Stock Code: 000026 200026 Short form of the Stock: S FIYTA A FIYTA B Public Notice No:2007－016

Shenzhen Fiyta Holdings Co., Ltd.

2006 Annual Report Summary

§1 Important

I.1 The Board of Directors, the Supervisory Committee, directors, supervisors and senior executives of the Company hereby confirm that there are no important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individually and/or jointly, for the authenticity, accuracy and completion of the whole contents. This summary is cited from the full text of the annual report. An investor who wants to know the detail, should read the full text of the annual report. 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.

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

1.3

Name of director absent from the meeting	Cause of absence	Trustee's Name
Wu Guangquan	In business trip	Lai Weixuan

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

1.5 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 (§9) 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.

§2 Company Information

2.1 Basic Data

Short form of the stock:	S FIYTA A, FIYTA B
Stock Code:	000026, 200026
Stock Exchange Listed with	Shenzhen Stock Exchange
Registered address	FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen
Postal code of the registered address:	518057
Office address	20th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen
Postal code of the office address:	518057

Internet Web Site	http:// www.fiyta.com.cn
E-mail	investor@fiyta.com.cn

2.2. Liaison Persons and Communication Information

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

§ 3 Financial and Business Highlights

3.1 Accounting Data Summary

In RMB

	2006	2005	Year-on-year increase/ decrease (%)	2004
Income from core business	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 gains/loss	27,870,036.66	17,181,233.23	62.21%	2,473,894.00
Net cash flows arising from operating activities	-86,133,036.02	-14,006,618.19	0.00%	-24,942,143.00
	End of 2006	End of 2005	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

3.2 Financial Data Summary

In RMB

	2006	2005	Year-on-year increase/ decrease (%)	2004
Earnings per share	0.117	0.064	82.88%	0.008
Earnings per share (Note)	0.117	-	-	-
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	4.95%	3.22%	1.73%	0.48%
Net cash flows per share arising from operating activities	-0.345	-0.056	—	-0.10
	End of 2006	End of 2005	Year end-on-year end increase/ decrease (%)	End of 2004
Net assets per share	2.257	2.139	5.52%	2.075
Net assets per share after	2.18	2.087	4.46%	2.03

adjustment				

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

Non-recurring gain and loss items

√ Applicable ☐ Inapplicable

In RMB

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

3.3. Discrepancies between CAS and IAS

√ Applicable ☐ Inapplicable

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	

§4 Changes in Capital Stock and Particulars about Shareholders

4.1 Change in the Company's Shares

In shares

	Before the change		Increase/ Decrease (+ / -) as of the year					After the change	
	Q'ty	Proportion	New issuing	Bonus issue	Capital surplus converted into equity	Others	Sub-total	Q'ty	Proportion
I. Non-listed negotiable shares	130,248,000	52.24%						130,248,000	52.24%
1. Promoters' shares	130,248,000	52.24%						130,248,000	52.24%
incl.: state shares									
Domestic legal person shares	130,248,000	52.24%						130,248,000	52.24%
Foreign legal person shares									
Others									
2. Legal person shares placed									
3. Employees' shares									
4. Preference shares or others									

II. Listed negotiable shares	119,069,999	47.76%						119,069,999	47.76%
1. RMB ordinary shares	60,749,999	24.37%						60,749,999	24.37%
2. Foreign shares listed domestically	58,320,000	23.39%						58,320,000	23.39%
3. Foreign shares listed abroad									
4. Others									
III. Total Shares	249,317,999	100.00%						249,317,999	100.00%

4.2 Top 10 Shareholders and Top 10 Shareholders of Negotiable Shares

In shares

Total Shareholders					17,879
Shares held by the top 10 shareholders					
Shareholders	Nature of Shareholders	Proportion of shares held	Total shares held (shares)	Q'ty of Non-negotiable Shares Held	Shares pledged or frozen
CATIC SHENZHEN HOLDINGS LTDS.	Domestic legal person shares	52.24%	130,248,000	130,248,000	0
Zhejiang International Trust & Investment Co., Ltd.	Negotiable A-shares	4.15%	10,354,324	0	0
Henan Fangchen Technology & Trade Co., Ltd.	Negotiable A-shares	2.52%	6,280,000	0	0
Shenzhen Xinglun Network Technology Co., Ltd.	Negotiable A-shares	1.89%	4,714,157	0	0
Kaifeng Xinfeng Trade Co., Ltd.	Negotiable A-shares	1.66%	4,147,400	0	0
Shanghai Delin Property Management Co., Ltd.	Negotiable A-shares	1.59%	3,951,975	0	0
Ou Yanping	Negotiable B-shares	0.22%	559,322	0	0
Ou Yanping	Negotiable B-shares	0.21%	515,400	0	0
Lin Junhua	Negotiable A-shares	0.18%	439,794	0	0
Lin Chubin	Negotiable B-shares	0.17%	419,854	0	0

Shares held by the top ten shareholders of negotiable shares		
Shareholders	Q'ty of Negotiable Shares Held	Share Type
Zhejiang International Trust & Investment Co., Ltd.	10,354,324	RMB ordinary shares
Henan Fangchen Technology & Trade Co., Ltd.	6,280,000	RMB ordinary shares
Shenzhen Xinglun Network Technology Co., Ltd.	4,714,157	RMB ordinary shares
Kaifeng Xinfeng Trade Co., Ltd.	4,147,400	RMB ordinary shares
Shanghai Delin Property Management Co., Ltd.	3,951,975	RMB ordinary shares
Ou Yanping	559,322	Foreign shares listed domestically

Ou Yanping	515,400	Foreign shares listed domestically
Lin Junhua	439,794	RMB ordinary shares
Lin Chubin	419,854	Foreign shares listed domestically
ABN AMRO BANK NV	382,400	Foreign shares listed domestically
Relationship/concerted action among the above shareholders	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.	

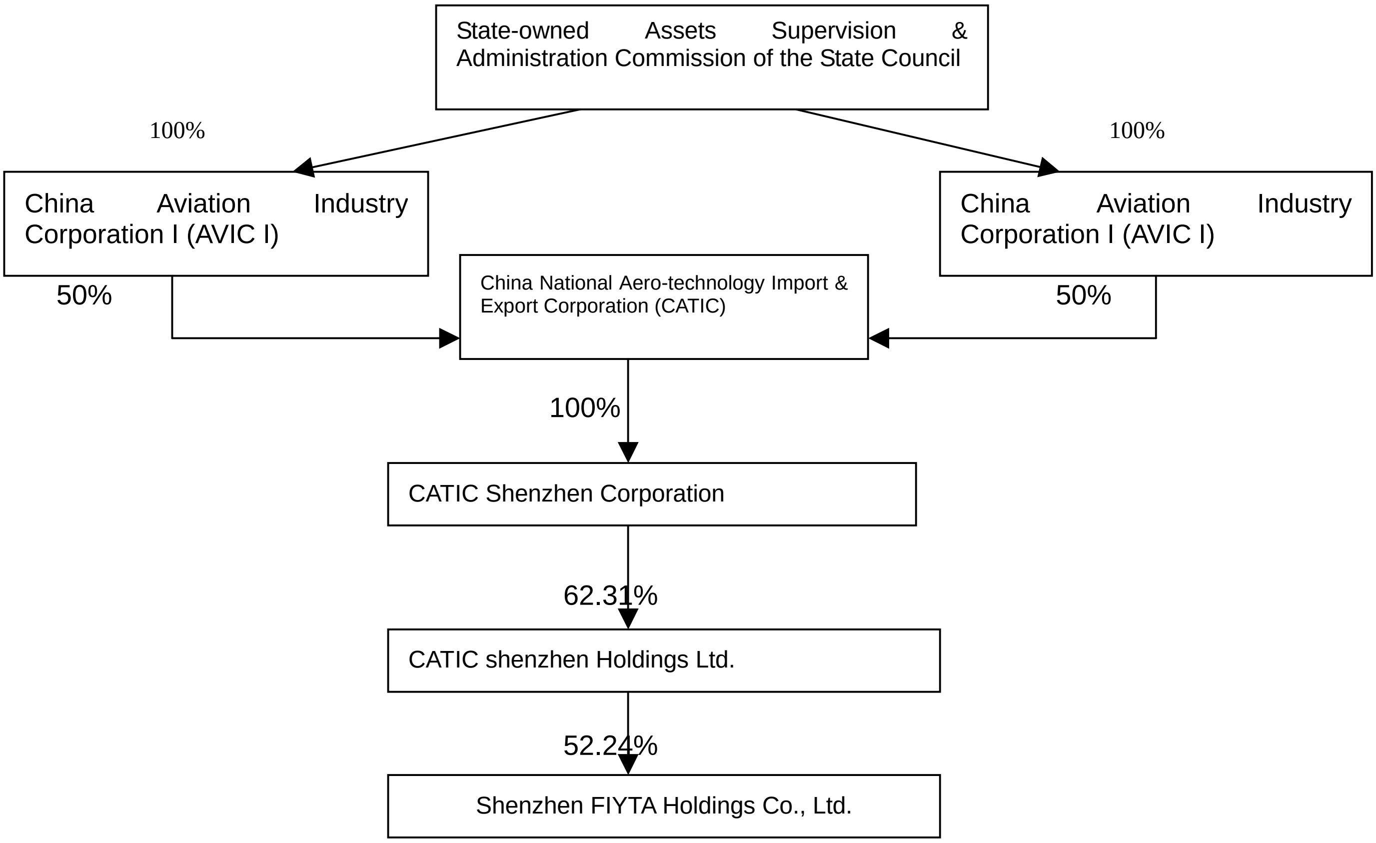
4.3 About the Controlling Shareholder and the Actual Controller

4.3.1 Change in the Controlling Shareholder and the Actual Controller

☐ Applicable √ Inapplicable

4.3.2 About the Controlling Shareholder and the Eventual Controller

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



§5 Directors, supervisors and senior executives

5.1 Changes in shares held by directors, supervisors and senior executives and remuneration

Names	Titles	Sex	Age	Starting date of office term	Expiry date of office term	Number of shares held at year beginning	Number of shares held at year end	Reason of Change	Total remuneration received from the Company in the report period (RMB '000)	Do they receive their pay from the shareholders or any other related parties
Wu Guangquan	Chairman of the Board	male	44	May 30, 06	May 29, 09	0	0		0.00	Yes
Lai Weixuan	Vice-Chairman	male	42	2006- 5-30	May 29, 09	0	0		0.00	Yes
Sui Yong	Director	male	48	May 30, 06	May 29, 09	0	0		0.00	Yes
Xu Dongsheng	Director and General Manager	male	40	May 30, 06	May 29, 09	0	0		650.00	No
Wang Baoying	Director	male	42	May 30, 06	May 29, 09	0	0		0.00	Yes
Hua Xiaoning	Independent director	male	43	May 30, 06	May 29, 09	0	0		30.00	No
Guo Wanda	Independent director	male	41	May 30, 06	May 29, 09	0	0		30.00	No
Ji Qinzhi	Independent director	female	65	2006-09-01	May 29, 09	0	0		10.00	No
Huang Gaojian	Chairman of Supervisory Committee	male	50	May 30, 06	May 29, 09	0	0		0.00	Yes
Zhang Songhua	Supervisor	male	53	May 30, 06	May 29, 09	0	0		238.90	No
Tang Boxue	Supervisor	male	45	May 30, 06	May 29, 09	0	0		171.00	No
Lu Bingqiang	Deputy General Manager	male	45	May 30, 06	May 29, 09	482,100	482,100		438.00	No
Li Dehua	Deputy General Manager, Chief Accountant	male	46	May 30, 06	May 29, 09	0	0		466.00	No
Li Bei	Deputy General Manager	male	51	May 30, 06	May 29, 09	0	0		469.00	No
Fang Juan	Deputy General Manager	female	47	May 30, 06	May 29, 09	0	0		535.00	No
Hao Huiwen	Deputy General Manager	male	38	May 30, 06	May 29, 09	0	0		398.00	No
Total	-	-	-	-	-	482,10	482,100	-	3,435.90	-

§6. Report of the Board of Directors

§6.1 Discussion and Analysis of the Management

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 4th 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 6th 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.

6.1.1 Possible Changes Possibly Taken Place in Accounting Policy and Accounting Estimate in the Company upon Implementation of the New Enterprise Accounting Standards and the Influences upon the Company's Financial Conditions and Operation Results

√ applicable ☐ non-applicable

(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.

6.2 Status of Principal Business Based on Sectors and Products

In RMB '000

Principal Businesses Based on Sectors						
Based on sectors or products	Principal business income	Principal business cost	Principal business 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 profit rate over the previous year (%)
Industry	130,534.90	58,262.00	55.37%	8.69%	-0.15%	3.95%
Trading	310,938.80	242,699.80	21.95%	72.48%	71.09%	0.64%
Property management	4,5767.50	7,655.20	83.27%	11.27%	-14.18%	4.96%
Principal Businesses Based on Products						
Sales of FIYTA watches	127,835.50	61,970.40	51.52%	8.52%	11.39%	4.04%
Sales of foreign top brand watches	310,938.80	242,699.80	21.95%	72.48%	71.09%	0.64%

6.3 Principal Businesses Based on Regions

In RMB '000

Regions	Principal business income	Increase/decrease of revenue from principal businesses over the previous year (%)
Northeast China	49,009.20	22.68%
North China	69,510.30	153.69%
Northwest China	74,861.30	12.04%
East China	65,888.60	57.57%
Southwest China	33,782.40	166.61%
East China	145,722.42	33.17%
Total	438,774.30	47.20%

6.4. Application of the Proceeds Raised through Share Offering

☐ Applicable √ Inapplicable
Change of Projects
☐ Applicable √ Inapplicable

6.5. Investment with the Funds not Raised by Share Offering

☐ Applicable √ Inapplicable

6.6 Explanation of the Board to the "Non-standard Opinion" Presented by the Certified Public Accountants

☐ Applicable √ Inapplicable

6.7 Profit Distribution or Converting Capital Public Reserve into Capital Stock

☐ Applicable √ Inapplicable
The Company achieved profit in the report period and has not proposed cash profit distribution plan
√ applicable ☐ non-applicable

The Company achieved profit in the report period but has not proposed cash profit distribution plan	Application and utilization plan of the retained earnings
As the Company's Harmony World Watches Chain Shop still needs to expand the investment and big sum of net cash needs to be invested. Therefore, the Company plans to neither distribute cash dividend and stock dividend to shareholders nor conduct conversion of capital reserve into capital stock for the year 2006.	The retained earnings shall be mainly used to invest Harmony World Watch Chain Shops

§7 Important Events

7.1 Assets Acquisition

☐ Applicable √ Inapplicable

7.2 Sales of Assets

☐ Applicable √ Inapplicable
7.1 and 7.2 Influence of matters involved in 7.1 and 7.2 upon the continuity of the Company's business and the stability of the management.

7.3 Material Guarantees

☐ Applicable √ Inapplicable

7.4 Important Related Transactions

7.4.1 Related transactions in connection with the daily operation

√ Applicable ☐ Inapplicable

In RMB '000

Related Parties	Products sold and labor services provided to the related parties		Products purchased and labor services received from the related parties	
	Amount in transaction	Proportion in the amount of the similar transactions	Amount in transaction	Proportion in the amount of the similar transactions
Shenzhen CATIC Property Management Co., Ltd.	0.00	0.00%	1,851.30	100.00%
Shenzhen CATIC Property Management Co., Ltd.	0.00	0.00%	855.00	-
Shenzhen Rainbow Emporium Co., Ltd.	0.00	0.00%	2,667.00	-
Shenzhen CATIC Real Estate Co., Ltd.	945.00	2.06%	0.00	0.00%
Sunshine Real Estate	230.90	0.50%	0.00	0.00%
Shenzhen Maiwei Cable TV Equipment Co Ltd	609.20	1.33%	0.00	0.00%
Total	1,785.10	3.89%	5,323.30	100.00%

Where: the total amount of the related transactions in which the Company sold products and offered labor services to its controlling shareholder and its subsidiaries in the report period was RMB 1.7851 million.

7.4.2 Credits and Debts with Related Parties

☐ Applicable √ Inapplicable

7.4.3 Progress of liquidation of the occupied fund at the end of 2005

☐ Applicable √ Inapplicable

Newly Increased Fund Occupied in 2006

☐ Applicable √ Inapplicable

If the Company had not completed the work of "debt paying off" for the funds occupied for non-operating purpose by the end of 2006, state the causes, the measures for "debt paying off" taken and the plan for looking into the responsibilities.

☐ Applicable √ Inapplicable

7.5. Entrusted Assets Management

☐ Applicable √ Inapplicable

7.6. Implementation of Commitments

7.6.1 Commitments made by the former shareholders of non-negotiable shares in process of equity separation reform and the implementation of such commitments

☐ Applicable √ Inapplicable

7.6.2 About the number of negotiable shares without sales restriction held by the former shareholders of non-negotiable shares holding over 5% of the total shares at the end of the report period

☐ Applicable √ Inapplicable

7.7 Material Lawsuits and Arbitration

☐ Applicable √ Inapplicable

§8 Report of the Supervisory Committee

√ Applicable ☐ Inapplicable

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.

§ 9 Financial Report

9.1 Auditor's Opinion

Auditor's Opinion: standard unqualified auditors' opinion.

9.2 Financial Report

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

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

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

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

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

9.3 In case of any changes in accounting policy, accounting estimates and methods of accounting in comparison with the latest annual report, present detailed description of such changes

☐ Applicable √ Inapplicable

9.4 Details, Amount Involved in Correction, Causes and Influences of Material Accounting Errors

☐ Applicable √ Inapplicable

9.5 In case of any change in consolidation in comparison with the latest annual report, present detailed description of such change

√ Applicable ☐ Inapplicable

In comparison with the previous year, Shenzhen Feijing Sophisticated Optical Instruments Manufacture Co., Ltd., one of the Company's subsidiaries, was no longer put in the consolidation range as it wound up in the report period.