loss

If the Company repurchases part of the financial liabilities, the carrying amount of the financial liabilities as a whole is allocated based on the proportion of the fair value of the continuing recognition portion and the derecognition portion on the repurchase date. The difference between the carrying amount assigned to the derecognition portion and the consideration paid (including the transferred non-cash assets or liabilities assumed) shall be included in the current profit or loss.

(4) Recognition basis and measurement for transfer of financial assets

In the event of transfer of financial assets, the Company assesses the extent to which it retains the risks and rewards of ownership of the financial assets and treats them in the following cases:

1) If almost all risks and rewards of ownership of financial assets are transferred, the financial assets are derecognized and the rights and obligations arising from or retained in the transfer are separately recognized as assets or liabilities.

2) If almost all the risks and rewards of ownership of financial assets are retained, the financial assets shall continue to be recognized

3) If there is neither transfer nor retention of almost all risks and rewards of ownership of financial assets (i.e., other than (1) and (2) of this article), then depending on whether or not they retain control over financial assets

a) If control over the financial asset is not retained, the financial asset shall be derecognized, and the rights and obligations arising or retained during the transfer shall be separately recognized as assets or liabilities.

b) If the control over the financial asset is retained, the relevant financial asset shall be continuously recognized according to the degree of its continuous involvement in the transferred financial asset, and the relevant liabilities shall be recognized accordingly. The degree of continued involvement in the transferred financial assets refers to the degree to which the company bears the risk or reward of the value change of the transferred financial assets

When judging whether the transfer of financial assets satisfies the conditions for derecognition above, the principle of substance over form is adopted. The Company divides the transfer of financial assets into the overall transfer and partial transfer of financial assets:

1) If the overall transfer of financial assets meets the conditions for derecognition, the difference between the following is included in the current profit or loss:

a) The carrying amount of the transferred financial assets on the date of derecognition.

b) The sum of the consideration received in respect of the transfer of financial assets and the amount corresponding to the derecognized portion in the accumulated changes in the fair value originally and directly recognized in other comprehensive income (the financial assets involved in the transfer are measured at fair value through other comprehensive income)

If the transfer of a financial asset does not meet the conditions for derecognition, the financial asset will continue to be recognized and the consideration received is recognized as a financial liability

(5) Method for determining the fair value of financial assets and financial liabilities

The fair value of financial assets or financial liabilities with active market is determined by active market quotations; active market quotations include quotations that are readily and regularly available from exchanges, dealers, brokers, industry groups, pricing agencies or regulatory authorities for related assets or liabilities, and represent actual and frequently occurring market transactions on a fair trade basis.

The fair value of financial assets initially acquired or derived or financial liabilities assumed shall be determined on the basis of the market transaction price.

The fair value of financial assets or financial liabilities without active market is determined using valuation techniques. In valuation, the Company adopts valuation techniques that are applicable under current circumstances and that are supported by adequate available data and other information, selects inputs with consistent asset or liability characteristics considered by market participants in trading related asset or liability, and uses relevant observable inputs where possible. Unobservable inputs are used where the relevant observable inputs are not available or are impracticable.

(6) Provision for impairment of financial assets

Based on the expected credit losses, the Company assesses the expected credit losses of the financial assets measured at amortized cost and financial assets at fair value through other comprehensive income, lease receivables, contract assets, loan commitment and financial liabilities that are not measured at fair value through profit or loss, and financial guarantee contract etc., and makes impairment accounting and recognizes loss provisions.

The expected credit loss refers 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 discounted at the original effective interest rate and receivable from the contract and all cash flows expected to be received by the Company, and the present value of all

cash shortages. For financial assets that have been purchased or generated with credit impairment, loss provision is recognized only for the cumulative changes in lifetime expected credit losses after the initial recognition on the balance sheet date.

For accounts receivable, contract assets, and lease receivables, the Company shall always measure the loss allowance for them at an amount equal to the lifetime expected credit losses.

For financial assets that have been purchased or generated with credit impairment, loss provision is recognized only for the cumulative changes in lifetime expected credit losses after the initial recognition on the balance sheet date. On each balance sheet date, the amount of changes in lifetime expected credit losses is included in profit or loss as an impairment loss or gain. Even if the lifetime expected credit loss determined on the balance sheet date is less than the expected credit loss reflected in the estimated cash flow at the initial recognition, the positive change in expected credit loss is also recognized as an impairment gain.

Except for the above-mentioned simplified measurement methods and purchased or originated credit-impaired assets, the Company assesses whether the credit risk of the other financial assets has increased significantly since the initial recognition on each balance sheet date, and separately measures its loss provision, recognizes expected credit loss and its changes based on the following circumstances:

a) If the credit risk of the financial instruments has not increased significantly since the initial recognition, the loss provision is measured at the amount equivalent to the expected credit loss of the financial instruments in the next 12 months, regardless of whether the basis the Company assesses the credit loss is on individual financial instrument or the combination of financial instruments, and the increase or reversal of the loss provision resulting therefrom shall be included in the current profit or loss as an impairment loss or gain.

b) If the credit risk of the financial instruments has increased significantly since the initial recognition but no impairment has occurred, the loss provision is measured at the amount equivalent to the lifetime expected credit loss of the financial instruments, regardless of whether the basis the Company assesses the credit losses is on individual financial instrument or a combination of financial instruments, and the increase or reversal of the loss provision resulting therefrom should be included in the current profit or loss as an impairment loss or gain.

c) For financial instruments in the third stage which the financial instrument has been impaired since initial recognition, the Company measures loss provision on the basis of life-time expected credit loss and calculating interest income according to their book balance minus the impairment provision and the actual interest rate.

Incremental or reversal of credit loss provision shall be included in current profit or loss as impairment loss or gain. Except for financial asset at fair value through other comprehensive income, credit loss provision is to offset the carrying amount of financial assets. For financial assets

at fair value through other comprehensive income, the credit loss provision is recognized in other comprehensive income and will not offset the financial asset's carrying amount in balance sheet.

If the Company recognized credit loss provision in prior accounting period in terms of life-time credit loss, but on current period balance sheet date, the associated financial asset does not belong to the situation of risk increased after the initial recognition, the Company shall accrue credit loss provision for this financial asset based on the next 12 month expected credit loss. Difference arose from above changes shall be included in current period profit or loss as impairment gain.

1) 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 Company 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, factors considered by the Company includes:

- a) Whether there is serious deterioration of the debtor's operating results that have occurred or are expected to occur;
- b) Changes in the existing or anticipated technological, market, economic or legal environment will have a significant negative impact on the debtor's repayment capacity.
- c) Serious deterioration of external or internal credit ratings (if any) of financial instruments that have occurred or are expected to occur;
- d) Whether the expected performance and repayment of debtor changes significantly.
- e) Whether the Company changed the way of managing financial assets.

On the balance sheet date, if the Company assesses that the financial instrument only has lower level of credit risk, the Company assumes that the credit risk associated with the financial instrument does not increased after the initial recognition. If the default rate of a financial instrument is low and the debtor's ability to fulfill its cash flow liability is strong, the financial instrument will be regarded with lower credit risk even if there will be adverse changed in economic and operating environment in long-term which may not necessarily decrease the debtor's ability of fulfilling its cash flow liabilities.

2) Provision for impairment of financial assets

When one or more events that adversely affect the expected future cash flows of a financial asset occur, the financial asset becomes a financial asset that has suffered credit impairment. Evidence that credit impairment has occurred in a financial asset includes the following observable information:

- a) significant financial difficulties of the issuer or debtor;
- b) the debtor breaches the contract, such as failure to pay or delay in the payment of interest or principal;
- c) the creditor gives the debtor a concession which would not have been made under any other circumstances for economic or contractual considerations relating to the financial difficulties of the debtor;
- d) the debtor is likely to go bankrupt or carry out other financial restructurings;
- e) the financial difficulties of the issuer or the debtor cause the active market of the financial asset to disappear;
- f) purchase or source a financial asset at a substantial discount that reflects the fact that credit losses have occurred.

The credit impairment of financial assets may be caused by the joint action of multiple events, and may not be caused by separately identifiable event

3) Determining expected credit loss (ECL)

The Company evaluates ECL based on single or portfolio of financial instrument. When evaluating ECL, the Company considers past events, current situation and future economic condition.

The Company categorizes financial instrument into different portfolios based on common credit risk characteristics. Common credit risk characteristics includes: types of financial instruments, aging portfolio, settlement period, debtor's industries etc... Refer to accounting policies of financial instruments for standard for single evaluation and credit risk characteristics.

The Company uses the following way to determine the ECL of financial instruments:

- a) For financial assets, credit loss is the present value of difference between all contractual cash flows receivable from the contract and all cash flows expected to be received by the Company.
- b) For lease receivable, credit loss is the present value of difference between all contractual cash flows receivable from the contract and all cash flows expected to be received by the Company.
- c) For financial guarantee contract, credit loss is the present value of expected payment amount due to credit losses happened to the owner of the contract and less any amount that the Company expected to receive from the contract owner, debtor or other parties.
- d) For financial assets that already impaired on balance sheet date but not impaired when purchasing, the credit loss is the difference of carrying amount and present value of future cash flows discounted at original effective interest rate.

Factors that the Company measures ECL of financial instrument includes: assessing a series of possible results and to determine a weighted average amount without bias; time value of money; information of past event, current situation and future economic condition forecast that can be obtained without paying extra cost or efforts on balance sheet date.

4) Write off

If the Company 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.

(7) Offset of financial assets and financial liabilities

Financial assets and financial liabilities are presented separately in the balance sheet and are not offset. However, if all of the following conditions are met, the net amount offset by each other is presented in the balance sheet:

- 1) The Company has a statutory right to offset the recognized amount, and such legal right is currently enforceable;
- 2) The Company plans to settle in net amount or to realize the financial assets and settle the financial liabilities at the same time.

12. Bill receivables

Refer to Note XI. 6 Financial instrument impairment for details of ECL determination and accounting method to bill receivable.

If the Company has sufficient evidence to evaluate the ECL of bill receivable on single basis, it will be assessed on single basis.

If there is not sufficient evidence to evaluate the ECL on single basis, the Company will make judgment based on historical loss experience, current situation and future economic situation, and classifying the bill receivable into different portfolios. The basis for portfolios is determined as follows:

Portfolio	Basis	method
Risk-free banker's acceptance note	The issuer has higher level of credit rating and no default in past and has strong ability to fulfil its contractual cash follow obligation	Referencing historical impairment experience and taking into consideration of current situation and estimation of future conditions
Business acceptance note	Bill receivables with same aging have similar credit risk characteristics	Based on aging analysis

13. Accounts receivables

Refer to Note XI. 6 Financial instrument impairment for details of ECL determination and accounting method to accounts receivable.

If the Company has sufficient evidence to evaluate the ECL of account receivable on single basis, it will be assessed on single basis.

If there is not sufficient evidence to evaluate the ECL on single basis, the Company will make judgment based on historical loss experience, current situation and future economic situation, and classifying the account receivable into different portfolios. The basis for portfolios is determined as follows:

Portfolio	Basis	method
Receivables for related parties in scope of consolidation	Account receivables for related parties in scope of consolidation have similar credit risk characteristics	Referencing historical impairment experience and taking into consideration of current situation and estimation of future conditions
Accounts receivables from other parties	Account receivables with same aging have similar credit risk characteristics	Based on aging analysis

14. Other receivables

Refer to Note XI. 6 Financial instrument impairment for details of ECL determination and accounting method to other receivables.

If the Company has sufficient evidence to evaluate the ECL of other receivables on single basis, it will be assessed on single basis.

If there is not sufficient evidence to evaluate the ECL on single basis, the Company will make judgment based on historical loss experience, current situation and future economic situation, and classifying the other receivable into different portfolios. The basis for portfolios is determined as follows:

Portfolio	Basis	method
Receivables of down payment and guarantee	The portfolio has similar credit risk characteristics	Based on aging and ECL rate
Petty cash for employees	The portfolio has similar credit risk characteristics	Referencing historical impairment experience and taking into consideration of current situation and estimation of future conditions
Social security payment paid on-behalf of employees	The portfolio has similar credit risk characteristics	Referencing historical impairment experience and taking into consideration of current situation and estimation of future conditions
Receivables from related parties within scope of consolidation	The portfolio has similar credit risk characteristics	Referencing historical impairment experience and taking into consideration of current situation and estimation of future conditions
Others	The portfolio has similar credit risk characteristics	Based on aging and ECL rate

15. Inventory

(1) Classification

Inventory refers to the finished products or commodities that the Company holds for sale in its daily activities, semi-products in the production process, materials and consumables used in the production process or the provision of labour services. Inventories include raw materials, work in progress, and finished goods.

(2) Valuation method of inventory

When inventory is acquired, it is initially measured at cost, including procurement costs, processing costs and other costs. When the inventory is issued, it is measured by the weighted average method (except for branded watches) and specific identification method (for branded watches).

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

After the inventory is thoroughly inspected at the end of the period, the provision shall be provided or adjusted at the lower of the cost of the inventory and its net realizable value. The net realizable value of inventory of goods directly used for sale, such as finished goods, stocked goods and materials for sale in the normal production and operation process, is determined by the estimated selling price of the inventory minus the estimated selling expenses and related taxes; net realizable value of inventory of materials that need to be processed is determined based on the estimated selling price of the finished products produced minus the estimated cost till completion, estimated selling expenses and related taxes and fees in the normal production and operation process; the net realizable value of the inventory held for the execution of a sales contract or labour contract is calculated on the basis of the contract price. If the quantity of the inventory held exceeds the quantity ordered by the sales contract, the net realizable value of the excess inventory is calculated based on the general sales price.

The provision is accrued according to the individual inventory project at the end of the period; but for a large number of inventories with lower unit price, the provision is accrued according to the category of inventory: for those related to the product series produced and sold in the same region, have the same or similar end use or purpose and that are difficult to measure separately from other projects, they are combined for provision for inventory depreciation

If the influencing factors of the write-down of inventory value have disappeared, the amount of write down will be restored and will be reversed within the amount of the provision for decline in value of the inventory that has been accrued. The amount of the reversal is included in the current profit or loss

(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.

16. Contract assets

The Company has the right to receive the consideration for the transfer of goods to the customers. If the right depends on factors other than the passage of time, it is recognized as a contract asset. If the Company has the right (only depends on passage of time) to receive consideration from client, accounts receivable shall be recognized.

Refer to Note XI 6 for impairment to contract asset.

17. Long-term Equity Investment

(1) Determination of investment cost

1) For the long-term equity investment formed by business combination, the specific accounting policies are detailed in the accounting treatment of business combination under common control and not under common control as set out in this Note VI.

2) Long-term equity investment obtained by other means

The initial investment cost of the long-term equity investment obtained by cash payment is the actual purchase price. The initial investment cost includes expenses directly related to the acquisition of long-term equity investments, taxes and other necessary expenses

The initial investment cost of the long-term equity investment obtained by issuing equity securities is the fair value of the issued equity securities; the transaction cost incurred in the issuance or acquisition of its own equity instruments is deducted from equity if it is directly attributable to equity transactions.

Under the premise that the non-monetary asset exchange has the commercial substance and the fair value of the assets received or surrendered can be reliably measured, the initial investment cost of the long-term equity investment exchanged for non-monetary assets is determined based on the fair value of the assets exchanged and relevant taxes payable, unless there is conclusive evidence that the fair value of the assets transferred is more reliable; for the exchange of non-monetary asset that does not meet the above premise, the initial investment cost of long-term equity investment is the carrying amount of the assets exchanged and the related taxes and fees payable.

The initial investment cost of a long-term equity investment obtained through debt restructuring includes the fair value of the waived debt, taxes that can be directly attributable to the asset and other costs

(2) Subsequent measurement and profit and loss recognition

1) Cost method

The long-term equity investment that the Company can control over the investee is accounted for using the cost method, and the cost of the long-term equity investment is adjusted by adding or recovering the investment according to the initial investment cost. Except for the actual payment or the cash dividends or profits included in the consideration that have been announced but not yet paid at the time of acquiring the investment, the Company recognizes the current investment income according to its share of cash dividends or profits declared to be distributed by the investee.

2) Equity method

The Company's long-term equity investments in associates and joint ventures are accounted for using the equity method, and some of the equity investments in associates that are indirectly held by venture capital institutions, mutual funds, trust companies or similar entities including investment-linked insurance funds are measured at fair value through profit or loss.

When the initial investment cost of a long-term equity investment is greater than the investment, the initial investment cost of the long-term equity investment shall not be adjusted by the difference

between the fair value of the identifiable net assets of the investee; if the initial investment cost is less than the investment, the difference between the fair value of the identifiable net assets of the investee should be included in the current profit or loss

After obtaining the long-term equity investment, the Company shall recognize the investment income and other comprehensive income according to the share of net profit and loss and other comprehensive income realized by the investee that is entitled or should be shared respectively, and adjust the carrying amount of the long-term equity investment; and reduces the carrying amount of the long-term equity investment based on portion of the profit or cash dividend declared to be distributed by the investee; and for other changes in the owners' equity other than the net profit or loss, other comprehensive income and profit distribution of the investee, the carrying amount of the long-term equity investment is adjusted and included in the owners' equity.

When recognizing the share of the net profit or loss of the investee, the Company shall adjust and recognize the net profit of the investee based on the fair value of the identifiable assets of the investee at the time of obtaining the investment. The unrealized internal transaction gains and losses between the Company and the associates and joint ventures shall be offset against the portion attributable to the Company in accordance with the proportion to be enjoyed, on the basis of which the investment gains and losses are recognized.

When the Company recognizes the losses incurred by the investee that it should bear, it shall deal with it in the following order: Firstly, offset the carrying amount of the long-term equity investment. Secondly, if the carrying amount of the long-term equity investment is not enough to be offset, the investment loss will continue to be recognized to the extent of carrying amount of other long-term equity that virtually constitutes a net investment in the investee, and the carrying amount of the long-term receivables is offset. Finally, after the above-mentioned treatment, if the enterprise still bears additional obligations in accordance with the investment contract or agreement, the projected liabilities are recognized according to the estimated obligations and included in the current investment losses.

If the investee realizes profit in the future period, after deducting the unrecognized loss share, and the reduction of book balance of the recognized projected liabilities and recovery of other long-term equity that virtually constitutes a net investment in the investee and carrying amount of long-term equity investment as opposite to the order above, the Company shall restore the investment income.

(3) Conversion of accounting methods for long-term equity investment

1) Fair value measurement to equity method accounting

If the equity investment originally held by the Company that does not have control, joint control or significant influence on the investee, which is accounted for according to the recognition and measurement criteria of financial instruments, can exert significant influence on the investee or

jointly control but does not constitute control over it due to additional investment and otherwise, its initial investment cost shall be the sum of the fair value of the equity investment originally held in accordance with the “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments” and new investment cost after being accounted for under the equity method.

If the initial investment cost accounted for under the equity method is less than the fair value share of the identifiable net assets of the investee on the additional investment date determined by the new shareholding ratio after the additional investment, the carrying amount of the long-term equity investment is adjusted and included in the current non-operating income.

2) Fair value measurement or equity method accounting to cost method accounting

If the equity investment originally held by the Company, that does not have control, joint control or significant influence on the investee and which is accounted for in accordance with the financial instrument recognition and measurement criteria, or the long-term equity investment originally held in associates or joint venture, can exercise control over the investee not under common control due to additional investment or otherwise, in the preparation of individual financial statements, the sum of the carrying amount of the equity investment originally held plus the new investment cost shall be regarded as the initial investment cost after being accounted for under the cost method.

The other comprehensive income recognized by the equity method in respect of the equity investment originally held before the purchase date is accounted for on the same basis as the investee directly disposes of the relevant assets or liabilities when the investment is disposed of.

If the equity investment held before the purchase date is accounted for in accordance with the relevant provisions of the “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments”, the cumulative fair value changes originally included in other comprehensive income are transferred to current profit or loss when the cost method is adopted.

3) Equity method accounting to fair value measurement

If the Company loses joint control or significant influence on the investee due to the disposal of part of the equity investment or otherwise, the remaining equity after disposal shall be accounted for according to the “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments”. The difference between the fair value and the carrying amount on the date of losing joint control or significant impact is recognized in profit or loss.

The other comprehensive income recognized in respect of the original equity investment using the equity method is accounted for on the same basis as the investee directly disposes of the relevant asset

4) Cost method to equity method

Where the Company loses control over the investee due to the disposal of part of the equity investment, etc., in the preparation of individual financial statements, if the remaining equity after disposal can exercise joint control or significant influence on the investee, the equity method is adopted for accounting, and the remaining equity is deemed to be adjusted under the equity method when it is acquired.

5) Cost method to fair value measurement

Where the Company loses control over the investee due to the disposal of part of the equity investment, etc., in the preparation of individual financial statements, if the remaining equity after disposal cannot jointly control or exert significant influence on the investee, the relevant provisions of the “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of Financial Instruments” are adopted. The difference between the fair value and the carrying amount on the date of loss of control is recognized in profit or loss for the current period.

(4) Disposal of long-term equity investment

For the disposal of long-term equity investment, the difference between the carrying amount and the actual purchase price shall be included in the current profit or loss. For the long-term equity investment accounted for using the equity method, when the investment is disposed of, the part that is originally included in the other comprehensive income is accounted for in the same proportion based on the same basis as the investee directly disposes of the relevant assets or liabilities.

If the terms, conditions and economic impact of each transaction on disposal of the equity investment in a subsidiary satisfy one or more of the following cases, the multiple transactions are treated as a package transaction:

- 1) The transactions are made simultaneously or with consideration of each other’s influence;
- 2) The transactions as a whole can achieve a complete business outcome;
- 3) The occurrence of a transaction depends on the occurrence of at least one other transaction;
- 4) A transaction is uneconomic alone, but it is economic when considered together with other transactions

Where the loss of control over the original subsidiary due to disposal of part of the equity investment or otherwise which is not a package transaction, the individual financial statements and consolidated financial statements shall be classified for relevant accounting treatment:

- a) In the individual financial statements, the difference between the carrying amount of the disposed equity and the actual purchase price is included in the current profit or loss. If the remaining equity after disposal can exert joint control or significant influence on the investee, it shall be accounted for under the equity method, and the residual equity shall be deemed to be adjusted by equity method when it is acquired; if the remaining equity after disposal cannot exert joint control or significant influence over the investee, it shall be accounted for by the relevant provisions of the “Accounting Standards for Business Enterprises No. 22 – Recognition and Measurement of

Financial Instruments”, and the difference between the fair value and the carrying amount on the date of loss of control is included in the current profit or loss.

b) In the consolidated financial statements, for each transaction before the loss of control over the subsidiary, capital reserve (share premium) is adjusted for the difference between the disposal price and the share of the net assets corresponding to the disposed long-term equity investment that the subsidiary has continuously calculated from the date of purchase or the merger date; if the capital reserve is insufficient to offset, the retained earnings will be adjusted; when the control of the subsidiary is lost, the remaining equity shall be re-measured according to its fair value on the date of loss of control. The sum of the consideration for the disposal of the equity and the fair value of the remaining equity, less the share of the net assets that that the original subsidiary has continuously calculated from the date of purchase calculated based on the original shareholding, is included in the investment income for the period of loss of control, while reducing goodwill. Other comprehensive income related to the original subsidiary’s equity investment will be converted into current investment income when control is lost.

If each transaction on disposal of the equity investment in a subsidiary until the loss of control is a package transaction, each transaction is accounted for as a transaction to dispose of the equity investment in the subsidiary with loss of control, which is distinguished between individual financial statements and consolidated financial statements:

a) In the individual financial statements, the difference between each disposal price and the carrying amount of the long-term equity investment corresponding to the disposed equity before the loss of control is recognized as other comprehensive income, and when the control is lost, it is transferred to profit or loss for the period of the loss of control.

b) In the consolidated financial statements, the difference between each disposal price and the disposal investment that has the share of the net assets of the subsidiary before the loss of control is recognized as other comprehensive income, and transferred to profit or loss for the period of the loss of control.

(5) Judging criteria for joint control and significant influence

If the Company collectively controls an arrangement with other parties in accordance with the relevant agreement, and the activity decision that has a significant impact on the return of the arrangement needs to be unanimously agreed upon by the parties sharing the control, it is considered that the Company and other parties jointly control an arrangement, which is a joint arrangement.

If the joint arrangement is reached through a separate entity and it determines that the Company has rights to the net assets of the separate entity in accordance with the relevant agreement, the separate entity is regarded as a joint venture and is accounted for using the equity method. If it is judged according to the relevant agreement that the Company does not have rights to the net assets of the separate entity, the separate entity acts as a joint operation, and the Company recognizes the

items related to the share of the interests of the joint operation and conducts accounting treatment in accordance with the relevant ASBEs.

Significant influence refers to the investor's power to participate in the decision-making of the financial and operating policies of the investee, but it cannot control or jointly control the formulation of these policies with other parties. The Company has a significant influence on the investee under one or more of the following situations and taking into account all facts and circumstances: (1) it is represented on the board of directors or similar authorities of the investee; (2) it involves in the formulation of financial and operating policy of the investee; (3) it has important transactions with the investee; (4) it dispatches management personnel to the investee; (5) it provides key technical information to the investee.

18. Investment Property

Investment property refers to property held for the purpose of earning rent or capital appreciation, or both, including leased land use rights, land use rights held and prepared for transfer after appreciation, and leased buildings. Besides, for empty constructions that the Company held for rent lately but with the written resolution from the board stated that it will be used as operating lease and that intention will not be changed in short-term, it can be treated as investment property.

The Company's investment property is recorded at its cost, and the cost of purchased investment property includes the purchase price, related taxes and other expenses directly attributable to the asset; the cost of self-built investment property is composed of the necessary expenses incurred before the asset is ready for expected use.

The Company adopts the cost model for subsequent measurement of investment property, and depreciates or amortizes buildings and land use rights according to their estimated service life and net residual value. Expected useful life, residual value and annual depreciation rate are as follows:

Category	Estimated useful life (years)	Residual value rate %	Depreciation rate %
Property	20-35	5.00	4.80-2.70

When the use of investment property is changed to self-use, the Company converts the investment property into fixed assets or intangible assets from the date of change. When the use of self-use property changes to rental earning or capital appreciation, the Company converts fixed assets or intangible assets into investment property from the date of change. When a conversion occurs, the carrying amount before conversion is used as the converted value

The investment property is derecognized when the investment property is disposed of, or permanently withdrawn from use and is not expected to obtain economic benefits from its disposal. The amount of disposal income from the sale, transfer, retirement or damage of the investment property after deducting its carrying amount and related taxes and expenses is recognized in profit or loss for the current period.

19. Fixed assets

(1) Recognition conditions of fixed assets

Fixed assets refer to tangible assets held for the purpose of producing goods, providing labour services, renting or operating management, and having a useful life of more than one fiscal year. Fixed assets are recognized when they meet all of the following conditions:

- 1) the economic benefits associated with the fixed assets are likely to flow into the enterprise;
- 2) the cost of the fixed assets can be reliably measured.

(2) Initial measurement of fixed assets

The fixed assets of the Company are initially measured at cost.

1) The cost of outsourcing fixed assets includes the purchase price, import duties and other related taxes and fees, as well as other expenses that can be directly attributed to the assets before they reach their intended usable state.

2) The cost of self-built fixed assets is determined by the necessary expenditures incurred before the assets reach their expected usable state.

3) For fixed assets invested by investors, the value agreed in the investment contract or agreement is regarded as the book value, but the value agreed in the contract or agreement is not accounted for at fair value.

4) If the payment for the purchase of fixed assets is delayed beyond the normal credit conditions, and is of a financing nature in essence, the cost of fixed assets is determined on the basis of the present value of the purchase price. The difference between the actual payment and the present value of the purchase price is recorded in the current profit or loss during the credit period, except where it should be capitalized.

(3) Subsequent measurement and disposal of fixed assets

1) Depreciation of fixed assets

Depreciation of fixed assets is accrued over the estimated useful life based on its recorded value less the estimated net residual value. The fixed assets that have been provided for impairment losses are depreciated in the future period based on the carrying amount after deducting the impairment provision and the remaining useful life.

The Company determines the service life and estimated net residual value of fixed assets based on the nature and use of fixed assets. At the end of the year, the service life, the estimated net residual value and the depreciation method of the fixed assets are reviewed. If there is a difference from the original estimate, corresponding adjustments will be made.

The depreciation method, depreciation period and annual depreciation rate of various fixed assets are as follows.

Class	Method of depreciation	Estimated useful life (years)	Residual value rate %	Depreciation rate %
Property and plant	Straight-line	20-35	5.00	4.80-2.70

Class	Method of depreciation	Estimated useful life (years)	Residual value rate %	Depreciation rate %
Machinery and equipment	Straight-line	10	5.00-10.00	9.50-9.00
Electronic equipment	Straight-line	5	5.00	19.00
Motor vehicles	Straight-line	5	5.00	19.00
Others	Straight-line	5	5.00	19.00

2) Subsequent expenditures on fixed assets

Subsequent expenditures related to fixed assets that meet the conditions for recognition of fixed assets are included in the cost of fixed assets; those that do not meet the conditions for recognition of fixed assets are included in the current profit or loss when they occur.

3) Disposal of fixed assets

When a fixed asset is disposed of or no economic benefit is expected to result from its use or disposal, the fixed asset is derecognized. The amount of disposal income from sale, transfer, retirement or damage of the fixed asset after deducting its book value and related taxes is included into the current profit or loss.

20. Construction in Progress

(1) Initial measurement of construction in progress

The self-built construction in progress of the Company is measured at the actual cost, which is determined by the necessary expenses incurred before the construction of the asset reaches the intended usable condition, including the cost of engineering materials, labour costs and relevant taxes payable, capitalized borrowing costs and indirect costs that should be apportioned. The Company's construction in progress is classified into projects when in accounting

(2) Criteria for and time point of construction in progress to convert into fixed asset

The total expenditure incurred before the construction in progress project is constructed to reach the intended usable condition shall be recorded as the book value of the fixed assets. For the construction in progress built which has reached the intended usable condition, but has not yet completed the final accounts, since the date of reaching expected use condition, according to the project budget, cost or actual project costs, it shall be converted into fixed assets at the estimated value, and fixed assets shall be depreciated in accordance with the depreciation policy of the Company for fixed assets. After the completion of the final accounts, the original estimated value shall be adjusted according to the actual cost, but the original depreciation amount shall not be adjusted.

21. Borrowing Costs

(1) Recognition principle for capitalization of borrowing costs

If the borrowing costs of the Company can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall start capitalization and be

included in the cost of relevant assets in the case of eligible for capitalization; other borrowing costs shall be recognized as expenses at the time of occurrence and shall be included in the current profit or loss.

Assets that are eligible for capitalization are assets that require a long period of time to purchase or produce activities to achieve fixed assets, investment property and inventory that are available for intended use or sale.

Borrowing costs begin to capitalize when all of the following conditions are met:

1) Assets expenditure has occurred, including expenditure incurred in the form of cash payment, transfer of non-cash assets or assuming of interest-bearing debt for the acquisition and construction or production of assets eligible for capitalization;

2) Borrowing costs have already occurred;

3) The purchase and construction or production activities necessary for the assets to reach the intended use or saleable status have started.

(2) Capitalization period of borrowing costs

The period of capitalization refers to the period from the point of time when the borrowing costs are capitalized to the point of time where the capitalization is stopped, excluding the period during which the borrowing costs are suspended from capitalization.

The borrowing costs shall cease to be capitalized when the assets acquired or produced that meet the conditions for capitalization are ready for intended use or sale.

When a part of the assets purchased or produced that meet the capitalization conditions are completed and can be used alone, such part of the assets shall stop capitalization of borrowing costs.

Where each part of the assets purchased or produced is completed separately, but must wait until the whole is completed or can be sold externally, the capitalization of the borrowing costs shall be stopped when the assets are completed as a whole.

(3) Suspension of capitalization period

If the assets that meet the capitalization conditions are interrupted abnormally during the construction or production process and the interruption time lasts for more than 3 months, the capitalization of borrowing costs shall be suspended; the borrowing costs shall continue to be capitalized if the acquisition or production of assets eligible for capitalization is necessary to meet the required usable status or the availability of sales. The borrowing costs incurred during the interruption are recognized as profit or loss for the current period and the borrowing costs continue to be capitalized until the acquisition or production of assets is resumed.

(4) Calculation for capitalization amount of borrowing costs

Interest charges on special borrowings (excluding interest income on unused borrowings deposited in the bank, or investment income on temporary investment) and their ancillary expenses shall be capitalized before the assets purchased or produced that meet the capitalization conditions

are ready for intended use or sale.

The amount of capitalized interest on general borrowings is calculated by the weighted average of the excess portion of the accumulative asset expenditures over the special borrowings multiplied by the capitalization rate of general borrowings. The capitalization rate is determined based on the weighted average interest rate of general borrowings.

Where there is a discount or premium in the borrowings, the interest amount shall be adjusted in accordance with the effective interest rate method to determine the discount or premium amount that shall be amortized during each accounting period.

22. Right-of-use Assets

The Company initially measures the right-to-use assets at cost, which includes:

- (1) initial measurement amount of lease liabilities;
- (2) lease payments made before or at the beginning of the lease term, and deduction of the relevant amount of rental incentives if any;
- (3) initial direct expenses incurred by the Company;
- (4) expected costs to be incurred by the Company for dismantling and removing leased assets, restoring the site of leased assets or restoring leased assets to the state agreed in the lease terms (excluding costs incurred for the production of inventory)

After the beginning of the lease term, the Company adopts the cost model for subsequent measurement of the right-of-use assets

If it is reasonably certain to obtain the ownership of the leased assets at the expiration of the lease term, the Company shall depreciate the leased assets within the remaining useful life of the leased assets. If it is not reasonably certain to obtain the ownership of the leased assets at the expiration of the lease term, the Company shall depreciate the leased assets within the shorter of the lease term and the remaining useful life of the leased assets. For the right-of-use assets with impairment provision, depreciation shall be calculated based on the book value after deduction of impairment provision in according with the above principles in future periods.

23. Intangible Assets and Development Expenditure

Intangible assets refer to the identifiable non-monetary assets owned or controlled by the Company which have no physical form, including land use rights, software and trademark use rights.

(1) Initial measurement of intangible assets

The cost of externally purchased intangible assets includes the purchase price, relevant taxation and other expenses directly attributable to bringing the assets to expected usage. If payment for the purchase price of intangible assets is delayed beyond normal credit conditions and is in fact financing in nature, the cost of the intangible assets is determined based on the present value of the purchase price.

For intangible asset obtained through debt restructuring for offsetting the debt of the debtor, its

initial measurement cost includes the fair value of the waived creditor's rights and taxes and other costs directly attributable to bringing the asset to expected usage. The difference between the fair value of the waived creditor's rights and the carrying amount shall be recognized in profit or loss for the period.

The book value of intangible asset received in exchange for non-monetary asset is based on the fair value of the asset surrendered and relevant taxes payable, provided that the exchange of nonmonetary asset has a commercial substance and the fair value of both the asset received and the asset surrendered can be reliably measured, except there is definite evidence that the fair value of the asset received is more reliable; for exchange of non-monetary asset that cannot satisfy the above conditions, the cost of the intangible asset received is based on the carrying amount of the asset surrendered and relevant taxes payable, and no profit or loss is recognized.

For intangible asset obtained through business absorption or combination under common control, its book value is determined by the carrying amount of the combined party; for intangible asset obtained through business absorption or merger not under common control, its book value is determined by the fair value of the intangible asset.

The cost of an internally developed intangible asset includes the materials consumed in developing the intangible asset, labour costs, registration fees, amortization of other patented rights and licensed rights used during the development process, interest expenses meeting capitalization conditions, and other direct costs for bringing the intangible asset to expected usage.

(2) Subsequent measurement of intangible assets

The Company determines the useful life of intangible assets on acquisition, which are classified as intangible assets with limited useful life and indefinite useful life.

1) Intangible assets with a limited useful life

Intangible assets with a limited useful life are depreciated using straight line method over the term during which they bring economic benefits to the Company. The estimated life and basis for the intangible assets with a limited useful life are as follows:

Item	Estimated useful life	Amortization method
Land use right	50	Straight-line
Software systems	5	Straight-line
Right to use the trademark	5-10	Straight-line

The useful life and depreciation method of intangible assets with a limited useful life are reassessed at the end of each period. If there is a difference from the original estimate, corresponding adjustments will be made.

Upon re-assessment, there was no difference in the useful life and depreciation method of intangible assets from the previous estimates at the end of the period.

(3) Specific basis for determining the research stage and development stage of internal

research and development projects of the Company

Research stage: a stage of scheduled innovative investigations and research activities for the acquisition and understanding of new scientific or technical knowledge.

Development stage: before the commercial production or use, the research results or other knowledge will be applied to a plan or design to produce new or substantial improvements in materials, devices, products and other activities.

The expenditure of the research stage of the internal research and development project is included in the current profit or loss at the time of occurrence

(4) Specific standard for capitalization of expenditure in the development stage

The expenditure of an internal research and development project in the development stage is recognized as an intangible asset when meeting all of the following conditions:

- 1) It is technically feasible to complete the intangible asset so that it can be used or sold;
- 2) With an intention to complete the intangible asset and to use or sell it;
- 3) The way the intangible asset generates economic benefits can prove the existence of a market for the products produced using the intangible asset or a market for the intangible asset itself, and if the intangible asset will be used internally, its usefulness can be proven;
- 4) Having sufficient technical, financial resources and other resource support to complete the development of the intangible asset, and having the ability to use or sell the intangible asset;
- 5) Expenditure attributable to the development stage of the intangible asset can be reliably measured.

Expenditures incurred in the development stage that do not meet the above conditions shall be included in the current profit or loss at the time of occurrence. The development expenditures which have been included in the profit or loss in the previous periods will not be recognized as an asset in the future period. The capitalized expenditures in the development phase are shown in the balance sheet as development expenditures and are converted into intangible assets from the date of the project's intended use.

24. Impairment on Long-term Assets

On the balance sheet date, the Company determines whether there may be a sign of impairment on long-term assets. If there is a sign of impairment on long-term assets, the recoverable amount is estimated on the basis of a single asset. If it is difficult to estimate the recoverable amount of a single asset, then determine the recoverable amount of the asset group on the basis of the asset group to which the asset belongs.

The estimated recoverable amount of an asset is the higher of its fair value less the cost of disposal and the present value of the expected future cash flow of the asset.

The measurement results of recoverable amount show that when the recoverable amount of an long-term asset is lower than its book value, the book value of the long-term asset is reduced to its

recoverable amount. The reduced amount is recognized as an impairment loss on the asset and included in the current profit or loss, at the same time, asset impairment provision will be made accordingly. Asset impairment loss shall not be reversed during the subsequent accounting period once recognized.

After the asset impairment loss is recognized, the depreciation or amortization expenses of the impaired assets will be adjusted accordingly in the future period, so that the assets' book value after adjustment (deducting the estimated net residual value) will be systematically apportioned over the remaining useful life of the assets.

No matter whether there is any sign of impairment or not, the impairment test is carried out every year for goodwill and intangible assets with an indefinite useful life arising from an enterprise merger.

In the impairment test of goodwill, the book value of goodwill would be apportioned to asset group or portfolio of asset group expected to benefit from the synergy effect of an enterprise merger. When taking an impairment test on the relevant asset group or portfolio of asset group containing goodwill, if there is a sign of impairment on the asset group or portfolio of asset group related to the goodwill, the Company first calculates the recoverable amount after testing the asset group or portfolio of asset group which does not contain the goodwill for impairment, and then compares it with the related book value to recognize the corresponding impairment loss. Next, the Company conducts an impairment test on the asset group or portfolio of asset group which contains the goodwill and compares the book value of the related asset group or portfolio of asset group (book value includes the share of goodwill) with the recoverable amount. If the recoverable amount of the related asset group or portfolio of asset group is lower than the book value, the Company will recognize the impairment loss of goodwill.

25. Long-term Deferred Expenses

(1) Amortization method

Long-term deferred expenses refer to expenses that have already been spent by the Company, but shall be apportioned in the current period and the future periods and the benefit period is over 1 year. Long-term deferred expenses are amortized in benefit period

(2) Amortization period

Category	Amortization period	Note
Counter fabrication expenses	2-3	
Decoration expenses	3-5	
Others	2-3	

26. Contract liabilities

The obligation to transfer goods to a customer for which consideration has been received or receivable is recognized in part as a contract liability

27. Employee Remuneration

Employee remuneration refers to the various forms of remuneration or compensation given by the Company to obtain the services provided by the employees or to terminate the labour relationship. Employee remuneration includes short-term remuneration, post-employment benefits, termination benefits and other long-term employee benefits.

(1) Short-term remuneration

Short-term remuneration refers to the employee compensation other than post-employment benefits and termination benefits required to be fully paid by the Company within 12 months after the end of the annual reporting period in which the employees render relevant services. During the accounting period in which the employees render services, the Company recognizes the short-term remuneration payable as liabilities and includes the same in related asset costs or expenses according to the object which benefits from the services rendered by employees.

(2) Post-employment benefits

Post-employment benefits refer to various forms of remuneration and benefits other than short-term remuneration and termination benefits provided by the Company after the retirement of employees or termination of labour relationship with the Company in exchange for the services rendered by employees.

The Company's post-employment benefits is defined contribution plan.

Defined contribution plan of the post-employment benefits mainly refers to the social basic endowment insurance, unemployment insurance, etc. organized and implemented by local labour and social security institutions; During the accounting period when employees render services to the Company, amount payable calculated by the defined contribution plan is recognized as a liability and included in the current profit or loss or related asset costs.

The Company will no longer have any other payment obligations after making the above-mentioned payments on a regular basis in accordance with the standards and annuity plans prescribed by the State.

(3) Termination benefits

Termination benefits refer to the compensation paid to an employee when the Company terminates the employment relationship with the employee before the expiry of the employment contract or provides compensation as an offer to encourage the employee to accept voluntary redundancy. The Company recognizes the liabilities arising from the compensation paid to terminate the employment relationship with employees and includes the same in the current profit or loss at the earlier date of the following: 1) when the Company cannot reverse the termination benefits due to the plan of cancelling the labour relationship or the termination benefits provided by the advice of reducing staff; and 2) the Company recognizes the cost or expense relative to the payment of termination benefits of restructuring into the current profit or loss.

The Company provides internal retirement benefits to employees who accept internal retirement arrangements. The internal retirement benefits refer to the remuneration and the social insurance premiums paid to the employees who have not reached the retirement age set by the State, and voluntarily withdrew from the job after approval of the Company's management. The Company pays internal retired benefits to an internal retired employee from the day when the internal retirement arrangement begins till the employee reaches the normal retirement age. For internal retirement benefits, the Company conducts accounting treatment in contrast to the termination benefits. When the related recognition conditions of termination benefits are met, the Company will recognize the remuneration and the social insurance premiums of the internal retired employee to be paid during the period between the employee's termination of service and normal retirement date as liabilities and include the same in the current profit or loss in one time. Changes in actuarial assumptions of internal retirement benefits and differences arising from the adjustment of welfare standards are included in current profit or loss when incurred.

(4) Other long-term employee benefits

Other long-term employee benefits refer to all employee benefits except for short-term remuneration, post-employment benefits, and termination benefits. For other long-term employee benefits that meet the conditions of the defined contribution plan, during the accounting period in which the employees provide services for the Company, the amount that should be paid is recognized as a liability and is included in the current profit or loss or related asset costs. In addition to the above situations, other long-term employee benefits are actuarially calculated by the independent actuary using the expected cumulative welfare unit method on the balance sheet date, and the welfare obligations arising from the defined benefit plans are attributed to the period during which the employees provide services and are included in the current profit or loss or related asset costs.

28. Projected liabilities

(1) Basis for recognition of projected liabilities

The Company will recognize projected liabilities if the obligation relating to contingent matters meets all of the following conditions:

This obligation is a present obligation assumed by the Company;

The fulfillment of this obligation will probably cause the outflow of economic benefits from the Company;

The amount of this obligation can be measured reliably.

(2) Measurement method of projected liabilities

The initial measurement of projected liabilities of the Company is based on the best estimate of the expenditure required for the performance of the related present obligations.

When determining the best estimate, the Company comprehensively considers the risks,

uncertainties relating to the contingent matters and time value of currency. If the time value of currency has a great influence, the Company determines the best estimate by discounting the related future cash outflows.

The best estimate is determined in different situations as follow:

If there is a continuous range (or interval) of the required expenditure and the probability of the occurrence of all the results in the range is the same, the best estimate is determined according to the median value of the range, which is the average of the upper and lower limit.

Where there is not a continuous range (or interval) of the required expenditure, or there is a continuous range, but the probability of the occurrence of all the results in the range is different, if the contingencies involve a single project, the best estimate is determined by the amount which is most likely to occur; if the contingencies involve a number of projects, the best estimate is determined based on various possible results and related probability calculation.

If all or part of the expenses of the Company required to settle projected liabilities are expected to be compensated by a third party and it is basically certain to receive the amount of compensation, it is independently recognized as an asset. The amount of compensation recognized will not exceed the book value of the projected liabilities.

29. Lease liabilities

The Company initially measures the lease liabilities according to the present value of the unpaid lease payments at the beginning of the lease term. In calculating the present value of lease payments, the Company adopts the interest rate implicit in the lease as the discount rate. If it is impossible to determine the interest rate implicit in the lease, the incremental borrowing rate of the Company shall be used as the discount rate. Lease payments include:

- (1) Fixed payments and substantive fixed payments after deducting the relevant amount of lease incentives;
- (2) Variable lease payments depending on an index or rate;
- (3) Where the Company reasonably determines that the option will be exercised, the amount of the lease payment includes the exercise price of purchase option;
- (4) Where the lease term reflects that the Company will exercise the option to terminate the lease, the amount of the lease payment includes the amount to be paid for the exercise of the option to terminate the lease;
- (5) Expected payments based on the guaranteed residual value provided by the Company.

The Company calculates the interest charges of the lease liabilities for each period of the lease term at a fixed discount rate and includes the same in the profit or loss of the current period or the related asset costs.

Variable lease payments not included in the measurement of lease liabilities shall be included in the current profit or loss or the related asset costs when they actually occur.

30. Share-based payment

(1) Category of share-based payment

The Company's share-based payments include equity-settled share-based payments and cash settled share-based payments.

(2) Recognition method of fair value of equity instrument

For options and other equity instruments granted by the Company with an active market, the fair value is determined at the active market quotations. For options and other equity instruments granted by the Company with no active market, option pricing model shall be used to estimate the fair value of the equity instruments. Factors as follows shall be taken into account using option pricing models: 1) the exercise price of the option, 2) the validity of the option, 3) the current price of the target share, 4) the expected volatility of the share price, 5) predicted dividend of the share, 6) risk-free rate of the option within the validity period.

In determining the fair value of the equity instruments at the date of grant, the Company shall consider the impact of market conditions in the vesting conditions and non-vesting conditions stated in the share-based payment agreement. If there are no vesting conditions in the share-based payments, as long as the employees or other parties satisfy the non-market conditions in all of the vesting conditions (such as term of service), the Company shall recognize the services rendered as an expense accordingly.

(3) Recognition basis for the best estimate of exercisable equity instruments

On each balance sheet date within the vesting period, the estimated number of exercisable equity instruments is amended based on the best estimate made by the Company according to the latest available subsequent information as to changes in the number of employees with exercisable rights. As at the exercise date, the final estimated number of exercisable equity instruments should equal the actual number of exercisable equity instruments.

(4) Accounting treatment

Equity-settled share-based payments are measured at the fair value of the equity instruments granted to employees. For those exercisable immediately after the grant, they shall be included in the relevant costs or expenses at the fair value of equity instruments at the grant date with an increase in capital reserve accordingly. For those exercisable only after provision of services or satisfaction of prescribed performance conditions within the vesting period, on each balance sheet date within the vesting period, the Company will recognize the services received in the current period in related costs or expenses and capital reserves at the fair value of equity instruments on the grant date based on the best estimate of the number of exercisable equity instruments. After the vesting period, relevant costs or expenses and total owners' equity which have been recognized will not be adjusted.

Cash-settled share-based payments are calculated by the fair value of liabilities assumed in

accordance with the Company's shares or other equity instruments. For those exercisable immediately after the grant, they shall be included in the relevant costs or expenses at the fair value of the liabilities assumed by the Company at the grant date with an increase in liabilities accordingly. For cash-settled share-based payments exercisable only after provision of services or satisfaction of prescribed performance conditions within the vesting period, on each balance sheet date within the vesting period, the Company will recognize the services received in the current period in costs or expenses and corresponding liabilities at the amount of fair value of the liabilities assumed by the Company based on the best estimate of the number of exercisable equity instruments. At each balance sheet date and the settlement date prior to the settlement of relevant liabilities, the fair value of the liabilities is re-measured through profit or loss.

During the vesting period, if the equity instruments granted are cancelled, the Company will treat the cancelled equity instruments granted as accelerated vesting, and the amount within the remaining period should be recognized immediately in profit or loss while recognizing the capital reverse. If employees or other parties can meet non-vesting conditions but do not meet within the vesting period, the Company will treat it as cancelled equity instruments granted.

31. Revenue

The Company's revenue mainly come from:

- 1) Sales of watch
- 2) Precision manufacturing
- 3) Property leasing

(1) General principal of revenue recognition

The Group recognizes revenue when the contract performance obligations have been fulfilled i.e. the customer has gained control over the relevant goods or services.

Performance obligations means the Company's commitment to transfer identifiable goods or service to clients.

Obtaining control of the relevant goods means that it is able to dominate the use of the goods and derive almost all economic benefits therefrom.

The Company assesses contracts at the beginning date of a contract to identify each performance obligations contained in a contract and to determine whether each performance obligation is to be finished over a period of time or at a point of time. The Company satisfies a performance obligation over time if one of the following criteria is met; or otherwise, a performance obligation is satisfied at a certain point in time: 1) the customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs; 2) the customer can control the goods under construction during the Company's performance; 3) the Company's performance does not create goods with an alternative use to it and the Company has a right to payment for performance completed to date throughout the contract

term. Otherwise, the Company recognizes revenue at the point of time.

For performance obligation satisfied over time, the Company recognizes revenue over time by measuring the progress towards complete satisfaction of that performance obligation. When the outcome of that performance obligation cannot be measured reasonably, but the Company expects to recover the costs incurred in satisfying the performance obligation, the Company recognizes revenue only to the extent of the amount of costs incurred until it can reasonably measure the outcome of the performance obligation

(2) Detailed method for revenue recognition

The Company has three main business sectors: sales of watch, precision manufacturing and property leasing. Based on the Company's business mode and terms of settlement, the Company set detailed method of revenue recognition method as follows:

1) Sales of watch

Sale of watch belongs to fulfilling performance obligations at a point of time.

① Online sales

Revenue shall be recognized at the point that the goods are dispatched and the customer confirmed received the goods.

② Offline sales

Revenue shall be recognized at the point when the goods are delivered and payment by customer is collected.

③ Consignment sale

The Company recognizes revenue when the Company receives the detail of the sales list from distributors and confirms that the control over goods ownership were transferred to the purchaser.

④ Sale of consigned goods from others

Under Sale of consigned goods from others, the Group recognizes revenue in net amount when it delivered consigned sale goods to customer and confirms that control over the ownership of goods were transferred to the purchaser.

2) Precision manufacturing

Precision manufacturing business belongs to fulfilling performance obligations at a point of time. Revenue from domestic sales shall be recognized when the goods are delivered and the economic benefit associated with the goods is probable to flow into the Company. Revenue from export shall be recognized when the following criteria is satisfied: The Company declared the good at custom; obtained bill of lading; the right of collecting payment is obtained and its probable that the economic benefit associated with the goods flows into the Company.

3) Property leasing

Refer to Note III 35. (4) for details.

(3) Revenue treatment principles for specific transactions

1) Contracts with sales return provisions

When the customer obtains control of the relevant goods, revenue is recognized based on the amount of consideration expected to be received due to the transfer of goods to the customers (exclusive of the amount expected to be refunded due to the return of sales), while liability is recognized based on the amount expected to be refunded due to the return of sales.

The carrying amount of goods expected to be returned at sales of goods, after deduction of costs expected to incur for recovery of such goods (including impairment of value of the returned goods), will be accounted for under the item of "Right of return assets".

2) Contracts with quality assurance provisions

The Company assesses whether a separate service is rendered in respect of the quality assurance besides guaranteeing the sales of goods to customers are in line with the designated standards. When additional service is provided by the Company, it is considered as a single performance obligation and under accounting treatment according to the standards on revenue; otherwise, quality assurance obligations will be under accounting treatment according to the accounting standards on contingent matters

32. Contract costs

(1) Contract performance cost

The Company recognizes the cost of contract performance as an asset for the cost of performing the contract as meeting all of the following conditions:

1) The cost is directly related to a current or expected contract, including direct labour, direct materials, manufacturing expenses (or similar expenses), costs clearly to be borne by the customer, and other costs incurred solely for the contract:

2) This cost increases the resources that the company will use to fulfill its performance obligations in the future.

3) The cost is expected to be recovered

The asset will be presented under inventory or other non-current assets based on the length of its amortization period.

(2) Contract obtainment cost

If the incremental cost of the Company is expected to be recovered, the contract acquisition cost is recognized as an asset. Incremental cost refers to the cost that the Company will not occur without obtaining a contract, such as sales commission. For the amortization period not exceeding one year, it is included in the current profit or loss when it occurs.

(3) Amortization of contract costs

The Company recognizes the contract performance cost and the contract acquisition cost on the same basis as the commodity income related to the contract cost asset, and amortizes it at the time when the performance obligation is performed or in accordance with the performance of the

performance obligation, and is included in the current profit or loss.

(4) Contract cost impairment

For assets related to contract costs, if the book value is higher than the difference between the remaining consideration expected to be received by the Company for transfer of the goods related to the assets and the estimated cost of transferring the relevant goods, the excess should be depreciated and confirmed as an asset impairment loss

If the factors caused impairment changed after impairment provision is accrued, impairment provision shall be reversed and included in current period profit or loss but the carrying amount of asset after the reversal shall not exceed the carrying amount at the reversal date as if there was no impair.

33. Government Subsidies

(1) Classification

Government subsidies refer to monetary and non-monetary assets received from the government without compensation, however excluding the capital invested by the government as a corporate owner. According to the subsidy objects stipulated in the documents of relevant government, government subsidies are divided into subsidies related to assets and subsidies related to income.

Government subsidies related to assets are obtained by the Company for the purposes of acquiring, constructing or otherwise forming long-term assets. Government subsidies related to income refer to the government subsidies other than those related to assets

(2) Recognition of government subsidies

Where evidence shows that the Company complies with relevant conditions of policies for financial supports and is expected to receive the financial support funds at the end of the period, the amount receivable is recognized as government subsidies. Otherwise, the government subsidy is recognized upon actual receipt.

Government subsidies in the form of monetary assets are stated at the amount received or receivable. Government subsidies in the form of non-monetary assets are measured at fair value; if fair value cannot be reliably obtained, a nominal amount (RMB1) is used. Government subsidies that are measured at nominal amount shall be recognized in the current profit or loss directly.

(3) Accounting treatment

The Company determines whether a government subsidy shall use gross method or net method based on its economical substance. In general, only one method is used for one category or similar government subsidy and it shall be used in a consistent way.

Government subsidies related to assets are recognized as deferred income, and are recognized, under reasonable and systematic approach, in profit and loss in each period over the useful life of the constructed or purchased assets;

Government subsidies related to income aiming at compensating for relevant expenses or losses to be incurred by the enterprise in subsequent periods are recognized as deferred income, and are recognized in current profit or loss when relevant expenses or losses are recognized. Government subsidies aiming at compensating for relevant expenses or losses of the enterprise that are already incurred are charged to current profit or loss once received.

Government subsidies related to daily activities of enterprises are included in other income; government subsidies that are not related to daily activities of enterprises are included in non-operating income and expense.

Government subsidies related to the discount interest received from policy-related preferential loans offset the relevant borrowing costs; if the policy-based preferential interest rate loan provided by the lending bank is obtained, the borrowing amount actually received shall be taken as the recording value of the borrowings, and borrowing cost should be calculated using the preferential interest rate according to the loan principal and the policy.

When it is required to return recognized government subsidy, if such subsidy is used to write down the carrying value of relevant assets on initial recognition, the carrying value of the relevant assets shall be adjusted; if there is balance of relevant deferred income, it shall be written down to the book balance of relevant deferred income, and the excess is included in the current profit or loss; where there is no relevant deferred income, it shall be directly included in the current profit or loss.

34. Deferred Income Tax Assets and Deferred Income Tax Liabilities

Deferred income tax assets and deferred income tax liabilities are measured and recognized based on the difference (temporary difference) between the taxable base of assets and liabilities and book value. On balance sheet date, the deferred income tax assets and deferred income tax liabilities are measured at the applicable tax rate during the period when it is expected to recover such assets or settle such liabilities.

(1) Criteria for recognition of deferred income tax assets

The Company recognizes deferred income tax assets arising from deductible temporary difference to the extent it is probably that future taxable amount will be available against which the deductible temporary difference can be utilized, and deductible losses and taxes can be carried forward to subsequent years. However, the deferred income tax assets arising from the initial recognition of assets or liabilities in a transaction with the following features are not recognized: 1) the transaction is not a business combination; 2) neither the accounting profit or the taxable income or deductible losses will be affected when the transaction occurs.

For deductible temporary difference in relation to investment in the associates, corresponding deferred income tax assets are recognized in the following conditions: the temporary difference is probably reversed in a foreseeable future and it is likely that taxable income is obtained for deduction of the deductible temporary difference in the future.

(2) Criteria for recognition of deferred income tax liabilities

The Company recognizes deferred income tax liabilities on the temporary difference between the taxable but not yet paid taxation in the current and previous periods, excluding:

1) temporary difference arising from the initial recognition of goodwill;

2) a transaction or event arising from non-business combination, and neither the accounting profit or the taxable income (or deductible losses) will be affected when the transaction or event occurs;

3) for taxable temporary difference in relation to investment in subsidiaries or associates, the time for reversal of the temporary difference can be controlled and the temporary difference is probably not reversed in a foreseeable future

(3) When all of the following conditions are satisfied, deferred income tax assets and deferred income tax liabilities shall be presented on a net basis

1) An enterprise has the statutory right to settle the current income tax assets and current income tax liabilities at their net amounts;

2) The deferred income tax assets and deferred income tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current income tax assets and current income tax liabilities on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

35. Lease

On the commencement date of the contract, the Company evaluates whether the contract is a lease or contains a lease. If one party to a contract gives up the right to control the use of one or more identifiable assets for a period of time in exchange for consideration, the contract is a lease or contains a lease.

(1) Splitting a lease contract

When the contract contains a number of separate leases, the Company will split the contract into separate leases for accounting individually.

When the contract contains both leasing and non-leasing parts, the Company will split the leasing and non-leasing parts. The leasing part shall be accounted for in accordance with the lease standards, and the non-leasing part shall be accounted for in accordance with other applicable accounting standards for business enterprises.

(2) Combination of lease contracts

When two or more lease-containing contracts concluded by the Company with the same trader or its related parties at the same time or at a similar time meet one of the following conditions, the Company shall merge them into one contract for accounting:

1) Such two or more contracts are concluded for general commercial purposes and constitute a package of transactions. If these are not considered as a whole, these overall commercial purposes cannot be recognized.

2) The amount of consideration for a contract in such two or more contracts depends on the pricing or performance of other contracts.

3) The right-of-use assets transferred by such two or more contracts together constitute a separate lease.

(3) Accounting treatment for the Company as a lessee

On the commencement date of lease term, the Company recognizes right-of-use assets and lease liabilities for leases, in addition to short-term leases and low-value asset leases with simplified treatment.

1) Short-term lease and low value lease

Short-term lease refers to a lease that does not include purchase options and has a lease term not exceeding 12 months. Low-value asset lease refers to the lease with lower value when a single leased asset is a new asset.

The Company does not recognize right-of-use assets and lease liabilities for short-term lease and low value lease. The payment of such leases shall be charged to profit or loss using straight-line method or other systematic method.

2) Refer to Note III. 22 and Note III. 29 for accounting policies for right-of-use assets and lease liabilities.

(4) Accounting treatment for the Company as a lessor

1) Classification of leases

The Company divides leases into financial leases and operating leases on the start date of the lease. Financial lease refers to a lease that essentially transfers almost all of the risks and rewards related to the ownership of leased assets. Its ownership may or may not be transferred eventually. Operating leases refer to leases other than financial leases.

If a lease has one or more of the following characteristics, the Company usually classifies it as a financial lease:

① At the expiry of the lease term, the ownership of the leased assets is transferred to the lessee.

② The lessee has the option to purchase the leased assets, and the purchase price set by the lessee is low enough compared with the expected fair value of the leased assets when exercising the option. Therefore, it can be reasonably determined on the lease start date that the lessee will exercise the option.

③ Although the ownership of the assets is not transferred, the lease term accounts for the majority of the life of the leased assets.

④ On the commencement date of the lease, the present value of the lease receipts is almost equal to the fair value of the leased assets.

⑤ The nature of leased assets is special. If there is no major transformation, only the lessee can use them.

If one or more of the following conditions exist in a lease, it may also be classified as a financial lease:

① If the lessee stops the lease, the lessee shall bear the losses caused by the termination of the lease to the lessor.

② The profits or losses caused by the fluctuation of the fair value of the balance of assets belong to the lessee.

③ The lessee can continue to lease far below the market level for the next period.

2) Accounting treatment for financial leases

On the commencement date of lease term, the Company recognizes the financial lease receivable on the financial leases and derecognizes the financial lease assets.

When the initial measurement of the financial lease receivable is made, the book value of the financial lease receivable is the sum of the unsecured balance and the present value of lease receipts that have not yet been received at the beginning of the lease term discounted at the interest rate implicit in the lease. The lease receipts include:

① Fixed payments and substantive fixed payments after deducting the relevant amount of lease incentives;

② Variable lease payments depending on an index or rate;

③ In the case of reasonably determining that the lessee will exercise the purchase option, the lease receipts include the exercise price of purchase option;

④ If the lease term reflects that the lessee will exercise the option to terminate the lease, the lease receipts include the amount to be paid by the lessee in exercising the option to terminate the lease:

⑤ Guarantee residual value provided to the lessor by the lessee, the party concerned with the lessee and an independent third party with financial capacity to fulfill the guarantee obligation.

The Company calculates and recognizes the interest income for each period of the lease term based on the fixed interest rate implicit in the lease, and the variable lease payments which are obtained and not included in the net rental investment amount are included in the profit or loss of the period when they actually occur.

3) Accounting treatment for operating leases

The Company adopts the straight line method or other systematic and reasonable method to recognize the lease receipts from operating leases as rental income during each period of the lease

term. Capitalization of the initial direct expenses incurred in connection with operating leases shall be apportioned on the same basis as the recognition of rental income during the lease term, and shall be recorded in the profit or loss of the current period. Variable lease payments obtained in connection with operating leases that are not incorporated in the lease receipts shall be incorporated in the profit or loss of the period when they actually occur.

36. Termination of business

The Company recognizes components as termination of business components if one of the following condition is met and that the component has already been disposed or classified as held-for-sale assets and identifiable.

(1) The component represents a stand along major business or a stand along major area in conducting business.

(2) The component is part of plan connecting to disposal of a stand along major business or major area of conducting business.

(3) The component is a subsidiary that obtained specifically for resale.

Operating profit or loss such as the impairment loss and the amount of reversal shall be presented in income statement as profit or loss from terminated business.

37. 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 earning 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.

38. Safety production fee

The safety production fee is accrued by the Company in accordance with national regulations and is included in the cost of related products or current profit or loss, and is also recorded in the "specific reserve" item. When using the safety production fee, if it is an expense expenditure, it shall be directly offset against the special reserve. If the fixed assets are formed, the expenses incurred through the collection of "construction in progress" will be recognized as fixed assets when the safety project is completed and reach the intended usable state; at the same time, the cost of forming fixed assets will be offset against the special reserve, and recognize the accumulated depreciation

of the same amount. The fixed assets will not be depreciated in the subsequent period.

39. Significant changes in accounting policies and estimates

(1) Changes in accounting policies

1) effect of adopting Interpretation of China Accounting Standards for Business Enterprises No. 15

The Company has adopted the regulations about “accounting for sales of products or by-products produced by fixed assets before intended use or during the R&D process” and “judgment on onerous contract” as stipulated the “Interpretation of China Accounting Standards for Business Enterprises No. 15” issued by the Ministry of Finance since January 1, 2022. Such change in accounting policies has no impact on the Company’s financial statements.

2) effect of adopting Interpretation of China Accounting Standards for Business Enterprises No. 16

The Company has adopted the regulations about “accounting for deferred tax related to assets and liabilities arising from a single transaction to which the initial recognition exemption does not apply” and “accounting for income tax consequences of dividends on a financial instrument classified by the issuer as an equity instrument” in the “Interpretation of China Accounting Standards for Business Enterprises No. 16” issued by the Ministry of Finance since 2022. Such change in accounting policies has no impact on the Company’s financial statements.

(2) Significant changes in accounting estimates

There was no significant changes in accounting estimates during the year.

IV. Taxes

1. Main types of taxes and corresponding tax rates

Tax type	Basis	Tax rate	note
VAT	Domestic sales, providing manufacturing and repairing services	13%	
	Property leasing	9%	
	Other taxable services	6%	
	Simplified method	5%	
Consumption tax	Luxury watches	20%	
Urban maintenance and construction tax	Turnover tax payable	7%、5%	
Corporate income tax	Taxable income	See below table	
Property tax	70% or 80% of the original cost of property or rental income	1.2%、12%	

Corporate income tax of different entities:

Name of entities	CIT rate
Shenzhen HARMONY World Watch Center Co., Ltd.(①)	25%
FIYTA Sales Co., Ltd.(①)	25%
Shenzhen FIYTA Precision Technology Co., Ltd.(②③)	15%
Shenzhen FIYTA Technology Development Co., Ltd.(②③)	15%
HARMONY World Watch Center(Hainan) Co., Ltd.(⑥)	20%
Shenzhen Xunhang Precision Technology Co., Ltd.	20%
Emile Choureit Timing (Shenzhen) Ltd.	25%
Liaoning Hengdarui Commercial & Trade Co., Ltd.	25%
EMPORAL (Shenzhen) Co., Ltd.	25%
Shenzhen Harmony E-commerce Co., Ltd.(⑥)	20%
FIYTA (Hong Kong) Ltd.(④)	16.5%
Montres Chouriet SA(⑤)	30%

Note ①: According to the regulations stated in “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”. 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 Further Perfection of the Pre-tax Super Deduction Ratio of Research and Development Expenses” (Cai Shui (2021) No. 13), if the research and development costs, which were incurred for developing new technologies, new products, and new processes by the Company, the Precision Technology Company and the Technology Company, are not capitalized as intangible assets but charged to current profit or loss, all of these entities can enjoy a 100% super deduction on top of the R&D expenses that allowed to deduct before income tax since 1 January 2022.

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

Note ⑥: These companies are small and low-profit enterprises, which enjoy 20% tax rate.

2. Preferential treatment and corresponding approval

According to “Proclamation of Ministry of Finance and State Administration of Taxation in Implementing Preferential Tax Rate to Small and Low Profit Enterprises and Sole-proprietors” (Caishui (2022) No.13) and “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 (2021) No.12), the portion of annual taxable income of small low-profit enterprise that is below RMB1,000,000.00 will be included in taxable income at 12.5% and to be taxed at a rate of 20%; and for annual taxable income that is greater than RMB1,000,000.00 but not exceeding RMB3,000,000.00, of which 25% will be included in taxable income and to be taxed at 20%.

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), starting from January 1, 2018., 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.

According to the "Notice of the Ministry of Finance, the State Administration of Taxation, and the Ministry of Science and Technology on Increasing Support for Pre-tax Deductions for Scientific and Technological Innovation" (Cai Shui [2022] No. 28), high-tech enterprises will purchase new products from October 1, 2022 to December 31, 2022. The equipment and utensils are allowed to be deducted in one lump sum when calculating taxable income, and 100% additional deduction is allowed before tax.

V. Notes to main items of the consolidated financial statements

(Unless otherwise indicated, the currency unit is Renminbi Yuan, the end of the period refers to December 31, 2022, the beginning of the period refers to January 1, 2022, and the end of the last period refers to December 31, 2021)

Note 1. Monetary funds

Item	Closing balance	Opening balance
Cash on hand	173,368.68	108,612.08
Cash at bank	312,433,893.29	188,908,798.10
Other monetary funds	1,140,201.67	21,237,326.96
Total	313,747,463.64	210,254,737.14
Including: Total overseas deposits	716,733.44	1,724,651.93
Including: deposit in finance company	271,327,031.83	147,786,041.19

Deposit in finance company mainly deposited with AVIC Finance Co., Ltd.

As of December 31, 2022, RMB 9,074.00 was frozen due to bank account that is being included

in as long-term immobile bank account.

Cash with restricted usage is as follows

Item	Closing balance	Opening balance
Overseas deposit with restrictions remitting back	716,733.44	1,724,651.93

Note 2. Bill receivable

1. Presented by category

Item	Closing balance	Opening balance
Bank acceptance bills	10,690,221.03	2,989,331.70
Commercial acceptance bills	21,524,691.07	58,268,814.10
Total	32,214,912.10	61,258,145.80

2. Presented by ECL types

Type	Closing balance				Book value
	Carrying amount		Provision		
	Amount	Percentage (%)	Amount	Percentage (%)	
Notes receivable that provided expected credit losses on single basis					
Notes receivable that provided expected credit losses on single basis	33,347,790.58	100.00	1,132,878.48	3.40	32,214,912.10
Including: Commercial acceptance bills	22,657,569.55	67.94	1,132,878.48	5.00	21,524,691.07
Risk-free Bank acceptance bills	10,690,221.03	32.06			10,690,221.03
Total	33,347,790.58	100.00	1,132,878.48	3.40	32,214,912.10

Continued:

Type	Opening balance				Book value
	Carrying amount		Provision		
	Amount	Percentage (%)	Amount	Percentage (%)	
Notes receivable that provided expected credit losses on single basis					
Notes receivable that provided expected credit losses on single basis	64,324,925.49	100.00	3,066,779.69	4.77	61,258,145.80
Including: Commercial acceptance bills	61,335,593.79	95.35	3,066,779.69	5.00	58,268,814.10
Risk-free Bank acceptance bills	2,989,331.70	4.65			2,989,331.70
Total	64,324,925.49	100.00	3,066,779.69	4.77	61,258,145.80

3. Notes receivable with expected credit loss provided based on credit risk characteristic portfolio

Portfolio	Closing balance		
	Carrying amount	Provision	Percentage (%)
Bank acceptance bills	22,657,569.55	1,132,878.48	5.00
Commercial acceptance bills	10,690,221.03		
Total	33,347,790.58	1,132,878.48	3.40

4. Bad debt movements in current period

Types	Opening balance	Movements				Closing balance
		Accrual	Received or reversal	Written-off	Other changes	
Notes receivable that provided expected credit losses on single basis						
Notes receivable that provided expected credit losses on single basis	3,066,779.69		1,933,901.21			1,132,878.48
Including: Commercial acceptance bills	3,066,779.69		1,933,901.21			1,132,878.48
Risk-free Bank acceptance bills						
Total	3,066,779.69		1,933,901.21			1,132,878.48

5. Bills have been endorsed but not yet due at the end of the period.

Item	Amount de-recognized	Amount not de-recognized
Bank acceptance bills	30,350,443.25	

Note 3. Accounts receivable

1. Presentation by aging

Aging	Closing balance	Opening balance
Within 1 year	311,934,503.90	411,327,173.23
1-2 years	14,972,671.61	4,211,418.24
2-3 years	2,781,542.85	7,582,641.50
Over 3 years	16,064,539.96	8,867,120.13
Subtotal	345,753,258.32	431,988,353.10
Less: provision for bad debt	40,462,298.64	43,102,751.82
Total	305,290,959.68	388,885,601.28

2. Presentation by method of providing bad debt

Category	Closing balance				Book value
	Carrying amount		Bad debt provision		
	Amount	Percentage (%)	Amount	ECL rate (%)	
Accounts receivable that provided expected credit losses on single basis	34,982,967.68	10.12	29,705,797.13	84.92	5,277,170.55
Accounts receivable that provided expected credit losses on portfolio basis	310,770,290.64	89.88	10,756,501.51	3.46	300,013,789.13
Including: Receivable from other customers	310,770,290.64	89.88	10,756,501.51	3.46	300,013,789.13
Total	345,753,258.32	100.00	40,462,298.64	11.70	305,290,959.68

Continued:

Category	Opening balance				Book value
	Carrying amount		Bad debt provision		
	Amount	Percentage (%)	Amount	ECL rate (%)	
Accounts receivable that provided expected credit losses on single basis	41,742,982.67	9.66	32,056,051.67	76.79	9,686,931.00
Accounts receivable that provided expected credit losses on portfolio basis	390,245,370.43	90.34	11,046,700.15	2.83	379,198,670.28
Including: Receivable from other customers	390,245,370.43	90.34	11,046,700.15	2.83	379,198,670.28
Total	431,988,353.10	100.00	43,102,751.82	9.98	388,885,601.28

3. Accounts receivable that provided expected credit losses on single basis included in the closing balance

Name	Closing balance			
	Carrying amount	Bad debt provision	ECL rate (%)	Reasons
Receivable from other customers	34,982,967.68	29,705,797.13	84.92	Chances of recovery is remote

4. In the portfolio, accounts receivable with expected credit loss provided based on credit risk characteristic portfolio

Portfolio of receivable from other customers

Aging	Closing balance		
	Carrying amount	Bad debt provision	ECL rate (%)
Within 1 year	309,196,675.71	9,547,976.11	3.09
1-2 years	251,098.70	25,109.87	10.00
2-3 years	244,533.54	105,432.84	43.12

Aging	Closing balance		
	Carrying amount	Bad debt provision	ECL rate (%)
Over 3 years	1,077,982.69	1,077,982.69	100.00
Total	310,770,290.64	10,756,501.51	3.46

5. Movements of provision during the period

Types	Opening balance	Movements during the period				Closing balance
		Accrual	Recovered or reversed	Written-off	Other movements	
Accounts receivable that provided expected credit losses on single basis	32,056,051.67	1,920,661.90	4,371,302.44		-100,386.00	29,705,797.13
Accounts receivable that provided expected credit losses on portfolio basis	11,046,700.15	395,343.70	700,099.94		-14,557.60	10,756,501.51
Including: Receivable from other customers	11,046,700.15	395,343.70	700,099.94		-14,557.60	10,756,501.51
Total	43,102,751.82	2,316,005.60	5,071,402.38		-114,943.60	40,462,298.64

Including: main recovery of bad debt provision in current period:

Name	Amount	Way of recovery	Note
Shanghai Pudong Suning e-buy Business Management Co., Ltd.	1,827,135.74	Bank transfer	
Hefei Swan Lake Suning Department Store Co., Ltd.	763,751.84	Bank transfer	

6. No actual write-off of accounts receivable during the current period

7. Top 5 receivable accounts

Name	Closing balance	Proportion in total closing balance of accounts receivable (%)	Bad debt provision
Top 5 receivables accounts in total	113,261,096.28	32.76	15,232,226.34

Note 4. Prepayments

1. Presentation of prepayments by aging

Aging	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	8,039,794.97	100.00	7,946,750.81	100.00

2. Top 5 prepayments

Name	Closing balance	Proportion in total closing balance of prepayments (%)
Top 5 prepayments in total	4,261,286.17	53.00

Note 5. Other receivable

1. Presentation of other receivables by aging

Aging	Closing balance	Opening balance
Within one year	59,711,314.91	64,697,975.58
1 - 2 years	216,120.00	655,341.52
2- 3 years	649,029.90	484,750.05
Over 3 years	606,105.00	135,480.00
Subtotal	61,182,569.81	65,973,547.15
Less: bad debt provision	4,264,550.33	4,420,279.33
Total	56,918,019.48	61,553,267.82

2. Presented by nature

Nature	Closing balance	Opening balance
Security deposit	49,430,408.24	55,467,644.12
Petty cash	2,841,915.70	2,556,673.37
Others	8,910,245.87	7,949,229.66
Subtotal	61,182,569.81	65,973,547.15
Less: bad debt provision	4,264,550.33	4,420,279.33
Total	56,918,019.48	61,553,267.82

3. Presented according to three stages of financial assets impairment

Item	Closing balance			Opening balance		
	Carrying amount	Bad debt provision	Book value	Carrying amount	Bad debt provision	Book value
First stage	59,703,389.91	2,850,206.43	56,853,183.48	64,508,342.25	3,055,122.43	61,453,219.82
Second stage						
Third stage	1,479,179.90	1,414,343.90	64,836.00	1,465,204.90	1,365,156.90	100,048.00
Total	61,182,569.81	4,264,550.33	56,918,019.48	65,973,547.15	4,420,279.33	61,553,267.82

4. Presented by bad debt provision method

category	Closing balance				Book value
	Carrying amount		Bad debt provision		
	Amount	Percentage (%)	Amount	ECL rate (%)	
Other receivables that provided expected credit losses on single basis	1,479,179.90	2.42	1,414,343.90	95.62	64,836.00
Other receivables that provided expected credit losses on portfolio basis	59,703,389.91	97.58	2,850,206.43	4.77	56,853,183.48
Including: Security deposit portfolio	48,600,258.24	79.43	2,476,810.04	5.10	46,123,448.20
Petty cash portfolio	2,841,915.70	4.64			2,841,915.70
Social security payment on-behalf portfolio	279,769.98	0.46			279,769.98
Portfolio of others	7,981,445.99	13.05	373,396.39	4.68	7,608,049.60
Total	61,182,569.81	100.00	4,264,550.33	6.97	56,918,019.48

Continued

Category	Opening balance				Book value
	Carrying amount		Bad debt provision		
	Amount	Percentage (%)	Amount	ECL rate (%)	
Other receivables that provided expected credit losses on single basis	1,465,204.90	2.22	1,365,156.90	93.17	100,048.00
Other receivables that provided expected credit losses on portfolio basis	64,508,342.25	97.78	3,055,122.43	4.74	61,453,219.82
Including: Security deposit portfolio	55,467,644.12	84.08	2,781,540.05	5.01	52,686,104.07
Petty cash portfolio	2,556,673.37	3.88			2,556,673.37
Social security payment on-behalf portfolio	483,396.42	0.73			483,396.42
Portfolio of others	6,000,628.34	9.09	273,582.38	4.56	5,727,045.96
Total	65,973,547.15	100.00	4,420,279.33	6.70	61,553,267.82

5. Other receivables that provided expected credit losses on single basis included in the closing balance

Name	Closing balance			
	Carrying amount	Bad debt provision	ECL rate (%)	Reason
Receivable from others	1,479,179.90	1,414,343.90	95.62	Chances of recovery is remote

6. In the portfolio, other receivables with expected credit loss provided based on credit risk characteristic portfolio

(1) Security deposit portfolio

Aging	Closing balance		
	Carrying amount	Bad debt provision	ECL rate (%)
Within 1 year	48,560,208.24	2,436,760.04	5.02
1 - 2 years			
2- 3 years			
Over 3 years	40,050.00	40,050.00	100.00
Total	48,600,258.24	2,476,810.04	5.10

(2) Petty cash portfolio

Aging	Closing balance		
	Carrying amount	Bad debt provision	ECL rate (%)
Within 1 year	2,841,915.70		

(3) Social security payment on-behalf portfolio

Aging	Closing balance		
	Carrying amount	Bad debt provision	ECL rate (%)
Within 1 year	279,769.98		

(4) Portfolio of others

Aging	Closing balance		
	Carrying amount	Bad debt provision	ECL rate (%)
Within 1 year	7,981,445.99	373,396.39	4.68

7. Provision for bad debts of other receivables

Bad debt provision	First stage	Second stage	Third stage	Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses (no credit impairment occurred)	Lifetime expected credit losses (credit impairment occurred)	
Opening balance	3,055,122.43		1,365,156.90	4,420,279.33
Opening balance movements in current period	—	—	—	—
—Transfer into the second stage				
—Transfer into the third stage	-2,398.75		2,398.75	
—Reverse back to the second stage				
—Reverse back to the first stage				
Accrual during the period	86,177.11		65,388.25	151,565.36
Reversed during the period	289,046.82		18,600.00	307,646.82

Bad debt provision	First stage	Second stage	Third stage	Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses (no credit impairment occurred)	Lifetime expected credit losses (credit impairment occurred)	
Recovered during the period				
Written-off during the period				
Other movements	352.46			352.46
Closing balance	2,850,206.43		1,414,343.90	4,264,550.33

8. No other receivables were written-off during the period.

9. Top 5 other receivable accounts

Name	Closing balance	Proportion to closing balance of other receivables (%)	Closing balance of bad debts provision
Top 5 other receivables in total	21,733,290.84	35.52	1,086,664.54

Note 6. Inventory

1. Classification

Item	Closing balance			Opening balance		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Raw material	162,338,704.65	17,241,512.65	145,097,192.00	181,764,220.90	17,693,135.85	164,071,085.05
WIP	7,204,699.11		7,204,699.11	20,682,530.58		20,682,530.58
Stored goods	2,085,640,712.37	96,622,229.81	1,989,018,482.56	1,960,110,199.48	94,715,064.22	1,865,395,135.26
Total	2,255,184,116.13	113,863,742.46	2,141,320,373.67	2,162,556,950.96	112,408,200.07	2,050,148,750.89

2. Provision for inventory

Item	Opening balance	Increase in current period		Decrease in current period			Closing balance
		Accrual	Other	Reversed	Realized	Others	
Raw material	17,693,135.85	164,122.95		1,621,613.03	154,260.44	-1,160,127.32	17,241,512.65
Stored goods	94,715,064.22	39,082,973.04			37,296,014.80	-120,207.35	96,622,229.81
Total	112,408,200.07	39,247,095.99		1,621,613.03	37,450,275.24	-1,280,334.67	113,863,742.46

Notes to provision for inventory

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	Factors that caused impairment has been disappeared and the NAV is higher than its carrying amount
Stored goods	Estimated selling price less estimated selling and distributing expenses and associated taxes	Inventory that already provided for was sold or used in current period.

Note 7. Other current assets

Item	Closing balance	Opening balance
Input VAT	12,967,188.47	20,468,630.65
Input VAT not yet certified	39,454,283.19	41,895,970.19
Prepaid corporate income tax	3,419,026.38	2,459,142.75
Others	10,499,007.28	7,874,949.13
Total	66,339,505.32	72,698,692.72

Note 8. Long-term equity investment

Investee	Opening balance	Movements during the period			
		Addition/new investment	Withdrawn	Investment gains and losses recognized by equity method	Adjustment of other comprehensive income
Associate					
Shanghai Watch Co., Ltd. (Shanghai Watch)	55,155,605.31			3,026,481.59	

Continued

Investee	Movements during the period				Closing balance	Closing balance of impairment provision
	Changes in other equity	Cash dividend declared	Impairment provision	Others		
Associate						
Shanghai Watch					58,182,086.90	

Note 9. Other equity instrument investments

Item	Closing balance	Opening balance
Xi'an Tangcheng Limited	85,000.00	85,000.00

Note 10. Investment property

1. Details of investment property

Item	Property
I. Original cost	

Item	Property
1. Opening balance	610,886,415.67
2. Addition	8,876,202.69
Purchase	
Transferred from fixed assets	8,876,202.69
Other reasons	
3. Decrease	
Disposal	
Other reasons	
4. Closing balance	619,762,618.36
II. Accumulated depreciation	
1. Opening balance	227,460,499.32
2. Increased in current period	17,322,624.33
Accrual	15,436,537.44
Transferred from fixed assets	1,886,086.89
Other reasons	
3. Decreased in current period	
Disposal	
Other reasons	
4. Closing balance	244,783,123.65
III. Impairment provision	
1. Opening balance	
2. Increased in current period	
Accrual	
Transferred from fixed assets	
Other reasons	
3. Decreased in current period	
Disposal	
Other reasons	
4. Closing balance	
IV. Book value	
1. Carrying amount at end of the period	374,979,494.71
2. Carrying amount at opening of the period	383,425,916.35

2. Notes to investment property

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

Note 11. Fixed assets

1. Status of fixed assets

Item	Property and buildings	Machinery	Transportation vehicles	Electronic devices	Other equipment	Total
I. Original cost						
1. Opening balance	408,187,709.06	107,468,100.86	14,780,510.38	46,317,448.53	46,887,269.94	623,641,038.77
2. Increased in current period	37,009,440.83	10,535,309.18		2,901,332.68	1,468,735.41	51,914,818.10
Re-classification						
Purchased	33,325,717.80	8,934,592.37		2,808,299.86	1,163,182.48	46,231,792.51
Translation difference	3,683,723.03	1,600,716.81		93,032.82	305,552.93	5,683,025.59
Other increase						
3. Decrease in current period	8,876,202.69	450,600.66	308,000.00	1,618,430.56	2,897,202.38	14,150,436.29
Disposal or retired		450,600.66	308,000.00	1,618,430.56	2,897,202.38	5,274,233.60
Transferred to investment property	8,876,202.69					8,876,202.69
Translation difference						
Other decrease						
4. Closing balance	436,320,947.20	117,552,809.38	14,472,510.38	47,600,350.65	45,458,802.97	661,405,420.58
II. Accumulated depreciation						
1. Opening balance	122,149,565.18	63,039,735.12	12,847,470.81	35,896,505.66	40,212,445.35	274,145,722.12
2. Increased in current period	15,125,262.69	8,788,140.30	346,250.08	2,666,771.95	2,025,385.02	28,951,810.04
Re-classification						
Accrual	12,857,763.74	7,479,521.06	346,250.08	2,620,234.71	1,784,335.34	25,088,104.93
Translation difference	2,267,498.95	1,308,619.24		46,537.24	241,049.68	3,863,705.11
Other increase						
3. Decrease in current period	1,886,086.89	361,550.68	292,600.00	1,396,127.01	2,384,512.17	6,320,876.75
Disposal or retired		361,550.68	292,600.00	1,396,127.01	2,384,512.17	4,434,789.86
Transferred to investment property	1,886,086.89					1,886,086.89
Translation difference						
Other decrease						
4. Closing balance	135,388,740.98	71,466,324.74	12,901,120.89	37,167,150.60	39,853,318.20	296,776,655.41
III. Impairment provision						
1. Opening balance						

Item	Property and buildings	Machinery	Transportation vehicles	Electronic devices	Other equipment	Total
2. Increase in current period						
Re-classification						
Accrual						
Translation difference						
Other increase						
3. Decrease in current period						
Disposal or retired						
Transferred into investment property						
Translation difference						
Other decrease						
4. Closing balance						
IV. Book value						
1. Carrying amount at end of period	300,932,206.22	46,086,484.64	1,571,389.49	10,433,200.05	5,605,484.77	364,628,765.17
2. Carrying amount at beginning of period	286,038,143.88	44,428,365.74	1,933,039.57	10,420,942.87	6,674,824.59	349,495,316.65

2. Fixed assets that do not have certificate for property right

Item	Book value	Reason for not having certificate for property rights
Property	206,821.17	Issues relating to property right
Property	33,318,636.37	Not yet completed

Note 12. Right-of-use assets

Item	Property
I. Original cost	
1. Opening balance	313,578,633.64
2. Increase in current period	84,622,611.32
Re-classification	
Lease	84,599,774.43
Translation difference	22,836.89
Other increase	
3. Decrease in current period	35,784,166.11
Maturity of lease term	6,898,304.78

Item	Property
Translation difference	
Other decrease	28,885,861.33
4. Closing balance	362,417,078.85
II. Accumulated depreciation	
1. Opening balance	165,646,158.22
2. Increase in the period	110,667,667.15
Reclassification	
Accrual	110,464,700.15
Translation difference	202,967.00
Other increase	
3. Decrease in the period	24,227,258.55
Maturity of lease term	6,898,304.78
Translation difference	
Other decrease	17,328,953.77
4. Closing balance	252,086,566.82
III. Impairment provision	
1. Opening balance	
2. Increase in the period	
Reclassification	
Accrual	
Translation difference	
Other increase	
3. Decrease in the period	
Maturity of lease term	
Translation difference	
Other decrease	
4. Closing balance	
IV. Book value	
1. Carrying amount at end of period	110,330,512.03
2. Carrying amount at beginning of period	147,932,475.42

Note 13. Intangible asset

1. Status

Item	Land-use right	Software system	Right to use trademarks	Total
I. Original cost				
1. Opening balance	34,933,822.40	30,286,420.21	15,255,625.58	80,475,868.19

Item	Land-use right	Software system	Right to use trademarks	Total
2. Increase in the period		2,911,272.30	1,262,964.71	4,174,237.01
Purchase		2,911,272.30	1,262,964.71	4,174,237.01
Internal R&D				
Other source				
3. Decrease in the period				
Disposal				
Other reasons				
4. Closing balance	34,933,822.40	33,197,692.51	16,518,590.29	84,650,105.20
II. Accumulated amortization				
1. Opening balance	15,782,368.73	22,778,471.88	7,879,697.15	46,440,537.76
2. Increase in the period	733,553.28	3,125,436.27	1,150,359.26	5,009,348.81
Accrual	733,553.28	3,125,436.27	1,150,359.26	5,009,348.81
Other reasons				
3. Decrease in the period				
Disposal				
Other reasons				
4. Closing balance	16,515,922.01	25,903,908.15	9,030,056.41	51,449,886.57
III. Impairment provision				
1. Opening balance				
2. Increase in the period				
Accrual				
Other reasons				
3. Decrease in the period				
Transfer				
Other reasons				
Other transfer				
4. Closing balance				
IV. Book value				
1. Book value at end of the period	18,417,900.39	7,293,784.36	7,488,533.88	33,200,218.63
2. Book value at beginning of the period	19,151,453.67	7,507,948.33	7,375,928.43	34,035,330.43

Note 14. Long-term deferred expenses

Item	Opening balance	Increase	Amortized	Other decrease	Closing balance
Counter fabrication expenses	28,563,171.72	30,477,977.80	36,794,079.35		22,247,070.17
Renovation expenses	120,695,905.90	60,604,305.97	65,269,888.26		116,030,323.61
Others	14,531,255.82	50,849.06	8,371,046.48		6,211,058.40
Total	163,790,333.44	91,133,132.83	110,435,014.09		144,488,452.18

Note 15. Deferred tax assets and deferred tax liabilities

1. Detail of deferred tax assets before offsetting

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Impairment provision	143,503,292.94	30,225,885.07	148,079,831.14	31,562,627.52
Unrealized profit for related party transactions	75,781,866.09	18,681,772.44	96,716,186.61	24,021,244.01
Deductible losses	157,860,317.75	37,779,977.71	62,781,216.23	15,188,881.56
Restricted shares	23,141,270.85	5,411,762.47	17,502,152.62	4,121,326.77
Advertisement expenses that allowed to deduct in future years	515,068.99	128,767.25	11,503,471.12	2,219,622.49
Lease liabilities	113,136,916.00	28,284,229.00	147,888,578.26	36,972,144.57
Others	7,295,926.80	1,823,981.80	9,993,278.10	2,498,319.53
Total	521,234,659.42	122,336,375.74	494,464,714.08	116,584,166.45

2. Detail of deferred tax liabilities before offsetting

Item	Closing balance		Opening balance	
	taxable temporary difference	Deferred tax liabilities	Taxable temporary difference	Deferred tax liabilities
One-off deduction of fixed asset before Corporate income tax	29,872,344.91	4,480,851.74	24,113,302.98	3,616,995.45
Right-of-use asset	110,279,028.02	27,569,757.01	147,881,641.51	36,970,410.38
Total	140,151,372.93	32,050,608.75	171,994,944.49	40,587,405.83

3. Net-off of deferred tax asset or liabilities

Item	Amount off-set at current period	Closing balance of deferred tax asset or liability after off-set	Amount off-set at prior period	Opening balance of deferred tax asset or liability after off-set
deferred tax asset	26,551,763.80	95,784,611.94	35,350,891.80	81,233,274.65
deferred tax liabilities	26,551,763.80	5,498,844.95	35,350,891.80	5,236,514.03

4. Details of deductible temporary difference and deductible losses that does not recognize as deferred income tax asset

Item	Closing balance	Opening balance
Impairment provision	16,220,176.97	15,218,179.77
Deductible losses	50,761,915.00	54,139,145.45
Total	66,982,091.97	69,357,325.22

Deductible losses of Montres Chouriet SA, which are sub-subsubsidiary 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. FIYTA (Hong Kong) Ltd, a subsidiary of the Company, does not need to recognize the deferred income tax assets for impairment provision according to the local tax policy.

5. Deductible losses that are not recognized as deferred tax asset will due in the following years:

Year	Closing balance	Opening balance	Note
2022			
2023		149,750.18	
2024	8,456,818.95	11,684,299.22	
2025	18,449,678.50	18,449,678.50	
2026	23,855,417.55	23,855,417.55	
Total	50,761,915.00	54,139,145.45	

Note 16. Other non-current assets

Item	Closing balance			Opening balance		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Prepayment for construction and equipment	11,593,741.57		11,593,741.57	42,680,753.78		42,680,753.78

Note 17. Short-term loan

Item	Closing balance	Opening balance
Guaranteed loans		15,737,928.76
Credit loans	290,000,000.00	250,000,000.00
Accrued interest payable	237,111.11	256,666.67
Total	290,237,111.11	265,994,595.43

Note 18. Notes payable

Types	Closing balance	Opening balance
Commercial bills payable	2,000,600.00	21,223.10

Note 19. Account payables

Item	Closing balance	Opening balance
Trade payables	149,811,781.06	232,841,934.81
Payables for material purchased	19,729,474.20	20,513,993.11
Payables for project	1,048,201.41	1,232,967.42
Total	170,589,456.67	254,588,895.34

Note 20. Advances from customer

Item	Closing balance	Opening balance
Rental received in advance	16,960,128.83	11,025,664.72

Note 21. Contract liabilities

Item	Closing balance	Opening balance
Advances for goods received	16,844,437.47	22,505,426.65

Note 22. Employee remuneration payable

1. Status

Item	Opening balance	Increase	Decrease	Closing balance
Short-term employee benefits	134,696,286.49	589,665,061.23	601,971,744.25	122,389,603.47
Post-employment benefits - defined contribution plans	9,463,874.19	47,055,374.87	47,236,557.06	9,282,692.00
Termination benefits	1,775,989.38	12,171,724.72	9,032,070.19	4,915,643.91
Total	145,936,150.06	648,892,160.82	658,240,371.50	136,587,939.38

2. Short-term employee benefits

Item	Opening balance	Increase	Decrease	Closing balance
Salaries, bonus, allowances	133,818,692.76	527,003,225.07	539,652,871.30	121,169,046.53
Staff welfare	708.80	10,278,373.02	10,268,438.54	10,643.28
Social insurances	20,620.66	24,553,180.40	24,169,772.77	404,028.29
Including: 1. Medical insurance	20,620.66	22,974,776.23	22,591,368.60	404,028.29
2. Supplementary medical insurance		20,383.00	20,383.00	
3. Work-related injury insurance		847,053.99	847,053.99	
4. Maternity insurance		710,967.18	710,967.18	
Housing Fund	27,104.00	20,489,164.92	20,347,147.92	169,121.00
Labor union fees and education fee	829,160.27	7,341,117.82	7,533,513.72	636,764.37
Total	134,696,286.49	589,665,061.23	601,971,744.25	122,389,603.47

3. Defined contribution plans

Item	Opening balance	Increase	Decrease	Closing balance
Basic pension insurance	226,815.55	43,565,311.09	43,501,344.69	290,781.95

Unemployment insurance		1,225,920.84	1,225,339.16	581.68
Annuity	9,237,058.64	2,264,142.94	2,509,873.21	8,991,328.37
Total	9,463,874.19	47,055,374.87	47,236,557.06	9,282,692.00

Note 23. Taxes payable

Item	Closing balance	Opening balance
VAT	39,086,878.23	46,711,341.16
Corporate income tax	16,751,872.66	15,663,227.68
Individual income tax	1,070,872.15	1,568,912.16
Urban maintenance and construction tax	1,353,097.21	1,624,353.62
Educational surcharges	966,809.02	1,161,292.58
Others	1,540,639.03	1,040,752.81
Total	60,770,168.30	67,769,880.01

Note 24. Other payables

Item	Closing balance	Opening balance
Dividends payable	6,324,013.97	5,015,026.30
Other payables	158,736,108.61	162,793,733.65
Total	165,060,122.58	167,808,759.95

Note: Other payables in above table refers to other payables excluding interest payable and dividends payable.

1. Dividends payable

Item	Closing balance	Opening balance	Reasons for not being paid
Dividends for ordinary shares	6,324,013.97	5,015,026.30	unlock

2. Other payables

(1) Other payables by nature

Nature	Closing balance	Opening balance
Security deposit	38,319,837.05	33,536,237.44
Shop activity fund	16,105,216.84	19,208,694.86
Decoration expenses	12,827,532.03	10,201,524.91
Repurchase liability for restricted shares	50,759,806.16	60,585,678.92
Other	40,723,716.53	39,261,597.52
Total	158,736,108.61	162,793,733.65

(2) Material other receivables with aging over 1 year

Name	Closing balance	Reasons for not being paid
Company A	4,600,000.00	Undue
Company B	1,676,337.60	Undue
Company C	1,442,275.27	Undue
Company D	1,332,652.89	Undue
Total	9,051,265.76	

Note 25. Non-current liabilities due within one year

Item	Closing balance	Opening balance
Long-term loan due within one year		3,924,900.00
Lease liabilities due in one year	71,546,316.16	83,025,006.35
Total	71,546,316.16	86,949,906.35

Note 26. Other current liabilities

Item	Closing balance	Opening balance
Output VAT not yet realized	1,686,806.01	2,798,738.32

Note 27. Long-term loan

Category	Closing balance	Opening balance
Mortgage loans		3,924,900.00
Less: Long-term loan due within one year		3,924,900.00
Total		

Note 28. Lease liabilities

Item	Closing balance	Opening balance
Buildings and Structures	113,188,877.74	147,943,728.45
Less: lease liabilities due in one year	71,546,316.16	83,025,006.35
Total	41,642,561.58	64,918,722.10

Interest expenses for lease liabilities recognized in current period was RMB7,115,049.25.

Note 29. Deferred income

Item	Opening balance	Increase	Decrease	Closing balance	Reason
Asset related government subsidy	1,792,833.90		496,907.10	1,295,926.80	See below table 1

1. Deferred income related to government subsidy

Item	Opening balance	Addition	Include in non-operating income in current period	Include in other gains in current period	Offsetting expense or cost	Closing balance	Related to asset /income
Special fund for Shenzhen industrial design industry development	390,123.15			75,583.79		314,539.36	Asset related
Funding project for construction of National Enterprise Technology Center	631,980.39			293,147.06		338,833.33	Asset related
Provincial Specialized Fund for Industrial and Information	770,730.36			128,176.25		642,554.11	Asset related
Total	1,792,833.90			496,907.10		1,295,926.80	

Note 30. Share capital

Item	Opening balance	Movements: increase(+), decrease(-)					Closing balance
		Newly issued	Bonus share	Capitalization of capital reserves	Others	Subtotal	
Total shares	426,051,015				-8,423,055	-8,423,055	417,627,960

Notes to movements:

1. Pursuant to the resolution of “Proposal of repurchase and de-registration part of restricted shares authorized under 2018 A-share Restricted Share Incentive Plan (First Phase)”, and the resolution of “Proposal of repurchase and de-registration part of restricted shares authorized under 2018 A-share Restricted Share Incentive Plan (Second Phase)”, the Company repurchased and de-registered, in 2022, 435,838 A-share restricted shares that had been authorized but still under restriction period. Those shares were owned by 6 former incentive object that are resigned.

2. Pursuant to “The Resolution of Plan of Re-purchase B Shares” which was approved on the 2nd meeting of the 10th Board of Directors and the 5th extraordinary shareholder’s meeting of 2021, the Company was authorized to repurchase B Shares, using the Company’s fund, to reduce the registered capital. On 15 December 2022, confirmed by China Securities Depository and Clearing Co., Ltd Shenzhen Branch, the Company de-registered 7,987,217 B-shares.

Note 31. Capital reserve

Item	Item	Opening balance	Increase	Decrease
Share premium	1,010,108,533.81	4,231,031.40	44,673,836.85	969,665,728.36
Other capital reserve	30,799,660.32	10,852,286.20	4,231,031.40	37,420,915.12
Total	1,040,908,194.13	15,083,317.60	48,904,868.25	1,007,086,643.48

Notes to capital reserve

1. Pursuant to the resolution of “Proposal of granting part of restricted shares authorized under 2018 A-share Restricted Share Incentive Plan (First Phase)”, and the resolution of “Proposal of granting part of restricted shares authorized under 2018 A-share Restricted Share Incentive Plan (Second Phase)”. In 2022, the Company charged RMB9,870,150.33 into cost or expenses in change of incentive personnel’s service and increased the capital reserve by the same amount accordingly.

2. Pursuant to “The Resolution of Plan of Re-purchase B Shares” which was approved on the 2nd meeting of the 10th Board of Directors on 25th October 2021 and the 5th extraordinary shareholder’s meeting of 2021 on 30th November 2021, the Company was authorized to repurchase B Shares, using the Company’s fund, to reduce the registered capital. On 15th December 2022, confirmed by China Securities Depository and Clearing Co., Ltd Shenzhen Branch, the Company de-registered 7,987,217 B-shares, which in turn decreased the capital reserve by RMB42,265,614.88

3. Pursuant to “The Resolution of Plan of Re-purchase B Shares” which was approved on the 2nd meeting of the 10th Board of Directors and the 5th extraordinary shareholder’s meeting of 2021, the Company incurred transaction cost of RMB15,043.17 for the repurchase in 2022. The expenses of RMB15,043.17 was deducted from capital reserve.

4. Pursuant to the resolution of “Proposal of repurchase and de-registration part of restricted shares authorized under 2018 A-share Restricted Share Incentive Plan (First Phase)”, and the resolution of “Proposal of repurchase and de-registration part of restricted shares authorized under 2018 A-share Restricted Share Incentive Plan (Second Phase)”, the Company repurchased and de-registered, in 2022, 435,838 A-share restricted shares that had been authorized but still under restriction period. Those shares were owned by 6 former incentive object that are resigned. Capital reserve of RMB2,393,178.80 was deducted accordingly.

5. Differences, caused by fair value different when unlock the restricted shares, between CIT deducted amount and cost or expenses recognized in vesting period increased the capital reserve by RMB982,135.87.

Note 32. Treasury shares

Item	Opening balance	Increase	Decrease	Closing balance
Share repurchase		50,252,831.88	50,252,831.88	

Item	Opening balance	Increase	Decrease	Closing balance
Share based payment	60,585,678.92		9,825,872.76	50,759,806.16
Total	60,585,678.92	50,252,831.88	60,078,704.64	50,759,806.16

Notes to treasury shares:

1. In 2022, the Company re-purchased B-share of 7,987,217 shares through the Shenzhen Stock Exchange. Consideration paid was HKD61,438,781.55 (excluding trading fee) , equivalent to RMB50,252,831.88. The treasury share increased by 50,252,831.88.

2. As described in Note V. 31. 2, the treasury shares decreased by RMB50,252,831.88 due to re-purchase of B-share.

3. As described in Note V. 31. 4, the treasury shares decreased by RMB2,829,016.80 due to re-purchase of restricted shares. And cash dividend to the remaining restricted shares decreased treasury shares by RMB2,528,447.40.

4. On 28 December 2021, Pursuant to the “Resolution of Fulfilling Unlocking Condition for the 2018 A-Share Restricted Share Incentive Plan (First Phase) ” passed on the 4th meeting of the 10th Board, the first unlocking condition was met. Based on the authorization of the General Meeting, the Board lifted restriction for 114 incentive individuals. The corresponding shares can be traded on 7th February 2022, of which the cash dividend decreased treasury shares by RMB4,468,408.56.

Note 33. Other Comprehensive income

Item	Opening balance	Amount in current period								Closing balance			
		Pre-tax amount	Less: recorded in OCI in prior period and transferred to profit or loss in current period	Less: recorded in OCI in prior period and transferred to financial assets at amortized cost	Less: reserve of hedging transferred to related assets or liabilities	Less: CIT	Attribute to parent company after tax	Attribute to non-controlling shareholders after tax	Less: movements of defined benefit plan		Less: recorded in OCI in prior period and transferred to retained earnings in current period		
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													
translation difference	-7,658,346.40	13,397,936.29							13,397,936.29				5,739,589.89

Note 34. Specific reserve

Item	Opening balance	Increase	Decrease	Closing balance
Safety production fee	1,062,731.13	1,246,390.69	297,056.91	2,012,064.91

Note 35. Surplus reserve

Item	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	213,025,507.50			213,025,507.50
Discretionary surplus reserve	61,984,894.00			61,984,894.00
Total	275,010,401.50			275,010,401.50

Notes to surplus reserve:

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.

Note 36. Undistributed profit

Item	Current period	Prior period
Undistributed profit at the end of prior year before adjustments	1,338,444,326.09	1,164,490,911.51
Adjustments to undistributed profit at the beginning of year ("+" for increase and "-" for decrease)		-11,188,268.01
Undistributed profit at the beginning of year after adjustment	1,338,444,326.09	1,153,302,643.50
Plus: Net profit attributable to the owner of the parent company for the year	266,681,451.84	387,840,282.95
Less: statutory surplus reserve drawn		28,478,534.63
Dividends payable to ordinary shares	125,419,139.40	174,220,065.73
Undistributed profit at the end of year	1,479,706,638.53	1,338,444,326.09

Note 37. Operating income and operating cost

1. Operating income and operating cost

Item	Amount in current period		Amount in prior period	
	Revenue	Cost	Revenue	Cost
Main business	4,336,586,473.74	2,738,100,529.23	5,224,836,384.30	3,283,434,432.96
Other business	17,510,406.62	872,261.88	18,897,156.63	2,221,796.17

2. Revenue generated by contract

Types of contract	Amount in current period	Amount in prior period
I. Types of goods		
Watch business	4,044,205,847.75	4,923,280,724.48
Precision manufacturing	163,114,009.23	150,094,350.20
Other business	17,510,406.62	18,897,156.63
II. Categorized based on timing of goods transfer		
At a point of time	4,212,548,175.21	5,078,899,659.72
During a period of time	12,282,088.39	13,372,571.59

Note: revenue generated by contract does not include lease income of RMB129,266,616.76 which is regulated under “CAS No.21 – Lease”.

Note 38. Tax and surcharges

Item	Amount in current period	Amount in prior period
Consumption tax	10,509,059.81	13,898,225.16
Urban maintenance and construction tax	4,483,205.18	5,907,693.68
Educational surcharge	2,988,250.62	3,923,712.57
Property tax	5,824,577.36	7,224,965.66
Stamp duty	3,814,124.17	4,156,804.98
Others	3,180,982.59	2,452,184.75
Total	30,800,199.73	37,563,586.80

Note 39. Selling and distribution expenses

Item	Amount in current period	Amount in prior period
Salary	390,723,066.47	433,505,654.18
Department store expense and rental	154,977,256.13	189,748,898.49
Market promotion expenses	114,559,488.13	161,389,740.20
Depreciation and amortization	210,324,656.21	191,787,912.35
Packaging expenses	8,210,424.75	8,739,319.16
Utilities and property management expenses	22,115,070.79	22,588,777.26
Shipping fees	5,928,120.89	8,530,775.41
Office expenses	5,617,713.76	7,446,024.76
Travel expenses	4,533,814.79	7,279,500.39
Entertainment expenses	3,081,324.66	4,046,655.86
Others	11,761,893.82	14,834,965.22

Item	Amount in current period	Amount in prior period
Total	931,832,830.40	1,049,898,223.28

Note 40. Administrative expenses

Item	Amount in current period	Amount in prior period
Salary	169,831,180.19	202,675,218.51
Depreciation and amortization	23,584,581.61	24,544,056.69
Travel expenses	1,651,207.39	3,980,000.38
Office expenses	3,967,189.58	5,390,287.09
Agents fees	1,764,355.96	3,342,562.00
Rental and utilities	941,300.03	852,555.31
Entertainment expenses	764,414.05	1,494,588.12
Vehicle and transportation expenses	1,528,304.66	1,718,083.11
Telecommunication expenses	825,712.63	983,910.06
Others	14,156,262.42	16,645,501.14
Total	219,014,508.52	261,626,762.41

Note 41. R&D expenses

Item	Amount in current period	Amount in prior period
Salary	47,534,889.46	40,498,469.51
Sample and material expenses	1,964,204.63	1,557,455.43
Molding expenses	853,056.11	744,578.81
Depreciation and amortization	4,852,325.18	6,048,741.96
Technical cooperation fee	217,203.80	2,480,127.69
Others	5,666,906.43	6,473,195.77
Total	61,088,585.61	57,802,569.17

Note 42. Financial expenses

Item	Amount in current period	Amount in prior period
Interest expenses	16,846,749.14	23,159,963.74
Less: Interest income	3,923,999.48	3,589,649.85
Exchange gain or losses	-3,053,760.78	634,406.96
Bank charges	11,319,753.23	14,472,352.80
Total	21,188,742.11	34,677,073.65

Note 43. Other income

1. Details

Sources of other income	Amount in current period	Amount in prior period
Government subsidy	18,648,210.06	21,328,673.21

2. Government subsidy included in other income

Item	Amount in current period	Amount in prior period	Asset or income related
Subsidy to promote consumption	7,920,500.00	420,000.00	Income related
Trade and Distribution Industry Funding Projects	2,579,700.00		Income related
Quality and Branding Promotion Multiplication Subsidy	1,180,000.00	1,960,000.00	Income related
Relief Policy Subsidy	1,058,150.00		Income related
Shenzhen Special Fund for Technology Research	1,000,000.00		Income related
Training subsidy	953,220.00	322,500.00	Income related
Subsidy for stabilizing job position	819,833.38	833,013.44	Income related
Subsidy to Foster High and New Technology Enterprise	700,000.00		Income related
Commission on IIT payment	730,811.84	502,644.31	Income related
Other subsidies	624,893.74	711,026.01	Income related
Shenzhen Standard Special Fund	550,694.00	836,705.00	Income related
Shenzhen E-commerce Innovation and Development Support Program Subsidy	330,000.00		Income related
Professional, Specialize, Unique and New" SME Development Subsidy	200,000.00		Income related
State certified R&D center	293,147.06	293,147.06	Asset related
Provincial industry and information special subsidy	128,176.25	130,551.50	Asset related
Special fund for Shenzhen industrial designing	75,583.79	161,185.89	Asset related
2019 Headquarters Economic Contribution Award	-496,500.00		Income related
Special fund of Nanshan district to support self-innovation industry development		4,913,900.00	Income related
Subsidy to assist high quality development of fashion industry		3,730,000.00	Income related
Subsidy to support sales promotion		3,500,000.00	Income related
Economic development special fund of Guangming District to support intellectual property right, standardization certification project		1,090,000.00	Income related
Corporate Research and Development Funding		756,000.00	Income related
Shenzhen post-doctoral subsidy		550,000.00	Income related
R&D project subsidy		378,000.00	Income related
Guangming District specific subsidy for online market expanding		200,000.00	Income related
Government subsidy for R&D project		200,000.00	Income related
High precision watch technology innovation project		-160,000.00	Income related
Total	18,648,210.06	21,328,673.21	

Note 44. Investment gain

Item	Amount in current period	Amount in prior period
Gain from long-term equity investments accounted for using equity method	3,026,481.59	3,754,939.39

Note 45. Credit impairment loss

Item	Amount in current period	Amount in prior period
Bad debt loss	4,845,379.45	-11,075,001.77

Note 46. Asset impairment loss

Item	Amount in current period	Amount in prior period
Inventory decline in value	-37,625,482.96	-25,861,394.56

Note 47. Gains from assets disposal

Item	Amount in current period	Amount in prior period
Gains (losses) from assets disposal	-203,932.45	-134,543.49
Gains (losses) from right-of-use assets disposal	295,857.51	864,678.36
Total	91,925.06	730,134.87

Note 48. Non-operating income

Item	Amount in current period	Amount in prior period	Amount included in non-recurring gains or losses in current period
Payables cannot be paid	305,066.79	383,893.25	305,066.79
Compensation	860,904.01	113,138.61	860,904.01
Others	121,231.28	130,403.17	121,231.28
Total	1,287,202.08	627,435.03	1,287,202.08

Note 49. Non-operating expense

Item	Amount in current period	Amount in prior period	Amount included in non-recurring gains or losses in current period
Donation	78,860.00	300,000.00	78,860.00
Fine and penalty for late payment	403,084.07	698,864.04	403,084.07
Payment for breach of agreement	1,412,548.66	2,507,649.06	1,412,548.66
Others	456,773.58	179,653.45	456,773.58
Total	2,351,266.31	3,686,166.55	2,351,266.31

Note 50. CIT expenses

1. Details

Item	Amount in current period	Amount in prior period
Current tax expense for the year based on tax law and regulations	86,356,685.06	112,084,704.70

Item	Amount in current period	Amount in prior period
Changes in deferred tax assets/liabilities	-13,916,465.05	2,382,671.18
Total	72,440,220.01	114,467,375.88

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

Item	Amount in current period
Profits before tax	339,121,671.85
Income tax calculated based on statutory tax rate	84,780,417.96
Effect of different tax rates applied by subsidiaries	-6,456,358.40
Adjustment to income tax of previous years	-1,354,677.99
Effect of non-taxable income	-756,620.39
Effect of non-deductible costs, expenses and losses	2,294,175.14
Effect of using the deductible temporary differences or deductible losses for which no deferred tax asset was recognized in prior period	-224,619.68
Effect of deductible temporary differences or deductible losses for which no deferred tax asset was recognized this year	
Effect of research and development expenses super deduction	-5,842,096.63
Others	
Income tax expenses	72,440,220.01

Note 51. Notes to cash flow statement

1. Cash received from other operating activities

Item	Amount in current period	Amount in prior period
Security deposit	15,956,047.24	12,286,247.59
Government subsidy	18,151,302.96	22,985,857.32
Promotion expenses	12,201,925.26	13,582,651.81
Interest income	3,923,999.48	3,589,649.85
Return of petty cash	8,030,966.63	7,070,953.20
Others	21,392,611.71	25,872,097.79
Total	79,656,853.28	85,387,457.56

2. Cash paid for other operating activities

Item	Amount in current period	Amount in prior period
Security deposit	24,008,323.15	27,774,098.01
Petty cash advanced to employee	11,049,894.11	11,532,694.33
Current period expenses	288,360,173.00	436,157,747.82
Others	617,269.28	2,635,207.94
Total	324,035,659.54	478,099,748.10

3. Cash paid for other financing activities

Item	Amount in current period	Amount in prior period
Lease payment	124,087,402.37	115,532,289.07
Cash paid for re-purchase of shares	53,390,338.09	9,178,101.51
Total	177,477,740.46	124,710,390.58

Note 52. Supplement information to cash flow statement

1. Supplement to cash flow statement

Item	Amount in current period	Amount in prior period
1. Reconciliation of net profit/loss to cash flows from operating activities:		
Net profit	266,681,451.84	387,860,340.23
Add: Credit impairment loss	-4,845,379.45	11,075,001.77
Impairment for assets	37,625,482.96	25,861,394.56
Depreciation of fixed assets, oil and gas assets and productive biological assets	40,524,642.37	42,404,375.44
Depreciation of right-of-use assets	110,464,700.15	100,275,414.73
Intangible asset amortization	5,009,348.81	6,162,432.21
Amortization of long-term deferred expenses	110,435,014.09	103,932,868.69
Loss on disposal of fixed assets, intangible assets, and other long-term assets ("-" for gain)	-91,925.06	-730,134.87
Loss on scrap of fixed assets ("-" for gain)		
Loss on changes of fair value ("-" for gain)		
Financial expenses ("-" for income)	16,846,749.14	23,159,963.74
Investment loss ("-" for gain)	-3,026,481.59	-3,754,939.39
Decrease in deferred tax assets ("-" for increase)	-14,551,337.29	-319,474.30
Increase in deferred tax liabilities ("-" for decrease)	262,330.92	2,168,679.48
Decrease in inventories ("-" for increase)	-92,627,165.17	-133,051,377.44
Decrease in operating receivables ("-" for increase)	121,164,749.65	59,770,087.01
Increase in operating payables ("-" for decrease)	-117,643,404.85	-77,565,523.41
Others		
Net cash flows from operating activities	476,228,776.52	547,249,108.45
2. Significant investment or financing activities not involving cash:		
Debts converted to capital		
Convertible debts mature within one year		
Added right-of-use assets in the current period		
3. Net changes in cash and cash equivalents:		
Cash at end of year	313,738,389.64	210,254,737.14
Less: cash at beginning of year	210,254,737.14	353,057,285.71
Plus: cash equivalents at end of year		

Item	Amount in current period	Amount in prior period
Less: cash equivalents at beginning of year		
Net increase in cash and cash equivalents	103,483,652.50	-142,802,548.57

2. Total cash outflows related to lease

Total cash outflows related to lease amounted to RMB124,087,402.37. (Prior period: RMB115,532,289.07)

3. Cash and cash equivalents

Item	Closing balance	Opening balance
I. Cash	313,738,389.64	210,254,737.14
Incl. Cash on hand	173,368.68	108,612.08
Bank deposit available for immediate payment	312,433,893.29	188,908,798.10
Other monetary funds available for immediate payment	1,131,127.67	21,237,326.96
II. Cash equivalents		
Including Bond investment due in three months		
III. Cash and cash equivalents at the end of year	313,738,389.64	210,254,737.14
Including Restricted cash and cash equivalents for the Company and its subsidiaries	716,733.44	1,724,651.93

As of December 31, 2022, the company has been frozen at RMB 9,074.00 due to being included in a long-term immobile bank account.

Note 53. Monetary items denominated in foreign currency

1. Monetary items denominated in foreign currency

Item	Balance denominated in foreign currency as at 31 Dec 2022	Exchange rate	Balance translated in RMB as at 31 Dec 2022
Monetary fund			24,163,612.98
USD	2,954,765.31	6.9646	20,578,758.48
EUR	337,623.94	7.4229	2,506,148.74
HKD	501,707.26	0.8932	448,160.04
CHF	83,603.65	7.5432	630,545.72
Accounts receivable			4,753,372.10
USD	466,956.15	6.9646	3,252,162.80
EUR	73,533.12	7.4229	545,829.00
HKD	674,663.15	0.8932	602,656.35

Item	Balance denominated in foreign currency as at 31 Dec 2022	Exchange rate	Balance translated in RMB as at 31 Dec 2022
CHF	46,760.52	7.5432	352,723.95
Other receivables			104,397.30
HKD	116,870.93	0.8932	104,397.30
Accounts payable			473,247.09
HKD	241,027.73	0.8932	215,302.84
CHF	34,195.60	7.5432	257,944.25
Other payables			168,702.98
USD	5,588.86	6.9646	38,924.17
EUR	490.28	7.4229	3,639.30
HKD	11,588.20	0.8932	10,351.39
CHF	15,350.00	7.5432	115,788.12

2. Overseas operational entity

For main business location and recording currency of important overseas operating entities, refer to Note III. 5.

Note 54. Government subsidy

1. Status

Types of government subsidy	Amount in current period	Amount included in current period profit or loss	note
Subsidy included in deferred income		496,907.10	Note V 29
Subsidy included in other income	18,647,802.96	18,647,802.96	Note V 43
Less: subsidy returned	496,500.00	496,500.00	Note 2 below
Total	18,151,302.96	18,648,210.06	

2. Subsidy returned

Item	Type	Amount in current period	Amount in prior period	Reasons for return
Over disbursement of subsidy and its interest	Income related	496,500.00		Not qualified

VI. Interests in other entities

1. Equity in subsidiary

(1) Composition of enterprise group

Name	Place of operation	Place of registration	Nature of business	Shareholding ratio (%)		Ways acquired
				Direct	Indirect	
Shenzhen Harmony World Watch Center Co., Ltd.	Shenzhen	Shenzhen	Commerce	100.00		incorporated or investment
FIYTA Sales Co., Ltd.	Shenzhen	Shenzhen	Commerce	100.00		incorporated or investment
Shenzhen FIYTA Precision Technology Co., Ltd.	Shenzhen	Shenzhen	Manufacturing	99.00	1.00	incorporated or investment
Shenzhen FIYTA Technology Development Co., Ltd.	Shenzhen	Shenzhen	Manufacturing	100.00		incorporated or investment
Harmony World Watch Center (Hainan) Co., Ltd.	Sanya	Sanya	Commerce	100.00		incorporated or investment
Shenzhen Xunhang Precision Technology Co., Ltd.	Shenzhen	Shenzhen	Manufacturing	100.00		incorporated or investment
Emile Choureit Timing (Shenzhen) Ltd.	Shenzhen	Shenzhen	Commerce	100.00		incorporated or investment
Liaoning Hengdarui Commercial & Trade Co., Ltd.	Shenyang	Shenyang	Commerce	100.00		Business combination under common control
TEMPORAL (Shenzhen) Co., Ltd.	Shenzhen	Shenzhen	Commerce	100.00		incorporated or investment
Shenzhen Harmony E-commerce Co., Ltd.	Shenzhen	Shenzhen	Commerce	100.00		incorporated or investment
FIYTA (Hong Kong) Ltd.	Hong Kong	Hong Kong	Commerce	100.00		incorporated or investment
Montres Chouriet SA	Swiss	Swiss	Manufacturing		100.00	Business combination not under common control

2. Equity in joint arrangement or associates

(1) Significant associates

Name	Place of operation	Place of registration	Nature of business	Shareholding ratio (%)		Accounting treatment
				Direct	Indirect	
Shanghai Watch Co., Ltd.	Shanghai	Shanghai	Commercial	25%		Equity method

(2) Principal financial information of significant associate company

Item	Closing balance/Amount in current period	Opening balance/Amount in prior period
Current assets	175,890,077.66	143,367,298.98
Non-current assets	21,637,323.67	17,537,419.20
Total assets	197,527,401.33	160,904,718.18
Current liabilities	44,595,566.75	24,124,925.22
Non-current liabilities	5,885,583.05	1,839,467.79
Total liabilities	50,481,149.80	25,964,393.01

Item	Closing balance/Amount in current period	Opening balance/Amount in prior period
Non-controlling interest		
Equity attributable to parent company	147,046,251.53	134,940,325.17
Portion of net asset calculated based on shareholding	36,761,562.88	33,735,081.29
Adjustment matters	21,420,524.02	21,420,524.02
- Goodwill	21,420,524.02	21,420,524.02
- Unrealized profit or losses from internal transaction		
- Others		
Carrying value of investment to associates	58,182,086.90	55,155,605.31
Fair value of equity investment that has public quotation		
Operating income	141,379,376.32	150,929,452.87
Net profit	12,105,926.36	15,019,757.54
Net profit from discontinued operation		
Other comprehensive income		
Total comprehensive income	12,105,926.36	15,019,757.54
Dividends received from associated company during the year		

VII. Risk disclosure related to financial instrument

The major financial instruments of the Company primarily include cash at bank and on hand, equity investments, borrowings, accounts receivable, accounts payables and bond payables. The Company is exposed to risks from various financial instruments in day-to-day operation, mainly including credit risk, liquidity risk and market risk. The risks in connection with such financial instruments and the risk management policies adopted by the Company to mitigate such risks are summarized as follows:

The board of directors is responsible for planning and establishing the risk management structure for the Company, developing risk management policies and the related guidelines across the Company, and supervising the performance of risk management measures. The Company has developed risk management policies to identify and analyse risks exposed by the Company. These risk management policies have clear regulations over specific risks, covering various aspects of market risk, credit risk and liquidity risk management. The Company will evaluate the market environment and changes of the Company's operating activities on a regular basis to decide whether to update the risk management policies and systems. Risk management of the Company is carried out by the Risk Management Committee based on the policies as approved by the board of directors. Risk Management Committee identifies, evaluates and mitigates related risks by working closely with other business divisions of the Company. Internal Audit Department of the Company will review the risk management control and process regularly, and submit the review results to Audit

Committee of the Company. The Company spreads the risks of financial instruments through appropriate diversified investment and business portfolio, and mitigates the risk of focusing on any single industry, specific regions or counterparties by way of formulating the corresponding policies for risk management.

1. Credit risk

Credit risk refers to the risk of financial losses to the Company as a result of the failure of performance of contractual obligations by the counterparties. The management has developed proper credit policies and continuously monitors credit risk exposures.

The Company has adopted the policy of transacting with creditworthy counterparties only. In addition, the Company evaluates the credit qualification of customers and sets up corresponding credit term based on the financial status of customers, the possibility of obtaining guarantees from third parties, credit records and other factors such as current market conditions. The Company monitors the balances and recovery of bills and accounts receivable, and contract assets on a continual basis. As for bad credit customers, the Company will use the written reminders, shorten the credit term or cancel the credit term to ensure that the Company is free from material credit losses. In addition, the Company reviews the recovery of financial assets on each balance sheet date to ensure adequate expected credit loss provision is made for relevant financial assets.

The Company's other financial assets include currency funds and other receivables. The credit risk relating to these financial assets arises from the default of counterparties, but the maximum exposure to credit risk is the carrying amount of each financial asset in the balance sheet. The Company does not provide any other guarantee that may expose the Company to credit risk.

The monetary funds held by the Company are mainly deposited with financial institutions such as state-owned banks and other large and medium-sized commercial banks. The management believes that these commercial banks have a higher reputation and assets, so there is no major credit risk and the Company would not have any significant losses caused by the default by these institutions. The Company's policy is to control the amount deposited with these famous financial institutions based on their market reputation, operating size and financial background, to limit the credit risk amount of any single financial institution.

As a part of its credit risk asset management, the Company assesses the credit loss of receivables using aging. The Company's receivable and other receivables involve large amount of customers. Aging information can reflect the ability to repay and risk of bad debt of these customers. The Company determined expected loss rate by calculating historical bad debt rate for receivables with different aging based on historical data and also taking forecast of future economic condition into consideration such as GDP growth rate, state currency policy etc... For long-term receivables, the Company assesses expected credit loss reasonably by considering settlement period, contracted payment terms, debtor's financial situation and the economic situation of the debtor's industry.

As at 31 December 2022, the carrying amount of related assets and corresponding ECL is as follows:

Aging	Carrying amount	Provision
Bill receivable	33,347,790.58	1,132,878.48
Accounts receivable	345,753,258.32	40,462,298.64
Other receivable	61,182,569.81	4,264,550.33
Total	440,283,618.71	45,859,727.45

As the Company's customer base is large, no material credit concentration risk.

As at 31 December 2022, the balance of top 5 receivable accounts accounted for 32.76% of total accounts receivables (2021: 35.48%) .

2. Liquidity risk

Liquidity risk refers to the risk of short of funds when the company performs its obligation of cash payment or settlement by other financial assets. The Company's subordinate member companies are responsible for their respective cash flow projections. Based on the results thereof, the subordinate financial management department continually monitors its short-term and long-term capital needs at the company level to ensure adequate cash reserves; in the meantime, continually monitors the compliance with loan agreements and secures undertakings for sufficient reserve funds from major financial institutions, to address its short-term and long-term capital needs. Besides, the Company mainly signs financing agreements with banks that have business transactions to provide support to fulfill commercial bill obligation. As at 31 December 2022, the Company has financing facilities from several banks amounting to RMB2,127.16 million. Amongst, RMB467.16 million has already been used.

As at 31 December 2022, the discounted contractual cash flows for financial liabilities and off-balance sheet guarantee that presented in maturity are as follows:

Item	Closing balance in ten thousands yuan				Total
	Within 1 year	1 - 2 years	2 - 3 years	Over 3 years	
Short term loan	29,353.84				29,353.84
Bills payable	200.06				200.06
Accounts payable	17,058.95				17,058.95
Other payables	15,873.61	231.76	200.79	199.85	16,506.01
Total	62,486.46	231.76	200.79	199.85	63,118.86

3. Market risk

(1) Exchange rate risk

Except that the Company's subsidiary in Hong Kong uses HKD as settlement currency and sub-subsiary in Swiss used CHF as settlement currency, the principal places of operations of the

Company are located in China and the major businesses are settled in RMB. However, the Company's recognized foreign currency assets and liabilities as well as the foreign currency transactions in the future (the functional currencies of foreign assets and liabilities as well as the transactions are mainly HKD and CHF) remain exposed to exchange rate risk

As at 31 December 2022, the RMB equivalent of financial assets and financial liabilities denominated in foreign currencies are as follows:

Item	Closing balance				
	HKD	USD	EUR	CHF	Total
Financial asset denominated in foreign currency:					
Monetary fund	448,160.04	20,578,758.48	2,506,148.74	630,545.72	24,163,612.98
Accounts receivable	602,656.35	3,252,162.80	545,829.00	352,723.95	4,753,372.10
Other receivables	104,397.30				104,397.30
Subtotal	1,155,213.69	23,830,921.28	3,051,977.74	983,269.67	29,021,382.38
Financial liabilities denominated in foreign currency:					
Accounts payables	215,302.84			257,944.25	473,247.09
Other payables	10,351.39	38,924.17	3,639.30	115,788.12	168,702.98
Total	225,654.23	38,924.17	3,639.30	373,732.37	641,950.07

Sensitivity analysis

As at 31 December 2022, for financial assets and financial liabilities that denominated in foreign currency, if Renminbi appreciate or depreciate of 5% to foreign currency and other factors remain unchanged, the net profit will decrease or increase about RMB 1.419 million(31 Dec 2021:RMB 485,000) .

(2) Interest rate risk

The interest rate risk of the Company mainly associates with bank borrowings, bonds payable, etc. Floating rate financial liabilities expose the Company to cash-flow interest rate risk, while fixed rate financial liabilities expose the Company to fair-value interest rate risk. The Company determines the comparative proportion of fixed rate contracts and floating rate contracts based on the then market conditions.

The interest rate risk of the Company mainly associates with bank borrowings, bonds payable, etc. Floating rate financial liabilities expose the Company to cash-flow interest rate risk, while fixed rate financial liabilities expose the Company to fair-value interest rate risk. The Company determines the comparative proportion of fixed rate contracts and floating rate contracts based on the latest market conditions.

Sensitivity analysis:

As at 31 December 2022, 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 Company's net profit and shareholder's equity for the year will decrease or increase by approximately RMB1,200,000.00 (2021: RMB 1,000,000.00) .

The above sensitivity analysis assumes that interest rate changed on the balance sheet date and applicable to all loans with floating interest rate terms.

VIII. Fair value

1. Financial instruments measured at fair value

As at 31 December 2022, the Company does not have financial instruments measured at fair value.

2. Status of financial assets and financial liabilities not measured at fair value

Financial assets and financial liabilities not measured at fair value include: accounts receivable, short-term loans, accounts payable, long-term loans due within one year, and equity instrument investment that does not have public quotation in an active market and its fair value cannot be measured reliably.

The difference between fair value and carrying amount of the above financial assets and liabilities that not measured at fair value is insignificant.

IX. Related party and related transaction

1. The parent company of the Company

Name	Registration place	Type of business	Registered capital (in ten thousand RMB)	Shareholding ratio of parent company to the Company %	Ratio of vote right of parent company to the Company%
CATIC Shenzhen	Shenzhen	Commercial	116,616.20	39.02	39.02

(1) Notes to the parent company

CATIC Shenzhen is a subsidiary that 100% held, indirectly, by AVIC International, and AVIC directly holds 91.14% of the equity of AVIC International.

(2) The ultimate controlling party of the Company is AVIC.

2. Refer to Note VI. 1 for information about the Company's subsidiaries

3. Refer to Note VI. 2 for information about the Company's material associates

4. Other related parties

Name of other related parties	Relationship
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
Shenzhen CATIC Nanguang Elevator Engineering Co., Ltd. (CATIC Nanguang)	Associate company of the controlling shareholder
China Merchants Property Operation & Service Co., Ltd (China Merchants Property OS)	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
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
Jiujiang 9 Square Business Management Co., Ltd (Jiujiang 9 Square Business Management)	Associate company of the controlling shareholder
Rainbow Digital Science Co., Ltd. and its associated companies (Rainbow Company)	Controlled by the same party
Shennan Circuits Co., Ltd. and its associated companies (Shennan Circuits)	Controlled by the same party
AVIC Lutong Co., Ltd.(AVIC Lutong)	Controlled by the same party
AVIC International Aero-Development Corporation(AVIC Int'l Aero Development)	Controlled by the same party
AVIC Huadong Photoelectric Co., Ltd.(AVIC Huadong Photoelectric)	Controlled by the same party
AVIC Xi'an Flight Automatic Control Research Institute(AVIC Xi'an Flight Institute)	Controlled by the same party
Shenzhen Grand Skylight Hotel Management Co., Ltd (Grand Skylight Hotel Management Company)	Controlled by the same party
AVIC Securities Co., Ltd. (AVIC Securities Company)	Controlled by the same party
AVIC Training Center	Controlled by the same party
AVIC Finance Co., Ltd. (AVIC Finance Company)	Controlled by the same party
Gongqingcheng CATIC Culture Investment Co., Ltd (Gongqingcheng CATIC Culture Investment Company)	Controlled by the same party
China National Aero-Technology Shenzhen Co., Ltd.	Controlled by the same party
Beijing Hangtou Real-Estate Co., Ltd. (Beijing Hangtou)	Controlled by the same party
Avic Jonhon Optronic Technology Co., Ltd.(AVIC Jonhon)	Controlled by the same party
China Aviation International Simulation Technology Services Co., Ltd. (China Aviation International Simulation)	Controlled by the same party
AVIC International Holdings (Zhuhai) Co., Ltd. (AVIC Zhuhai)	Controlled by the same party
China National Aero-technology Import & Export Corporation (CATIC)	Controlled by the same party
China Aviation Industry General Aircraft Co., Ltd.(CAIGA)	Controlled by the same party
AVIC Capital Co., Ltd. (AVIC Capital)	Controlled by the same party
Guizhou HUAYANG Electronics Co., Ltd.	Controlled by the same party
Zhuhai Pilot Composite Material Technology Co., Ltd.	Controlled by the same party
Guangdong International Mansion Industrial Co., Ltd. (Guangdong International Mansion)	Controlled by the same party
Shenzhen Zhonghang Technology Checking & Measuring Institute (Shenzhen ZHTCMI)	Controlled by the same party
Company directors, managers, CFO, and secretary of the board	Key management member

5. Related party transactions

(1) Related transaction between subsidiaries and between parent company and subsidiaries which are in the scope of consolidation have already been offset.

(2) Purchase good and receiving service

Related parties	Related transaction content	Amount in current period	Amount in prior period
CATIC Property Management	Property management	11,539,094.22	10,672,790.93
Rainbow Company	Department store expenses/ Commodity purchase	4,184,883.88	4,964,647.21
AVIC Training Center	Training fee		147,652.13
Ganzhou 9 Square Company	Department store expense	74,815.04	178,484.53
CATIC City Estate (Kunshan) Company	Department store expense	63,779.35	64,060.80
Jiufang Business Management	Department store expense	90,606.52	86,305.01
CATIC Building Company	Renovation	19,200.60	82,276.21
AVIC Nanguang Company	Elevator maintenance	46,660.32	463,226.05
AVIC Jonhon	Purchase of goods	238,755.07	76,667.61
Gongqingcheng CATIC Culture Investment Company	Departmental store expense	25,733.73	31,544.56
Grand Skylight Hotel Management Company	Purchase of goods	3,855.65	-
Guangdong International Mansion	Property management	18,157.71	
Shenzhen ZHTCM	Accept labour	6,590.00	
AVIC Xi'an Flight Automatic Control Research Institute(AVIC Xi'an Flight Institute)	Accept labour	179,245.28	
Total		16,491,377.37	16,767,655.04

Notes: All amount listed above exclude tax

(3) Sale of goods and providing services

Related party	Nature of transaction	Amount in current period	Amount in prior period
Beijing Hangtou	Sale of product		3,504.42
Ganzhou 9 Square	Product and service	16,327.43	23,850.44
Gongqingcheng CATIC Culture Investment Company	Sale of product	310,404.70	461,064.03
9 Square Business Management	Sale of product	45,548.67	2,648.00
Shennan Circuit	Sale of material and providing service	335,070.20	2,179,951.09
Grand Skylight Hotel Management Company	Sale of product		17,610.62
AVIC Training Center	Others	2,453.10	2,180.53
Rainbow Company	Product and service	53,197,052.19	79,467,519.77

AVIC International	Sale of product		28,237.17
AVIC Jonhon	Sale of product	1,252,054.56	383,989.41
China Aviation International Simulation	Sale of product		60,530.97
AVIC Zhuhai	Sale of product	8,800.00	31,831.86
CATIC	Sale of product		105,929.20
CAIGA	Sale of product		1,319,881.42
AVIC Capital	Sale of product		8,681.42
CATIC Property Management	Share of Utilities and management fee	3,236,626.25	3,372,087.78
Guizhou HUAYANG Electronics Co., Ltd.	Sale of product	87,263.71	
AVIC Huadong PHOTOELECTRIC	Sale of product	21,238.94	
Zhuhai Pilot Composite Material Technology Co., Ltd.	Sale of product	1,805,929.20	
Total		60,318,768.95	87,469,498.13

Notes: All amount listed above exclude tax

(4) Related party lease

1) The Company as lessor

Lessee	Type of leased assets	Recognized rental income in current year	Recognized rental income in prior year
CATIC Property Management	Property	4,040,909.78	7,876,636.32
AVIC Securities Company	Property	1,411,885.68	1,377,399.99
Rainbow Company	Property	437,897.82	931,939.92
AVIC Security Service	Property	906,404.52	799,448.76
Total		6,797,097.80	10,985,424.99

2) The Company as lessee

Lessor	Type	Variable lease payments that are not included in lease liabilities		Rental payment		Interest payment of lease liabilities		Addition of right-of-use asset	
		Current period	Prior period	Current period	Prior period	Current period	Prior period	Current period	Prior period
Guangdong International Mansion Industrial Co., Ltd.	Property			40,527.84		3,572.58		51,030.81	
Kunshan Company	Property			94,596.41	105,759.65	5,615.80	8,266.43	138,708.90	123,534.02
Rainbow Company	Property			417,268.91	594,532.47	14,378.80	31,093.92	247,505.55	622,708.60
Ganzhou 9 Square Company	Property			396,395.25	951,348.60	8,974.33	43,131.68		
Jiufang Business Management	Property	60,513.53	260,384.33	320,485.10	508,577.07	14,747.54	14,547.95		
Total		60,513.53	260,384.33	1,269,273.51	2,160,217.79	47,289.05	97,039.98	437,245.26	746,242.62

(5) Related party fund lending and borrowing

1) Borrowings from related parties

Related Party	Amount	starting date	Expiring date	Note
AVIC Finance Company	100,000,000.00	14 January 2022	9 February 2022	
AVIC Finance Company	100,000,000.00	18 February 2022	25 February 2022	
Total	200,000,000.00			

Note:

The Company paid interest to AVIC Finance Company amounted to RMB324,444.44 during the year.

(6) Remuneration to key management

Item	Amount in current period	Amount in prior period
Remuneration to key management	15,148,600.00	18,610,600.00

(7) Other related transactions

The year-end balance of the Company's cash that is deposited with AVIC Finance Company is RMB271,327,031.83. Interests received from the deposit during the year were RMB425,324.08.

(8) Receivables from and payables to related parties

1) Receivables from related parties

Item	Related party	Closing balance		Opening balance	
		Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Monetary fund					
	AVIC Finance Company	271,327,031.83		147,786,041.19	
Accounts receivable					
	Ganzhou 9 Square			6,000.00	300.00
	Gongqingcheng CATIC Culture Investment Company	27,297.28	1,364.88	10,536.96	303.21
	Shennan Circuit	7,255.14	544.14	161,653.56	8,082.68
	Rainbow Company	3,808,470.31	219,873.20	3,958,751.41	244,056.19
	AVIC Jonhon	649,797.16	48,734.79	44,718.38	2,235.92
	CAIGA			1,471,466.00	73,573.30
	CATIC Property Management	55,910.00	2,795.50	0.30	
	Guizhou HUAYANG Electronics Co., Ltd.	59,528.00	4,464.60		
	Zhuhai Pilot Composite Material Technology Co., Ltd.	1,412,045.00	105,903.38		
	AVIC Training Center	2,772.00	207.90		

Item	Related party	Closing balance		Opening balance	
		Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Bill receivable	Jiufang Business Management	45,762.00	2,288.10		
	Shennan Circuit			308,698.46	15,434.92
Other receivables	AVIC Jonhon	262,429.22		187,090.69	9,354.53
	Ganzhou 9 Square Company			192,064.00	9,603.20
	Gongqingcheng CATIC Culture Investment Company	6,500.00	325.00	5,500.00	275.00
	Jiufang Business Management	50,000.00	2,500.00	50,000.00	2,500.00
	Rainbow Company	1,055,557.43	52,777.87	1,051,020.00	52,551.00
	Kunshan Company	73,000.00	2,800.00	56,000.00	2,800.00
	AVIC	49.32	2.47	49.32	2.47

2) Payables to related parties

Item	Related party	Closing balance	Opening balance
Accounts payable	CATIC Building Company	32,992.35	41,283.89
	AVIC Jonhon	19,411.27	
Other payables:	Rainbow Company	108,186.52	198,661.82
	AVIC International		3,600.00
	CATIC Property Management	2,375,070.47	2,307,322.31
	AVIC Securities Company	247,080.00	247,080.00
	CATIC Nanguang	23,432.43	34,430.13
	CATIC Building Company		31,270.67
	AVIC Security Service	158,620.80	226,603.44
Advance received	Rainbow Company	162,324.03	16,537.50
	AVIC Securities Company		123,540.00

X. Share-based payments

1.General information about share-based payments

Total equity instrument granted during current period	
Total equity instrument exercised during current period	1,244,421.00
Total equity instruments voided in current period	
Scope of outstanding share option exercise price and remaining contract term	Not applicable
Scope of outstanding other equity instrument exercise price and remaining contract term.	

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	31,988,282.05
Total expenses for equity settled share-based payment recognized in current period	9,870,150.33

XI. Commitment and contingencies

1. Significant commitments

(1) Lease contract that already signed or prepared to fulfil and its financial effect

Refer to Note XIII for details.

2.Contingencies on balance sheet date

The Company does not have material contingent events that need to be disclosed

XII. Post balance sheet date events

1. Profit distribution

Profit distributions or dividends proposed	Cash dividend of RMB2.50 (tax inclusive) for every 10 shares held
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2.Other events after the balance sheet date

(1) Financing and guarantee after the balance sheet date

1) On 16 March 2023, pursuant to approval by the 11th meeting of the 10th Board of directors, the Company proposed to apply for financing facility of no more than RMB 1,200 million by means of credit, pledge and mortgage in 2023. The resolution is pending for approval by the shareholder's meeting.

2) On 16 March 2023, pursuant to approval by the 11th meeting of the 10th Board of directors, the Company proposed to provide guarantee for the Company's wholly-owned subsidiary to borrow from banks of no more than RMB 600 million in 2023. 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.

(2) Others

As at 16 March 2023, the Company does not have other post-balance sheet events that need to be disclosed.

XIII. Disclosure regarding lease

The Company as a lessor:

1. Lease activities

All lease of the Company is property lease, including short-term lease and other leased that recognized right-of-use asset and lease liabilities.

2. Short-term lease

Short-term leases are treated using simplified method. Short-term leases include lease term that is shorter than 12 month and no renew options attached, and leases that will be matured in 12 month after first adoption of CAS 21 – Lease. Short-term lease expenses charged to profit or loss was RMB407,454.71.

3.Future potential cash outflows that does not included in lease liabilities

(1) Variable lease payment

The lessee leased a lot of retail shops which contains variable lease payment terms in connection with sales.

Many of the Company's property lease contain variable lease payment terms in connection with sales. In most circumstances, the Company uses these terms to matches lease payment to shops that can generate more cash flows lease payment. For standalone shops, variable can reach 100% of all lease payment at most and that the scope of percentage of sales used is quite large. In some circumstances, variable payment terms include annual bottom payment and upper limit.

In 2022, the variable lease payment included in the current profit and loss is RMB 85,618,040.29.

(2) Option to renew

Many lease contracts entered by the Company has option to renew. The Company has already estimated the option to renew reasonably when determining lease terms in measuring lease liabilities.

(3) Option to discontinue lease

Some of the lease contract entered by the Company has option to discontinue. The Company has already estimated the option to discontinue reasonably when determining lease terms in measuring lease liabilities.

(4) Residual value guarantee

The Company's lease does not involve residual value guarantee.

(5) Lease that the lessee has already made commitment but not yet started

The Company does not have lease that has already made commitment but not yet started.

Disclosure as a lessor:

1. Lease activities

The Company's leases are all properties.

2. Risk management strategy of retaining rights over lease assets

To reduce risks of lease, the Company normally asks lessee to pay rental in advance and collects 1-3 months rental as deposit.

XIV. Other material information

1. Segments

Operating segments of the Company are identified on the basis of internal organization structure, management requirements and internal reporting system. An operating segment represents a component of the Company that satisfied the following criteria simultaneously:

- (1) Its business activities are engaged to earn revenue and incur expenses;
- (2) Its operating results are regularly reviewed by the Company's management to make decisions on resources allocation and performance assessment;
- (3) Its financial conditions, operating results, cash flow and related accounting information are available to the Company.

The Company determines the reporting segment based on the operating segment, and the operating segment that meets any of the following conditions is determined as the reporting segment:

- (1) The segment income of the operating segment accounts for 10.00% or more of total income of all segments;

(2) The absolute amount of profits (losses) of the segment account for 10.00% or more of the higher of the absolute amount of total profits of the profiting segment and the absolute amount of total losses of the unprofitable segment.

The Company's business is simple. The business mainly involves manufacturing and sales of watch. The management considers the business as a whole in implementing management and assessing its performance. As a result, no segment information is disclosed in this financial statement.

2. Other material events

As at 31 December 2022, the Company does not have other significant matters that require to disclose.

XV. Notes to the parent company's financial statement

Note 1. Accounts receivables

1. Presented by aging

Aging	Closing balance	Opening balance
Within 1 year	635,132.16	132,980.92
Over 1 year		3,942.90
Subtotal	635,132.16	136,923.82
Less: bad debt provision	31,916.13	7,043.34
Total	603,216.03	129,880.48

2. Presentation by method of providing bad debt

Category	Closing balance				Book value
	Carrying amount		Bad debt provision		
	Amount	Percentage (%)	Amount	ECL rate (%)	
Accounts receivable that provided expected credit losses on single basis					
Accounts receivable that provided expected credit losses on portfolio basis	635,132.16	100.00	31,916.13	5.03	603,216.03
Including: Receivable from other customers	635,132.16	100.00	31,916.13	5.03	603,216.03

Continued

Category	Opening balance				Book value
	Carrying amount		Bad debt provision		
	Amount	Percentage (%)	Amount	ECL rate (%)	
Accounts receivable that provided expected credit losses on single basis					
Accounts receivable that provided expected credit	136,923.82	100.00	7,043.34	5.14	129,880.48

Category	Opening balance				Book value
	Carrying amount		Bad debt provision		
	Amount	Percentage (%)	Amount	ECL rate (%)	
losses on portfolio basis'					
Including: Receivable from other customers	136,923.82	100.00	7,043.34	5.14	129,880.48

3. In the portfolio, accounts receivable with expected credit loss provided based on credit risk characteristic portfolio

(1) Portfolio of receivable from other customer

Aging	Closing balance		
	Carrying amount	Bad debt provision	ECL rate (%)
Within 1 year	635,132.16	31,916.13	5.03

4. Movements of provision during the period

Category	Opening balance	Movements during the period				Closing balance
		Accrual	Recovered or reversed	Written-off	Other movements	
Accounts receivable that provided expected credit losses on single basis						
Accounts receivable that provided expected credit losses on portfolio basis'	7,043.34	24,872.79				31,916.13
Including: Receivable from other customers	7,043.34	24,872.79				31,916.13

5. No actual write-off of accounts receivable during the current period.

6. Top 5 receivable accounts

Name	Closing balance	Proportion in total closing balance of accounts receivable (%)	Bad debt provision
Top 5 receivables accounts in total	571,032.93	89.91	28,551.65

Note 2. Other receivables

1. Presentation of other receivables by aging

Aging	Closing balance	Opening balance
Within 1 year	839,808,164.17	717,341,673.50

Aging	Closing balance	Opening balance
1 - 2 years		
2- 3 years		
Over 3 years	40,050.00	40,050.00
Subtotal	839,848,214.17	717,381,723.50
Less: bad debt provision	65,671.10	198,584.50
Total	839,782,543.07	717,183,139.00

2. Presented by nature

Nature	Closing balance	Opening balance
Related party in scope of consolidation	839,174,096.87	713,813,300.99
Security deposit	537,615.90	3,117,526.90
Petty cash	24,542.88	
Others	111,958.52	450,895.61
Total	839,848,214.17	717,381,723.50
Less: bad debt provision	65,671.10	198,584.50
Total	839,782,543.07	717,183,139.00

3. Presented according to three stages of financial assets impairment

Item	Closing balance			Opening balance		
	Carrying amount	Bad debt provision	Book value	Carrying amount	Bad debt provision	Book value
First stage	839,848,214.17	65,671.10	839,782,543.07	717,381,723.50	198,584.50	717,183,139.00
Second stage						
Third stage						
Total	839,848,214.17	65,671.10	839,782,543.07	717,381,723.50	198,584.50	717,183,139.00

4. Presented by bad debt provision method

Category	Closing balance					
	Carrying amount		Bad debt provision		Book value	
	Amount	Percentage (%)	Amount	ECL rate (%)		
Other receivables that provided expected credit losses on single basis						
Other receivables that provided expected credit losses on portfolio basis	839,848,214.17	100.00	65,671.10	0.01	839,782,543.07	
Including: Security deposit portfolio	537,615.90	0.06	64,928.30	12.08	472,687.60	
Petty cash portfolio	24,542.88	0.01			24,542.88	
Social security payment on-behalf portfolio	97,102.57	0.01			97,102.57	

Category	Closing balance				Book value
	Carrying amount		Bad debt provision		
	Amount	Percentage (%)	Amount	ECL rate (%)	
Receivables from related parties within scope of consolidation	839,174,096.87	99.92			839,174,096.87
Portfolio of others	14,855.95	0.00	742.80	5.00	14,113.15
Total	839,848,214.17	100.00	65,671.10	0.01	839,782,543.07

Continued

Category	Opening balance				Book value
	Carrying amount		Bad debt provision		
	Amount	Percentage (%)	Amount	ECL rate (%)	
Other receivables that provided expected credit losses on single basis					
Other receivables that provided expected credit losses on portfolio basis	717,381,723.50	100.00	198,584.50	0.03	717,183,139.00
Including: Security deposit portfolio	3,117,526.90	0.44	193,923.85	6.22	2,923,603.05
Petty cash portfolio					
Social security payment on-behalf portfolio	357,682.66	0.05			357,682.66
Receivables from related parties within scope of consolidation	713,813,300.99	99.50			713,813,300.99
Portfolio of others	93,212.95	0.01	4,660.65	5.00	88,552.30
Total	717,381,723.50	100.00	198,584.50	0.03	717,183,139.00

5. In the portfolio, other receivables with expected credit loss provided based on credit risk characteristic portfolio

(1) Security deposit portfolio

Aging	Closing balance		
	Carrying amount	Bad debt provision	ECL rate (%)
Within 1 year	497,565.90	24,878.30	5.00
1 - 2 years			
2- 3 years			
Over 3 years	40,050.00	40,050.00	100.00
Total	537,615.90	64,928.30	12.08

(2) Petty cash portfolio

Aging	Closing balance		
	Carrying amount	Bad debt provision	ECL rate (%)
Within 1 year	24,542.88		

(3) Social security payment on-behalf portfolio

Aging	Closing balance		
	Carrying amount	Bad debt provision	ECL rate (%)
Within 1 year	97,102.57		

(4) Receivables from related parties within scope of consolidation

Aging	Closing balance		
	Carrying amount	Bad debt provision	ECL rate (%)
Within 1 year	839,174,096.87		

(5) Portfolio of others

Aging	Closing balance		
	Carrying amount	Bad debt provision	ECL rate (%)
Within 1 year	14,855.95	742.80	5.00

6. Bad debt provision status

Bad debt provision	First stage	Second stage	Third stage	Total
	Expected credit losses over the next 12 months	Lifetime expected credit losses (no credit impairment occurred)	Lifetime expected credit losses (credit impairment occurred)	
Opening balance	198,584.50			198,584.50
Opening balance movements in current period	—	—	—	—
—Transfer into the second stage				
—Transfer into the third stage				
—Reverse back to the second stage				
—Reverse back to the first stage				
Accrual during the period				
Reversed during the period	132,913.40			132,913.40
Recovered during the period				
Written-off during the period				
Other movements				
Closing balance	65,671.10			65,671.10

7. No other receivables were written-off during the period.

8. Top 5 other receivable accounts

Name	Closing balance	Proportion to closing balance of other receivables (%)	Bad debt provision Closing balance
Top 5 other receivables in total	839,174,096.87	99.92	

Note 3. Long-term equity investment

Nature	Closing balance			Opening balance		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Investment in subsidiaries	1,494,128,399.60		1,494,128,399.60	1,486,912,339.72		1,486,912,339.72
Investment in associates	58,182,086.90		58,182,086.90	55,155,605.31		55,155,605.31
Total	1,552,310,486.50		1,552,310,486.50	1,542,067,945.03		1,542,067,945.03

1. Investment in subsidiaries

Investee	Opening balance	Addition/new investment	Withdrawn	Closing balance	Provision accrued in current period	Closing balance of provision
Shenzhen Harmony World Watch Center Co.,	607,684,512.15	2,669,885.19		610,354,397.34		
Shenzhen Harmony E-commerce Co., Ltd.	11,684,484.39			11,684,484.39		
Shenzhen FIYTA Precision Technology Co., Ltd.	101,249,207.88	1,232,861.88		102,482,069.76		
Shenzhen FIYTA Technology Development Co., Ltd.	50,775,222.76	449,752.22		51,224,974.98		
FIYTA (Hong Kong) Ltd.	137,737,520.00			137,737,520.00		
TEMPORAL (Shenzhen) Co., Ltd.	5,000,000.00			5,000,000.00		
FIYTA Sales Co., Ltd.	455,791,572.32	2,291,679.57		458,083,251.89		
Liaoning Hengdarui Commercial & Trade Co., Ltd.	36,867,843.96			36,867,843.96		
Emile Choureit Timing (Shenzhen) Ltd.	80,121,976.26	571,881.02		80,693,857.28		
Total	1,486,912,339.72	7,216,059.88		1,494,128,399.60		

2. Investment in associates

Investee	Opening balance	Movements in current period			
		Addition/new investment	Withdrawn	Investment gain recognized under equity method	Adjustment to OCI
Associates					
Shanghai Watch	55,155,605.31			3,026,481.59	

Continued

Investee	Movements in current period				Closing balance	Closing balance of provision
	Other equity movements	Cash dividends declared or distribution of profit	Impairment provision accrual	Others		
Associates						
Shanghai Watch					58,182,086.90	

Note 4. Operating income and operating cost

Item	Amount in current period		Amount in prior period	
	Revenue	Cost	Revenue	Cost
Main business	148,557,095.50	41,765,441.70	175,936,431.09	38,852,252.32
Other business	6,727,705.55		3,519,281.62	

Note 5. Investment gain

Item	Amount in current period	Amount in prior period
Gain from long-term equity investments accounted for using equity method	3,026,481.59	3,754,939.39
Gain from long-term equity investments accounted for using cost method	240,595,696.70	259,918,496.56
Total	243,622,178.29	263,673,435.95

XVI. Supplementary information

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

Item	Amount	Note
Disposal gain or loss of non-current assets	91,925.06	
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)	18,648,210.06	
Charges for the possessions of funds collected from non-monetary enterprises		
Gain from investment in subsidiaries, joint venture and cooperative enterprises when cost of investment is less than the profit incurred in identifiable net asset fair value of invested unit when investment		
Profit and loss of non-monetary assets exchange		
Profit and loss from entrusting others to invest or manage assets		
Asset impairment provision accrued due to force majeure such as natural disasters		
Profit and loss of debt restructuring		
Enterprise restructuring expenses, such as expenses for arranging employees, integrating cost		
Profit and loss over fair value part accrued in transactions of unreasonable transaction price		
Current net profit and loss of subsidiaries from business combination under common control from the opening period to combination date		
Profit and loss incurred contingent matters unrelated to normal operating business		

Item	Amount	Note
Except for effective hedging business related to normal operating business, profit and loss from changes in fair value incurred in financial assets and financial liabilities, and the investment gain from disposal of financial assets, financial liabilities and available-for-sale financial assets		
Impairment provision reversal of accounts receivable under standalone impairment test	4,389,902.44	
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	-1,064,064.23	
Profit and loss items pursuant to the definition of non-recurring profit and loss		
Less: Effect of income tax of non-recurring profit or loss	5,175,977.22	
Effect of non-recurring profit or losses attributable to minority shareholders (after tax)		
Total	16,889,996.11	

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	8.68	0.6398	0.6398
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	8.13	0.5989	0.5989

FIYTA Precision Technology Co., Ltd.

(Official Stamp)

16 March 2023



会计师事务所 执业证书

名称：大华会计师事务所(特殊普通合伙)
 首席合伙人：姚海鑫
 主任会计师：
 经营场所：北京市海淀区西四环中路16号院7号楼12层

组织形式：特殊普通合伙
 执业证书编号：11010148
 批准执业文号：京财会许可[2011]0101号
 批准执业日期：2011年11月03日

证书序号 0000093

说明

1. 《会计师事务所执业证书》是证明持有人经财政部授予执行注册会计师法定业务的资格。
2. 《会计师事务所执业证书》记载事项发生变动的，应当向财政部门申请换发。
3. 《会计师事务所执业证书》不得伪造、涂改、出借。
4. 会计师事务所注销的，应当向财政部门交回《会计师事务所执业证书》。

此件仅用于业务报告专用，复印无效。



发证机关：北京市财政局
 二〇一七年十一月十七日

中华人民共和国财政部制



证书编号: 110001590340
 批准注册机构: 北京注册会计师协会
 发证日期: 2008年10月08日
 Date of Issuance: 2008 / 10 / 08



This certificate is valid for another year after this renewal.



姓名: 龙娇
 证书编号: 110001590340

年 月 日



注册会计师工作单位变更事项登记
 Registration of the Change of Working Unit by a CPA

姓名: 龙娇
 Full name: 龙娇
 性别: 女
 Sex: 女
 出生日期: 1980-11-04
 Date of birth: 1980-11-04
 工作单位: 瑞华会计师事务所(特殊普通合伙)
 Working unit: 瑞华会计师事务所(特殊普通合伙)
 身份证号码: 433125198011040027
 Identity card No.: 433125198011040027



年度检验登记
 Annual Renewal Registration
 本证书经检验合格, 继续有效一年。
 This certificate is valid for another year after this renewal.

年度检验登记
 Annual Renewal Registration

本证书经检验合格, 继续有效一年。
 This certificate is valid for another year after this renewal.



2019的年检二维码.png

年 月 日

同意调入
 Agree the holder to be transferred to
 瑞华
 Stamp of the transfer-in Institute of CPAs
 2017年4月20日
 转出协会盖章
 Stamp of the transfer-out Institute of CPAs
 2017年4月20日
 事务所 CPAs

同意调入
 Agree the holder to be transferred to
 瑞华
 Stamp of the transfer-in Institute of CPAs
 2020年7月22日
 转出协会盖章
 Stamp of the transfer-out Institute of CPAs
 2020年7月22日
 事务所 CPAs

瑞华
 Stamp of the transfer-in Institute of CPAs
 2017年4月20日
 转入协会盖章
 Stamp of the transfer-in Institute of CPAs
 2017年4月20日
 事务所 CPAs

瑞华
 Stamp of the transfer-in Institute of CPAs
 2020年7月22日
 转入协会盖章
 Stamp of the transfer-in Institute of CPAs
 2020年7月22日
 事务所 CPAs



证书编号: 110101301261
No. of Certificate

批准注册协会: 北京注册会计师协会
Authorized Institute of CPAs: Beijing Institute of CPAs

发证日期: 2017 年 08 月 16 日
Date of Issuance

年度检验登记
Annual Renewal Registration

本证书经检验合格, 继续有效一年。
This certificate is valid for another year after this renewal.



姓名: 王冬
证书编号: 110101301261



王冬的年检二维码.png

年 月 日



姓名: 王冬
Full name
性别: 女
Sex
出生日期: 1989-12-22
Date of birth
工作单位: 瑞德会计师事务所(特殊普通合伙)
Working unit
身份证号码: 142422198912224525
Identity card No.



同意调出
Agree the holder to be transferred from
注册会计师工作单位变更事项登记
Registration of the Change of Working Unit by a CPA

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2019年 12月 26日
事务所 CPAs

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Stamp of the transfer-in Institute of CPAs
2019年 12月 26日
事务所 CPAs

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Agree the holder to be transferred from
注册会计师工作单位变更事项登记
Registration of the Change of Working Unit by a CPA

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