深圳市飞亚达（集团）股份有限公司

SHENZHEN FIYTA HOLDINGS LTD.

2006 Annual Report

APRIL 26, 2007

Definition

The following names in abbreviation shall refer to the following organizations unless the context hereof otherwise clearly requires:

The Company or Fiyta: Shenzhen Fiyta Holdings Co., Ltd.

CATIC Shenzhen Corporation: China National Aero-Technology Import & Export Corporation Shenzhen Corporation

CATIC Shenzhen: CATIC Shenzhen Holdings Ltd.

Harmony: Shenzhen Harmony World Watches Center Co., Ltd.

Rainbow Supermarket: Shenzhen Rainbow Supermarket Co., Ltd.

CATIC Property: Shenzhen CATIC Property Management Co., Ltd.

Important

I. 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 completeness of the whole contents.

This annual report is prepared in both Chinese and English. Should there be any difference in understanding of the two versions, the Chinese version shall prevail.

II. No director, supervisors or any senior executive has expressed that he/she is not sure for the genuineness, accuracy or completeness of this annual report or has any different opinion on the same.

III. Director Wu Guangquan was absent from the meeting due to business trip and authorized Director Lai Weixuan to vote at the meeting on his behalf.

IV. Yuehua Certified Public Accountants Co., Ltd. and Morison International produced a standard unqualified audit report.

V. Mr. Wu Guangquan, the Chairman of the Board, Mr. Xu Dongsheng, the General Manager, Mr. Li Dehua, Deputy General Manager and Chief Accountant, and Mr. Hu Xinglong, the Financial Manager hereby guarantee the accuracy and completeness of the financial report enclosed in this annual report.
Except that the Financial Report (Chapter 10) of the English version is drawn up according to the Auditors' Report as prepared in accordance with International Financial Report Standards, all financial data are based on Chinese Accounting Standards.

Table of Contents

Chapter 1 Company Information

I. Legal Name in Chinese and English and Short Form:
Company Name in Chinese: 深圳市飞亚达（集团）股份有限公司
Short Form in Chinese: 飞亚达公司
In English: SHENZHEN FIYTA HOLDINGS LTD
Short Form in English: FIYTA

II. Legal Representative: Mr. Wu Guangquan

III. Secretary of the Board: Mr. Hao Huiwen
Securities Affairs Representative: Mr. Chen Zhuo
Liaison Address: 20th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen
Tel : 0755－86013992 86013669
Fax : 0755 - 83348369
E-mail: investor@fiyta.com.cn

IV. Registered Office Address: FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen
Office Address: 20th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen
Post Code: 518057
Internet Website: http:// www.fiyta.com.cn

V. Newspapers Designated for Disclosing the Information: Securities Times, Hong Kong Commercial Daily

Internet Website for publishing this annual report: http://www.cninfo.com.cn
Place Where the Annual Report is Prepared and Placed: Securities Department of the Company

VI. Stock Exchange Listed with: Shenzhen Stock Exchange
Short Form of the Stock and Stock Code: S FIYTA A 000026
FIYTA B 200026

VII. Other Relevant Information
1. Date of initial registration: March 30, 1990
Date of change in registration: January 30, 1997
Registration with: Shenzhen Municipal Administration for Industry and Commerce.

2. Business License No.: 4403011001583

3. Taxation Registration No.: 440301192189783

4. Certified public accountants engaged

Types	Name	Office address
A-shares	Yuehua Certified Public Accountants Co., Ltd.	B01-B03, 12th Floor, Pengrun Building, No. 26, Xiaoyun Road, Chaoyang District, Beijing
B-shares	Morison International	17th Floor, No. 1 CANNON ST.,CAUSEWAY BAY, Hong Kong

Chapter 2　Financial and Business Highlights

I. Financial Highlights of the Year 2006

Items	Amount　In RMB
Total profit	34,846,010.21
Net profit	29,263,221.63
Net profit less non- recurring loss/gain	28,000,226.95
Principal business profit	175,387,995.88
Profit from other business lines	2,748,362.63
Operating profit	33,570,719.89
Investment income	1,357,261.22
Subsidy income	0.00
Net amount of non-operating income and expenses	-81,970.90
Net cash flows arising from operating activities	-86,133,036.02
Net increase/ decrease of cash and cash equivalents	12,515,872.43

* Deduction of non-recurring gain/loss items and amount involved

Non-recurring gain and loss items	Amount　In RMB
Income from disposal of fixed assets	-83,218.10
Carry-back of the reserves for devaluation provided in the previous years.	340,200.29
Income from short term investments	1,017,061.22
Non-operating revenue & expenditure	1,247.20
Amount affected by the income tax	-12,295.64
Total	1,262,994.68

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

In RMB '000

	Domestic Accounting Standard (CAS)	International Accounting Standard (IAS)
Net profit	29,263	26,169
Note to the discrepancies	Adjustment on deferred tax assets -3,548 Adjustment of the provision for bad debts. 454	

III. Financial Highlights Over the Past Three Years Ended the Report Period

1. Accounting Data Summary

In RMB

Items	2006 (report year)	2005 (previous year)	Year-on-year increase/ decrease (%)	2004
Principal business income	487,241,213.32	341,504,786.91	42.67%	278,246,963.00
Total profit	34,846,010.21	18,563,592.41	87.71%	3,523,936.00
Net profit	29,263,221.63	16,006,999.87	82.82%	1,907,880.00
Net profit less non- recurring loss/gain	28,000,226.95	17,181,233.23	62.97%	2,473,894.00
Net cash flows arising from operating activities	-86,133,036.02	-14,006,618.19	—	-24,942,143.00
	End of 2006 (End of the report year)	End of 2005 (End of the previous year)	Year end -on-year end increase/ decrease (%)	End of 2004
Total assets	771,947,475.56	621,275,547.20	24.25%	627,537,297.71
Shareholders' equity (excluding minority equity)	562,634,460.99	533,371,239.36	5.49%	517,364,239.49

2. Financial Data Summary

In RMB

Items	2006 (report year)	2005 (previous year)	Year-on-year increase/ decrease (%)	2004
Earnings per share	0.117	0.064	82.82%	0.008
Net assets-income ratio	5.20%	3.00%	2.20%	0.37%
Net assets-income ratio based on the net profit less non-recurring gains/ loss	4.98%	3.22%	1.76%	0.48%
Net cash flows per share arising from operating activities	-0.345	-0.056	-	-0.10
	End of 2006 (End of the report year)	End of 2005 (End of the previous year)	Year end -on-year end increase/ decrease (%)	End of 2004
Net assets per share	2.257	2.139	5.49%	2.075

Net assets per share after adjustment	2.180	2.087	4.47%	2.03

IV. Net assets calculated in accordance with the Rules for Public Companies to Disclose Information and Prepare Statements (No. 9) promulgated by China Securities Regulatory Commission

Earning Rate and Earnings per Share:

Items	Profit of the report period (in RMB)	Net assets-income ratio (%)		Earnings per share (RMB/share)	
		Fully diluted	Weighted average	Fully diluted	Weighted average
Principal business profit	175,387,995.88	31.17%	32.00%	0.703	0.703
Operating profit	33,570,719.89	5.97%	6.13%	0.135	0.135
Net profit belonging to the shareholders of ordinary shares in the Company	29,263,221.63	5.20%	5.34%	0.117	0.117
Net profit belonging to the shareholders of ordinary shares in the Company less non-recurring gains and loss	28,000,226.95	4.98%	5.11%	0.112	0.112

V. Changes in Shareholders' Equity in the Report Period (In RMB)

Items	Share Capital	Capital Public Reserve	Surplus Public Reserve	Statutory public welfare fund	Retained earnings	Total Shareholders' Equity
Opening balance	249,317,999	191,847,232.65	98,654,301.02	25,036,994.11	-6,448,293.31	533,371,239.36
Increase in the report period	0	0.00	2,826,696.60	0.00	26,436,525.03	29,263,221.63
Decrease in the report period	0	0.00	0.00	0.00	0.00	0.00
Ending balance	249,317,999	191,847,232.65	101,480,997.62	-	19,988,231.72	562,634,460.99
Reason of Change	Increase of the retained earnings was from the profit in the report period.					

Chapter 3 Share Capital and Shareholders

I. Change in Shares

1. Changes in the Company's share capital ended December 31, 2005 are as follows:

In shares

	Before the change	Increase/ Decrease (+ / -) as of the year	After the change
I. Non-listed negotiable shares			
Promoters' shares	130,248,000	0	130,248,000
Including: domestic legal person shares	130,248,000	0	130,248,000
Total non-listed negotiable shares	130,248,000	0	130,248,000
II. Listed negotiable shares			
1. RMB ordinary shares	60,749,999	0	60,749,999
Incl.: senior executives' shares	48,210	0	48,210
2. Foreign shares listed domestically	58,320,000	0	58,320,000
Total listed negotiable shares	119,069,999	0	119,069,999
III. Total Shares	249,317,999	0	249,317,999

2. Issuing and Listing

(1) The Company had not issued any shares and derivatives in the previous three years ended the report period.

(2) In the year 2006, the Company never conducted such activities as distributing bonus shares, converting public reserve into share capital, share allotment, new issuing, stock absorption and combination, converting convertible bonds into shares, capital reduction, issuing or listing employee shares or shares of the Company's employees or any other activity which caused change in total shares and the structure.

(3) The Company has no employees' shares now.

II. Shareholders

1. Ended December 31, 2006, the Company had totally 17,879 shareholders, including 8,851 shareholders of A-shares including 1 senior executive and 9,028 shareholders of B-shares.

2. Shares held by the top ten shareholders

Shareholders	Increase/ Decrease in the year	Number of shares held at year end	Shareholding Proportion (%)	Type (negotiable/non-negotiable)	Shares pledged or frozen
CATIC SHENZHEN HOLDINGS LTDS.	0	130248000	52.24	Domestic legal person shares	0
Zhejiang International Trust & Investment Co., Ltd.	10354324	10354324	4.15	Negotiable A-shares	unknown

Henan Fangchen Technology & Trade Co., Ltd.	6280000	6280000	2.52	Negotiable A-shares	unknown
Shenzhen Xinglun Network Technology Co., Ltd.	4714157	4714157	1.89	Negotiable A-shares	unknown
Kaifeng Xinfeng Trade Co., Ltd.	4147400	4147400	1.66	Negotiable A-shares	unknown
Shanghai Delin Property Management Co., Ltd.	3951975	3951975	1.59	Negotiable A-shares	unknown
Ou Yanping	unknown	559322	0.22	Negotiable B-shares	unknown
Ou Yanping	14942	515400	0.21	Negotiable B-shares	unknown
Lin Junhua	439794	439794	0.18	Negotiable A-shares	unknown
Lin Chubin	unknown	419854	0.17	Negotiable B-shares	unknown

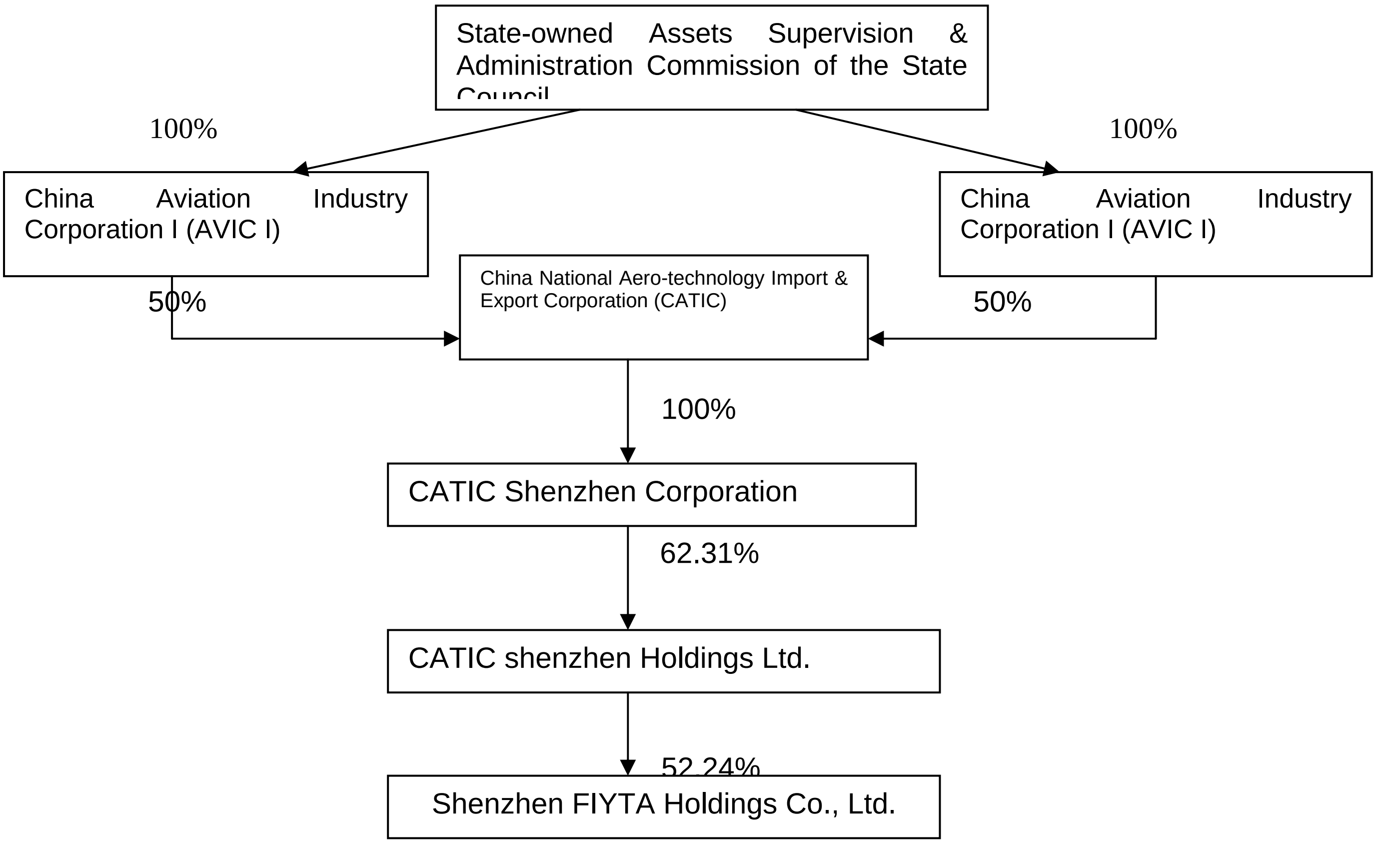
The shareholder that holds over 5% (including 5%) of the total share capital is CATIC SHENZHEN HOLDINGS LTD. In the report period there was no change in the shareholding and there were no shares held by it pledged or frozen. Of the tope ten shareholders, the two shareholders with the same name of Ou Yanping, have different shareholders' information, such as ID No., addresses, etc. Other than this, the Company has not found any relationship among the shareholders or they belong to the persons of concerted action as specified in the Measures on Listed Companies on Disclosing the Shareholding Information.

3. About the Holding Shareholder

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

4. Actual Controller of the Control Shareholder

China National Aero-Technology Import & Export Corporation (CATIC) was established in 1979 with registered capital of RMB 300 million, legal representative: Fu Shula, principal business: export of three categories of planned commodities, other three types of commodities, rubber products upon authorization, import of two categories of commodities and three categories of commodities; import and export of the aforesaid commodities on commission; technology import and export within the Group; processing with materials supplied, processing with samples supplied, assembling with components supplied and compensation trade; counter trade and transit trade; barter trade upon authorization; import and export of the commodities other than the 16 categories of commodities under joint operation organized by the government and the 12 categories of import commodities operated by the importers authorized by the government; participating in international bidding by using foreign loans and for purchasing mechanical and electrical products by using the domestic funds and other international procurement business by public bidding; sales of automobiles (excluding sedan cars).



5. Top Ten Shareholders of Negotiable Shares

Shareholders	Number of shares held at year end	Share Type	Shareholding Proportion (%)
Zhejiang International Trust & Investment Co., Ltd.	10354324	Negotiable A-shares	4.15
Henan Fangchen Technology & Trade Co., Ltd.	6280000	Negotiable A-shares	2.52
Shenzhen Xinglun Network Technology Co., Ltd.	4714157	Negotiable A-shares	1.89
Kaifeng Xinfeng Trade Co., Ltd.	4147400	Negotiable A-shares	1.66
Shanghai Delin Property Management Co., Ltd.	3951975	Negotiable A-shares	1.59
Ou Yanping	559322	Negotiable B-shares	0.22
Ou Yanping	515400	Negotiable B-shares	0.21
Lin Junhua	439794	Negotiable A-shares	0.18
Lin Chubin	419854	Negotiable B-shares	0.17
ABN AMRO BANK NV	382400	Negotiable B-shares	0.15

Relationship among the top ten shareholders of negotiable shares	The Company has not found any connectivity relations among the top ten shareholders of negotiable shares and between the top ten shareholders of negotiable shares and the top ten shareholders.

Chapter 4 Directors, Supervisors, Senior Executives and Staff

I. Directors, Supervisors and Senior Executives

1. Directors, Supervisors, Senior Executives

Names	Title	Sex	Age	Office Term	Number of shares held at year beginning	Number of shares held at year end	Reason of Change
Wu Guangquan	Chairman of the Board	male	44	May, 2006 - May 2009	0	0	—
Lai Weixuan	Vice-Chairman of the Board	male	42	May, 2006 - May 2009	0	0	—
Sui Yong	Director	male	48	May, 2006 - May 2009	0	0	—
Wang Baoying	Director	male	42	May, 2006 - May 2009	0	0	—
Xu Dongsheng	Director and General Manager	male	40	May, 2006 - May 2009	0	0	—
Hua Xiaoning	Independent director	male	43	May, 2006 - May 2009	0	0	—
Guo Wanda	Independent director	male	41	May, 2006 - May 2009	0	0	—
Ji Qinzhi	Independent director	female	65	May, 2006 - May 2009	0	0	—
Huang Gaojian	Chairman of Supervisory Committee	male	50	May, 2006 - May 2009	0	0	—
Zhang Songhua:	Supervisor	male	53	May, 2006 - May 2009	0	0	—
Tang Boxue	Supervisor	male	45	May, 2006 - May 2009	0	0	—
Lu Bingqiang:	Deputy General Manager	male	45	May, 2006 - May 2009	48210	48210	—
Li Dehua:	Deputy General Manager and Chief Accountant	male	46	May, 2006 - May 2009	0	0	—
Li Bei	Deputy General Manager	male	51	May, 2006 - May 2009	0	0	—
Fang Juan	Deputy General Manager	female	47	May, 2006 - May 2009	0	0	—
Hao Huiwen	Deputy General Manager & Secretary of the Board	male	38	May, 2006 - May 2009	0	0	—

2. Engagement of Directors and Supervisors in the Shareholders

Names	Shareholders	Titles engaged in the shareholders	Office term
Wu Guangquan	CATIC SHENZHEN HOLDINGS LTDS.	Chairman of the Board	Jue, 2006 - Jue 2009
Lai Weixuan	CATIC SHENZHEN HOLDINGS LTDS.	Director	Jue, 2006 - Jue 2009
Sui Yong	CATIC SHENZHEN HOLDINGS LTDS.	Director	Jue, 2006 - Jue 2009
Wang Baoying	CATIC SHENZHEN HOLDINGS LTDS.	Director	Jue, 2006 - Jue 2009

Xu Dongsheng	CATIC SHENZHEN HOLDINGS LTDS.	Director	Jue, 2006 - Jue 2009
Huang Gaojian	CATIC SHENZHEN HOLDINGS LTDS.	Chairman of Supervisory Committee	Jue, 2006 - Jue 2009

3. Curriculum Vitae of Directors, Supervisors and Senior Executives and the Offices Taken or Part Time Jobs Engaged by them in other Organizations except Shareholders

(1) Directors

Mr. Wu Guangquan, 44, senior accountant and MBA of Tongji University. Mr. Wu is the Chairman of the Board of the Company, general manager of CATIC Shenzhen Corporation and the president of CATIC SHENZHEN HOLDINGS LTD.. He used to be vice chief accountant & financial manager of CATIC SHENZHEN HOLDINGS LTD, general manager and chairman of the board of Jiangxi Jiangnan Trust & Investment Co., Ltd.

Mr. Lai Weixuan, 42, senior accountant, on-campus EMBA of Beijing University, MBA of (USA) IVY UNIVERSITY. Mr. Lai is now Vice Chairman of the Board of the Company, vice president of CATIC SHENZHEN HOLDINGS LTD., the Secretary of the CPC Committee of CATIC Shenzhen Corporation and the general manager of Shenzhen Rainbow Supermarket Co., Ltd. He used to be assistant general manager of CATIC Commercial & Trading Co. and deputy general manager of Shenzhen Rainbow Supermarket Co., Ltd.

Mr. Sui Yong, 48, senior accountant. Mr. Sui graduated from Beijing University of Aeronautics & Astronautics. He is a director of the Company and chief accountant of CATIC Shenzhen Corporation. He used to be deputy section-chief of Financial Section of Shenyang Liming Engine Company, deputy section-chief of Financial Section of CATIC, assistant general manager of CATIC Property Beihai CATIC Associated Development Co., manager and vice chief accountant of Financial Dept. of CATIC Shenzhen Corporation.

Mr. Xu Dongsheng, 40, senior economist, graduated from MBA of Tongji University. Mr. Xu is now the Managing Director of the Company and Vice-president of CATIC SHENZHEN HOLDINGS LTD. He used to be the secretary of the Youth League Committee of CATIC SHENZHEN HOLDINGS LTD., general manager of the life service company of CATIC SHENZHEN HOLDINGS LTD., vice secretary of the discipline committee of CATIC SHENZHEN HOLDINGS LTD. and assistant president of CATIC SHENZHEN HOLDINGS LTD.

Mr. Wang Baoying, 42, senior engineer, undergraduate of Beijing University of Aeronautics & Astronautics, MBA of SCUPS. He is now a director of the Company and manager of the Strategy and Management Department of CATIC Shenzhen Corporation. He used to be a technician, deputy chief of the labor and capital devision, chief of comprehensive division and chief of the investment management division of Tianjin State-run No. 105 Factory, assistant general manager and deputy general manager of Shenzhen Rainbow Supermarket Co., Ltd. and deputy general manager of Shenzhen Nanguang (Group) Co., Ltd.

Mr. Hua Xiaoning, 43, Chinese certified public accountant, holding master's degree of Hangzhou Dianzi University. He is now an independent director of the Company, general manager of Shenzhen Youlian Shijun Business Administration Consulting Co., Ltd.; independent director of Hangzhou Steam Turbine Co., Ltd. and Shenzhen Tianma Microelectronics Co., Ltd. He used to be an officer at Ernst & Young and Arthur Anderson.

Mr. Guo Wanda, 41, research fellow, Dr. of economics of Nankai University. He is now an independent director of the Company and vice general secretary of China Development Institute (Shenzhen, China) and the general manager of Think Tank Investment and Management Co., Ltd. He used to be research fellow of Economics Research Institute of

Nankai University, director of the Macro Economy Office of the Economy Prediction Department of Shenzhen Information Center, investment manager, secretary of the board of directors and assistant general manager of Shenzhen Guangshun Co., Ltd., and the chairman of the board and general manager of Guangshun Investment Hubei Shashi Company.

Madam Ji Qinzhi, 65, senior engineer, bachelor of timepieces of Tianjin University. She is now independent director of the Company, vice president of the 6th Council of China Timepieces Association, Chairman of All-China Timepieces Standardization Technology Committee and Vice President of China Timepieces History Society. She used to be a technician of the Timepieces Science Research Institute of the Ministry of Light Industry, a technician, vice chief and chief of the Timepieces Division of the First Light Industry Bureau of the Ministry of Light Industry, the president of the 4th Council of China Timepieces Association, the president and secretary general of the 5th Council of China Timepieces Association, representative of the 8th People's Congress of Beijing.

(2) Supervisors

Mr. Huang Gaojian, 50, senior political work engineer, holding bachelor's degree of Huazhong Normal University. He now is Chairman of the Supervisory Committee of the Company, vice president and chairman of the trade union of CATIC SHENZHEN HOLDINGS LTD. He used to be a teacher of Yanglin Middle School, Songzi, Hubei, vice president of the Higher Education Research Institute of Huazhong Normal University, director of the Party and Mass Work Department of CATIC Shenzhen Corporation and the editor in chief of CATIC Shenzhen, the Secretary of the CPC Committee and deputy general manager of Jiangxi Jiangnan Trust & Investment Co., Ltd. and assistant president of CATIC Shenzhen Holdings Ltd.

Mr. Zhang Songhua, 53, senior engineer, undergraduate degree. Mr. Zhang is a supervisory of the Company and deputy general manager of Shenzhen FIYTA Sophisticated Manufacture Co., Ltd. Mr. Zhang used to be technician of Inspection Section, director, deputy chief and chief of Technology Office of Hongtu Aircraft Factory of China Aviation Industry Corporation , department manager of Shenzhen Flydart Watch Industry Co., Ltd. and manager of Operation Dept. of Shenzhen Fei'ou Precision Timepiece Manufacture Co., Ltd., the general manager of Shenzhen Feitu New Technology Development Co.

Mr. Tang Boxue, 45, holding bachelor's degree and accountant. He is a supervisor and the person in charge of internal auditing of the Company. He used to be the project manager of the financial department and general manager of Shenzhen Pengmen Restaurant Co., Ltd.

(3) Senior Executives

Mr. Lu Bingqiang, 45, senior economist, graduated from Guangzhou Jinan University. Mr. Lu is deputy general manager of the Company. He used to be the president secretary of CATIC SHENZHEN HOLDINGS LTD., assistant general manager of the Company, director of the Company and the general manager and chairman of the board of Harmony World Watches Center.

Mr. Li Dehua, 46, senior accountant, graduated from Beijing University of Aeronautics & Astronautics. He is deputy general manager & chief accountant of the Company. He used to be cost accountant of Shenyang Liming Engine Manufacture Co., Ltd., financial supervisor of Shenzhen Baohang Aluminum Co., Ltd., accounting supervisor of CATIC SHENZHEN HOLDINGS LTD., manager of the financial department and chief financial officer of the Company.

Mr. Li Bei, 51, senior engineer at research fellow level, graduated from Shenyang Liming Polytechnical College. He is deputy general manager of the Company. He used to be department manager of Shenzhen Feida Watch Co., Ltd. and Shenzhen Feibiao Watch Appearance Pieces Co., Ltd.

Ms. Fang Juan, 47, administrator, graduated from the English Department of Jiangxi Normal University. She is deputy general manager of the Company and general manager of Shenzhen Harmony World Watches Center Co., Ltd. She used to be a translator of Jiangxi Ceramics Co., director of the scientific information office of Jingdezhen City, Jiangxi Province, manager of the human resource department and assistant general manager of the Company.

Mr. Hao Huiwen, 38, senior economist, master's degree of economics of Beijing Institute of Economics. He is a deputy general manager, the secretary of the Board and the manager of the human resource department of the Company. He used to be a teacher of market science of Shanxi University of Finance and Economy, assistant manager of Personnel Dept. and secretary of the general manager of Shenzhen Hongchang Industrial Co., Ltd., director of Human Resource Dept. of CATIC SHENZHEN HOLDINGS LTD., and manager of the administrative management department and assistant general manager of the Company.

4. Annual Emolument to Directors, Supervisors and Senior Executives

(1) The annual remuneration to senior executives of the Company was distributed by the Board of Directors according to the posts and the work performances; allowance to the independent directors was reviewed and approved by the Shareholders' General Meeting.

Names	Title	Total remuneration received from the Company in the report period (RMB ' 000)
Xu Dongsheng	Director and General Manager	650.00
Hua Xiaoning	Independent director	30.00
Guo Wanda	Independent director	30.00
Ji Qinzhi	Independent director	10.00
Zhang Songhua:	Supervisor	238.90
Tang Boxue	Supervisor	171.00
Lu Bingqiang:	Deputy General Manager	438.00
Li Dehua:	Deputy General Manager and Chief Accountant	466.00
Li Bei	Deputy General Manager	469.00
Fang Juan	Deputy General Manager	535.00
Hao Huiwen	Deputy General Manager & Secretary of the Board	398.00
Total	—	3,435.90

(2) In the report period, the total amount of the remuneration to directors, supervisors and senior executives in the report year was RMB 3,435,900.00 .

(3) There are 3 independent directors in current office and each of them received allowance amounting to RMB 30,000 per person per year and enjoyed no other financial interests.

(4) Mr. Wu Guangquan, Chairman of the Board, Mr. Sui Yong and Mr. Wang Xinkuan, two

directors and Mr. Huang Gaojian, Chairman of the Supervisory Committee all received their pays from the Company's shareholder; Mr. Lai Weixuan, vice Chairman of the Board, received his pay from Shenzhen Rainbow Co., Ltd. instead of the Company and received neither remuneration nor allowance from the Company.

5. Changes in directors, supervisors and senior executives in the report period

(1) On April 25, 2006, Mr. Hao Huiwen was engaged as the deputy general manager of the Company through review and approval at the 4th Board of Directors of the Company.

(2) The office term of Mr. Wu Guangquan, Mr. Lai Weixuan, Mr. Sui Yong, Mr. Wang Baoying, Mr. Xu Dongsheng, Mr. Zhu Gensen, Mr. Cai Zheng, Mr. Hua Xiaoning and Mr. Guo Wanda, the members of the Fourth Board of Directors expired; at 2005 Shareholders' General Meeting held on May 30, 2006, Mr. Wu Guangquan, Mr. Lai Weixuan, Mr. Sui Yong, Mr. Wang Baoying, Mr. Xu Dongsheng, Mr. Hua Xiaoning and Mr. Guo Wanda were elected the members of the Fifth Board of Directors.

(3) The office term of Mr. Shao Kexiong, Mr. Zhang Songhua and Mr. Tang Boxue, the members of the Fourth Supervisory Committee expired; on May 30, 2006, Mr. Huang Gaojian, Mr. Zhang Songhua and Mr. Tang Boxue were elected members of the Fifth Supervisory Committee.

(4) On June 8, 2006, the 1st meeting of the Fifth Board of Directors elected Mr. Wu Guangquan Chairman of the Board and Mr. Lai Weixuan vice chairman of the Board, engaged Mr. Xu Dongsheng as General Manager, Mr. Lu Bingqiang, Mr. Li Dehua, Mr. Li Bei, Madam Fang Juan and Mr. Hao Huiwen as deputy general manager of the Company. Mr. Li Dehua was engaged as the chief accountant (concurrently) and Mr. Hao Huiwen as the secretary of the Board (concurrently).

(5) On June 8, 2006, the 1st meeting of the Fifth Supervisory Committee elected Mr. Huang Gaojian Chairman of the Supervisory Committee.

(6) On September 1, 2006, the extraordinary shareholders' meeting additionally elected Madam Ji Qinzhi independent director of the Fifth Board of Directors.

II. Employees:

Ended the report period, there were altogether 1614 employees, 471 of them have education background of college or higher, taking 29.18% of the total. Of the employees, there were 38 administrative personnel, 61 financial personnel, 1378 salespersons, 58 technical personnel and 79 production workers. The Company has no retired personnel to pay pension to.

Chapter 5 Corporate Governance Structure

I. Actual Situation and Discrepancy from the Standards

In 2006, the Company was improving its legal person based administrative structure, establishing modern enterprise system, improving standardized operation level of the Company in accordance with the PRC Company Law and the PRC Securities Law as well as the regulations of China Securities Regulatory Commission (CSRC) concerning administration of listed companies. The Company further amended and improved the Articles of Association and the managerial standardization systems, such as the rules of procedures of the Shareholders' General Meeting, the Board of Directors and the Supervisory Committee, offered guarantee in system for the standardization management; meanwhile, the Company positively reinforced the information disclosure and the management of the relationship with the investors, persistently conducted revision and improvement work of the internal control system so as to ensure the shareholders' rights and interests by means of standard governance operation.

The Company is basically in compliance with the Rules for Administrating Listed Companies promulgated by China Securities Regulatory Commission (CSRC) in terms of corporate administration.

II. Performance of Independent Directors

In the report period, Mr. Hua Xiaoning, Mr. Guo Wanda and Madam Ji Qinzhi, three independent directors of the Company, fully exercised the powers endowed with by the law and regulations of the state and the Articles of Association of the Company, brough their professional specialities into full play, and made independent, objective and fair judgment over the replacement of senior executives, related transactions, etc. strictly according to the relevant regulations, proposed professional opinions, promoted the decision making of the Board of Directors and scientific way of decision making procedures, and substaintially safeguarded the interests of the Company and the shareholders.

1. Independent directors' attendance in the Board of Directors

Names	Board meetings necessary to be attended	Number of personal attendances	Number of entrusted attendances	Number of absences	Remarks
Hua Xiaoning	9	9	0	0	
Guo Wanda	9	9	0	0	
Ji Qinzhi	4	3	1	0	She was absent from the 3rd meeting of the Fifth Board of Directors due to business trip and entrusted Mr. Guo Wanda to vote at the meeting on behalf.

2. Objection of independent directors on some relevant issues

In the report period, the independent directors made no objection on various proposals of the Board of Directors and other relevant issues of the Company.

III. Separation between the Company and its Controlling Shareholder in terms of Business, Personnel, Assets, Organization and Finance.

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

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

Personnel. The Company is completely independent organizations and sound systems in labor, personnel and salaries management. Except Mr. Wu Guangquan, Chairman of the Board, Mr. Lai Weixuan, vice Chairman of the Board, Mr. Sui Yong, Mr. Wang Baoying and Mr. Xu Dongsheng, the three directors, and Mr. Huang Gaojian, Chairman of the Supervisory

Committee, who take offices in the controlling shareholder concurrently, no other senior executives hold any other offices in shareholders or financial staff take concurrent job in the related companies.

Assets. The assets of the Company and its controlling shareholder are highly distinct. The Company enjoys the corporate ownership over its assets and the assets are completely independent from its controlling shareholder. In addition, the Company enjoys sole ownership of the Trademark FIYTA.

Organization. The Company has established its own intra-company organizations independent from the controlling shareholder. The Board, the Supervisory Committee and the other internal departments and offices work independently. There exist neither subordinate relations between the controlling shareholder/its functional departments nor doing joint office work. The controlling shareholder exercises its rights and assumes its corresponding obligations, and has never performed any direct or indirect interference with the Company's operation activities.

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

IV. Assessment and Encouragement Mechanism for Senior Executives

The Board of Directors worked out directed KPI targets for the senior executives in the report period, exercised the annual work presentation and assessment in the report period. Their total remuneration of renewal of office engagement are decided based on the assessment result and work accomplishment. The Company shall further improve the encouragement mechanism, establish the achievement assessment system with the objective management as the basis and fully mobilize the enthusiasm of the executives.

Chapter 6 Shareholders' General Meeting

I. Annual Shareholders' General Meeting

2005 Annual Shareholders' General Meeting was held on May 30, 2006 at the 20th floor meeting room of FIYTA Technology Building. There were 4 shareholders and shareholders' representatives present at the meeting, representing 130,296,750 shares, taking 52.26% of the Company's total share capital.

The shareholders present at the meeting examined and adopted the following proposals through voting: (1) 2005 Work Report of the Board of Directors; (2) 2005 Work Report of the Supervisory Committee; (3) 2005 Final Settlement Report; (4) Proposal of 2005 Profit Distribution and Converting the Surplus Public Reserve into Share Capital; (5) 2005 Annual Report; (6) Proposal on Payment of the Auditing Fee for the Year 2005 and Renewing the Engagement of the Auditing Agency for the Year 2006; (7) Proposal on Regular Related Transactions in 2006; (8) Proposal for Election for the New Board of Directors; (9) Proposal on Deciding Allowances to Independent Directors; (10) Proposal on Election for the New Board of Directors; (11) Proposal on Revision of the Articles of Association of the Company; (12) Proposal on Amendment of the Rules of Procedures of the Shareholders' General Meeting; (13) Proposal on Amendment of the Rules of Procedures of Board Meetings; (14) Proposal on Amendment of the Rules of Procedures of Meetings of the Supervisory Committee.

The aforesaid resolutions of the Shareholders' General Meeting were published on Securities Times and Hong Kong Commercial Daily respectively dated May 31, 2006.

II. 2006 1st Extraordinary Shareholders' Meeting

2006 1st Extraordinary Shareholders' Meeting was held on September 1, 2006 at the 20th floor meeting room of FIYTA Technology Building. There were 4 shareholders and shareholders' representatives present at the meeting, representing 130,487,111 shares, taking 52.34% of the Company's total share capital. Through voting by the shareholders present at the meeting, the Proposal on Additional Election of Madam Ji Qinzhi as Independent Director was approved.

The aforesaid resolutions of the Shareholders' General Meeting were published on Securities Times and Hong Kong Commercial Daily respectively dated September 2, 2006.

Chapter 7 Report of the Board of Directors

I. Operation Review

(I) General

The continuous high speed development of China's economy and prolonged growth of the controllable income of residents have created favorable conditions for consumption growth of medium and high grade watch market. In the year 2006, the Company, based on the work policy of "implementing the Company's principle, improving the qualification of manpower, enhancing integration of brand, and devoting great efforts to innovation and development as determined at the beginning of the year, and in compliance with the general requirements of the Company's strategy, continued implementation of various work under the guidance of the brand strategy, the three principal business lines, namely FIYTA watches, Harmony top brand watches retailing and property enjoyed continuous and steady development. The Company streamlined the operation and management procedures by reinforcing the internal management, "Balanced Score Card" and "Six Sigma" Management Instruments. As a result, the management ability, operation efficiency and profit earning level have been constantly improved.

Items	2006	2005	Year-on-year Increase/Decrease (%)
Principal business income	487,241,213.32	341,504,786.91	42.67%
Principal business profit	175,387,995.88	129,173,020.42	35.78%
Total profit	34,846,010.21	18,563,592.41	87.71%
Net profit	29,263,221.63	16,006,999.87	82.82%

In the report period, all the three principal business lines achieved growth in different levels. Of them, the retails of famous brand watches experienced highest growth. The Company realized a revenue from the principal business amounting to RMB 487.24 million, a 42.67% growth over the previous year. The Company's earning power in various businesses experienced a big growth. In the report period, the Company realized total profit amounting to RMB34.85 million and net profit amounting to RMB 29.26 million, increased by 87.71% and 82.82% respectively of the previous year.

In the report period, affected by the increased investment for expansion of Harmony Chain Shops and inventories, the net cash flow produced from the operation activities was RMB – 86.13 million. At the end of the report period, the total assets reached RMB 771.95 million and shareholders' equity reached RMB 562.63million, growing by 24.25% and 5.49% respectively over the previous year. The main reason of such growth was that the short term bank loan increased by RMB 120 million and the realized profit reached RMB 29.26 million in the report period.

In the report period, the Company was unceasingly enhancing the work of human resource construction, increased the investment in personnel training, joined the "high grade luxuries training program" jointly held by Tsinghua University, Institut Français de la Mode and Paris School of Business; introduced the management instruments, such as Balance Score Card, Six-Sigma, etc., established 14 Six-Sigma projects in watch industry, 10 training programs had been completed and a good result had been achieved. In the report period, the Company honorably won the tile of "2006 TOP 10 Employers" granted by Beijing University Business Review, www.Sina.com, and International Profession Certification Association.

1. **FIYTA Watches** In the report period, the Company continued insisting on the brand strategy and value based marketing, unceasingly pushed ahead the approach of improving efficiency through coordinative work of research and development, manufacture, sales, etc., greatly improved the product design and production capacity, enhanced the management work in segmentalizing market and sales and achieved better result in the brand promotion work and the brand identity has been further improved.

FIYTA Watch insisted on the industrial design as the key of innovation and constant breakthrough development has been achieved in research and development and design work. A high grade "Gold Buddha Watch" developed and launched at the beginning of 2006 fully depicted the concept of the Chinese traditional culture of praying happiness. Added with the ingenious structural designing and compliance with the customers' psychology and emotional demand, the product enjoyed good market performance and positive influence. The Company still kept the superiority of the leader in the domestic timepiece industry in terms of technology in China. In the report year, the Company participated and completed the revision work of four national or industrial standards of timepieces; Shenzhen FIYTA Sophisticated Manufacture Co., Ltd., one of the Company's subsidiaries, was also awarded the title of "Shenzhen Hi-tech Enterprise". At the 4^{th} China Enterprise "Product Innovation Design Award" (CIDF Product Design Award) held in March, 2006 in Shanghai, FIYTA "TIAN JI" series were awarded the Gold Prize and "Shenzhou VI Space Watch" was honorably awarded "the Best Design Award of Life Products".

In the report period, the Company conducted on-site customer research in the market, conducted secret customer visits at the sales terminal, reinforced the front line management and supporting work; meanwhile, the Company enhanced the marketing planning and promotion. As a result, FIYTA watch brand identity and the market status have been effectively upgraded. The Company's "the Case of Shenzhou VI Space Watch Integration Marketing" was awarded "Award of the 10 Major Planning Cases of Chinese Enterprises for the Year 2005, FIYTA watch has become the "Unique Sponsor of the Timepiece Devices for the 6^{th} Asia Winter Games".

In 2006, FIYTA Watches conducted a series of promotion activities titled "Presenting Selfhood with Watch and Enjoying Fashionable Life". Such leading products as "Shenzhou VI Space Watch" and "Gold Buddha Watch" kept great demand in the market; the sales income from FIYTA watches amounted to RMB 127.84 million, a 8.52% growth over the same period of the previous year. Both gross interest rate and average sales unit in sales of watches increased. FIYTA Watch has been honorably rewarded as "No. 1 Product of the Same Kind in the National Market" issued by China Industrial Information Statistic Information Delivery Center of the State Bureau of Statistics successively for 12 years.

2. Retail of Top Brand Watches. The chain shop network of Shenzhen Harmony World

Watches Center is the key investment project of the Company in recent years. In 2006, Harmony continued to positively expand and steadily optimize the top brand watch chain shop network according to the determined plan and the mass effect should gradually come into view and the business brand identity of "Harmony" top brand watch retail has also been significantly improved. In the report period, 17 more retail shops, including Chongqing New Century Kairui Shop, Kunshan Lishan Shop, Harbin Europe Shop, Xi'an Meimei Shop, Hangzhou Hubin Shop, were newly opened while three shops were cancelled and combined. Up to the end of the period, there had been 55 chain shops in all big and medium cities all over the country; meanwhile, the original 18 shops had been partially improved and the brands had been expanded; the size and quality of a single shop tended to be improved. Henglianda Co., a subsidiary of Harmony, is mainly engaged in selling imported watches and home-made watches by contracting the timepiece zone of emporiums all over the country. By the end of 2006, there were 17 emporiums with timepiece sales zone.

In the report period, Harmony succeeded the operation principle of "trustworthiness, thoughtfulness, professional and standardization, based on the high standard demand of the "professional operation year", 2006, reinforced the professional operation, initiated the innovation in management, and gradually reinforced three levels of marketing – "surface layer (sales service) – medium layer (culture transmission) – deep layer (emotional presentation)", enhanced emotional communication with customers, continuously improved the value-added service, organized various marketing focus activities, improved the training management and upgrading passage of staff and improved the Company's competitiveness in retails of top brand watches. Meanwhile, with expansion of chain shop scale and increase of market share, Harmony further contacted closely the brands of the world famous watches, unceasingly deepened the cooperation with powerful brands, top brands and potential brands of famous watches. In the report year, presidents from over 20 top global and Asia-Pacific brands visited the company and the cooperation was continuously deepened.

In the report period, the Company realized retail sales of top brand watches amounting to RMB 310.94million, a 72.48% growth over the same period of the previous year; and realized a net profit amounting to RMB 9.57million, a 291.32% growth over the same period of the last year. Where, over 70% of the sales growth was originated from the growth of the previous existing shops and the regional development superiority in West China and South China was relatively significant.

3. Property Operation In the report period, FIYTA Technology Building located in Shenzhen Hi-tech Park and FIYTA Building located in Huaqiangbei Business Circle had good operation status. The Company reinforced the services to, communication and coordination with the customers and both the lease rate and the rental collection rate reached 100%. In 2006, the Company jointly realized income amounting to RMB 45.77million, an 11.27% growth over the same period of the previous year. FIYTA Technology Building also passed the expertise of "National Excellent Property Management Demonstration Building" by the Ministry of Construction in 2006.

(II) Principal Business and Operation

The Company is mainly engaged in design, development, manufacture, sales and repairing of timepieces and components, including operation of FIYTA watch products and train shops for the world top brand watches. In addition, the Company has property lease income from FIYTA Building and FIYTA Technology Building.

1.The composition of the income and profit from the principal business is as follows:

In RMB

Sectors	Principal business income	Principal business cost	Gross profit rate	Increase/decrease of revenue from	Increase/decrease of principal	Increase/decrease of gross profit over the

			(%)	principal businesses over the previous year (%)	business cost over the previous year (%)	previous year
Industry	130,534,911.57	58,261,987.01	55.37	8.69	-0.15	3.95
Trading	310,938,790.39	242,699,820.36	21.95	72.48	71.09	0.64
Property management	45,767,511.36	7,655,220.06	83.27	11.27	-14.18	4.96
Incl.: related transactions	1,784,992.00	—	—	—	—	—

2. Watch business and property take over 10% of the Company's income as well as the profit from the principal business

(1) Watches The sales income and sales cost of FIYTA watches and foreign famous watches are listed as follows:

Table 1: To be presented based on the categories of the products

In RMB

Products	Principal business income	Principal business cost	Gross profit rate (%)	Increase/decrease of revenue from principal businesses over the previous year (%)	Increase/decrease of principal business cost over the previous year (%)	Increase/decrease of gross profit over the previous year
Sales of FIYTA watches	127,835,527.13	61,970,393.00	51.52	8.52	0.17	4.04
Sales of foreign famous watches	310,938,790.39	242,699,820.36	21.95	72.48	71.09	0.64
Incl.: related transactions	—	—	—	—	—	—

Table 2: Listed according to regions

In RMB

Regions	Principal business income	Increase/decrease of revenue from principal businesses over the previous year (%)
Northeast China	49,009,187.18	22.68%
North China	69,510,330.77	153.69%
Northwest China	74,861,338.41	12.04%
East China	65,888,642.74	57.57%
Southwest China	33,782,390.65	166.61%
South China	145,722,427.77	33.17%
Total	438,774,317.52	47.20%

(2) Property The Company's revenue and profit from property operation all came from lease of FIYTA Building and FIYTA Technology Building.

3. Major Suppliers and Customers

In RMB

Total procurement from the top five suppliers	293,195,243.79	Proportion in total procurement	61.03%
Total sales to the top five customers	19,998,002.64	Proportion in total sales	4.1%

4. In the report period, no material change took place in the Company's principal business or its structure, and earning power of the principal business in comparison with the previous year.

5. Changes in the Asset Composition and Gains and Losses in the Report Period

Items	Ending balance (RMB)	Opening balance (RMB)	Increase/Decrease Rate (%)	Reason of Change
Monetary funds	60,226,078.54	47,710,206.11	26.23%	It was mainly due to increase of short term borrowings at the same time with expansion of investment in world watch chain shops.
Short-term investment	2,138,400.00	4,949,220.00	-56.79%	Reduction and recovery of the short term investments
Inventories	371,196,239.94	233,861,001.05	58.73%	Mainly due to increase of the procurement of top brand watches
Long-term equity investment	5,519,041.29	10,385,500.87	-46.86%	Mainly due to that Feijing Co. had not been put in the consolidated statements
Short-term Loan	140,000,000.00	20,000,000.00	600.00%	The Company increased bank short term loan for investment in Harmony Top Brand Watch Chain Shops
Accounts payable	39,397,856.09	28,992,468.45	35.89%	Mainly due to increase of the procurements
Long-term expenses to be apportioned	8,557,457.77	5,277,891.67	62.14%	Mainly due to increase of payment for refurbishment of chain shops and counters
Shareholders' equity	562,634,460.99	533,371,239.36	5.49%	Due to increase of profit in the report period
Items	Amount in report year (RMB)	Amount in the same period of the previous year (RMB)	Increase/Decrease Rate (%)	Reason of Change
Profit from principal business	175,387,995.88	129,173,020.42	35.78%	Mainly due to big growth of the operating income
Overheads	60,381,727.76	50,057,719.30	20.62%	Mainly due to increase of expenses for expansion of the

				Company's chain shops
Financial expenses	5,684,509.02	1,505,405.02	277.61%	Mainly due to increase of interest payment resulted from increase of bank loans
Net profit	29,263,221.63	16,006,999.87	82.82%	Mainly due to big growth of income from principal business as well as big growth of the profit margin

6. Composition of Cash Flow

Items	Amount in report year (RMB)	Amount in the same period of the previous year (RMB)	Increase/Decrease Rate (%)
Cash flows arising from operating activities	-86,133,036.02	-14,006,618.19	-
Cash flows arising from investment activities	-22,096,351.03	-27,169,260.70	-
Net cash flows arising from fund-raising activities	120,745,259.48	4,094,550.00	2848.93%

In 2006, the net increase of cash and cash equivalents being only RMB 12.52 million was mainly due to that although the cash produced from fund raising activities increased due to increase of the short term loans by RMB 120 million, yet the expansion of Harmony Chain Shop marketing network and rapid increase of the optimized investment caused great increase in cash flow out arising from the operation activities and investment activities.

The net cash flow produced from the operation activities being RMB –86.13 million which had discrepancy with the Company's net profit amounting to RMB 29.26 million in the report year was mainly due to that the expansion of Harmony Chain Shop network and the existing shop upgrading and increase of the expenses in purchase of famous watches caused corresponding cash flow out.

7. Operation and Performances of the Principal Subsidiaries and Joint Stock Companies

(1) Shenzhen FIYTA Sophisticated Manufacture Co., Ltd., with registered capital of RMB 10 million, mainly engaged in producing and repairing services of watches and movements, components and parts, and sophisticated timepieces; the Company holds 99.879% of its equity. At the end of 2006, its total assets amounted to RMB 43,435.10thousand, net assets: RMB29,720.40thousand and net profit realized in 2006: RMB 6,235.40 thousand.

(2) Shenzhen Harmony World Watches Center Co., Ltd., with registered capital of RMB 123.80 million, mainly engaged in purchase and sales of watches and components and accessories as well as repairing services; the Company holds 98.79% of its equity. At the end of 2006, its total assets amounted to RMB 339,051.20thousand, net assets: RMB 126,023.2 thousand and net profit realized in 2006: RMB 7,187.70 thousand.

(3) Shenzhen World Watches Center Co., Ltd., with registered capital of RMB 2.8 million, mainly engaged in marketing high grade watches, glasses, ornaments, gifts, general merchandise and arts and crafts (excluding jewelry); the Company holds 50% of its equity.

At the end of 2006, its total assets amounted to RMB 14,966.60 thousand, net assets: RMB 3,783.90 thousand and net profit realized in 2006: RMB 983.90 thousand,

II. Development Prospect

1. Development Trend of the Industry and the Future Competition Pattern

With prolonged high speed growth of the domestic economy and rise of the people's consumption capacity, the consumption demand in the medium and high grade watch market has been expanded, which provides a huge development space for consumption of such luxury goods as top brand watches. The symbolization character of medium and high grade watches has become increasingly outstanding. They are ornaments like cars, garments, jewelry, etc., can satisfy consumers' demand on knowledge and emotion and have gradually become symbol of material life quality and grades. Over the past years, famous brand watch industry has been experiencing a breakthrough growth; foreign well-known brand watches are actively entering the Chinese market and the competition in the trade is quite fierce. Meanwhile, domestic famous watch retailers and international famous watch firms are enthusiastically expanding the network or open outlets, accelerating the layout of key cities in order to expand their market share. In comparison with the domestic broad industrial prospect, famous watch retailers are in process of formation of the competition pattern.

2. Development Strategy and Operation Plan in 2007

Facing the domestic favorable economic environment and market demand, the Company shall cherish the historical opportunity of the development of the sector. In 2007, the Company shall continue to insist on the practice of leading all the work with the brand strategy in accordance with the guidelines of "strengthening the development confidence, devoting every effort to creating the brand, upgrading manpower qualification and deepening the innovation management" and based on the Company's philosophy and values, devote every means to upgrade the Company's operation efficiency and profit earning level.

(1) Steadily develop FIYTA brand, gradually expand the sales in the overseas market, improve the technology research and development and industrial design capacity; fulfill the preparatory work of the third brand of fashion, enhance the work of introducing high-end famous watch brands and steadily push ahead the brand planning of "SAN SE JIN".

(2) Expand the promotion of "Harmony" retail brand, further enhance the optimization and upgrading of the shop of the existing retail outlets and expansion of famous watch brands, upgrade the shop identity and sales shares; plan to develop 10 to 15 more new chain shops in key cities, enlarge the brand cooperation and unceasingly improve the operation efficiency;

(3) Continuously improve the property management service and information communication, upgrade the building identity and try to achieve steady growth in income from the properties;

(4) Optimize the Company's internal management structure, enhance human resource management, establish and improve positively salary mechanism and construct high efficiency enterprise team.

3. Fund for Development Strategy and Fund Application Plan

In 2007, the Company expects to invest RMB 160 million for expanding and newly setting up Harmony Famous Brand Watches chain shops. At present, the Company's asset-liability ratio is quite low and the funds may be raised through short term loan from bank.

4. Risks in Development of the Operation Objectives and the Measures

(1) Risks of macro 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%. On December 26, 2006, the Ministry of Finance dated some provisions of the tax regulations on import and export duties of China in 2007: commencing from January 1, 2007, the import duty rate for high grade watches brought into by passengers or mailed to the territory of Mainland China shall be adjusted to 30% from 10%.

At present, the taxation pressure arising from the FIYTA watches subject to the consumption taxation has been already dissolved from the price rising; collection of the consumption tax once produced small fluctuation influence upon sales of Harmony famous watches in short term. However, the price demand of high grade watches is less flexible. As the import tariff rate was adjusted higher, the influence from the predicted taxation upon sales of famous watches tends to be stable.

(2) Market Risk. The market competition of the timepiece industry is quite severe. Sales of domestic made watches is still in the competition of low level and at the same time is confronted with the risk of shrinkage of the existing sales channel of shopping centers. Both domestic and foreign famous watch retailers are highly interested in the broad prospect of the Chinese famous watch market, and are enthusiastically arranging to set up shops in different big and medium cities in China. The future several years shall be the key period for development of famous watch retail industry.

In the light of such market development situation, FIYTA shall reinforce the industrial design innovation and marketing management, upgrade FIYTA brand identity; meanwhile, make full use of the self-owned sales channels, including Harmony Famous Watch Chain Shops, Henglianda, consolidate the cooperation with other domestic chain shop network and participate in competition in the domestic famous watch market. Harmony Chain Chops positively develop the chain shop network by enhancing promotion of its own brands, management of VIP customers, construction of the marketing team, improvement of the encouragement mechanism and brand cooperation relations, adjust and optimize the layout development of the various domestic regions and continuously improve the competitiveness of the company and the market share.

(3) Financial Risk. It takes quite long time to foster the brand of a famous watch. In addition, it demands big investment from research and development, market promotion, terminal retail stocks; by means of management measures, including optimization of product supply chain, improvement of product structure, improvement of the marketing ability, at present, FIYTA watches have already been able to develop basically depending on own funds. Both expansion of the famous watch retail network and reform for upgrading the existing shops need quite big quantity of inventories to be purchased. In the past two years, the Company developed its network mainly depending on bank loans; while steadily developing the chain shop network, the Company has optimized the operation of the existing shops, the structure of inventories tends to be rational; the inventory turnover is being upgraded year after year.

5. Change in accounting policy, accounting estimate possibly to take place to the Company upon implementation of the new enterprise accounting standard and the influence upon the Company's financial conditions and operation result

(1) Analysis on discrepancy in the shareholders' equity arising from the initial implementation of the new accountings standards commencing from January 1, 2007 and the current accounting standards:

According to the relevant regulations of the Ministry of Finance and China Securities Regulatory Commission, the Company started to implement the New Accounting Standards commencing from January 1, 2007. According to the Enterprise Accounting Standard No.

38 – Initial Implementation of the Enterprise Accounting Standards, based on the audited 2006 Financial Statements, the Company conducted the connection adjustment work for implementation of the new accounting standards on January 1, 2007. Change in accounting policy, accounting estimate possibly to take place to the Company upon implementation of the new enterprise accounting standard and the influence upon the Company's financial conditions and operation result are as follows:

① Income tax In accordance with the Enterprise Accounting Standard No. 38 – Initial Implementation of the Enterprise Accounting Standard, the Company is going to make retroactive adjustment over the income tax affected by the temporary discrepancy formed due to difference in book value of assets and liabilities and taxation basis. In addition, with consideration of the fact that a few subsidiaries were difficult to obtain sufficient taxable income to offset the temporary discrepancy in the foreseeable future. The Company adjusted up the retained earnings amounting to RMB 2,195,356.43 based on the affected amount of the book value of assets formed from provision for impairment of assets smaller than partial income tax of the asset taxation base.

② Minority Shareholders' Equity According to the relevant provisions of the Enterprise Accounting Standard No. 38 – Initial Implementation of the Enterprise Accounting Standard and the Enterprise Accounting Standard No. 33 – Accounting Standard for Consolidated Financial Statements, the minority shareholders' equity separately stated under the prevailing accounting system should be stated as minority shareholders' equity under the owner's equity in the consolidated balance sheet. As at January 1, 2007, the minority shareholders' equity amounting to RMB 7,581,680.51 after adjustment according to the new enterprise accounting standard was stated in the shareholders' equity. Meanwhile, the retained earnings amounting to RMB 1,602.02 attributable to minority shareholders' equity before the aforesaid adjustment was also stated in the shareholders' equity.

(2) Change in accounting policy, accounting estimate possibly to take place to the Company upon implementation of the new enterprise accounting standard and the influence upon the Company's financial conditions and operation result are as follows:

① According to Enterprise Accounting Standard No. 2 – Investment in Long Term Equity, the Company uses the equity method instead of the cost method for calculation of the long term investment in its subsidiaries and has made corresponding adjustment according to the equity method in preparation of the consolidated statements;In this way, on financial basis, it can more truly reflect the financial status and operation performance of the parent company but will not affect the Company's consolidated financial statements.

② According to the Enterprise Accounting Standard No. 15 – Income tax, the accounting treatment for the corporate income tax was changed from the taxes payable method to the Balance Sheet Liability Approach in accounting. The change of this accounting policy shall affect the current accounting income tax expense of the Company and further affect the Company's profit and shareholders' equity.

③According to the new Enterprise Accounting Standard No. 33 – Consolidated Financial Statements, the Company changed the separate presentation of the minority shareholders' equity in the consolidated balance sheet under the prevailing accounting policy into the presentation of the item "minority shareholders' equity" under the item "shareholders' equity" in the consolidated balance sheet. The change of this policy shall affect the Company's shareholders' equity.

The above differences and influences may be adjusted with the further explanation on the new accounting standards by the State Ministry of Finance.

III. Investment

(I) In the report period, there were no proceeds raised through share offering used for investment.

(II) Other material investments with the funds not raised through share offering.

Harmony Famous Brand Watches Chain Shops Project. In the report period, Harmony

Famous Brand Watches Center newly added 14 chain shops. At the end of the year, there were 55 chain shops in big and medium cities all over China. In 2006, the additional investment was RMB 133,745.0 thousand, the revenue from retail of famous watches hit RMB 310,938.80 thousand and the net profit hit RMB 9,571.60 thousand.

IV. Opinions of the Certified Public Accountants

Both Yuehua Certified Public Accountants Co., Ltd. and Morison International produced a standard unqualified auditor's report for the Company in the year of 2006 after auditing.

V. Routine Work of the Board of Directors.

1. In the report period, the Company held 9 board meetings, which all complied with the PRC Company Law and the Articles of Association of the Company in terms of procedures and proposals. The board meetings are summarized as follows:

(1) On February 24, 2006, the Company held an extraordinary meeting of the Fourth Board of Directors. The meeting reviewed and approved the application for a composite credit line amounting to RMB 50 million with China Merchants Bank Futian Sub-branch for a term of one year. The announcement of the resolution of the board meeting and the Credit Line was published on Securities Times and Hong Kong Commercial Daily on March 9, 2006.

(2) The 17th meeting of the Fourth Board of Directors was held on April 18, 2006. The meeting reviewed and approved the following proposals: ① 2005 Work Report of the Board of Directors;② 2005 Final Settlement Report;③ Proposal of 2005 Profit Distribution and Converting the Surplus Public Reserve into Share Capital; ④ 2005 Annual Report and Summary; ⑤ Proposal on Payment of the Auditing Fee for the Year 2005 and Renewing the Engagement of the Auditing Agency for the Year 2006; ⑥ Proposal on Regular Related Transactions in 2006;⑦ Proposal for Election for the New Board of Directors;⑧ Proposal on Deciding Allowances to Independent Directors; ⑨ Proposal on Amendment of the Articles of Association,⑩ Proposal on Amendment of the Rules of Procedures of the Shareholders' General Meeting, Proposal on Amendment of the Rules of Procedures of the Board Meetings, Internal Control Audit Report, Notice on Holding 2005 Annual Shareholders' General Meeting, 2006 1st Quarterly Report,, etc. The relevant announcements were published on Securities Times and Hong Kong Commercial Daily on April 20, 2006.

(3) The 18th meeting of the Fourth Board of Directors was held on April 25, 2006. The meeting reviewed and approved the engagement of Mr. Hao Huiwen as a deputy general manager of the Company.

(4) The 1st meeting of the Fifth Board of Directors was held on June 8, 2006. The meeting reviewed and approved the proposals of election for the chairman of the board, engagement of the general manager, deputy general manager, chief accountant, the secretary of the Board of Directors, etc. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on June 13, 2006.

(5) The 2nd meeting of the Fifth Board of Directors was held on August 9, 2006. The meeting reviewed and approved 2006 Semi-annual Report, Proposal on Setting up a Subsidiary in Hong Kong, Proposal on Nominating Madam Ji Qinzhi as Independent Director Candidate of the Company, Proposal for Holding 2006 1st Extraordinary Shareholders' Meeting. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on August 11, 2006.

(6) On September 12, 2006, the Company held an extraordinary meeting of the Fifth Board of Directors. The meeting reviewed and approved the application for a composite bank line of credit amounting to RMB 40 million with Shenzhen Development Bank Jiangsu Building

Sub-branch with a term of one year. The announcement of the resolution of the board meeting and the Credit Line was published on Securities Times and Hong Kong Commercial Daily on September 21, 2006.

(7) The 3rd Meeting of the Fifth Board of Directors was held on October 18, 2006. The meeting reviewed and approved 2006 3rd Quarterly Report. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on October 20, 2006.

(8) On November 10, 2006, the Company held an extraordinary meeting of the Fifth Board of Directors. The meeting reviewed and approved the application for a composite bank line of credit amounting to RMB 40 million with Shanghai Pudong Development Bank Shenzhen Branch with a term of one year. The announcement of the resolution of the board meeting and the Credit Line was published on Securities Times and Hong Kong Commercial Daily on November 15, 2006.

(9) On November 22, 2006, the Company held an extraordinary meeting of the Fifth Board of Directors. The meeting reviewed and approved the application for a composite bank line of credit amounting to RMB 50 million with Bank of China Shenzhen Branch with a term of one year. The announcement of the resolution of the board meeting and the Credit Line was published on Securities Times and Hong Kong Commercial Daily on November 24, 2006.

2. Implementation of the Resolutions of the Shareholders' General Meeting
In the report year, the Board carried out the work strictly according to the Articles of Association and the resolutions of Shareholders' General Meeting and seriously implemented all the resolutions of 2005 Shareholders' General Meeting. The shareholders' general meeting approved the proposals of election for new Board of Directors and revision of the Articles of Association. All the proposals had been implemented in implementation in the report period.

VI. Profit Distribution Proposal and Proposal of Making up Losses with Surplus Public Reserve

As audited by Yuehua Certified Public Accountants Co., Ltd. according to the Chinese Accounting Standards (CAS) and Morison International according to the International Accounting Standards (IAS), the Company's net profit in the consolidated statement in the year 2006 was RMB 29,263,221.63 and RMB26,169 thousand respectively . In accordance with the relevant provisions of the PRC Company Law and the Articles of Association, based on the net profit as audited and confirmed by Yuehua Certified Public Accountants Co., Ltd. for the year 2006 amounting to RMB29,263,221.63, plus the retained earnings at the year beginning amounting to RMB-6,448,293.31, less the statutory public reserve to RMB2,826,696.60, the accumulative retained earnings was RMB 19,988,231.72.

As the Company constantly expanded the investment in Harmony Famous Brand Watches Chain Shops, the net cash expenditure was high. Therefore, the Company has decided not to provide statutory surplus public reserve and the statutory public welfare fund, not to conduct profit distribution in cash/bonus shares or convert the public reserve into share capital for the year 2006.

The independent directors of the Company approved the above proposal of the Board of Directors. In their opinion, the proposal complies with the Company's actual development conditions; the proposal needs to be approved by 2006 Shareholders' General Meeting.

VII. The Company has chosen Securities Times and Hong Kong Commercial Daily for disclosing the Company's information. In the report year, the Company made no change.

Chapter 8 Report of the Supervisory Committee

I. Work Summary

1. In the report year, the Supervisory Committee conducted supervision over the Company's operation according to the law, the work of directors, managers and other senior executives, as well as financial inspection, application of the proceeds raised through share offering and related transactions in accordance with the RPC Company Law and the Articles of Association of the Company.

2. In the report year, the Supervisory Committee had held four meetings:

(1) The 8th meeting of the Fourth Supervisory Committee was held on April 18, 2006. The meeting adopted the following proposals: ① 2005 Work Report of the Supervisory Committee; ②2005 Annual Report and 2006 1st Quarterly Report; ③ Proposal on Regular Related Transactions in 2006; ④ Proposal on Amendment of the Rules of Procedures of the Supervisory Committee; ⑤ Proposal for Election for the New Supervisory Committee.

(2) On June 8, 2006, the 1st meeting of the Fifth Supervisory Committee elected Mr. Huang Gaojian Chairman of the Supervisory Committee.

(3) The 2nd Meeting of the Fifth Supervisory Committee was held on August 9, 2006. The meeting reviewed and approved 2006 Semi-Annual Report.

(4) The 3rd Meeting of the Fifth Supervisory Committee was held on October 18, 2006. The meeting reviewed and approved 2006 3rd Quarterly Report.

3. Supervisors of the Supervisory Committee attended all the Board meetings held in 2006 as non-voting delegates, heard the relevant proposals and reports and learned the operation and significant decision-making process of the Company.

4. Supervisors of the Supervisory Committee also attended 2005 Shareholders' General Meeting, addressed 2005 Work Report of the Supervisory Committee and expressed independent opinions on the Company's production, operation, financial status and implementation of the duties of members of the Board and senior executives.

II. Independent Opinion of the Supervisory Committee

In 2006, the Supervisory Committee exercised fully the powers authorized according to the relevant laws and regulations of the state and the Articles of Association, conducted sustainable and effective supervisions over such issues as Company's operation according to the law and the work of the senior executives. Our independent opinions are summarized as follows:

1. The Board of Directors worked carefully with responsibility and the Company made decisions in a scientific and rational way. The Company had complete and sound internal control regulations and implemented these regulations in a practical way. Directors, the management and all senior executives worked with due diligence, implemented resolutions of the Shareholders' General Meeting and the Board meetings carefully, and never violated the laws and regulations of the state or the Articles of Association of the Company in doing their duties and had done nothing harmful to the Company's interests or the shareholders' right and interests.

2. Both Yuehua Certified Public Accountants Co., Ltd. and Morison International produced a

standard and unqualified auditors' report for the Company, which truly and objectively reflected the Company's financial position and operation result of the year 2006.

3. The Company carried out external transactions based on reasonable prices, had never been found involved in insider transaction. The related transactions were carried out in compliance with the legal procedures and the principle of market price without any harm to the minority shareholders' equity or caused loss of the Company's assets.

Chapter 9 Significant Events

I. In the report period, the Company has not been involved in any material lawsuit or arbitration.

II. In the report period, the Company had conducted no such activities as assets acquisition, sales, absorption or consolidation.

III. Transactions with Related Parties

1. Related transactions

(1) Shenzhen Rainbow Supermarket Co., Ltd. (hereinafter referred to Rainbow Supermarket) is a controlled subsidiary of the Company's actual controller. Its legal representative is Wu Guangquan; its registered capital is RMB 88 million; its principal business is: wholesale and retail of commodities. The Company rents the special counter of the supermarket for selling watch products and makes payment settlement by means of credit transfer.

(2) Shenzhen CATIC Property Management Co., Ltd. (hereinafter referred to as CATIC Property) is an indirectly controlled subsidiary of the Company's actual controller; its legal representative is Mr. Chou Shenqian; its registered capital amounts to RMB 20 million; its principal business is property management and services of managing the supplementary facilities. The Company entrusted CATIC Property for property management of FIYTA Building and FIYTA Technology Building based on the market prices and make payment settlement by means of credit transfer.

(3) Shenzhen CATIC Real Estate Co., Ltd. is a subsidiary under control of the Company's eventual controller, its legal representative is Wu Guangquan, registered capital is RMB 100 million; it is mainly engaged in development and operation of real estate. The Company provides the premises to CATIC Real Estate for lease based on the market price and makes payment settlement by means of credit transfer.

2. Regular Related Transactions in Terms of Commission Sale and Acceptance of Labor Services

(1) In the report period, the Company paid property management fee amounting to RMB 1.85million and property lease cost amounting to RMB 805000. CATIC Property offered management services for both of the Company's FIYTA Building and FIYTA Technology Building. For the various related transactions, both parties executed the contract based on the principle of fairness and market based pricing, which is favorable for improving professional service and shall not do any harm to the Company's interests.

(2) The Company sells watches through Rainbow Supermarket, and paid sales cost for the special counters in the supermarket amounting to RMB 2.67million, taking around 10% of the corresponding expenses in the report period. Rainbow Supermarket has established 24 supermarkets in such big cities as Shenzhen, Xiamen, Nanchang, etc. As Rainbow Supermarket enjoys high market position and good reputation. With rapid expansion in the Pearl River Delta and the Changjiang River Delta in recent years, Rainbow Supermarket has

become an excellent channel for the Company to sell watches. Meanwhile, Rainbow Supermarket can provide the Company with superior specialized counters, it has become an excellent channel for the Company to sell watches, which can promote the Company's income from watches to rise without doing any harm to the Company's interests.

3. For other material related transactions, refer to the notes to the financial report
The related liabilities between the Company and Rainbow Supermarket and CATIC Property, two of the Company's related parties were the liabilities to and from resulted from normal sales of goods or expenses for property management.

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

2. In the report period, the Company offered no material guarantee to any other company.

3．In the report year, the Company had never entrusted by any other company for managing assets.

4. Other Important Contracts and Implementation
(1) The Company and Shenzhen Development Bank Shenzhen Jiangsu Building Sub-branch executed an agreement on credit line amounting to RMB 40 million with a term from September 15, 2005 to September 14, 2006. The announcement of the aforesaid information was published on Securities Times, Hong Kong Commercial Daily and http://www.cninfo.com.cn on September 21, 2005. The aforesaid agreement was completed in normal implementation.

(2) The Company and China Merchants Bank Futian Sub-branch executed an agreement on credit line amounting to RMB 50 million with a term from February 28, 2006 to February 28, 2007. The announcement of the aforesaid information was published on Securities Times, Hong Kong Commercial Daily and http://www.cninfo.com.cn on March 9, 2006.

(3) The Company and Shenzhen Development Bank Shenzhen Jiangsu Building Sub-branch executed an agreement on credit line amounting to RMB 40 million with a term from September 15, 2006 to September 15, 2007. The announcement of the aforesaid information was published on Securities Times, Hong Kong Commercial Daily and http://www.cninfo.com.cn on September 21, 2006.

(4) The Company and Shanghai Pudong Development Bank Shenzhen Branch executed an agreement on credit line amounting to RMB 40 million with a term from November 10, 2006 to November 10, 2007. The announcement of the aforesaid information was published on Securities Times, Hong Kong Commercial Daily and http://www.cninfo.com.cn on November 15, 2006.

(5) The Company and Bank of China Shenzhen Branch executed an agreement on credit line amounting to RMB 50 million with a term from November 22, 2006 to November 22, 2007. The announcement of the aforesaid information was published on Securities Times, Hong Kong Commercial Daily and http://www.cninfo.com.cn on November 24, 2006.

All the aforesaid agreements are in process of normal implementation. Ended the report period, the actual credit line actually used by the Company amounted to RMB 140 million.

V. Implementation of the Commitments by the Company or its Shareholders Holding over 5% of the Company's Share Capital

In the report period or its extension to the report period, the Company or the shareholders holding over 5% of the Company's total shares made no commitments.

VI. Engagement of Certified Public Accountants and Remuneration

In the report period, the Company engaged Yuehua Certified Public Accountants Co., Ltd. and Morison International as the Company's domestic and international auditors respectively.

Types	Description	Annual Emolument (in RMB '000)	Continuous service years
A-share	Yuehua Certified Public Accountants Co., Ltd.	250	2
B-share	Morison International	200	2

VII. Investigation Reception and Interviews

In the report period, the Company implemented the Guidelines of Listed Companies for Fair Information Disclosure. In receiving surveys and interviews, the Company and its officer in charge of information disclosure strictly observed the principle of fair information disclosure without any discrimination policy and had never been engaged in any activity of revealing, disclosing or letting out in advance any private information to any designated addressees in a secret way. Reception of visitors is summarized as follows:

Time	Place	Way of interview	Persons from both parties involved	Description	Information provided
July 7, 2006	the Company	Face to face talk	Zhou Li and Tang Dingzhong from Boshi Fund; Hao Huiwen, secretary of the Board	Introduction to the history and relevant information of the Company	2005 Annual Report

VIII. Penalties to and the Remedies from the Company, the Board of Directors and Directors

In the report year, there existed no such event resulted in inspection, administrative penalties or circulating notice of criticism from China Securities Regulatory Commission or public blame from the Stock Exchange against the Company, the Board of Directors or any directors.

IX. Reform for Equity Separation

1. On January 16, 2006, the Company announced the Memorandum on Reform for Equity Separation of Shenzhen FIYTA Holdings Limited. Based on the equity reform valuable consideration plan, for every 10 negotiable shares held by shareholders of negotiable A shares, shareholders of negotiable A shareholders shall receive 3 shares paid by shareholders of non-negotiable shares. On April 12, 2006, the Company held a shareholders' meeting which reviewed the equity separation reform proposal. The proposal failed to be approved at the meeting through voting. The relevant announcement was published on Securities Times, China Securities Journal, Shanghai Securities News and Hong Kong Commercial Daily and http://www.cninfo.com.cn next day.

2. On November 27, 2006, the Company announced again the Memorandum on Reform for Equity Separation of Shenzhen FIYTA Holdings Limited. The Company started again the equity separation reform work. Based on the new equity reform valuable consideration plan, for every 10 negotiable shares held by shareholders of negotiable A shares, shareholders of

negotiable A shareholders shall receive 3.1 shares paid by shareholders of non-negotiable shares. On April 16, 2007, the Company held a shareholders' meeting which reviewed the equity separation reform proposal. The proposal failed to be approved at the meeting through voting. The Company shall discuss and restart the equity separation reform work according to the relevant regulations as soon as possible.

Chapter 10 Financial Report (page 33 to 70)

Chapter 11 Documents Available for Inspection

I. Financial Statements signed by and under the seal of the legal representative, chief accountant and accounting supervisors;

II. Original copy of the Auditors' Report under the seal of the accounting firm and signed by and under the seal of certified public accountants.

III. All the manuscripts of the Company's documents and announcements disclosed in the newspapers (Securities Times and Hong Kong Commercial Daily) designated by China Securities Regulatory Commission.

SHENZHEN FIYTA HOLDINGS LTD.

Board of Directors

APRIL 26, 2007

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
SHENZHEN FIYTA HOLDINGS LIMITED
深圳市飛亞達(集團)股份有限公司
(Incorporated in the People's Republic of China with limited liability)

We have audited the accompanying consolidated financial statements of Shenzhen Fiyta Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 2 to 38, which comprise of the consolidated balance sheet as at December 31, 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and the summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body and for no other purpose. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of December 31, 2006, and of its profit and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Morison Heng
Chartered Accountants
Certified Public Accountants

Hong Kong: April 24, 2007

SHENZHEN FIYTA HOLDINGS LIMITED
深圳市飛亞達(集團)股份有限公司

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	Notes	2006 RMB'000	2005 RMB'000
Turnover	6	487,241	341,505
Cost of sales		(311,853)	(212,332)
Gross profit		175,388	129,173
Other revenue	6	4,762	4,266
Selling expenses		(78,499)	(59,041)
Administrative expenses		(59,928)	(50,512)
Other operating expenses		(1,446)	(4,720)
Profit from operations	7	40,277	19,166
Finance costs	9	(4,978)	(1,056)
Profit before taxation		35,299	18,110
Income tax	11	(9,058)	(2,712)
Profit for the year		26,241	15,398
Attributable to:			
Equity holders of the parent		26,169	15,553
Minority interests		72	(155)
		26,241	15,398
Earnings per share			
Basic	12	RMB0.105	RMB0.062

SHENZHEN FIYTA HOLDINGS LIMITED
深圳市飛亞達(集團)股份有限公司

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2006

	Notes	2006 RMB'000	2005 RMB'000
ASSETS			
Non-currents assets			
Property, plant and equipment	13	84,978	77,182
Investment properties	14	181,624	181,174
Construction in progress	15	151	135
Prepaid lease payments	16	10,658	15,081
Available-for-sale financial assets	17	10,386	10,386
Deferred tax assets	19	11,918	15,466
Intangible assets	20	1,243	1,554
		300,958	300,978
Current assets			
Inventories	21	371,196	233,861
Trade receivables	22	25,017	27,205
Bills receivable		-	550
Other receivables and prepayments	23	32,781	32,551
Dividend receivable		244	-
Tax recoverable		8,413	1,403
Financial assets at fair value through profit or loss	24	2,139	4,949
Amounts due from related companies	26	313	-
Bank balances and cash		60,226	47,711
		500,329	348,230
Total assets		801,287	649,208

SHENZHEN FIYTA HOLDINGS LIMITED
深圳市飛亞達(集團)股份有限公司

CONSOLIDATED BALANCE SHEET – (continued)
AT DECEMBER 31, 2006

	Notes	2006 RMB'000	2005 RMB'000
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Registered capital	28	249,318	249,318
Reserves	29	310,579	284,410
Equity attributable to equity holders of the parent		559,897	533,728
Minority interests		7,580	7,503
Total equity		567,477	541,231
Non-current liabilities			
Loan from a related company	25	5,000	-
Deferred income		3,000	3,000
		8,000	3,000
Current liabilities			
Trade payables		39,300	28,992
Staff welfare payable		19,284	18,820
Other payables and accruals		16,800	24,641
Amounts due to related companies	26	427	215
Amount due to an invested company	26	9,999	12,309
Bank loan - secured	27	140,000	20,000
		225,810	104,977
Total liabilities		233,810	107,977
Total assets less current liabilities		801,287	649,208

Approved by the Board of Directors on April 24, 2007

DIRECTOR DIRECTOR

SHENZHEN FIYTA HOLDINGS LIMITED
深圳市飛亞達(集團)股份有限公司

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2006

	Share capital RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000
Balance at December 31, 2004	249,318	191,108	114,519	(36,770)	518,175
Net profit for the year	-	-	-	15,553	15,553
Transfer from statutory reserve to accumulated losses	-		(31,813)	31,813	-
Balance at December 31, 2005	249,318	191,108	82,706	10,596	533,728
Net profit for the year	-	-	-	26,169	26,169
Transfer to statutory reserve	-	-	2,887	(2,887)	-
Balance at December 31, 2006	249,318	191,108	85,593	33,878	559,897

SHENZHEN FIYTA HOLDINGS LIMITED
深圳市飛亞達(集團)股份有限公司

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2006

	2006 RMB'000	2005 RMB'000
Cash flows from operating activities		
Profit before taxation	35,299	18,110
Adjustment for:		
Amortisation of prepaid lease payments	422	461
Amortisation of intangible assets	375	393
Depreciation of investment properties	6,953	6,426
Depreciation of property, plant and equipment	15,320	9,319
Dividend income	(244)	(110)
Loss/(Gain) on disposal of property, plant and equipment	84	(296)
Gain on disposal of financial assets at fair value through profit or loss	(1,017)	(1,104)
Fair value (gain)/loss on financial assets at fair value through profit or loss	(340)	2,058
Reversal of provision for doubtful debts	(5,334)	-
Reversal of inventory obsolescence	(14,967)	-
Interest paid	4,978	1,056
Interest income	(647)	(600)
Provision for impairment loss on available-for-sale financial assets	-	5,539
Provision for obsolescent inventory	-	1,538
Provision for doubtful debts	3,160	420
Operating profit before working capital changes	44,042	43,210
Increase in inventories	(122,368)	(31,416)
Increase in trade receivables	(1,574)	(9,663)
Decrease/(Increase) in bills receivable	550	(550)
Decrease in other receivables and prepayments	5,589	4,891
Decrease in amount due from holding company	-	1,500
Increase in amounts due from related companies	(313)	-
Increase in amounts due to related companies	212	215
Increase/(Decrease) in trade payables	10,308	(36,272)
Increase in staff welfare payable	464	107
(Decrease)/Increase in other payables and accruals	(7,841)	3,059
(Decrease)/Increase in amount due to an invested company	(2,310)	12,309
Cash used in operations	(73,241)	(12,610)
Interest paid	(4,978)	(1,056)
Tax paid	(12,520)	(4,564)
Net cash used in operating activities	(90,739)	(18,230)

CONSOLIDATED CASH FLOW STATEMENT – (continued)
FOR THE YEAR ENDED DECEMBER 31, 2006

	2006 RMB'000	2005 RMB'000
Cash flows from investing activities		
Interest received	647	600
Proceeds on disposal of property, plant and equipment	1,390	1,868
Purchase of property, plant and equipment	(24,330)	(15,342)
Purchase for intangible assets	(113)	-
Payments for construction in progress	(3,507)	(963)
Acquisition of available-for-sale financial assets	-	(11,040)
Proceeds on sale of financial assets at fair value through profit or loss	4,167	5,916
Dividend income from available-for-sale financial assets	-	110
Net cash used in investing activities	(21,746)	(18,851)
Cash flows from financing activities		
Proceeds from loan from a related company	5,000	-
Proceeds from borrowings	200,000	20,000
Repayments of borrowings	(80,000)	(20,000)
Net cash from financing activities	125,000	-
Net increase/(decrease) in cash and cash equivalents	12,515	(37,081)
Cash and cash equivalents at the beginning of the year	47,711	84,792
Cash and cash equivalents at the end of the year	60,226	47,711
Analysis of cash and cash equivalents at the end of the year		
Bank balances and cash	60,226	47,711

1. GENERAL INFORMATION

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

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

The Company and its subsidiaries (the "Group") are principally engaged in the design, manufacture, assembly and sale of quartz analog watches, clocks, watch casings, and property management.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This basis of accounting differs from that used in the statutory financial statements of the Group which are prepared in accordance with generally accepted accounting principles and relevant financial regulations applicable to enterprises in the PRC ("PRC GAAP").

Adoption of new and revised standards

In the current year, the Group has adopted all of the new and revised standards and interpretations issue by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and review standards and interpretations had no material effect on how the results for the current or prior years have been prepared and presented.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Statement of compliance – (continued)

At the date of authorisation of these consolidated financial statements, the following standards and interpretations were in issue but not yet effective:

IAS 1	(Amendment) Capital Disclosures	Effective for annual periods beginning on or after 1 January 2007
IFRS 7	Financial Instruments Disclosures	Effective for annual periods beginning on or after 1 January 2007
IFRS 8	Operating segments	Effective for annual periods beginning on or after January 1, 2009
IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economics	Effective for annual periods beginning on or after 1 March 2006
IFRIC 8	Scope of IFRS 2	Effective for annual periods beginning on or after 1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	Effective for annual periods beginning on or after 1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	Effective for annual periods beginning on or after 1 November 2006
IFRIC 11 IFRS 2	Group and Treasury Share Transactions	Effective for annual periods beginning on or after March 1, 2007
IFRIC 12	Service Concession Arrangements	Effective for annual periods beginning on or after January 1, 2008

The management anticipates that the adoption of these standards and interpretations in future periods will have no material financial impact on the consolidated financial statements of the Group.

Basis of preparation

The consolidated financial statements are prepared under the historical cost basis, except for the revaluation of certain available-for-sale financial assets and financial assets at fair value through profit or loss. The principal accounting policies are set out below.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Basis of consolidation

The consolidation financial statements incorporate the financial statements of the Company and its subsidiaries made up to December 31 each year. The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Sales of goods are recognised when goods are delivered and title has passed.

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established.

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income from investment properties is recognised on a straight-line basis over the terms of the relevant lease.

Property, plant and equipment

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

Independent valuations are performed periodically. In the intervening period, the directors review the carrying value of the property, plant and equipment and adjustment is made where in the director's opinion there has been a material change in value. Increases in valuation are credited to revaluation reserve. Decreases in valuation are first offset against increases on earlier valuations in respect of the same property, plant and equipment and are thereafter debited to operating profit. Any subsequent increases are credited to operating profit up to the amount previously debited.

Depreciation is calculated using the straight-line method to write off the cost of each asset, or its revalued amount, to its estimated residual value over its estimated useful life as follows:

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

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

Where the carrying amount of a property, plant and equipment is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Prepaid lease payments

Prepaid lease payments relating to buildings of the Group are stated at cost and are amortised over the year of the lease on the straight-line basis to the profit and loss account. Prepaid lease payments relating to investment properties and properties developed for sale are not amortised and included as part of the cost of such properties.

Construction in progress

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

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses.

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

The cost of maintenance, repairs and minor equipment is charged to the income statement as incurred; the cost of major renovations and improvements is capitalised when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. The gain or loss on disposal of an investment property is recognised with reference to its carrying value.

Intangible assets

Intangible assets acquired separately are reported at cost less accumulated amortisation and accumulated impairment losses. Amortisation is charged on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimated or its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Financial assets

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on settlement date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

a. Financial assets at fair value through profit or loss

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in income statement.

b. Available-for-sale financial assets

Available-for-sale financial assets are carried at fair value except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at cost less impairment loss, if any. Unrealised gains and losses arising from changes in the fair value are recognised directly in the investment revaluation reserve, except for foreign exchange gains and losses on monetary items such as debt securities which are recognised in the profit and loss account. When the available-for-sale financial assets are sold, the difference between the net sale proceeds and the carrying value, and the accumulated fair value adjustments in the equity are treated as gains and losses on disposal.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Financial assets - (continued)

c. Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. For financial assets carried at amortised cost, if there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in income statement of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in income statement of the period in which the reversal occurs.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost which comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories and work in progress to their present locations and condition, is calculated using the weighted average basis method. Net realisable value is based on estimated selling prices less estimated selling expenses .

Trade receivables

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of trade receivables is established when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Taxation

PRC income taxes are provided for based on the estimated assessable profits and the applicable tax rates for the Company and other companies comprising the Group.

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Leased assets

Leases where substantially all of the risks and rewards of ownership of the assets remain with the lessors are accounted for as operating leases.

(1) Where the Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(2) Where the Group is the lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Renminbi, which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Renminbi using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit and loss in the period in which the foreign operation is disposed of.

Related parties

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

2. SIGNIFICANT ACCOUNTING POLICIES – (continued)

Employee benefits

The Group participates in employee social security plans, including pension, medical, housing and other welfare benefits, organized by the government authorities in accordance with relevant regulations. Except for the above social security benefits, the Group has no additional commitment to other employee welfare benefits.

According to the relevant regulations, premium and welfare benefit contributions are remitted to the social welfare authorities and are calculated based on percentages of the total salary of employees, subject to a certain ceiling. Contributions to the plans are charged to the income statement as incurred.

Borrowings

Borrowings are recognised in profit or loss in the period in which they are incurred.

Deferred income

Deferred income represents grants from the government are recognised at their fair value where there is a reasonable assurance that the grants will be received and the Group will comply with all attached conditions.

Grants relating to the purchase of property, plant and equipment are included in non-current liabilities as other liabilities and are credited to the income statement on a straight line basis over the expected lives of the related assets.

Segment reporting

Business segments provide products or services that are subject to risks and returns that are different from those of other business segments.

Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from the date of investment and bank overdraft.

3. FINANCE RISK MANAGEMENTS

a) Financial risk factors

The Group's activities expose it to a variety of financial risks: interest-rate risk, credit risk, foreign exchange risk and liquidity risk.

Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from borrowings. The interest rates and repayment terms of borrowings are disclosed in note 27. Borrowings issued at variable rates expose the Group to Cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group has not hedged its cash flow and fair value interest rate risk.

Credit risk

The carrying amount of cash and cash equivalents and receivables represented the Group's maximum exposure to credit risk in relation to financial assets. Cash is deposited with registered banks in the PRC. Majority of the Group's receivables relate to sales of goods to third parties in the PRC. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on receivables. The Group maintains a provision for doubtful debts.

No other financial assets carry a significant to credit risk.

Foreign exchange risk

The directors consider the foreign exchange risk is not significant as the operating income and expenses are denominated in RMB.

Liquidity risk

The Group ensures that it maintains sufficient cash and credit lines to meet its liquidity requirements.

b) Fair value estimation

The fair value of financial assets at fair value through profit or loss is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying amounts of other significant financial assets and financial liabilities approximate their fair values as at December 31, 2006.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles.

Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

b) Impairment of receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision on each of the balance sheet date.

c) Impairment of property, plant and equipment and available-for-sale financial assets

Property, plant and equipment and available-for-sale financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of property, plant and equipment and available-for-sale financial assets have been determined based on value-in-use calculations. These calculation and valuations require the use of judgment and estimates.

d) Current taxation and deferred taxation

The Group is subject to taxation in the PRC. Significant judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxations. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the periods in which such determination are made.

5. BUSINESS SEGMENTS INFORMATION OF THE GROUP

For management purposes, the Group is organized into two major operating divisions – clocks and watches and property rental. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

Clocks and watches– design, manufacture, assembly and sale of quartz analog watches, clocks, watch casings.

Property rental– the leasing of investment properties to generate rental income.

Segment information about these businesses for the year ended December 31, 2006 is presented below.

	Clocks and watches RMB'000	Property rental RMB'000	Total RMB'000
Turnover	441,474	45,767	487,241
Segment results	140,512	38,112	178,624
Unallocated expense			(138,347)
Operating profits			40,277
Finance costs			(4,978)
Profit before taxation			35,299
Taxation			(9,058)
Profit after taxation			26,241
Minority interest			(72)
Net profit			26,169
Segment assets	584,218	192,626	776,844
Unallocated assets			24,443
Total assets			801,287
Segment liabilities	93,810	-	93,810
Unallocated liabilities			140,000
Total liabilities			233,810
Depreciation and amortization:			
- property, plant and equipment	15,320	-	15,320
- investment properties	-	6,953	6,953
- prepaid lease payments	-	422	422

5. BUSINESS SEGMENTS INFORMATION OF THE GROUP – (continued)

For the year ended December 31, 2005

	Clocks and watches RMB'000	Property rental RMB'000	Total RMB'000
Turnover	300,373	41,132	341,505
Segment results	100,171	32,212	132,383
Unallocated expense			(113,217)
Operating profits			19,166
Finance costs			(1,056)
Profit before taxation			18,110
Taxation			(2,712)
Profit after taxation			15,398
Minority interest			155
Net profit			15,553
Segment assets	421,691	196,716	618,407
Unallocated assets			30,801
Total assets			649,208
Segment liabilities	87,977	-	87,977
Unallocated liabilities			20,000
Total liabilities			107,977
Depreciation and amortization:			
- property, plant and equipment	9,319	-	9,319
- investment properties	-	6,426	6,426
- prepaid lease payments	-	461	461

There are no sales or other transactions between the business segments. Segment assets comprise operating assets and mainly exclude deferred tax assets, available-for-sale financial assets and financial assets at fair value through profit or loss. Segment liabilities comprise operating liabilities and mainly exclude minority interests and borrowings. All assets and operations of the Group are located in the PRC.

6. TURNOVER AND REVENUE

The Group is engaged in the design, manufacture, assembly and sale of quartz analog watches, clocks, watch casings, and property rental. Revenue recognised during the year is as follows:

	2006 RMB'000	2005 RMB'000
Turnover		
Rental income	45,767	41,132
Sales of goods	441,474	300,373
	487,241	341,505
Other revenue		
Bank interest income	647	600
Dividend income	-	110
Repairs and maintenance income	1,599	1,253
Gain on disposal of financial assets at fair value through profit or loss	1,017	1,104
Fair value gain on financial assets at fair value through profit or loss	340	-
Gain on disposal of property, plant and equipment	8	426
Others	1,151	773
	4,762	4,266
Total revenue	492,003	345,771

7. PROFIT FOR OPERATIONS

Profit for operations had been arrived at after charging:

	2006 RMB'000	2005 RMB'000
Depreciation and amortisation:		
Amortisation of prepaid lease payments	422	461
Amortisation of intangible assets	375	393
Depreciation of property, plant and equipment	15,320	9,319
Depreciation of investment properties	6,953	6,426
Total depreciation and amortisation expenses	23,070	16,599
Impairment loss for available-for-sale investment	-	5,539
Staff costs (including directors' remuneration – note 10)	60,122	46,473

8. STAFF COSTS

	2006 RMB'000	2005 RMB'000
Wages and salaries	51,626	38,101
Staff welfare	6,561	2,644
Social insurance expenses	1,935	3,165
	60,122	43,910

9. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest on bank borrowings	4,978	1,056

10. DIRECTORS' REMUNERATION

Particulars of the emoluments of the directors for the year were as follows:

	2006 RMB'000	2005 RMB'000
Fees	-	-
Other emoluments	3,436	2,563
	3,436	2,563

11. INCOME TAX

	2006 RMB'000	2005 RMB'000
Current tax	5,510	2,712
Deferred tax (note 19)	3,548	-
	9,058	2,712

The charge for the year can be reconciled to the profit per the income statement as follows:

	2006 RMB'000	2005 RMB'000
Profit before taxation	35,299	18,110
Tax at the applicable income tax rate (15%)	5,295	2,716
Tax effect of expenses not deductible for tax purposes	6,767	2,383
Tax effect of income not taxable for tax purposes	(2,710)	(2,734)
Tax effect of a subsidiary which has 50% reduction from income tax	(506)	(735)
Tax effect in tax losses of subsidiaries	212	1,082
Taxation charge	9,058	2,712

Pursuant to the relevant income tax laws of the PRC, group companies established in the Shenzhen Special Economic Zone are subject to income tax at a rate of 15% while those established in other areas are subject to income tax at a rate of 33%. In addition, as approved by the local Tax Bureau, a subsidiary is entitled to full exemption from PRC income tax for two years starting from the first profit making year and a 50% reduction in the next three years.

12. EARNINGS PER SHARE

	2006 Cents per share	2005 Cents per share
Basic earnings per share	RMB10.5	RMB6.2

12. EARNINGS PER SHARE – (continued)

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2006 RMB'000	2005 RMB'000
Profit for the year attributable to equity holders of the parent	26,169	15,553

	2006 '000	2005 '000
Weighted average number of ordinary shares for the purpose of basic earnings per share (all measures)	249,318	249,318

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Equipment and machinery RMB'000	Leasehold improvements RMB'000	Total RMB'000
COST OR VALUATION				
At January 1, 2005	60,381	34,782	15,179	110,342
Additions	39	4,732	10,571	15,342
Transferred from construction in progress	1,413	-	705	2,118
Disposals	-	(4,295)	(1,152)	(5,447)
At January 1, 2006	61,833	35,219	25,303	122,355
Additions	7,359	2,456	14,515	24,330
Transferred from construction in progress (note 15)	-	-	206	206
Written off	-	(3,283)	(37)	(3,320)
Disposals	(425)	(2,506)	-	(2,931)
At December 31, 2006	68,767	31,886	39,987	140,640

13. PROPERTY, PLANT AND EQUIPMENT – (continued)

	Buildings	Equipment and machinery	Leasehold improvements	Total
	RMB'000	RMB'000	RMB'000	RMB'000
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At January 1, 2005	13,024	18,271	8,756	40,051
Charge for the year	764	3,997	4,558	9,319
Eliminated on disposals	-	(3,046)	(1,151)	(4,197)
At January 1, 2006	13,788	19,222	12,163	45,173
Charge for the year	1,092	4,827	9,401	15,320
Eliminated on written off	-	(2,347)	(9)	(2,356)
Eliminated on disposals	(62)	(2,413)	-	(2,475)
At December 31, 2006	14,818	19,289	21,555	55,662
NET BOOK VALUE				
At December 31, 2006	53,949	12,597	18,432	84,978
At December 31, 2005	48,045	15,997	13,140	77,182

The Group is in the process of applying for property certificates in respect of buildings with a net book value amounting to RMB7,383,000 at December 31, 2006 (2005: RMB 7,618,000).

At December 31, 2006, the Company's future aggregate minimum lease rental receivables under non-cancellable leases are as follows:

	2006	2005
	RMB'000	RMB'000
Within one year	7,325	5,886

14. INVESTMENT PROPERTIES

	2006 RMB'000	2005 RMB'000
Carrying amount at the beginning of the year	181,174	187,600
Transfer from construction in progress (note 15)	3,285	-
Transfer from prepaid lease payments (note 16)	4,118	-
Charge for the year	(6,953)	(6,426)
Carrying amount at the end of the year	181,624	181,174
Directors' valuation - including prepaid lease payments	450,000	330,932

The investment properties of the Group are situated in the PRC. The related leasehold land was granted by Town Planning and Land Administration Bureau of Shenzhen for a period of 50 years. The valuation for the investment properties at December 31, 2006 and December 31, 2005 were determined by the directors on an open market value basis.

15. CONSTRUCTION IN PROGRESS

	2006 RMB'000	2005 RMB'000
Net book value at the beginning of the year	135	1,290
Additions	3,507	963
Transfer to property, plant and equipment (note13)	(206)	(2,118)
Transfer to investment properties (note 14)	(3,285)	-
Net book value at the end of the year	151	135

16. PREPAID LEASE PAYMENTS

	2006 RMB'000	2005 RMB'000
COST		
At January 1	20,037	20,037
Transfer to investment properties (note 14)	(5,249)	-
At December 31	14,788	20,037
ACCUMULATED AMORTISATION		
At January 1	4,495	4,034
Charge for the year	422	461
Transfer to investment properties (note 14)	(1,131)	-
At December 31	3,786	4,495
NET BOOK VALUE		
At December 31	11,002	15,542
Current portion included in other receivables and prepayments	(344)	(461)
Non-current portion	10,658	15,081

The leasehold land is held under long term lease and is situated in People's Republic of China.

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

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2006 RMB'000	2005 RMB'000
Listed shares, at cost	3,000	3,000
Unlisted shares, at cost	12,925	12,925
	15,925	15,925
Less: impairment loss	(5,539)	(5,539)
	10,386	10,386

Promoters' shares of a listed company are transferable subject to approvals from relevant local authorities. There are no quoted market prices for shares in unlisted companies. Both types of shares have neither an active market nor a fixed maturity and are therefore carried at cost less accumulated impairment losses, if any. The directors of the Company are of the opinion that the carrying value of the available-for-sale financial assets approximated their recoverable amounts at the year end.

18. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES

	2006 RMB'000	2005 RMB'000
Unlisted shares, at cost	6,300	-
Less: Impairment loss	(6,300)	-
	-	-

Details of the Group's unconsolidated subsidiary as at December 31, 2006 are as follows:

Name of subsidiary	Registered capital	Principal activities	Attributable equity interest held Direct	 Indirect
Shenzhen Feijing Precision Optical Device Manufacture Co., Ltd	RMB7,000,000	Ceased business	90%	9.879%

19. DEFERRED TAX ASSETS

	RMB'000
At January 1, 2005 and January 1, 2006	15,466
Charge to income statement	(3,548)
At December 31, 2006	11,918

20. INTANGIBLE ASSETS

	RMB'000
COST	
At January 1, 2005 and January 1, 2006	3,816
Additions	113
Written off	(66)
At December 31, 2006	3,863
ACCUMULATED AMORTISATION	
At January 1, 2005	1,869
Charge for the year	393
At January 1, 2006	2,262
Charge for the year	375
Eliminated on written off	(17)
At December 31, 2006	2,620
NET BOOK VALUE	
At December 31, 2006	1,243
At December 31, 2005	1,554

The intangible assets included above have finite useful lives, over which the assets are amortised.

21. INVENTORIES

	2006 RMB'000	2005 RMB'000
Raw materials	43,411	47,291
Work in progress	1,931	5,323
Finished goods	372,047	242,407
	417,389	295,021
Less: provision for obsolescent inventories	(46,193)	(61,160)
	371,196	233,861

The cost of inventories recognised as an expense during the year was RMB268,195,000 (2005: RMB187,730,000).

22. TRADE RECEIVABLES

	2006 RMB'000	2005 RMB'000
Trade receivables	71,086	69,512
Less: provision for doubtful debts	(46,069)	(42,307)
Trade receivables, net	25,017	27,205

Movement in the provision for doubtful debts:

	2006 RMB'000	2005 RMB'000
At the beginning of the year	42,307	41,119
Increase in provision recognised in profit or loss	3,762	1,188
At the end of the year	46,069	42,307

23. OTHER RECEIVABLES AND PREPAYMENTS

	2006 RMB'000	2005 RMB'000
Prepayments	9,914	1,677
Other receivables	29,897	43,840
Less: provision for doubtful debts	(7,030)	(12,966)
	32,781	32,551

Movement in the provision for doubtful debts:

	2006 RMB'000	2005 RMB'000
At beginning of year	12,966	13,734
Decrease in provision recognised in profit or loss	(5,936)	(768)
At end of year	7,030	12,966

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2006 RMB'000	2005 RMB'000
Market value of listed investments - equity shares	2,139	4,949

The financial assets at fair value through profit or loss are traded in active markets and are valued at market prices at the close of business on December 31 by reference to Stock Exchange quoted prices.

25. LOAN FROM A RELATED COMPANY

The loan due is unsecured, interest-free and with no fixed terms of repayment.

26. AMOUNTS DUE FROM/TO RELATED COMPANIES AND AMOUNT DUE TO AN INVESTED COMPANY

The amounts due are unsecured, interest-free and with no fixed terms of repayment.

27. BANK LOAN - SECURED

	2006 RMB'000	2005 RMB'000
Repayable within one year	140,000	20,000

The bank loan was interest bearing at rates ranging from 5.58% to 6.12% per annum (2005: 5.58%) and guaranteed by the holding company, CATIC Shenzhen Holdings Limited.

28. SHARE CAPITAL

Registered, issued and fully paid ordinary shares of RMB1 each:

	2006 RMB'000	2005 RMB'000
Promoters' shares	130,248	130,248
A shares	60,750	60,750
B shares	58,320	58,320
	249,318	249,318

29. RESERVES

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

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

30. CAPITAL COMMITMENTS

	2006 RMB'000	2005 RMB'000
Contracted but not provided for:		
- acquisition of property, plant and equipment	-	2,259

31. OPERATING LEASE COMMITMENTS

At December 31, 2006, the Group had total future minimum lease payments under an non-cancellable operating lease in respect of land and buildings as follows:

	2006 RMB'000	2005 RMB'000
Within one year	7,345	3,730
In the second to fifth years inclusive	13,255	7,875
	20,600	11,605

32. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with related parties in normal course of its business:

	2006 RMB'000	2005 RMB'000
Rental income received from:		
Shenzhen CATIC Property Management Co., Ltd	805	805
Property management fee paid to:		
Shenzhen CATIC Property Management Co., Ltd	2,505	1,947
Construction fee paid to:		
Shenzhen CATIC Property Management Co., Ltd	-	2,208
Commission paid to:		
Shenzhen Rainbow Department Store Co., Ltd	2,667	970

33. SUBSIDIARIES

At December 31, 2006, the Company had the following major subsidiaries (all incorporated in the PRC):

Name of subsidiaries	Registered capital	Principal activities	Attributable equity interest held	
			Direct	Indirect
Shenzhen Fiyta Precision Timing Manufacture Co., Ltd	RMB10,000,000	Design, manufacture and assembly of quartz watches and watch components	90%	9.879%
Shenzhen Feijing Precision Optical Device Manufacture Co., Ltd (note a)	RMB7,000,000	Ceased business	90%	9.879%
Shenzhen Harmony World Watch Centre Co., Ltd.	RMB123,800,000	Distribution of watches and watch components and provision of repair services	98.79%	-
Xian Haomen Food & Recreation City Co., Ltd. (note b)	HKD16,000,000	Ceased business	62%	-
Shenzhen World Famous Watch Centre Co., Ltd. (note c)	RMB2,800,000	Retailing of advanced watch, glasses and jewellery	50%	-

Note: a) This subsidiary has sold out its assets related to manufacture of precision optical device and watch surfaces business and ceased its operations since 2005.

b) This subsidiary has sold out all its assets related to catering and entertainment business and ceased its operations since 2003.

c) The Company has obtained substantial control over the joint venture’s operation since 2003. As a result, its results and assets have been consolidated in the Group’s financial statements.

34. REPORTING CURRENCY

The Group's financial statements are expressed in Renminbi.

35. ULTIMATE HOLDING COMPANY

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

36. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2006

The impact of IFRS adjustments on the PRC statutory financial statements is as follows:

	Net profit for the year		Shareholders' equity	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB' 000	RMB'000
As report under PRC statutory financial statements	29,263	16,007	562,634	533,371
IFRS adjustments:				
- Adjustment on deferred tax assets	(3,548)	-	11,918	15,466
- Reclassification of prior year profit appropriation to staff welfare payable	-	-	(15,949)	(15,949)
- Adjustment on provision for bad debt	454	(454)	-	(454)
- Others	-	-	1,294	1,294
As restated after IFRS adjustments	26,169	15,553	559,897	533,728