Stock Code: 000026 200026 Short form of the Stock: FIYTA A FIYTA B Public Notice No:2006－015

SHENZHEN FIYTA HOLDINGS LTD.

2006 1st Quarterly Report – Full Text

§ 1 Important

I.1 The Board of Directors, the Supervisory Committee, directors, supervisors and senior executives of the Company hereby confirm that there are no important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individually and/or jointly, for the authenticity, accuracy and completion of the whole contents.
1.2 No director, director or any senior executive has expressed that he/she is not sure for the genuineness, accuracy or completeness of this quarterly report or has any different opinion on the same.
1.3 Name List of Directors Absent from the Meeting

Name of director absent from the meeting	Cause of absence	Trustee's Name
Wang Baoying	In business trip	Xu Dongsheng

1.4 The financial report of this report period has not been audited.
1.5. Mr. Wu Guangquan, the Chairman of the Board, Mr. Xu Dongsheng, the Managing Director, Mr. Li Dehua, Deputy General Manager and Chief Financial Officer and Mr. Hu Xinglong, Manager of the Financial Department, hereby ensure the accuracy and completeness of the financial report enclosed in this quarterly report.

§2 Company Information

2.1 Basic Information

Short form of the stock:	FIYTA A, FIYTA B	Short Form before Change (if any)	
Stock Code:	000026 200026		
	Secretary of the Board	Securities Affairs Representative	
Names	Hao Huiwen:	Chen Zhuo	
Liaison Address	20th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen		
Tel.	0755-86013992	0755-86013669	

Fax	0755-83348369	0755-83348369
E-mail	investor@fiyta.com.cn	investor@fiyta.com.cn

2.2 Financial Information

2.2.1 Financial Highlights

In RMB

	End of the report period	End of the previous year	Increase/decrease of the end of the report period vs the end of the previous year (%)
Total assets	657,548,235.33	621,275,547.20	5.84%
Shareholders' equity (excluding minority equity)	538,249,795.66	533,371,239.36	0.91%
Net assets per share	2.159	2.139	0.91%
Net assets per share after adjustment	2.107	2.030	3.79%
	Report period	From year beginning to the end of the report period	Increase/decrease of the report period vs the same period of the previous year (%)
Net cash flows arising from operating activities	-28,417,964.16	-28,417,964.16	
Earnings per share	0.02	0.02	547.87%
Earnings per share (Note)	0.02	-	-
Net assets-income ratio	0.91%	0.91%	0.76%
Net assets-income rate after deducting the non-recurring gains and loss	0.80%	0.80%	0.07%

Note: In case there was any change in the Company's share capital taken place in the duration from the end of the report period to the date of disclosing this report, the earnings per share should be based on the up-to-date share capital.

Non-recurring gain and loss items	Amount
Net amount of non-operating income and expenses	40,777.98
Losses from short term investments	-657,759.39
Less: Amount affected by non-recurring gain/loss income tax	6,116.70
Total	-610,864.71

2.2.2 Financial Statement

2.2.2.1 Balance Sheet

Prepared by: SHENZHEN FIYTA HOLDINGS LTD. March 31, 2005 In RMB

Items	Ending Balance		Opening Balance	
	Consolidated	Parent company	Consolidated	Parent company
Current assets:				
Monetary funds	54,235,831.27	41,854,777.46	47,710,206.11	29,988,789.99
Short-term investment	1,463,400.00	1,463,400.00	4,949,220.00	4,949,220.00

Notes receivable			550,000.00	550,000.00
Dividend receivable		244,066.90		244,066.90
interest receivable				
Accounts receivable	19,752,331.03	15,563,555.67	27,659,618.52	21,367,150.45
Other receivables	19,991,026.35	84,908,832.04	17,329,135.64	106,055,435.82
Advance to supplier	1,038,861.74	59,999.99	526,831.60	59,999.99
Subsidies receivable				
Inventories	270,595,364.64	71,829,404.29	233,861,001.05	61,888,807.31
Expenses to be apportioned	824,781.92	139,205.00	689,324.14	142,103.53
Long-term debt investment due within a year				
Other current assets				
Total current assets	367,901,596.95	216,063,241.35	333,275,337.06	225,245,573.99
Long-term investment:				
Long-term equity investment	10,385,500.87	164,096,353.59	10,385,500.87	159,145,424.44
Long term bond investment				
Total long-term investments	10,385,500.87	164,096,353.59	10,385,500.87	159,145,424.44
Consolidated price difference				
Fixed assets:				
Fixed assets, cost	323,830,145.18	294,079,415.54	314,215,739.27	291,699,290.65
Less: accumulative depreciation	65,244,395.85	53,223,675.86	63,305,277.38	50,857,649.80
Fixed assets, net	258,585,749.33	240,855,739.68	250,910,461.89	240,841,640.85
Less: Provision for devaluation of fixed assets	2,860,323.09	2,600,000.00	2,860,323.09	2,600,000.00
Fixed assets, net	255,725,426.24	238,255,739.68	248,050,138.80	238,241,640.85
Engineering supplies				
Improvement of shareholder's assets for operating rent			7,909,517.63	
Construction-in-progress	134,773.24	134,773.24	134,773.24	134,773.24
Disposal of fixed assets				
Total fixed assets	255,860,199.48	238,390,512.92	256,094,429.67	238,376,414.09
Intangible assets and other assets:				
Intangible assets	16,127,214.33	16,242,387.93	16,242,387.93	16,242,387.93
Long-term expenses to be apportioned	7,273,723.70	4,386,321.07	5,277,891.67	4,062,993.96
Other long term assets				
Total intangible assets and other assets	23,400,938.03	20,628,709.00	21,520,279.60	20,305,381.89
Deferred taxes:				
Deferred taxes and debit				
Total assets	657,548,235.33	639,178,816.86	621,275,547.20	643,072,794.41
Current liabilities				
Short-term Loan	60,000,000.00	60,000,000.00	20,000,000.00	20,000,000.00
Notes payable				
Accounts payable	19,964,004.75	2,272,004.19	28,992,468.45	46,011,182.83
Advance from customers	1,333,553.00	10,000.00	4,235,032.14	3,283,700.14
Salaries payable	614,908.66	66,290.66	1,679,877.40	69,064.40
Welfares payable	2,966,391.74	1,977,731.21	2,871,521.81	1,978,323.61
Dividends payable				
Taxes payable	-8,975,153.14	2,246,708.27	-10,744,164.79	2,571,988.26

Other accounts due	35,242.11	19,462.16	38,460.40	7,282.92
Other payables	30,885,647.47	24,240,100.27	28,918,936.66	25,611,311.27
Expenses allotted in advance	2,087,777.67	648,431.13	1,409,493.00	720,408.31
Predicted liabilities				
Long-term liabilities due within one year				
Total other current liabilities				
Total current liabilities	108,912,372.26	91,480,727.89	77,401,625.07	100,253,261.74
Long-term liabilities				
Long-term Loan				
Bonds payable				
Long term accounts payable				
Special accounts payable	3,000,000.00	3,000,000.00	3,000,000.00	3,000,000.00
Other long-term liabilities				
Total long-term liabilities	3,000,000.00	3,000,000.00	3,000,000.00	3,000,000.00
Deferred taxes:				
Deferred taxes and credit items				
Total liabilities	111,912,372.26	94,480,727.89	80,401,625.07	103,253,261.74
Minority shareholders' equity:	7,386,067.41		7,502,682.77	
owners'/shareholders' equity				
Paid-up capital (or share capital)	249,317,999.00	249,317,999.00	249,317,999.00	249,317,999.00
Less: Returned investment				
Net paid-up capital (or share capital)	249,317,999.00	249,317,999.00	249,317,999.00	249,317,999.00
Capital Public Reserve	191,847,232.65	191,847,232.65	191,847,232.65	191,847,232.65
Surplus Public Reserve	98,654,301.02	98,654,301.02	98,654,301.02	98,654,301.02
Incl.: Statutory public welfare fund	25,036,994.11	25,036,994.11	25,036,994.11	25,036,994.11
Retained earnings	-1,569,737.01	4,878,556.30	-6,448,293.31	0.00
Including: Cash dividend				
Unidentified investment loss				
Foreign currency conversion balance of statement				
Total owners'/shareholders' equity	538,249,795.66	544,698,088.97	533,371,239.36	539,819,532.67
Total liabilities and owners'/shareholders' equity	657,548,235.33	639,178,816.86	621,275,547.20	643,072,794.41

Legal representative: Wu Guangquan Chief Financial Officer: Li Dehua Manager of the Accounting Department: Hu Xinglong

2.2.2.2 Statement of Profit and Profit Distribution

Prepared by: SHENZHEN FIYTA HOLDINGS LTD. Jan to Mar, 2006 In RMB

Items	The report period		Same Period of the Previous Year	
	Consolidated	Parent company	Consolidated	Parent company
I. Income from principal businesses	111,210,503.53	43,311,930.83	88,916,628.28	38,445,687.58

Less: Costs of principal business	71,412,799.18	21,391,531.43	58,435,299.81	20,056,247.46
Taxes and surcharges of principal business	857,431.21	742,540.93	655,757.91	607,126.28
II. Profit from principal businesses (loss stated with "-")	38,940,273.14	21,177,858.47	29,825,570.56	17,782,313.84
Plus: Profit from other businesses (loss stated with "-")	437,747.25	59,434.76	341,144.57	215,437.74
Less: Operation costs	19,092,663.64	12,640,099.90	13,809,361.41	9,672,622.29
Overheads	13,655,191.41	8,369,306.34	11,564,222.86	6,364,325.24
Financial expenses	897,517.29	266,429.20	279,141.41	153,014.36
III. Profit from businesses (loss stated with "-")	5,732,648.05	-38,542.21	4,513,989.45	1,807,789.69
Plus: Investment income (loss stated with "-")	657,759.39	5,608,688.54	-3,568,006.57	-1,059,888.83
Subsidy income				
Non-operating income	103,265.51		39,042.88	8,085.00
Less: Non-operating expenses	62,487.53	2,821.64	10,368.63	2,973.63
IV. Total Profit (loss stated with "-")	6,431,185.42	5,567,324.69	974,657.13	753,012.23
Less: Income tax	1,668,898.58	688,768.39	221,644.90	
Minority shareholders' equity	-116,269.46			
Add: Amount of unrecognized investment loss incurred in the report period				
V. Net Profit (loss stated with "-")	4,878,556.30	4,878,556.30	753,012.23	753,012.23
Plus: Retained earnings at year beginning	-6,448,293.31	0.00	-54,268,783.00	-54,268,783.00
Other transfer-in				
VI. Profit available for distribution	-1,569,737.01	4,878,556.30	-53,515,770.77	-53,515,770.77
Less: Allotting statutory surplus public reserve				
Allotting statutory public welfare fund				
Allotting staff's reward and welfare fund				
Allotting reserve fund				
Allotting enterprise development fund				
Investment incomeed with profit				
VII. The profit distributable to the investors	-1,569,737.01	4,878,556.30	-53,515,770.77	-53,515,770.77
Less: Dividends of preferential shares payable				
Allotting discretionary surplus				

public reserve				
Dividend payable for common shares				
Dividends of common shares converted into capital/capital stock				
VIII. Retained earnings	-1,569,737.01	4,878,556.30	-53,515,770.77	-53,515,770.77
Additional Information to the Profit Statement				
1. Income from sales and disposal of subsidiaries or investees				
2. Loss from natural disaster				
3. Increase/decrease of the total profit due to change of accounting policy				
4. Increase/decrease of the total profit due to change of accounting estimation				
5. Loss from debts reorganization				
6. Others				

Legal representative: Wu Guangquan Chief Financial Officer: Li Dehua Manager of the Accounting Department: Hu Xinglong

2.2.2.3 Cash Flow Statement

Prepared by: SHENZHEN FIYTA HOLDINGS LTD. Jan to Mar, 2006 In RMB

Items	The report period	
	Consolidated	Parent company
I. Net cash flows arising from operating activities		
Cash received from sales of products and supply of labor	126,516,008.28	47,613,921.49
Rebated taxes received		
Other business related cash receipts	455,462.74	337,252.46
Subtotal of cash flow in	126,971,471.02	47,951,173.95
Cash paid for purchase of goods and reception of labor services	111,483,994.10	19,071,652.93
Cash paid to and for staff	14,892,858.26	7,280,275.92
Taxes paid	6,643,545.11	3,131,140.51
Other operation related cash payments	22,369,037.71	45,347,086.39
Subtotal of cash flow out	155,389,435.18	74,830,155.75
Net cash flows arising from operating activities	-28,417,964.16	-26,878,981.80
II. Cash flows arising from investment activities:		
Cash received from recovery of investment	3,000,000.00	3,000,000.00
Cash received from investment income		
Net amount of cash received from disposal of fixed assets, intangible assets and other long term assets	104,885.00	
Other investment related cash receipts		
Subtotal of cash flow in	3,104,885.00	3,000,000.00
Cash paid for construction/purchase of fixed assets, intangible assets and other long term assets	7,459,495.68	3,553,230.73
Cash paid for investment		
Other investment related cash payments		
Subtotal of cash flow out	7,459,495.68	3,553,230.73
Net cash flow arising from investment	-4,354,610.68	-553,230.73

activities		
III. Cash flows arising from fund raising activities:		
Cash received from absorption of investment		
Cash received from borrowings		
Other fund-raising related cash received	40,000,000.00	40,000,000.00
Subtotal of cash flow in	40,000,000.00	40,000,000.00
Cash paid for liabilities repayment		
Cash paid for dividend/profit distribution or repayment of interest		
Other fund raising related cash payments	701,800.00	701,800.00
Subtotal of cash flow out	701,800.00	701,800.00
Net cash flow arising from fund-raising activities	39,298,200.00	39,298,200.00
IV. Influence upon cash due to change of exchange rate		
V. Net increase of cash and cash equivalents	6,525,625.16	11,865,987.47
Additional Information to the Cash Flow Statement		
1. Net cash flows arising from adjustment of net profit into operating activities		
Net profit	4,878,556.30	4,878,556.30
Plus: Provision for devaluation of assets		
Depreciation of fixed assets	3,986,081.48	2,195,794.38
Amortization of intangible assets	208,923.60	208,923.60
Long-term expenses to be apportioned	1,430,130.94	
Decrease (less: increase) of expenses to be apportioned	-135,457.78	2,898.53
Increase (less: decrease) of expenses drawn in advance	158,787.57	494,546.13
Loss (less: income) from disposal of fixed assets, intangible assets and other long term assets	-40,777.98	
Losses from rejection of fixed assets		
Financial expenses	701,800.00	701,800.00
Investment loss (less: income)	-657,759.39	-657,759.39
Deferred tax loan (less: debit)		
Decrease (less: increase) of inventories	-27,246,364.86	-4,324,558.78
Decrease (less: increase) of operative items receivable	-5,944,331.26	-21,446,603.78
Increase (less: decrease) of operative items payable	-5,641,283.32	-8,932,578.79
Others		
Minority shareholders' equity	-116,269.46	
Net cash flows arising from operating activities	-28,417,964.16	-26,878,981.80
2. Investment and fund-raising activities with no cash income and expenses involved		
Capital converted from liabilities		
Convertible company bonds due within a year		
Fixed assets rented through financing		
3. Net increase of cash and cash equivalents:		
Ending cash balance	54,235,831.27	41,854,777.46
Less: Opening cash balance	47,710,206.11	29,988,789.99
Plus: Ending cash equivalent balance		
Less: Opening cash equivalent balance		
Net increase of cash and cash equivalents	6,525,625.16	11,865,987.47

Legal representative: Wu Guangquan Chief Financial Officer: Li Dehua Manager of the Accounting Department: Hu Xinglong

2.3 Total Shares and Shares Held by Top Ten Shareholders of Negotiable Shares at the End of the Report Period

Total shareholders at the end of the report period	19,531	
Shares held by the top ten shareholders		
Shareholder's name (full name)	Negotiable shares held at the year end	Types (A-, B- or H-shares, or others)
Henan Fangchen Technology & Trade Co., Ltd.	1,709,700.00	A-share
Zeng Ying	717,490.00	B-share
KUNG NGAI HIN	597,322.00	B-share
Zhengzhou Tengbo Trade Co., Ltd.	509,400.00	A-share
Ou Yanping	500,458.00	B-share
Xue Peiming	444,800.00	B-share
Lin Hongbo	362,880.00	B-share
China Pingan Insurance (HK) Co., Ltd.	346,110.00	B-share
Wang Haiyang	344,803.00	A-share
MIN LIU	341,900.00	B-share

§3 Discussion and Analysis of the Management

3.1 Summary of the Operation Activities in the Report Period

In the report period, the Company continued to guide various work with the brand strategy according to the guideline of "carrying through the company's philosophy, improving the quality of manpower, reinforcing brand integration and devoting efforts to innovative development" worked out at the year beginning and kept steady growth in various businesses. As a result, the profit grew by a big margin over the same period of the previous year. The Company's revenue from the principal business was RMB 111.2105 million and profit from the principal business was RMB 40.4689 million, with a growth rate of 25.07% and 35.69% respectively over the same period of the previous year. The Company realized a total profit amounting to RMB 6.4312 million and net profit amounting to RMB 4.8785 million, with a growth rate of 559.84% and 547.87% respectively over the same period of the previous year.

In the first quarter, FIYTA watches experienced a favorable sales trend. The leading products, including "Shenzhou Six Spacecraft" space flight watches and Gold Buddha watches launched before the Chinese Spring Festival kept flourishing sales and the gross profit also increased by a big margin. In the report period, the sales income of FIYTA watches was RMB 32.3696 million, an 8.20% growth over the same period of the previous year. Harmony World Watches Center added three chain shops, namely EUROPE Shop in Harbin, Lishan Shop in Kunming and Kairui Shop in Chongqing. In the first quarter, Harmony World Watches Center realized sales income amounting to RMB 67.8986 million, a 36.69% growth over the same period of the previous year. The rental income from FIYTA Building and FIYTA Technology Building amounted to RMB 10.9423 million, a 17.34% growth over the same period of the previous year.

3.1.1 Businesses or products with the turnover and profit taking over 10% of the total from the principal businesses

√ Applicable ☐ Inapplicable

In RMB '000

Principal Businesses Based on Sectors			
	Principal business income	Principal business cost	Gross profit rate (%)
Timepiece manufacture	32,369.60	15,459.70	52.24%
Other wholesale and retail	67,898.60	54,122.80	20.29%
Lease services	10,942.30	1,830.30	83.27%
Incl.: related transactions	0.00	0.00	0.00%
Principal Businesses Based on Products			
Manufacture and sales of FIYTA watches	32,369.60	15,459.70	52.24%
Sales of foreign famous watches	67,898.60	54,122.80	20.29%
Incl.: related transactions	0.00	0.00	0.00%

3.1.2 Seasonal or Periodical Characteristics of Business Operation

☐ Applicable √ Inapplicable

3.1.3 Profit Compositions in the Report Period (Proportions of profit from principal businesses, profit from the other businesses, expenses in the period, investment income, subsidy income, net non-operating income and expenditure in the total profit and the significant changes and causes in comparison with those of the previous report period)

√ Applicable ☐ Inapplicable

Items	Amount In RMB		Proportion in total profit (%)		
	Jan to Mar, 2006	2005	Jan to Mar, 2006	2005	Increase/decrease rate
Principal business profit	38,940,273.14	129,173,020.42	605.49%	695.84%	-12.98%
Profit from other business lines	437,747.25	744,145.09	6.81%	4.01%	69.80%
Period expenses	33,645,372.34	110,603,660.52	523.16%	595.81%	-12.19%
Investment income	657,759.39	-1,144,477.69	10.23%	-6.17%	265.89%
Net amount of non-operating income and expenses	40,777.98	394,565.11	0.63%	2.13%	-70.17%
Total profit	6,431,185.42	18,563,592.41	100.00%	100.00%	0.00%

Note: Bigger change in the proportion of investment income in the total profit over that in the previous report period was ıly due to profit-making in stock investment in the report period.

3.1.4 Significant Changes in the Principal Business or its Structure and the Causes in Comparison with the Previous Report Period

☐ Applicable √ Inapplicable

3.1.5 Significant Changes in the Earning Power of the Principal Business (Gross Margin Rate) in Comparison with the Previous Report Period and the Causes

□ Applicable √ Inapplicable

3.2 Significant Events, its Impacts and the Solutions

√ Applicable □ Inapplicable

1. For analysis on influence from tax policy, according to the Circular of the State Ministry of Finance and the State Administration of Taxation CAI SHUI [2006] No. 33, commencing from April 1, 2006, China has adjusted the tax items and tax rates of our country's prevailing consumption tax and the relevant policy, where various high grade watches with sales price (with VAT exclusive) of over RMB 10,000 (with RMB 10,000 inclusive) per piece shall be levied with consumption tax at the rate of 20%. As the proportion of FIYTA watches applicable to the above taxation is small, the said policy has not produced significant affect upon the business of FIYTA watches. However, the above tax policy may produce fluctuation affect upon sales of famous brand watches at Harmony Famous Brand Watches chain shops. However, on long term basis, the famous brand watch manufacturers and distributors shall enhance communication and cooperation in order to stabilize the famous watch consumption market and reduce the affect from the taxation factor upon the sales market; in addition, the price demand flexibility of high grade watches is relatively small, therefore, on long term basis, the above policy will produce less affect upon sales of famous brand watches. 2. About implementation of regular related transactions (The Announcement of Regular Related Transactions in 2006 was published on Securities Times and Hong Kong Commercial Daily dated April 20, 2006). The property management service of the Company's FIYTA Building and FIYTA Technology Building is offered by CATIC Property Management Co., Ltd. The service charge has been determined based on the market price. In the report period, the service charge payable by the Company was RMB 609,200, which complies with the predicted amount. The Company sells watches via special counters of Shenzhen Rainbow Supermarket Co., Ltd. In the report period, the Company paid the fee totaling RMB 394,600, which complies with the predicted amount.

Occupancy of non-operating funds and progress of clearing arrears

□ Applicable √ Inapplicable

3.3. Accounting Policies, Accounting Estimation, Change in the Consolidation and Significant Accounting Errors and the Causes

□ Applicable √ Inapplicable

3.4 Relevant explanation of the Board of Directors and the Supervisory Committee on the "opinions on non-compliance" expressed by the auditor in process of auditing

□ Applicable √ Inapplicable

3.5 Prediction of the possibility of the accumulated net profit from the year beginning to the end of the next report period being of loss; or warning for big changes in the net profit in comparison with the same period of the previous year and the reasons

√ Applicable ☐ Inapplicable

As the Company's income from the principal business grows and the earning power improves, it is predicted that the accumulative net profit of the first half year of 2006 shall increase by 50% over the same period of the previous year.

3.6 Rolling adjustment of the disclosed annual operation plan or budget

☐ Applicable √ Inapplicable

3.7 About the time schedule for the equity reform of a listed company that has not started the reform

√ Applicable ☐ Inapplicable

On April 12, 2006, the Company held a shareholders' meeting to review the equity separation reform proposal. However the proposal was not approved through voting. The Company shall try every means to restart the equity separation reform work three months later according to the Measures on Reform for Equity Separation in Listed Companies.

Explanation about the reasons why a listed company has undertaken to conduct the equity separation reform but failed to manage timely implementation.

☐ Applicable √ Inapplicable