

FIYTA HOLDINGS LTD.

2011 Annual Report

February 28, 2012

Definition

In this report, unless the context otherwise required, the following names in abbreviation shall refer to the following organizations:

The Company or Fiyta: Fiyta Holdings Ltd.

CATIC Shenzhen: CATIC Shenzhen Holdings Limited

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

Rainbow Supermarket: : Rainbow Supermarket Co., Ltd.

CATIC Real Estate: CATIC Real Estate Co., Ltd.

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

Important

- I. The Board of Directors, the Supervisory Committee, directors, supervisors and senior executives hereby individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no material omissions or errors which would render any statement misleading.**
- II. No director, supervisor or senior executive has ever made any statement expressing that he/she cannot make sure of or has different opinion on the authenticity, accuracy or completeness of this annual report.**
- III. RSM China CPAs produced a standard unqualified auditor's report for the Company.**
- IV. 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.**

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Chapter 1 Company Profile

I. Legal Name in Chinese and English and Short Form:

In Chinese: 飞亚达（集团）股份有限公司

Short form in Chinese: 飞亚达公司

In English: FIYTA HOLDINGS LTD.

Short Form in English: FIYTA

II. Legal Representative: Wu Guangquan

III. Secretary of the Board: Chen Libin

Securities Affairs Representative: Zhang Yong

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

Company's Internet Website: [http:// www.fiytagroup.com](http://www.fiytagroup.com)

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>

Copies of the Annual Report are available at: Office of the Board

VI. Stock Exchange Listed with: Shenzhen Stock Exchange

Short Form & Code of the Stock: FIYTA A 000026

FIYTA B 200026

VII. Other Relevant Information:

1. Date of first registration: March 30, 1990

Date of the Latest Registration Updating: November 20, 2011

Registration Authority: Shenzhen Municipal Administration for Industry and Commerce

2. Business License Registration No: 440301103196089

3. Taxation Registration No.: 440301192189783

4. Organization Code: 19218978-3

5. CPAs engaged

Types	Name	Office address
Stock A and Stock B	RSM China CPAs (special ordinary partnership)	8 th – 9 th Floors, Block A, International Enterprise Building, No. 35 Jinrong Avenue, Xicheng District, Beijing

Chapter 2 Financial and Business Highlights

I. Financial Highlights of the Year 2011

Items	Amount In CNY
Total profit	191,578,978.79
Net profit	159,457,800.00
Net profit less non- recurring loss/gain*	155,515,717.50
Operating profit	186,685,808.61
Return on investment	-33,340.89
Subsidy income	4,006,718.21
Net income from non-operating activities	4,893,170.18
Net cash flow arising from operating activities	-409,490,794.61
Net increase/ decrease of cash and cash equivalents	-443,828,515.54

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

Non-recurring gain and loss	Amount
Gain/loss from disposal of non-current assets	-369,798.63
Government subsidy counted to the current gain and loss with the exception of the government subsidy with close relation with the Company's normal business, in compliance with the national policy, with the nominal amount or fixed amount.	4,006,718.21
Operating income and expenses other than the aforesaid items	1,256,250.60
Amount affected by the income tax	-918,100.27
Amount of minority shareholders' equity affected	-32,987.41
Total	3,942,082.50

(II) Financial Highlights Over the Past Three Years up to the end of the Report Period

1. Accounting Data Summary

	2011	2010	Year-on-year increase/ decrease (%)	2009
Total revenue, in CNY	2,561,054,602.40	1,780,754,430.95	43.82%	1,237,397,878.62
Operating profit, in CNY	186,685,808.61	100,118,667.82	86.46%	79,930,846.01
Total profit, in CNY	191,578,978.79	113,493,158.93	68.80%	85,336,090.03
Net profit attributable to the Company's shareholders, in CNY	159,457,800.00	93,990,182.93	69.65%	70,067,240.27
Net profit attributable to the Company's shareholders less the extraordinary items in CNY	155,515,717.50	80,964,792.74	92.08%	57,033,863.74
Net cash flows arising from operating activities, in CNY	-409,490,794.61	-98,485,651.88	-	83,020,522.84

	End of 2011	End of 2010	Year end-on-year end increase/ decrease (%)	End of 2009
Total assets, in CNY	2,895,775,774.19	2,436,539,054.39	18.85%	1,523,936,983.79
Total liabilities, in CNY	1,502,020,716.59	1,148,973,105.16	30.73%	788,717,458.72
Owner's equity attributable to the Company's shareholders, in CNY	1,391,003,807.94	1,265,996,583.67	9.87%	714,808,466.77
Capital stock (share)	392,767,870.00	280,548,479.00	40.00%	249,317,999.00

2. Financial Data Summary

	2011	2010	Year-on-year increase/ decrease (%)	2009
Basic earnings per share, in CNY/share	0.406	0.269	50.93%	0.201
Diluted earnings per share (CNY/share)	0.406	0.269	50.93%	0.201
Basic earning per share less non-recurring gains and loss (CNY/share)	0.396	0.232	70.69%	0.164
Net assets-income ratio (%), weighted average	12.05%	12.55%	-0.50%	10.29%
Net assets-income ratio after taking off nonrecurring gains and loss (%), weighted	11.75%	10.77%	0.98%	8.73%
Net cash flows per share arising from operating activities, in CNY/share	-1.04	-0.25	-0.79	0.24
	End of 2011	End of 2010	Year end-on-year end increase/ decrease (%)	End of 2009
Net asset per share attributable to the shareholders (CNY/share)	3.54	3.22	9.94%	2.048
Balance sheet ratio (%)	51.87%	47.16%	4.71%	51.76%

III. Net assets-income ratio and earnings per share calculated in accordance with China Securities Regulatory Commission, The Standards for Information Disclosure by Companies that Offer Securities to the Public No.9

Items	Profit in the report period in CNY	Net assets-income ratio (%)		Earning per share, CNY/share	
		Fully diluted	Weighted average	Basic earning per share	Diluted earning per share
Net profit attributable to the Company's shareholders of	159,457,800.00	12.05%	12.05%	0.406	0.406

ordinary shares					
Net profit attributable to the Company's shareholders of ordinary shares less non-recurring gain and loss	155,515,717.50	11.75%	11.75%	0.396	0.396

Chapter 3 Change in Capital Stock and Particulars about Shareholders

I. Change in Capital Stock

1. Change in the Company's capital stock ended December 31, 2011 is as follows:

In shares

	Before the change		Increase / Decrease (+ / -)					After the change	
	Quantity	Proportion	New issuing	Bonus shares	Shares converted from reserve	Others	Sub-total	Quantity	Proportion
I. Restricted shares	142,681,505	50.86%			57,072,601		57,072,601	199,754,106	50.86%
1. State owned shares									
2. State corporate shares	123,645,981	44.07%			49,458,392		49,458,392	173,104,373	44.07%
3. Other domestic shares	19,000,000	6.77%			7,600,000		7,600,000	26,600,000	6.77%
Including: Domestic non-state corporate shares	19,000,000	6.77%			7,600,000		7,600,000	26,600,000	6.77%
Domestic natural person shares									
4. Foreign shares									
Including: Foreign corporate shares									
Overseas natural person shares									
5. Senior executive shares	35,524	0.01%			14,209		14,209	49,733	0.01%
II. Unrestricted shares	137,866,974	49.14%			55,146,790		55,146,790	193,013,764	49.14%
1. CNY ordinary shares	79,546,974	28.35%			31,818,790		31,818,790	111,365,764	28.35%
2. Foreign invested shares listed in Mainland China	58,320,000	20.79%			23,328,000		23,328,000	81,648,000	20.79%
3. Foreign invested shares listed out of Mainland China									
4. Others									
III. Total Shares	280,548,479	100.00%			112,219,391		112,219,391	392,767,870	100.00%

Statement of change of the restricted shares:

Shareholders	Number of restricted shares at year beginning	Number of shares discharged for restriction in the report year	Increase of restricted shares in the report year	Number of restricted shares at year end	Causes of restriction	Date of discharging
CATIC Shenzhen Holdings Limited	116,412,377	0	46,564,950	162,977,327	Equity separation reform; New shares from non-public offering	Nov. 9, 2012 (111,415,501 shares); Dec. 30 2013 (4,996,876 shares)
Changzhou Investment Group Co., Ltd.	4,000,000	0	1,600,000	5,600,000	New shares from non-public offering	January 9, 2012
China Construction Bank – First State Cinda Leading Growth Stock Type Securities Investment Fund	3,900,000	0	1,560,000	5,460,000	New shares from non-public offering	January 9, 2012
China Construction Bank – First State Cinda Stable Value Bond Type Securities Investment Fund	100,000	0	40,000	140,000	New shares from non-public offering	January 9, 2012
Bohong Shujun (Tianjin) Equity Investment Fund Partnership Co., Ltd.	5,000,000	0	2,000,000	7,000,000	New shares from non-public offering	January 9, 2012
China Construction Bank – ICBC Credit Suisse Steady Growth Stock Based Securities	6,000,000	0	2,400,000	8,400,000	New shares from non-public offering	January 9, 2012

Investment Fund						
Taikang Life Insurance Co., Ltd. – Toulian – Jinqu -019L-TL002 SHEN	3,500,000	0	1,400,000	4,900,000	New shares from non-public offering	January 9, 2012
Taikang Life Insurance Co., Ltd.-Dividend Distribution-Group Dividend Distributino-019L-FH 001 SHEN	500,000	0	200,000	700,000	New shares from non-public offering	January 9, 2012
Caitong Securities Co., Ltd.	3,233,604	0	1,293,442	4,527,046	New shares from non-public offering	January 9, 2012
Lu Bingqiang	35,524	0	14,209	49,733	Senior executives' restricted shares	-
Total	142,681,505	0	57,072,601	199,754,106	—	—

2. Issuing and Listing

(1) In the report period, there were neither newly issued shares nor derivative securities in the Company. The Company started implementation of the plan of non-public offering of A-shares of 2010. The plan was reviewed and approved at the 8th meeting of the Sixth Board of Directors dated April 12, 2010 and was approved by China Securities Regulatory Commission with the Official Reply on Non-public Offering of Fiyta Holdings Ltd. (ZHENG JIAN XU KE [2010] No. 1703) on November 29, 2010. The Company issued 31,230,480 new shares by non-public offering and completed the procedures of registration for custody and sales restriction of the newly issued A shares with China Securities Depository and Clearing Company Limited Shenzhen Branch on December 14, 2010. The listing date of the shares subscribed by the designated investors was December 30, 2010. The sale restriction term of the shares subscribed by CATIC Shenzhen Holdings Limited, the Company's controlling shareholder, is 36 months from December 30, 2010 to December 29, 2013. The sale restriction term of the shares subscribed by Changzhou Investment Group Co., Ltd., First State Cinda Fund Management Co. Ltd., Bohong Shujun (Tianjin) Equity Investment Fund Partnership Co., Ltd., ICBC Credit Suisse Asset Management Co. Ltd., Taikang Assets Management Co., Ltd. and Caitong Securities Co., Ltd. is 12 months. The restricted shares got listed for trading on January 9, 2012. (For the detail, refer to the Suggestive Announcement on Listing of the Non-Publically Issued Resitrcted Shares 2012-002). All the designated investors subscribed the shares in cash without assets transfer or liabilities transfer involved.

(2) In the report period, the Company implemented 2010 Annual Equity Distribution Plan according to which the Company converted its capital reserve into capital stock on 4-for-10 basis. As a result, 112,219,391 shares more were converted. After the conversion, the Company's total capital stock became 392,767,870 shares.

(3) At present, there are no employees' shares in the Company.

II. Shareholders

1. Ended December 31, 2011, there were totally 15,616 shareholders in the Company: including 9,181 shareholders of A shares (including one senior executive); 6,435 shareholders of B shares.

2. Shares held by the Company's top ten shareholders

Total Shareholders	15,616				
Shareholding of the top 10 shareholders					
Shareholders	Shareholder types	Shareholding proportion	Total shares held	Quantity of restricted shares held	Quantity of shares pledged or frozen
CATIC Shenzhen Holdings Limited	State-owned corporate shares	41.49%	162,977,327	162,977,327	0
China Construction Bank – Huaxia Superiority Growth Stock Based Securities Investment Fund	Domestic non-state corporate shares	3.80%	14,920,073	0	0

Industrial and Commercial Bank of China – E-Fund Value Growth Mixed Securities Investment Fund	Domestic non-state corporate shares	2.80%	11,005,605	0	0
China Construction Bank – ICBC Credit Suisse Steady Growth Stock Based Securities Investment Fund	Domestic non-state corporate shares	2.14%	8,400,000	8,400,000	0
China Construction Bank of China – MANULIFE TEDA Efficiency Selected Hybrid Securities Investment Fund	Domestic non-state corporate shares	1.90%	7,464,912	0	0
Bohong Shujun (Tianjin) Equity Investment Fund Partnership Co., Ltd.	Domestic non-state corporate shares	1.78%	7,000,000	7,000,000	0
China Merchants Securities (HK) Co., Ltd.	Overseas state-owned corporate	1.69%	6,652,591	0	0
China Construction Bank – YINHUA Well-off Theme Stock Based Securities Investment Fund	Domestic non-state corporate shares	1.43%	5,605,615	0	0
Changzhou Investment Group Co., Ltd.	State-owned corporate shares	1.43%	5,600,000	5,600,000	0
China Construction Bank – First State Cinda Leading Growth Stock Type Securities Investment Fund	Domestic non-state corporate shares	1.39%	5,460,000	5,460,000	0
Shareholding of top 10 shareholders of unrestricted shares					
Shareholders		Quantity of unrestricted shares held		Share type	
China Construction Bank – Huaxia Superiority Growth Stock Based Securities Investment Fund		14,920,073		A Shares	
Industrial and Commercial Bank of China – E-Fund Value Growth Mixed Securities Investment Fund		11,005,605		A Shares	
China Construction Bank of China – MANULIFE TEDA Efficiency Selected Hybrid Securities Investment Fund		7,464,912		A Shares	
China Merchants Securities (HK) Co., Ltd.		6,652,591		B shares	
China Construction Bank – YINHUA Well-off Theme Stock Based Securities Investment Fund		5,605,615		A Shares	
KGI ASIA LIMITED		4,192,765		B shares	
BANK JULIUS BAER & CO.LTD		3,485,769		B shares	
GSI S/A GOLDEN CHINA PLUS MASTER FUND		3,039,059		B shares	
Essence International Securities (Hong Kong) Limited		2,815,192		B shares	
China Construction Bank – Huaxia Shengshi Selected Stock Based Securities Investment Fund		2,807,999		A Shares	
Note to the association relation or acting in concert of the above shareholders	The Company has not found any connectivity relations among the aforesaid shareholders or any persons acting in concert as specified in the Measures for Administration of Information on the Shareholder Equity Change of Listed Companies.				

CATIC Shenzhen Holdings Limited holds over 5% of the Company's shares. In the report period, as the Company implemented the conversion of its capital reserve into capital stock, the number of shares held by it changed from 116,412,377 shares into 162,977,327 shares. In the report period, none of the shares held by CATIC Shenzhen was ever pledged, frozen or mandated.

3. About the Controlling Shareholder

CATIC Shenzhen Holdings Limited was founded on June 20, 1997, with registered capital of CNY 673.3671 million, its legal representative is Wu Guangquan. CATIC Shenzhen Holdings Limited is a diversified holding company, engaged in the business of manufacture and sales of LCD, PCB, medium and high grade watches, and the relative resources, etc. through its subsidiaries. CATIC Shenzhen was listed with Hong Kong Stock Exchange in September 1997.

4. Actual Controller

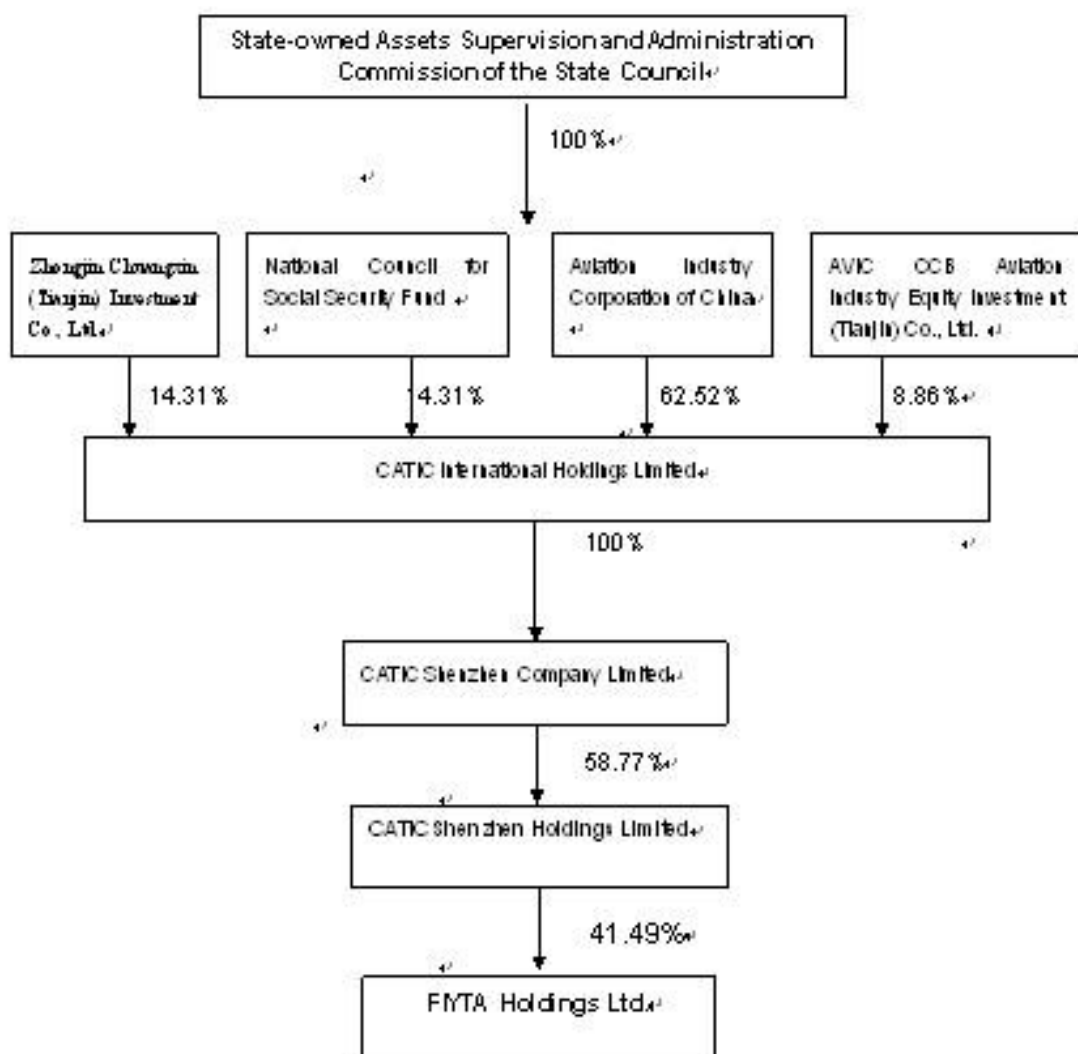
CATIC Shenzhen Company Limited ("CATIC Shenzhen") was founded on December 1, 1982, with registered capital of CNY 1000 million and its legal representative is You Lei. principal business: import and export of commodities and technologies other than those exported exclusively by the central government or under the control by the central government, compensation trade as importer/exporter as well as agent; investment and initiation of entities; domestic commerce and supply and sale of goods and materials (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government); sales of home-made automobiles (with cars exclusive); real estate development. import & export and domestic sales of lubricating oil, fuel oil, chemical products and chemical materials (excluding dangerous chemicals), purchase and sales of coke (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government).

Controller of the actual controller:

CATIC International Holdings Limited was founded on April 12, 198, with registered capital of CNY 8059 million and its legal representative is Wu Guangquan. Aviation Industry Corporation of China, Zhongjin Chuangxin (Tianjin) Investment Co., Ltd., National Council for Social Security Fund and AVIC CCB Aviation Industry Equity Investment (Tianjin) Co., Ltd. respectively hold the equity in CATIC International Holdings Limited by 62.52%, 14.31%, 14.31% and 8.86%. the licenced businesses are: supply of labor services to the engineering projects carried out abroad; of sales of methylbenzene, acetone, methyl ethyl ketone, piperidine, ether, potassium permanganate, chloroform, sulfuric acid, hydrochloric acid, acetic anhydride, combustible liquid, combustible solid, articles inflammable naturally and with moisture, oxidizer and organic peroxide, toxic and corrosive goods; insurance for motor vehicles, assets of enterprises, household property and cargo freight. General businesses: import and export; warehousing; industry, hotel, property, real estate development investment and management; new energy equipment development, sales and repairing; exhibition; technology transfer and technical services in connection with the aforesaid business.

The eventual controller of the Company's actual controller - AVIC International Shenzhen Company Limited, is State-owned Assets Supervision and Administration Commission of the State Council.

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



Chapter 4 Directors, Supervisors, Senior Executives and Staff

I. Directors, Supervisors and Senior Executives

1. Basic Information of Directors, Supervisors and Senior Executives

Names	Posts	Gender	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 (CNY10,000) (before the tax)	Does he/she receive any pay or allowance from the shareholders or any other related parties?
Wu Guangqian	Chairman	male	49	May 30, 2009	May 30, 2012	0	0	-	0.00	Yes
You Lei	Vice-Chairman	male	42	June 22, 2010	May 30, 2012	0	0	-	0.00	Yes

Chen Hongliang	Director	male	43	May 30, 2009	May 30, 2012	0	0-		0.00	Yes
Xu Dongsheng	Managing Director	male	45	May 30, 2009	May 30, 2012	0	0-		202.00	No
Wang Mingchuan	Director	male	45	May 30, 2009	May 30, 2012	0	0-		0.00	Yes
Huang Yongfeng	Director	male	37	May 30, 2009	May 30, 2012	0	0-		0.00	Yes
Guo Wanda	Independent director	male	46	May 30, 2009	May 30, 2012	0	0-		9.00	No
Ji Qinzhi	Independent director	female	70	May 30, 2009	May 30, 2012	0	0-		9.00	No
Mai Jianguang	Independent director	male	50	May 30, 2009	Jan 04, 2012	0	0-		9.00	No
Zhangshunwen	Independent director	male	46	Jan 04, 2012	May 30, 2012	0	0		0.00	No
Sui Yong	Chairman of the Supervisory Committee	male	53	June 22, 2010	May 30, 2012	0	0-		0.00	Yes
Zhang Songhua	Supervisor	male	58	May 30, 2009	May 30, 2012	0	0-		70.00	No
Tang Boxue	Supervisor	male	50	May 30, 2009	May 30, 2012	0	0-		55.00	No
Chen Libin	Deputy General Manager and Secretary of the Board	male	47	July 21, 2009	May 30, 2012	0	0-		145.00	No
Lu Bingqian	Deputy General Manager	male	50	May 30, 2009	May 30, 2012	47,365	66,311	Shares converted from the public reserve	160.00	No
Li Dehua	Deputy General Manager & Chief Accountant	male	51	May 30, 2009	May 30, 2012	0	0-		178.00	No
Li Bei	Deputy General Manager	male	56	May 30, 2009	May 30, 2012	0	0-		160.00	No
Fang Juan	Deputy General Manager	female	52	May 30, 2009	May 30, 2012	0	0-		212.00	No
Total	-	-	-	-	-	47,365	66,311	-	1209.00	-

2. Offices Taken by Directors and Supervisors in the Shareholders

Names	Shareholders			Offices Taken in the shareholders	Office term
Wu Guangquan	CATIC Limited	Shenzhen	Holdings	Chairman	2009.06-2012.06
	CATIC Limited	Shenzhen	Company	Chairman	2009.06-2012.06

You Lei	CATIC Limited	Shenzhen	Holdings	Executive director	2009.06-2012.06
	CATIC Limited	Shenzhen	Company	General manager	Apr., 2010 to present
Chen Hongliang	CATIC Limited	Shenzhen	Company	Secretary of the CPC Committee & Deputy General Manager	Apr., 2010 to present
Xu Dongsheng	CATIC Limited	Shenzhen	Holdings	Executive directors	2009.06-2012.06
Wang Mingchuan	CATIC Limited	Shenzhen	Company	Chief accountant & manager of financial dept.	Sep., 2010 to present
Huang Yongfeng	CATIC Limited	Shenzhen	Company	Deputy general manager & manager of the enterprise strategy and management dept.	Nov. 2011 to present
Sui Yong	CATIC Limited	Shenzhen	Holdings	Executive directors	2009.06-2012.06
	CATIC Limited	Shenzhen	Company	Deputy General Manager	2009.06-2012.06

3. Curriculum Vitae of Directors, Supervisors and Senior Executives

(1) Directors

Mr. Wu Guangquan, 49, senior accountant and MBA of Tongji University. Mr. Wu is the Chairman of the Board of the Company, GM of CATIC International Holdings Limited and Chairman of CATIC Shenzhen Company Limited. He used to be GM and chairman Jiangnan Trust & Investment Co., Ltd., manager of the financial department, vice chief accountant and GM of CATIC Shenzhen Company Limited.

Mr. You Lei, 42, senior engineer at research fellow level, MBA of Tongji University, executive vice president of China Printed Circuit Association, president of Guangdong Society of Aeronautics, vice-chairman of China Printed Circuit Standards Committee. He is now vice chairman of the Company and GM of CATIC Shenzhen Company Limited. He used to be the manager of the investment management department of Shenzhen CATIC Enterprise Group, secretary of the board of Shenzhen CATIC Industrial Co., Ltd., GM of Shennan Circuit Co., Ltd. and deputy GM of CATIC Shenzhen Company Limited.

Mr. Chen Hongliang, 43, grade-A senior economist and MBA of Tongji University. He is now a director of the Company, Secretary of the CPC Committee of CATIC Shenzhen Company Limited. He used to be the secretary, deputy directory secretary and directory secretary of the management department of CATIC Shenzhen Company Limited; the secretary and authorized representative of Shenzhen CATIC Industrial Co., Ltd.; deputy manager and manager of the human resource department of CATIC Shenzhen Company Limited; manager of human resource and assistant to GM of China National Aero-Technology Import & Export Corporation.

Mr. Xu Dongsheng, 45, senior economist, MBA of Tongji University, doctor of Beijing University of Aeronautics & Astronautics. He is now the general manager of the Company, vice president of China Timepieces Association and president of Shenzhen Timepieces Association. Mr. Xu used to be the secretary of CYL Committee of CATIC Shenzhen Company Limited, GM of the Collective Life Service Co., Ltd. of Shenzhen CATIC Enterprise Group, vice secretary of the discipline committee, manager and president assistant of the supervision and audit department of CATIC Shenzhen Company Limited.

Mr. Wang Mingchuan, 45, senior accountant and MBA of Tongji University. Mr. Wang is a director of the Company, chief accountant & manager of the financial department of CATIC Shenzhen Company Limited. He used to be the financial supervisor of the financial division of Chengdu Generator Company, manager of the financial department of Shenzhen Shenrong Engineering

Plastic Company, deputy manager of the financial department of CATIC Shenzhen Company Limited. During this period, he was concurrently the manager of the comprehensive management department and chief financial officer of Shenzhen CATIC Commerce & Trade Company, manager of the financial audit department of AVIC Shenzhen.

Mr. Huang Yongfeng, 37, senior engineer, master of management engineering of Beijing University of Aeronautics & Astronautics. He is now a director of the Company, deputy GM & manager of the enterprise strategy and management department of CATIC Shenzhen Company Limited. He used to be the project manager and deputy manager of the enterprise strategy and management department of CATIC Shenzhen Company Limited, secretary of the Board of CATIC Shenzhen Holdings Limited, managing director of Shenzhen Zhongshi Machinery Co., Ltd. and GM assistant of CATIC Shenzhen Company Limited.

Mr. Guo Wanda, 46, research fellow and doctor of economics of Nankai University. He is now an independent director of the Company and vice president of China Development Institute (Shenzhen, China). 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 Qinzi, 70, senior engineer, bachelor of timepieces of Tianjin University. She is now an 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 former 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.

Mr. Mai Jianguang, 50, a Hong Kong citizen, bachelor of the accounting department of Hong Kong Polytechnic University. Mr. Mai has professional qualifications of senior member of Hong Kong Institute of Certified Public Accountants and senior member of the Association of Chartered Certified Accountants, etc. He is now a managing director of JAFCO INVESTMENT (SHENZHEN) LTD. He used to be managing partner of Arthur Andersen Hong Kong and Guangzhou and partner of Arthur Andersen International. Mr. Mai has over 20 years' experience in enterprise offering and listing, acquisition and merger and company financing, etc.

Mr. Zhang Shunwen, 46, Senior Accountant of Professor Class, Chinese CPA, master of Zhongnan University of Economics and Law. Mr. Zhang is an independent director of the Company, partner of BDO China Shu Lun Pan Certified Public Accountants LLP, expert member of the Third Judges' Panel of Senior Accountants of Guangdong Province, and vice president of Shenzhen Association of Trade in Services. He used to be vice president of Shenzhen Institute of Certified Public Accountants and member of Shenzhen Committee of Chinese People's Consultative Conference.

(2) Supervisors

Mr. Sui Yong, 53, senior accountant, graduated from Beijing University of Aeronautics & Astronautics. He is now vice chairman of the Supervisory Committee of the Company and deputy GM of CATIC Shenzhen Company Limited. He used to be deputy manager and manager of the financial department, vice chief accountant & manager of the financial and audit department and chief accountant of CATIC Shenzhen Company Limited.

Mr. Zhang Zhang Songhua, 58, senior engineer, having education background of university. Mr. Zhang is now a supervisor of the Company and GM of Shenzhen FIYTA Sophisticated

Manufacture Co., Ltd. He used to be technician of Inspection Section, director, deputy chief and chief of the Testing Division of Hongtu Aircraft Factory of China Aviation Industry Corporation , department manager of Shenzhen Flydart Watch Industry Co., Ltd. and manager of the management department of Shenzhen Fei'ou Precision Timepiece Manufacture Co., Ltd., GM of Shenzhen Feitu New Technology Development Co.

Mr. Tang Boxue, 50, accountant, having education background of university. He is now a supervisor and deputy manager of the audit department of the Company. He used to be the project manager of the financial department of the Company and GM of Shenzhen Pengmen Restaurant Co., Ltd.

(3) Senior Executives

Mr. Xu Dongsheng is now the general manager of the Company. Refer to the curriculum vitae of directors.

Mr. Chen Libin, 47, holding master's degree of economics of the Party School of Guangdong Provincial CPC Committee and on-campus EMBA of Sun Yat-Sen University. He is now deputy GM and the secretary of the Board of the Company. Mr. Chen used to be deputy director and director of the Party's affairs of the Party-masses Work Department and senior commissioner, deputy manager and manager of the enterprise culture department of CATIC Shenzhen Company Limited.

Mr. Lu Bingqiang, 50, senior economist, bachelor of Guangzhou Jinan University. He is now a deputy GM of the Company & managing director of FIYTA (Hong Kong) Limited. He used to be the president secretary of CATIC Shenzhen Company Limited, GM assistant and director of the Company, and GM and chairman of Shenzhen Harmony World Watches Center.

Mr. Li Dehua, 51, senior accountant, graduated from Beijing University of Aeronautics & Astronautics. He now is deputy GM & chief accountant of the Company. He used to be cost accountant of Shenyang Liming Engine Manufacture Co., Ltd., comptroller of CATIC Shenzhen Company Limited, manager of the financial department and chief financial officer of the Company.

Mr. Li Bei, 56, senior engineer at research fellow level, graduated from Shenyang Liming Polytechnical College. He is a deputy GM of the Company. He used to be department manager of Shenzhen Feida Watch Co., Ltd. and GM of Shenzhen Feibiao Watch Appearance Pieces Co., Ltd.

Ms. Fang Juan, 52, graduated from Jiangxi Normal University and holding EMBA of China Europe International Business School. She now is deputy GM of the Company and managing director of Harmony World Watches Center. 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 GM assistant 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.

(2) In the report period, the total annual emolument to the above listed directors, supervisors and senior executives is CNY 12.09 million.

(3) The allowance provided to the 3 independent directors in office is CNY 90,000 per person per year. There is no other remuneration to them.

(4) Mr. Wu Guangquan, the Chairman of the Board, Mr. You Lei, vice Chairman of the Board, Mr. Wang Ming Chuan, Mr. Chen Hongliang and Mr. Huang Yongfeng, three directors and Mr. Sui Yong, chairman of the Supervisory Company, receive remuneration from the shareholder units and

receive no remuneration or allowance from the Company.

5. Change of the Company's Shares Held by them

Of the Company's directors, supervisors and senior executives in office, only Mr. Lu Bingqiang, the deputy GM, holds the Company's shares. In the report period, as the Company implemented the conversion of its capital reserve into capital stock, the number of shares held by him changed from 47,365 shares into 66,311 shares.

6. Personnel change of directors, supervisors and senior executives in the report period

On August 5, 2011, the Board of Directors received a written resignation application from Mr. Mai Jianguang, one of the independent directors. Mr. Mai Jianguang applied for resigning the office of independent director of the Sixth Board of Directors, the directory member of the Audit Committee and member of the Nomination, Emolument and Assessment Committee of the Sixth Board of Directors. For this purpose, the Company timely carried out by-election for independent director and follow-up work. After full communication, the 29th meeting of the Sixth Board of Directors decided to elect Mr. Zhang Shunwen independent director. In accordance with the relevant rules, the Company held the 1st extraordinary shareholders' meeting on January 4, 2012 and reviewed and approved the proposal of electing Mr. Zhang Shunwen independent director of the Sixth Board of Directors. Mr. Mai Jianguang's resignation report came into force commencing from the date when the resolution was approved and Mr. Zhang Shunwen became an independent director of the Sixth Board of Directors commencing from the date when the resolution was approved.

II. Employees

Ended the report period, there were altogether 4,400 employees in the Company. The composition of their education background, age structure and job structure are indicated as follows:

1. Age Structure

Age Composition	Below 30	30 - 40	over 40	Total
Number of persons	3151	934	315	4400
Proportion %	71.61	21.23	7.16	100.00

2. Education Background

Education background composition	Master's degree or higher	University graduation	Junior college graduation	below junior college	Total
Number of persons	37	641	1091	2631	4400
Proportion %	0.84	14.57	24.80	59.80	100.00

3. Job Structure

Job composition	Management	Operation	Financial	Production	Total
Number of persons	427	3605	132	236	4400
Proportion	9.70	81.94	3.00	5.36	100.00

Chapter 5 Corporate Governance Structure

I. About the Corporate Governance in the Report Period

In the year 2011, the Company continuously improved the Company's corporate governance structure strictly according to the PRC Company Law, the PRC Securities Law and the regulations of China Securities Regulatory Commission concerning governance of listed companies, and tried to enhance construction of modern enterprise system, upgraded the level of regulatory operation of the Company. As a result, there was no discrepancy between the situation of the Company's corporate governance and the regulatory documents of China Securities Regulatory Commission concerning governance of listed companies.

The Company established and improved relatively standardized corporate governance structure and rules of procedures, formed a decision-making and operation management system with the General Meeting, the Board of Directors, the Supervisory Committee and the management of the Company as the principal structure. They implemented their respective duties according to the PRC Company Law and the Articles of Association of the Company.

The General Meeting is the Company's supreme organ and has the power of deciding the Company's operation policy and investment plan, reviewing and approving the Company's annual financial budget scheme, settlement scheme, profit distribution plan, loss make-up plan, change of the application of the proceeds raised through issuing, etc., makes resolution on increase and decrease of the Company's registered capital, issuing bond, etc., election and replacement of directors, non-staff supervisors and decision on their remuneration and way of payment.

The Board of Directors is the Company's decision-making organ, takes charge of implementing the decisions made by the General Meeting, assumes responsibility to the General Meeting and reports the work to it; within the authorization from the General Meeting, decides the Company's external investment, acquisition and sales of assets, assets pledge, external guarantee, related transactions, etc., decides establishment of the Company's internal management organs, engagement and disengagement of the Company's general manager, the Board secretary and other senior executives, etc. The Board of Directors consists of nine directors, including three independent directors. The Board of Directors has established three subordinate special committees, namely the Strategy Committee, the Audit Committee and Nomination, Emolument and Assessment Committee.

The Supervisory Committee is the Company's supervisory organ in charge of supervising the directors, managers and other senior executives in performing duties according to the law and proposes dismissal of any director or senior executive who breaches the law, the administrative rules and regulations, the Articles of Association or the General Meeting's resolutions. The Supervisory Committee consists of three supervisors including two staff supervisors.

The management assumes responsibility to the Board of Directors and the General Manager takes full responsibility for the Company's routine operation and management and development under the leadership of the Board of Directors, supervises the work of every functional department, assesses the work result of each functional department and coordinate the relationship of all departments.

II. Incompliance Practice in the Corporate Governance in the Report Period

As a company controlled by a central enterprise in equity, in accordance with the regulations concerning management of the state-owned assets, there existed undisclosed information, including financial statements, submitted to the principal shareholder and actual controller in the

Company in the report period. While demanding the responsible persons to abide by the duty of keeping confidential, the Company submitted the monthly financial news and the quarterly financial statements to its controlling shareholder after completion of the procedures of review and approval, submitted the name list of shareholders on quarterly basis to the biggest shareholder and submitted monthly operation information to the actual controller.

In accordance with the Circular on Enhancing Supervision over Listed Companies' Activity of Providing Undisclosed Information to their Principal Shareholders and Actual Controllers and the Supplementary Circular on Enhancing Supervision in Governing Listed Companies' Non-regulatory Activities, such as Providing Undisclosed Information to their Principal Shareholders and Actual Controllers promulgated by Shenzhen Securities Regulatory Office, the Company has implemented necessary procedures of reporting and filing and has submitted the conditions of reporting the undisclosed information and the name list of insiders to Shenzhen Securities Regulatory Office. The Company attaches great importance on keeping confidential the undisclosed information as submitted. In the report period, there was no such event that caused the price fluctuation of the Company's stock due to disclosure of the undisclosed information in the report period.

In the report period, the Company had not been involved in such practice as accepting engagement and disengagement of the Company's senior executives and middle level executives or auditing the specific projects of the Company and its subsidiaries, review and approval of the Company's asset acquisition or external investment projects, or such incompliance practice in administration as practicing ownership representative reporting system, etc. from the principal shareholder or eventual controller.

III. Performances of Independent Directors

The Company has established the Work System for Independent Directors which has specified detailed standards concerning independent directors' qualification for taking the office, the specific procedures of nomination, election and replacement as well as their powers. In the report period, Mr. Guo Wanda, Madam Ji Qinzhi and Mr. Mai Jianguang, the Company's independent directors, fully exercised the power as endowed with in the Articles of Association, played their professional advantages into full play, made independent, objective and fair judgment on change of senior executives and related transactions strictly according to relevant regulations, pushed ahead scientific decision making and decision making procedures of the Board of Directors and protected practically the interests of the Company and shareholders.

1. Independent Directors' Attendance of Board Meetings and Special Committees

Names	Number of board meetings they should attend in the report year	Number of personal attendances	Number of attendances by representative	Number of absences	Strategy Committee	Audit Committee	Nomination, Emolument and Assessment Committee
Guo Wanda	12	12	0	0	2	4	2
Ji Qinzhi	12	12	0	0	0	4	2
Mai Jianguang	12	12	0	0	0	4	2

2. Independent Role of Independent Directors in the Annual Report

According to the Circular of China Securities Regulatory Commission [2011] No. 41, in process of preparation of 2011 Annual Report, the independent directors practically implemented their relevant duties and obligations. On January 12, 2012, the independent directors listened to the senior executives' report on the Company's operation in the year 2011 and the budget and business plan in 2012, inspected the financial statements of 2011 and fulfillment of various

financial targets, inspected the Company's internal control environment and fulfillment of the internal control implementation work and held discussion on the relevant issues. After the CPAs in charge of the annual audit issued a preliminary auditors' report, the independent directors had a meeting with the CPAs, inquired in detail about the annual audit and asked about the changes of the financial indexes and the reasons of the change and reviewed the financial report for which the CPAs issued the preliminary auditors' report. Meanwhile, the independent directors reviewed the procedures of the Board of Directors in holding the annual report review meeting and every proposal to be reviewed at the meeting and agreed to hold the Board meeting as scheduled. (For the detail, refer to 2011 Work Report of Independent Directors issued by the Company).

3. Objection of independent directors on some relevant issues

In the report period, the Company's independent directors proposed no objection against various proposals to the board meetings and other issues of the Company.

IV. The Company has been practicing the "five separations" between the Company and its Control Shareholder in terms of business, personnel, assets, organization and finance

The Company is highly independent in personnel, assets, finance, organization and business from its control 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 system of production, auxiliary production 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.

Separation in personnel: The Company has independent organization and sound systems in labor, personnel and wage. Except Mr. Wu Guangquan, Chairman of the Board, Mr. You Lei, vice Chairman of the Board, Mr. Chen Hongliang, Mr. Wang Mingchuan and Mr. Huang Yongfeng, three directors, and Mr. Sui Yong, 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.

Organs: The Company has sound Board of Directors, Supervisory Committee and other internal departments and offices which work independently. There exist neither subordinate relations between the controlling shareholder/its functional departments nor doing joint office work. The control shareholder enjoys its rights and undertakes the corresponding obligations according to the law and has never been involved in any action which directly or indirectly interferes the Company's business activities surpassing the authority of the Shareholders' General Meeting.

Finance: The Company has established independent financial department, worked out sound and independent financial and 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.

V. Self-assessment of internal control

In the report period, in accordance with the Circular of China Securities Regulatory Commission [2011] No. 41, the Basic Norms for Internal Control of Enterprises jointly issued by the State Ministry of Finance and China Securities Regulatory Commission and its supplementary guidelines, the Norms of Internal Accounting Control promulgated by the Ministry of Finance and the Guidelines for Internal Control of Listed Companies promulgated by Shenzhen Stock Exchange, etc. and based on the requirements of the Board of Directors and the Audit Committee under the Board, the audit department took lead in organizing the relevant departments and staff

and conducted assessment of the effectiveness of the internal control ended at December 31, 2011 in the five aspects, namely internal environment, risk assessment, control measures, information and communication, inspection and supervision. (For the detail, refer to the Report of Self-assessment of Internal Control). In the opinion of the Company, there was no material defect found in the Company's internal control design and implementation ended the year 2011. In process of the future business development, the Company shall further improve the internal control system based on the practical requirements of its own development and enhance the internal control implementation ability so as to comply with the requirements of the Company's development and the relevant law and regulations of the state. Both the Company's supervisors and independent directors proposed their opinions on the Company's self-assessment of the internal control. In their opinion, the Company's internal control mechanism was basically complete, reasonable and workable. The Company's Report of Self-assessment of Internal Control has truly and objectively reflected the practical situation of the construction of the Company's internal control system as well as implementation and supervision of the internal control system.

VI. Assessment and Incentive Mechanism for Senior Executives

The Company brought into full play and mobilized the senior executives' work enthusiasm and creativeness based on the Company's operating results and with reference to the average remuneration level in the trade, better improved the Company's operating ability and result and ensured realization of the Company's strategic targets. The Company worked out the Measures for Administration of Remuneration to the Senior Executives in 2009, insisted on the principle of distribution according to work and combination of power, responsibility and benefit. The major orientation was "market based", "full amount based" and "broadband based". Commencing from 2007 on, the Company has introduced Balance Scorecard Strategic Management Structure, based on the establishment of the incentive and restriction mechanism adaptable to the modern enterprise system, improved the corporate governance structure, decomposed the Company's strategy to every department and post through the balance scorecard to determine senior executives' performance indicators and action plan on this basis, conducted regular strategic review, work report and assessment on quarterly basis, and decided their total remuneration and renewal of engagement according to the assessment results and fulfillment of performances.

The Company practiced the annual salary system for its senior executives. The annual salary structure consists of the basic annual salary and performance based annual salary. The annual salary assessment for the GM was carried out according to the assessment methods worked out by the shareholder. The assessment basis is mainly in accordance with a series of indicators systems prepared based on the balance scorecard. The assessment for other senior executives was conducted based on the indicators in the balance scorecard prepared at year beginning and the work report at year end.

VII. About Establishment of the System for Looking into the Responsibility for Serious Mistakes in Information Disclosure

In order to further improve the corporate governance and standardize the Company's systems, in the report period, the 7th meeting of the Sixth Board of Directors in the report period worked out the System for Looking into the Responsibility for Serious Mistakes in Information Disclosure and the system has been strictly implemented.

In the report period, there was no serious mistake occurred in information disclosure of the annual report.

Chapter 6 General Meeting

I. 2010 Annual General Meeting

2010 Annual General Meeting was held on April 8, 2011 at the meeting room on the 19th floor of Fiyta Technology Building. 10 shareholders and shareholders' representatives attended the on-the-spot meeting, representing 123,250,160 shares, taking 43.93% of the Company's total vote-bearing shares. The shareholders present at the meeting examined and adopted the following proposals by voting:

- (1) 2010 Annual Report and Summary;
- (2) 2010 Work Report of the Board of Directors;
- (3) 2010 Work Report of the Supervisory Committee;
- (4) 2010 Financial Settlement Report;
- (5) Proposal on Profit Distribution and Conversion of Capital Reserve into Capital Stock in 2010;
- (6) Proposal on Payment of Auditing Fee for the Year 2010 and Reappointment of the Company's Auditor for the Year 2011;
- (7) Proposal for Implementation of Regular Related Transactions in 2010 and Prediction of Regular Related Transactions in 2011;
- (8) Proposal on Application for Total Bank Credit Line in 2011;
- (9) Proposal on Application for the Guarantee Amount to HARMONY in 2011;
- (10) Proposal on Increasing Capital to HARMONY;
- (11) Proposal on Remuneration to Directors and Supervisors in 2010;
- (12) Subjective Report on Deposit and Application of the Proceeds Raised through Share Offering in 2010;
- (13) 2010 Work Report of Independent Directors.

The resolution of the General Meeting was published on Securities Times and Hong Kong Commercial Daily respectively dated April 9, 2011.

(II) 2011 1st Extraordinary Shareholders' Meeting

2011 1st Extraordinary Shareholders' Meeting was held on January 4, 2012 at the meeting room on the 19th floor of Fiyta Technology Building. 12 shareholders and shareholders' representatives attended the on-the-spot meeting, representing 170,462,437 shares, taking 43.40% of the Company's total vote-bearing shares. The shareholders present at the meeting examined and adopted the following proposals by voting: Proposal for Amendment of the Articles of Association, Proposal on Nominating Mr. Zhang Shunwen as Independent Director Candidate of the Company, Proposal on Acquisition of the Equity in Liaoning Hengdarui Commerce & Trade Co., Ltd. by Shenzhen Harmony World Watches Center Co., Ltd.

The resolution of the Extraordinary Shareholders' Meeting was published on Securities Times and Hong Kong Commercial Daily respectively dated January 5, 2012.

Chapter 7 Report of the Board of Directors

I. Operation Review

(I) Operation Summary

In the report year, facing the extremely complicated market environment, the Company insisted on the enterprise philosophy, enthusiastically kept forging ahead, tried every means to innovate, improved overall performances and achieved a good result. Eventually, the Company achieved big growth in both revenue and profit. With healthy and quick development of the two principal business lines, namely the retail business brand and watch product brand, a good beginning of the “12th Five Year Plan” was realized.

1. Retail of Famous Brand Watches

In the report period, HARMONY World Watches centered on the established strategic target, focused on the key elements – brand, employees, customers, channels, etc., insisted on construction of the staff team with “high aspiration, high standard and high performances”, strove to promote construction of HARMONY Brand, fully grasped the market opportunity, enthusiastically developed the channel networks, constantly enhanced the internal management, productively carried out customer-experience based service innovation, carried out promotion activities with various themes and achieved a good result. The Company achieved great progress in brand improvement, channel development, customer service, operation management, team construction, etc.; the operation capacity was strengthened significantly, the sales volume and profit grew steadily and the market share expanded continuously.

Continuously carrying forward construction of HARMONY brand: In respect of promotion via media, HARMONY enhanced the promotion in the nationwide mainstream media and local media on the one hand; on the other hand, it established its own platform – HARMONY WORLD, a special journal edited and issued by itself. While continuously popularizing watch culture, it also popularized “Harmony” Brand. In respect of the promotion activities, the tour show with high-end theme titled “Western Art • Oriental Rhyme-2011 HARMONY Luxurious Wrist Watch Annual Show” was opened up in succession in Beijing, Shenzhen, Hangzhou, Taiyuan, Shenyang, etc. The essence of the Western watch technology was presented with the oriental rhyme and the bridge between the Western and oriental culture was thus constructed; it has attracted extensive attention and acceptance from people from all circles of life. All these have promoted improvement of HARMONY brand identity and reputation. In respect of storefront construction, HARMONY carried out the “Flagship Shop Project”, established standards and criteria in hardware facilities and customer services; took the flagship store as the leader, improved the terminal identity on overall basis and established a positive, professional and management-system advanced famous brand retailer brand. In the report period, HARMONY was elected one of the “Champions of Value of China Brands” as the only brand watch retailer with this title in China.

Enthusiastically and Steadily Developing Channels, Optimizing and Upgrading: HARMONY has been implementing the strategy of enthusiastic channel development, attaching importance on development of outstanding strategic cooperation partnership, taking perfect channel distribution and upgrading channel quality as the objective and enhancing market competitiveness. In addition, HARMONY has continuously optimized and upgraded the brand grouping of the existing chain shops and shopfront identity for the purpose of creating a pleasant and respectable shopping environment for the consumers.

Strengthening construction of the relationship with the famous brand parties: HARMONY attached great importance on construction of the relationship with the famous brand parties, insisted on cooperation with excellent international brands and established long term and close strategic cooperation relationship. Through such activities as high-end conferences, big theme based promotion, Geneva and Basel Watch & Clock Show, etc., the Company reinforced communication and cooperation, propagated watch culture and received broad acceptance from the brand parties.

Enhancing management of the customers’ experience based terminal sales: The Company constantly carried forward and deepened the construction of “Three-Level Marketing” system and enhanced terminal sales management; made full use of various holidays and festivals to hold rich

and colorful promotion activities and carried out sales competitions in different forms throughout the year. In the report period, HARMONY carried out in succession such activities as “Time Gear” sculpture show, “Travel of Sculpture Time- HARMONY World Watch Culture”, VIP “Time of Honor”, which interpreted the beauty of Western exquisite technology with the charm of the Oriental culture, helping customers in realizing high quality life and trying to create a value-added consumption experience from fine details for the watch enthusiasts. Meanwhile, HARMONY enhanced the construction of relationship with customers and significantly improved the customers’ satisfaction and faithfulness by constant implementation of specialized operation, such as establishment of HARMONY membership system, accurate marketing and survey of mystical customers.

Striving to construct “Three High” Team: The Company further implement the Company’s values and carried out training and enterprise culture propaganda at different levels based on the requirements of “high aspiration, high standard and high performance”; continuously improved the manager development route and sales person growth route, developed a stable salespersons team understanding the customers and good at sales at the same time developing a management team with good understanding of management and good at operation. In the report period, the Company carried out the training for different talents on comprehensively, such as training and certification of mechanics, customer service commissioners and training for improvement of the techniques of safekeeping post aiming at improving preparation level of human resource.

2. FIYTA watches

In the report period, the Company quickly upgraded the brand identity of FIYTA watch by bringing the role of vivid spokesperson into full play and focusing on market promotion work, continuously enriched the product series based on the consumers’ demand and powerfully supported big growth of the sales income. Meanwhile, the Company quickly developed the channels of the second and third tier cities, steadily carried forward construction of franchise shops, enthusiastically explored the e-commerce platform, promoted customer experience and communication result. As a result, the consumers’ satisfaction level has been stably improved and the sales income and profit grew quickly.

FIYTA Brand Promotion and Construction: In the report period, FIYTA Watch expanded the TV advertisement and terminal media promotion via vivid spokespersons. Following the contract with Louis Koo, GAO Yuanyuan was contracted as the spokesperson. Through the vivid spokesperson, the terminal customers’ perception was promoted. The Company carried out the yearly brand public relation activity with the theme of “there is limit in time but no boundary in heart” and had beautiful time in many cities hand in hand with several stars, including Louis Koo, MIAO Pu, LI Chen, DONG Jie, etc. The brand marketing and promotion activities have continuously improved the transmission result. In the report period, the Company successfully hosted a yearly brand grand ceremony with the theme of “people in favor of beauty are highly esteemed” in Xi’an, an ancient city. FIYTA Watch again provided China motorcycle team with official time-keeping for Dakar Rally. FIYTA Brand entered Exhibition Hall 1 of Basel Watch & Jewelry Show (International Brand Hall), becoming the first Chinese brand in Hall I of Basel Watch & Jewelry Show.

Channel Development and Maintenance: The Company continuously enhanced resource investment in channel development and management, optimized the management of the site selection for franchise shops, reinforced the development of distribution channels and the channels in the third and fourth tier cities, developed overseas sales market and enthusiastically explored the e-commerce sales model. In the report period, the Company successfully held the annual session of channel dealers in Xi’an-Xining and strengthened communication and cooperation with the channel dealers.

New Product R & D and Coming to the Market: The Company speeded up product serialization and standardization and continuously adjusted the product structure. In the report period, through market analysis and effective analysis, the Company continuously innovate the products and insisted on the spirit of keeping forging ahead, launched such high-end products as art series enamel wrist watches, and timely developed and supplied series products of active demand,

including PHOTOGRAPHER, ZHUO YA, etc. and powerfully supported shop sales.

Awards of R & D and Design: In the report period, the Company became one of the 50 enterprises with superiority of intellectual property at provincial level in 2011. “Manufacture Technology and Application of the Watch Exclusive for China Astronauts” was honorably rewarded the First Prize of Science & Technology Award of Guangdong Province, Shenzhen Science & Technology Innovation Award; the innovation and design department of the Company was honorably rewarded “Grand Prix of 10 Most Innovative Enterprise Design Centers of China Industry Design in 2011”. The brand product of TRIUMPHANT RETURN Quantity Limited Version GA8180.BBB was honorably rewarded China Red Star Award of Innovative Design; PHOTOGRAPHER Conceptual Version GA8260.WBB was rewarded Honorable Mention of 13th China Appearance Design. In addition, such FIYTA watch as Toubillon Watch developed and designed by the Company for the 60th Anniversary of the P.R. China became key collection of MIH Museum in 2011, the biggest watch museum of Switzerland.

Strengthening the terminal sales capacity and improving the customer service level: In the report period, the Company carried out a number of promotion activities with the theme of “Speed and Passion” and sales competition, which powerfully promoted sales and optimized the inventory structure. Meanwhile, the Company enhanced the management of regulating the terminal sales, successfully carried out a series of activities aiming at improving the customer service level including “FIYTA Brand VIP Customers Appreciation Meeting” and “Business Charm Identity Training” etc. As a result, FIYTA customers’ satisfaction has got improved continuously.

Organization Construction and Team Management: In the report period, FIYTA Sales Co., Ltd. officially started operation. According to the requirements of “speed, quality, innovation and activeness”, the Company reinforced the brand marketing management work, strove to build an international brand identity with rich culture content, improve channel management and brand price system, develop products with superiority of competition and build a sales team full of youthful spirit, passion and progressiveness and promoted rapid development of brand.

In the report period, the Company achieved great progress in functional support, including management innovation, R&D, financial improvement, human resources, etc., carried out management innovation activities comprehensively focusing on the Company's strategy and achieved some success; continued to enhance human resource reserve, implemented the plan of recruiting new staff from key universities and schools and college students practical training program; at the same time, focus was put on the staff's in-service training and internal cultivation work; continued to strengthen construction of the relationship with investors, repeatedly received investors' personal visits and visits by call; deepened construction of the enterprise cultural system and promoted the employee engagement. In the report period, the Company was honorably rewarded with “China Best Employer Enterprise Award” once again at the “Annual Ceremony of China Human Resources Management”.

(II) Principal Business and Operation

The Company was mainly engaged in design, development, manufacture, sales and repairing of clocks and watches and spares and parts, including operation of FIYTA watch products and sales of world top brand watches through chain shops. In addition, the Company had income from the properties, including Fiyta Building, Fiyta Technology Building and Xi'an Chengheng International Hotel building.

1. The Company's income and profit from principal business are classified as follows:

In CNY 10,000

Principal Businesses Based on Sectors						
Sectors or products	Operating	Operating	Gross profit	Year-on-year	Year-on-year	Increase/decr

	income	costs	rate (%)	increase/decrease of operating income (%)	Increase/decrease of business cost rate (%)	ease of gross profit rate over the previous year (%)
Industry	46,188.23	16,929.44	63.35%	72.86%	80.45%	-1.54%
Commerce	200,907.64	147,599.86	26.53%	40.12%	34.36%	3.15%
Property Operation	6,961.89	2,181.53	68.66%	3.25%	6.07%	-0.84%

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

(1) Sales of Watches Income from sales of product brand and world watches and costs of sales of products are stated as follows:

Table 1: Presented based on the categories of the products

Principal Businesses Based on Products						
In CNY 10,000						
Sectors or products	Operating income	Operating costs	Gross profit rate (%)	Year-on-year increase/decrease of operating income (%)	Year-on-year increase/decrease of business cost rate (%)	Increase/decrease of gross profit rate over the previous year (%)
Sales of product brand	44,208.92	15,554.04	64.82%	71.71%	73.56%	-0.38%
Sales of world watches	200,907.64	147,599.86	26.53%	40.12%	34.36%	3.15%

Table 2: Listed according to regions

In CNY 10,000		
Regions	Operating income	Year-on-year increase/decrease of operating income (%)
Northeast China	23,221.82	32.01%
North China	37,770.06	55.26%
Northwest China	66,227.52	58.40%
Southwest China	23,987.04	24.42%
East China	29,682.22	45.28%
South China	64,227.90	37.65%

(2) Property The Company's revenue and profit from property operation mainly came from lease of FIYTA Building, FIYTA Technology Building and Xi'an Chengheng International Hotel Building.

3. Major Suppliers and Customers

In CNY 10,000			
Total procurement from the top five suppliers	120,257.24	Proportion in total procurement	62.48%

Total sales to the top five customers	33,300.47	Proportion in total sales	13.00%
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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 report period.

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

Items	Ending balance (CNY 10,000)	Opening balance (CNY 10,000)	Increase/Decrease Rate (%)	Reason of Change
Monetary fund	16,962.73	61,345.58	-72.35%	Proceeds raised from non-public offering invested in the projects which should be invested with proceeds raised from public offering in the previous year
Accounts receivable	26,890.08	17,589.62	52.87%	Growth of sales volume
Prepayment	5,563.97	3,664.43	51.84%	Increase of purchase of famous brand watches
Inventories	164,090.45	104,839.26	56.52%	Growth of sales and increase of the Company's sales network
Long-term equity investment	194.86	198.19	-1.68%	
Long-term expenses to be apportioned	12,258.65	7,215.27	69.90%	Shop refurbishment and increase of franchised counters
Short-term Loan	98,010.70	72,825.37	34.58%	channel development; increase of short term loan
Shareholders' equity	139,100.38	126,599.66	9.87%	Increase of profit
Items	Amount in report period (CNY)	Year-on-year amount (CNY)	Increase/Decrease Rate (%)	Reason of Change
Operating profit	18,668.58	10,011.87	86.46%	Growth of sales volume
Sales costs	43,376.38	26,368.35	64.50%	Growth of sales and expansion of network size
Administrative expenses	19,633.26	14,567.74	34.77%	Expansion of business scope and increase of employees
Financial expenses	6,520.71	4,781.01	36.39%	Increase of bank loan and interest rate adjusting up
Net profit	15,945.78	9,399.02	69.65%	Growth of sales volume

6. Composition of Cash Flow

Items	Amount in report period (CNY 10,000)	Same period of previous year (CNY 10,000)	Increase/Decrease Rate (%)
Net cash flows arising from operating activities	-40,949.08	-9,848.57	-
Net cash flows arising from investment activities	-23,169.00	-6,006.04	-
Net cash flows arising from fund-raising activities	19,747.82	67,633.55	-

In 2011, the balance of the cash and cash equivalent was CNY 169.6273 million, with year-on-year net increase by CNY-443.8285 million.

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

In CNY 10,000

Company Name	Principal business	Legal representative	Registered capital	Total assets	Revenue	Net profit
Shenzhen Harmony World Watches Center Co., Ltd.	Mainly engaged in sales of world famous brand watches, including purchase, sales and maintenance service of timepieces and parts	Xu Dongsheng	60,000	172,698.54	205,934.17	9,875.85
Shenzhen FIYTA Sophisticated Timepieces Manufacture Co., Ltd.	Mainly engaged in production and sales of FIYTA watches, including production and maintenance of clocks and watches, and driving units, spares and parts, sophisticated timepieces.	Xu Dongsheng	1,000	20,425.26	32,058.47	7,596.01
FIYTA (Hong Kong) Limited	Mainly engaged in trade and overseas market development	Xu Dongsheng	6,400 (HK\$)	22,222.72	13,843.45	3,225.20

	of FIYTA watches					
Shenzhen FIYTA Technology Development Co., Ltd.	R & D, production and sales of watches, production, machining, sales and technology development of sophisticated parts.	Xu Dongsheng	1,000	8,276.60	9,944.19	457.19
Shenzhen Symphony Trading Co., Ltd.	Sales of clocks and watches and gifts and consultation of relevant information and other domestic trading	Xu Dongsheng	500	2,412.09	501.20	-217.77
FIYTA Sales Co., Ltd.	Sales and repairing of clocks and watches and parts, sales of jewelry and ornaments.	Xu Dongsheng	5,000	27,949.82	15,043.27	-2,004.89

II. Development Prospect and Measures to be Taken

In 2012, there shall be a lot of uncertainty and challenge to many countries, regions, enterprises and individuals. To take a broad view of the world, the general international situation is not so optimistic. However, to the Chinese market, there shall be a lot of opportunities. China's economy is still in the interval of high speed growth and its overall performance is superior to other countries; China's urbanization, especially the development of the second and third tier cities, has still very big potential; the continuous high-speed growth of China's economy shall bring about great growth of the national consumption capacity and the demand on luxuries shall also continuously be growing. At the present stage, China has become the most vigorous market of luxuries in the world. China's luxuries consumption market, especially watch consumption market, is becoming more and more mature.

In 2012, facing the tough pass we have to break through and severe situation of competition among international excellent enterprises, the Company shall continue to go into customers and learn excellent enterprises and outstanding brands to deeper level, deepen the Company's values and improve the operation and management; continue to enrich products, innovate services, form core speciality of the Company, carry out more extensive professional cooperation and develop sales market; continue to speed up development of core business, comprehensively improve the entire operation performances and promote deepened management innovation; constantly improve the leadership of the senior executives team, carry forward the development system of medium and high management talents, push forward select, reserve and foster reserve talents, especially internationalized talents; upgrade the strategic management of the head office, improve the corporate governance structure, continue to do a good job in strategic cost management, pay

attention to the external operation risks, flexibly adjust the operation plan and carry out the work by focusing on the beneficial result and efficiency; take care of the grass roots and front line employees, push forward people-oriented management, deepen construction of enterprise culture system and continuously improve the employee engagement of the whole staff.

The Company shall focus on the following work in 2012:

1. to enhance construction of the channel network, strive to optimize the existing channel network and attach importance on joint-upgrading of “quantity” and “quality”;
2. to strengthen terminal sales management, strengthen construction of customer relationship, reinforce construction of customer-service team and establish membership system;
3. to continuously carry out sales competition, to comprehensively apply different innovative tools and methods, explore and establish inventory model, look for best inventory rating and constantly speed up inventory circulation;
4. to reinforce product research, development and design and conceptual marketing and improve the competitiveness of products;
5. to continuously improve brand value, bring the role of vivid spokespersons into full play, effectively promote communications with consumers and transmission of the public praise of the brand;
6. to keep on exploring the new channels of E-commerce sales and expand overseas sales market;
7. to continuously carry out team management and construction of sales team and foster internationalized talents;
8. to collocate resources based on the principle of priority in beneficial result and efficiency, improve earning power, attach great importance on cash flow and prevent and control operation risks.

III. Investments

(I) Material Investments with Proceeds Raised from Share Offering in the Report Period

The Company received the Official Reply on Approval of Fiyta Holdings Ltd. for Non-public Offering (ZHENG JIAN XU KE [2010] No. 1703) from China Securities Regulatory Commission on November 29, 2010. The Company issued 31,230,480 new shares by non-public offering and raised proceeds totaling CNY 499,999,984.80, and completed the procedures of registration for custody and sales restriction of the newly issued A shares with China Securities Depository and Clearing Company Limited Shenzhen Branch on December 14, 2010.

The Company has applied the proceeds according to the proceeds investment plan as disclosed, the resolution of the General Meeting and the review and approval procedures and disclosed the application conditions and application result of the proceeds according to the regulation.

The Company insisted on the deposit principle of centralized deposit of the proceeds so as to facilitate supervision and management. Ended December 31, 2011, there existed no change in the application of the proceeds from offering. The practical use of the proceeds agreed with the plan for implementation of the projects invested with the proceeds from offering. There existed no such event that changed in disguised form the proceeds investment orientation and harmed the shareholders' interest. The procedures of review and approval of the application of the proceeds were legal and valid and in compliance with the relevant provisions of Guidelines of Shenzhen Stock Exchange on the Regulated Operation of Companies Listed on the Main Board and the Regulations for Management of the Specialized Deposit and Application of the Proceeds Raised by the Company from Share-Offering.

In accordance with the concerned law, rules and regulations, including Guidelines of Shenzhen Stock Exchange on the Regulated Operation of Companies Listed on the Main Board and Rules of Shenzhen Stock Exchange for the Listing of Stocks, etc., the Board of Directors made a special presentation on the deposit and application of the proceeds raised through share-offering in 2011 and issued the Subjective Report on Deposit and Application of the Proceeds Raised through Share Offering in 2011. RSM China CPAs, the auditor engaged by the Company for the year 2011 issued a standard unqualified verification report.

(II) Other Material Investments with the Fund not Raised from Share-offering in the Report Period

(1) Establishment of HARMONY World Watches International Limited

The Company held the 20th meeting of the Sixth Board of Directors on January 13, 2011. The meeting reviewed and approved the Proposal on Establishment of a HARMONY Subsidiary in Hong Kong. For the purpose of further improving the international influence of HARMONY, and speeding up the process of building HARMONY into an internationalized enterprise, the Company decided to establish HARMONY World Watches International Limited in Hong Kong. (For the detail, refer to the Announcement on Resolutions of the 20th Meeting of the Sixth Board of Directors 2011-001).

(2) Establishment of FIYTA Sales Co., Ltd.

The Company held the 22nd meeting of the Sixth Board of Directors on February 25, 2011. The meeting reviewed and approved the Proposal on Establishment of FIYTA Sales Co., Ltd. With a view to making distinct the business management structure, seizing the market opportunities, enhancing the strategic layout of the watch retail channels, promoting rapid development of the own brand, rapidly expanding the watch business scale and improving the scale efficiency and strengthening the risk resistance, the Company decided to establish "FIYTA Sales Co., Ltd." (For the detail, refer to the Announcement on Establishment of FIYTA Sales Co., Ltd. 2011-009).

(3) Increasing Capital to Shenzhen Harmony World Watches Center Co., Ltd.

The Company held the 22nd meeting of the Sixth Board of Directors on February 25, 2011. The meeting reviewed and approved the Proposal on Increasing Capital to HARMONY. Shenzhen Harmony World Watches Center Co., Ltd. is one of the Company's solely owned subsidiaries. With rapid expansion of its business scale, the existing self-raised fund was obviously deficient. The present registered capital could no longer satisfy the Company's normal operation requirements. According to the Company's development strategy and practical requirements, the Board of Directors approved the Company to increase the registered capital to HARMONY, namely from the present CNY 300 million to CNY 600 million. (For the detail, refer to the Announcement on Resolutions of the 22nd Meeting of the Sixth Board of Directors 2011-005).

(4) Purchase of Plant by Montres Chouriet SA

The Company held the 25th meeting of the Sixth Board of Directors on June 13, 2011. The Company reviewed and approved the Proposal on Purchase of Plant by Montres Chouriet SA and approved Montres Chouriet SA to conclude plant purchase agreement with the transferer. (For the detail, refer to the Announcement on Purchase of the Plant for Construction the Assembling Line by Montres Chouriet SA).

(5) Increasing Capital to FIYTA Hong Kong Limited

The Company held the 26th meeting of the Sixth Board of Directors on July 6, 2011. The meeting reviewed and approved the Proposal on Increasing Capital to FIYTA Hong Kong Limited. FIYTA Hong Kong Limited is one of the Company's solely owned subsidiaries with registered capital of HK\$ 20 million. Upon completion of the capital increment, the registered capital of FIYTA Hong Kong Limited increased to HK\$64 million. (For the detail, refer to the Announcement on Resolution of the 26th Meeting of the Sixth Board of Directors 2011-028).

(6) Bidding for the industrial land at Guangming New Zone, Shenzhen

The Company held the 26th meeting of the Sixth Board of Directors on July 6, 2011. The meeting reviewed and approved the Proposal on Authorizing the Company to Bid for the industrial land at Guangming New Zone, Shenzhen. In order to adapt itself to the new industrial environment and technology development situation and carry forward rapid development of watch industry, the Company plans to set up "FIYTA Watch R & D and Manufacture Center so as to satisfy the requirements of continuous improvement and innovation in respect of R & D, manufacture, production, machining and assembling; and at the same time, construct the corresponding supplementary infrastructures.

On July 12, 2011, the Company concluded the Letter of Confirmation for Auction (SHEN DI JIAO (2001) No. 35) with Urban Planning Land and Resources Commission of Shenzhen Municipality which confirmed that the Company acquired the land use right of Lot A625-0047 in open selling of the land use right. (For the detail, refer to the announcement on the resolution of the 26th meeting of the Sixth Board of Directors and the Announcement on Acquisition of the Land Use Right 2011-029).

(7) Acquisition of the Equity in Liaoning Hengdarui Commerce & Trade Co., Ltd.

On December 14, 2011, the Company held the 29th meeting of the Sixth Board of Directors. The meeting reviewed and approved the Proposal on Acquisition of the Equity in Liaoning Hengdarui Commerce & Trade Co., Ltd. (Hengdarui) by Shenzhen Harmony World Watches Center Co., Ltd. The Company and CATIC Trust Co., Ltd. jointly concluded the Agreement on Assignment of the Equity to the Third Party and the Contract on Equity Assignment according to which HARMONY acquired 100% equity in Hengdarui held by CATIC Trust Co., Ltd. (For the detail, refer to the announcement on the equity acquisition and the related transaction 2011-038).

(8) Acquisition of 25% Equity in Shanghai Watch Industry Co., Ltd. (Shanghai Watch)

On December 14, 2011, the Company held the 29th meeting of the Sixth Board of Directors. The meeting reviewed and approved the Proposal for Authorizing the Company to Bid for 25% Equity in Shanghai Watch Industry Co., Ltd. and acquired 25% equity in Shanghai Watch with affirmation by Beijing Equity Exchange. On December 30, 2011, the Company concluded the Equity Exchange Contract with Shenzhen CATIC Investment Management Co., Ltd., the assigner, in which the relevant equity was confirmed. (For the detail, refer to the Announcement on Resolutions of the 29th Meeting of the Sixth Board of Directors 2011-037).

IV. Accounting Policies, Change in Accounting Estimate and Correction of the Previous Accounting Errors

There was no change in accounting policy or accounting estimate or correction of the previous accounting errors in the report period.

V. Routine Work of the Board of Directors

1. In the report period, the Company held 12 Board Meetings, whose agenda and proposals all complied with the Company Law and the Articles of Association with the details as follows:

(1) The 20th meeting of the Sixth Board of Directors was held on January 13, 2011. The meeting reviewed and approved the Proposal on Establishment of a HARMONY Subsidiary in Hong Kong. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on January 14, 2011.

(2) The 21st meeting of the Sixth Board of Directors was held on February 21, 2011. The meeting reviewed and approved the Proposal on the Company to Offer Guarantee to HARMONY for its Loan. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on February 22, 2011.

(3) The 22nd meeting of the Sixth Board of Directors was held on February 25, 2011. The meeting reviewed and approved 2010 Annual Report and Summary, 2010 Work Report of the Board of Directors, 2010 Financial Settlement Report, the Proposal of 2010 Profit Distribution and Converting the Capital Public Reserve into Share Capital, the Proposal on Implementation of

Regular Related Transactions in 2010 and Prediction of Regular Related Transactions in 2011, the Proposal on Payment of Audit Fee for the Year 2010 and Engagement of the Company's Auditor for the Year 2011, the Proposal on Application for Total Bank Credit Line in 2011, the Proposal on Application for the Guarantee Amount to HARMONY in 2011, the Summary Report of Performances of the Audit Committee and the Audit Work of the CPAs in 2010, 2010 Work Report of Independent Directors, the Report on Self-assessment of Internal Control, the Report on the Company's Social Responsibilities, the Proposal on Review and Approval of the Remuneration to the Senior Executives in 2010, the Proposal on Establishment of Fiyta Sales Co., Ltd., the Proposal on Increasing Capital to HARMONY, the Subjective Report on Deposit and Application of the Proceeds Raised through Share Offering in 2010. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on February 26, 2011.

(4) The 23rd meeting of the Sixth Board of Directors was held on April 27, 2011. The meeting reviewed and approved 2011 1st Quarterly Report, the Proposal for Implementation of the Internal Control of the Company, the Proposal on the Company to Offer Guarantee to Fiyta (Hong Kong) Limited for its Loan. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on April 28, 2011.

(5) The 24th meeting of the Sixth Board of Directors was held on April 28, 2011. The meeting reviewed and approved the Proposal on HARMONY to Conclude the Housing Lease Contract. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on April 29, 2011.

(6) The 25th meeting of the Sixth Board of Directors was held on June 13, 2011. The meeting reviewed and approved the Proposal on Offering Guarantee to Fiyta (Hong Kong) Limited for its Loan, the Proposal on Montres Chouriet SA to Purchase the Factory Building and Construct the Assembling Line. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on June 14, 2011.

(7) The 26th meeting of the Sixth Board of Directors was held on July 6, 2011. The meeting reviewed and approved the Proposal on Authorizing the Company to Bid for the Industrial Land at Guangming New Zone, Shenzhen, the Proposal on Increasing Capital to Fiyta (Hong Kong). The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on July 7, 2011.

(8) The 27th meeting of the Sixth Board of Directors was held on August 15, 2011. The meeting reviewed and approved 2011 Semi-Annual Report and Summary, the Proposal on the Company to Offer Guarantee to Fiyta (Hong Kong) Limited for its Loan. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on August 16, 2011.

(9) The 28th meeting of the Sixth Board of Directors was held on October 20, 2011. The meeting reviewed and approved 2011 3rd Quarterly Report and Summary. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on October 21, 2011.

(10) The 29th meeting of the Sixth Board of Directors was held on December 14, 2011. The meeting reviewed and approved the Proposal on Acquisition of the Equity in Liaoning Hengdarui Commerce & Trade Co., Ltd. by Shenzhen Harmony World Watches Center Co., Ltd., the Proposal on Authorizing the Company to Bid for 25% Equity in Shanghai Watch Industry Co., Ltd., the Proposal for the Revision of the Articles of Association, the Proposal on Nominating Mr. Zhang Shunwen as Independent Director Candidate of the Company, the Proposal on Assignment of 50% Equity in Shenzhen Harmony World Watches Center Co., Ltd., the Proposal on Cancellation upon Verification of the Long Term Equity Investment in Xi'an Chengheng Industrial Co., Ltd. and the Dealings, the Proposal on Offering Guarantee to the Subsidiaries for their Loan, the Proposal on Holding 2011 1st Extraordinary Shareholders' Meeting. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on December 15, 2011.

(11) An extraordinary meeting of the Sixth Board of Directors was held on December 21, 2011.

The meeting reviewed and approved the Proposal on Postponing 2011 1st Extraordinary Shareholders' Meeting. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on December 22, 2011.

(12) The 30th meeting of the Sixth Board of Directors was held on December 28, 2011. The meeting reviewed and approved the Proposal on Offering Guarantee to HARMONY for its Loan, the Proposal on Conclusion of the Framework Contract for 2012-2014 Regular Related Transaction Prediction. The relevant announcement was published on Securities Times and Hong Kong Commercial Daily on December 29, 2011.

2. Implementation of the Resolutions of the Shareholders' General Meeting by the Board of Directors

In the report year, the Board carried out the work strictly according to the Articles of Association and the resolutions of the General Meeting and seriously implemented all the resolutions of 2011 Annual General Meeting.

According to 2010 Annual General Meeting, the Company issued the Announcement on Implementation of Dividend Distribution for the Year 2010 on April 20, 2011. In the report period, 2010 Annual Shareholders' General Meeting held by the Company approved its 2010 Annual Profit Distribution Proposal. Based on 280,548,479 shares of the total capital stock ended December 31, 2010, the Company was to distribute cash dividend at the rate of CNY 1.00 for every 10 shares (with tax inclusive) and the total amount of cash dividend as distributed was CNY28,054,847.90. Meanwhile, the Company converted its capital reserve into capital stock on 4-for-10 basis. The total number of the shares converted was 112,219,391 shares. After the conversion, the Company's total capital stock turned to be 392,767,870 shares. Distribution of the cash dividends for both A and B shares was finished on April 27, and April 29, 2011 respectively. According to the Proposal on Amendment of the Articles of Association approved by 2011 1st Extraordinary Shareholders' Meeting, the Company finished the amendment of the Articles of Association and made change of the registration with the authority of industry and commerce according to the resolutions of the General Meeting.

3. Summary Report on Performances of the Audit Committee of the Board of Directors

In accordance with China Securities Regulatory Commission, Contents and Formats for Information Disclosure by Companies that Offer Securities to the Public Guideline (No. 2): Contents and Format of Annual Reports (Revision 2007), the Announcement of China Securities Regulatory Commission ([2011] No. 41) and Shenzhen Stock Exchange: Circular on Doing a Good Job in 2011 Annual Report and the Relevant Work in Listed Companies, Memorandum of Information Disclosure No. 21 – Information to be Disclosed in the Annual Report and the Company's Rules for the Work of the Audit Committee, the Audit Committee of the Company conducted overall review of the Company's audit work in 2011. The following is the summary of the performances of the Audit Committee and the work of RSM China CPAs (hereinafter referred to as the CPAs”):

(1) Collecting General Information of the Company in the Report Period and Reviewing the Financial Statements Prepared by the Company

On January 12, 2012, the Audit Committee heard the General Manager's overall report on the production and operation and progress of significant events during the report period and reviewed 2012 Financial and Accounting Statements prepared by the Company. In its opinion, the data in the financial and accounting statements prepared by the Company basically reflected the financial position and operation results of the Company as ended at December 31, 2011 and approved to carry out the audit work in 2011 with the financial statements as the base and issued auditing opinions in writing.

(2) Decision on Overall Audit Plan

Before the CPAs started auditing, the audit committee, after consultation with the CPAs, decided the time schedule of the audit work in 2011.

(3) Supervision of the Audit Work

On January 12, 2012, the CPAs formally started the audit work. During the auditing, the Audit Committee issued three Letters of Urging Audit respectively on January 20, February 8 and February 17, 2012, demanding the CPAs to complete the audit work according to the time schedule of audit for three times in succession and ensure timely disclosure of the Company's annual report and relevant documents.

(4) Preliminary Auditor's Opinion after Reviewing the Financial and Accounting Statements

On February 22, 2012, the CPAs issued a preliminary auditor's opinions on the financial and accounting statements and the Audit Committee once again reviewed the Company's financial and accounting statements as preliminarily audited by the CPAs. In the opinion of the Audit Committee, these financial statements truly, accurately and completely reflected the financial position and operation result of the Company ended December 31, 2011 and approved 2011 Annual Report and Summary prepared on the basis of these statements. Meanwhile, the audit committee demanded the CPAs to complete the audit work according to the plan as soon as possible so as to ensure the Company to disclose 2011 Annual Report as scheduled.

(5) Summary Work after the Formal Report

On February 23, 2012, the CPAs completed the auditing procedures as scheduled and issued a standard unqualified auditor's report and other relevant documents to the Audit Committee. The Audit Committee held 2012 1st Meeting of the Audit Committee on the very day and concluded a resolution and submitted it to the Board of Directors for review and at the same submitted the Summary Report on the Performances of the Audit Committee and the Audit Work of the Certified Public Accountants in 2011. In the opinion of the Audit Committee, RSM China CPAs, the domestic and international auditor engaged by the Company honestly performed the duties in process of offering audit performances according to the professional principle of independence, objectiveness and fairness and did a good job in auditing 2011 Annual Report.

(6) Resolution on Renewal of Engagement of the Certified Public Accountants

As RSM China CPAs offered its service according to the audit standards, strictly implemented the relevant audit rules and quality control regulations, it is quite qualified for the business, conscientiously did its duties and successfully completed various audit work and resolved to submit application for renewal of the engagement of the accounting firm as the Company's international auditor for the year 2012 to the Board of Directors.

4. Summary Report on Performances of the Committees of Nomination, Remuneration and Assessment of the Board of Directors

In the report period, the Committees of Nomination, Remuneration and Assessment of the Board of Directors performed its functions strictly according to the law and regulations, the Articles of Association, the Rules for Implementation of the Committees of Nomination, Remuneration and Assessment of the Board of Directors and conducted verification of the emoluments to directors, supervisors and senior executives in the year 2012 at its first meeting of 2011. The verification comments are as follows: The decision-making procedures of emolument to directors, supervisors and senior executives complied with the regulations; the payment criteria of the emolument to directors, supervisors and senior executives complied with the emolument system; the emolument to directors, supervisors and senior executives as disclosed in 2011 Annual Report is true and accurate.

VI. Technology Innovation in the Report Period

Technology innovation and cultural accumulation and precipitation are the two supports of a watch brand. FIYTA always attaches importance on technology innovation, enhances its core competitiveness through innovation of the technology with own intellectual property, consolidate its leading position of self-innovation in China's clock and watch brands so as to realize its vision of becoming an international brand and improve its international competitiveness in the industry.

In the report period, the Company achieved great success in technology innovation. "Technology

and the application for manufacture of special watches for Chinese astronauts” project honorably won the Technology Innovation Award of Guangdong Province, PHOTOGRAPHER Conceptual Version GA8260.WBB was rewarded Honorable Mention of 13th China Appearance Design, the Company was honorably rewarded the titles of “Enterprise with Superiority in Intellectual Property in Guangdong Province” and “A Key Cultural Enterprise of Shenzhen”. In the report year, the Company was granted 2 patents and 9 utility patents. The Company presided or participated in preparation and amendment of 3 national and industrial standards. In addition, 3 national standards and 2 industrial standards presided or participated in the preparation and amendment by FIYTA have been officially published.

VII. Profit Distribution Proposal

In 2011, the net profit attributable to the parent company in the consolidated accounting statements audited and recognized by RSM China CPAs amounted to CNY 159,457,800.00 and the net profit in the parent company's accounting statements amounted to CNY 102,564,456.20. According to the relevant provisions of the PRC Company Law and the Articles of Association, the Company takes the net profit amounting to CNY 102,564,456.20 as stated in the parent company's accounting statements as the base, plus the retained earnings at the beginning of the previous year amounting to CNY126,918,820.47, less the statutory public reserve amounting to CNY 10,256,445.62, less the dividends of 2010 distributed in the report year amounting to CNY 28,054,847.90, the profit available for distribution to the shareholders is CNY 191,171,983.15.

Based on 392,767,870 shares of the total capital stock ended December 31, 2011, the Company plans to distribute cash dividend at the rate of CNY 1.00 for every 10 shares (with tax inclusive) and the total amount of cash dividend distributable for the year 2011 shall be CNY39,276,787.00.

The independent directors all approve this proposal made by the Board of Directors. In their opinion, the proposal complies with the Company's practical development conditions.

Cash dividends distributed in the past three years:

In CNY			
Year of Dividend Distribution	Amount of cash dividend	Net profit in the year of dividend distribution	Rate of cash dividend to the net profit
2008	24,931,799.90	64,522,473.14	38.64%
2009	24,931,799.90	70,067,240.27	35.58%
2010	28,054,847.90	93,990,182.93	29.85%

VIII. Establishment and Improvement of the System for Administration of the Insiders

In order to further regulate the Company's inside information and the insiders' activity of trading of the Company's shares, the Company reviewed and approved the System for Administration of the Inside Information and Insiders at the 6th meeting of the Sixth Board of Directors according to the Company Law, the Securities Law and the Share Listing Rules of Shenzhen Stock Exchange.

IX. Establishment and Improvement of the Company's Internal Control System and Progress of Implementation of the Internal Control

At the Company's interim financial work conference held in August 2010, the Company conducted training of the attendants for the Basic Rules for Enterprise Internal Control and the complementary guides and emphasized the importance of constructing the internal control system the Company should implement. During the first quarter of 2011, all the senior executives attended in succession the Video Conference on Standardization, Mobilization and Arrangement for Implementation of the Enterprise Internal Control in the Capital Market and the training program for construction of the internal control of listed companies in the jurisdiction of Shenzhen jointly organized by China Securities Regulatory Commission, Shenzhen Securities Regulatory Bureau and the Listed Companies' Association.

The Company leaders' great care provided important assurance for implementation of the internal control system construction project. The Company established the leading group of enterprise internal control standardization work on April 6, 2011 and issued Document SHEN FEI JI SHEN ZI [2011] No. 9 and announced the “Work Plan for Implementation of the Enterprise Internal Control

Standardization” on April 28.

On May 16 2011, the Company concluded the Agreement on the Consulting Service for Compliance with the Basic Rules for Enterprise Internal Control with Union Strength Business Consulting Co., Ltd. The consulting service was formally carried out on May 16 on the site. The Company implemented the internal controls orderly according to the steps as specified in the Statement of the Implementation Progress of the 54 Experimental Companies for the Rules for Enterprise Internal Control in the Jurisdiction of Shenzhen with reference to the Work Guides for the Key Experimental Companies in the Jurisdiction of Shenzhen in Implementing the Rules for Enterprise Internal Control. Ended December 31, 2011, with the assistance of Union Strength Business Consulting Co., Ltd., the Company fulfilled the work of the construction stage of the internal control system and fulfilled the carding of the enterprise internal control process and confirmation of the defects. At the same time, the follow-up work of the internal control implementation project was all carried out in an orderly way according to the procedures of the project.

X. The Company has chosen Securities Times and Hong Kong Commercial Daily for disclosing the Company’s information. There was no change in the report period.

Chapter 8 Report of the Supervisory Committee

I. Work Summary of the Supervisory Committee

1. In the report period, the Supervisory Committee conducted effective supervision over the performances of directors, managers and other senior executives according to the power as specified in the PRC Company Law and the Articles of Association and exercised the supervision in terms of the Company's operation according to the law, financial conditions, application of the proceeds raised through share-offering, related transactions, etc. through regular or irregular inspection and analysis, and played an important role in promoting the Company to conduct operation in a regulatory way and safeguarding the shareholders' rights and interests.

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

(1) The 11th meeting of the Sixth Board of Directors was held on February 25, 2011. The following proposals were reviewed and adopted at the meeting: 2010 Work Report of the Supervisory Committee, 2010 Annual Report and Summary, the Proposal on Implementation of Regular Related Transactions in 2010 and Prediction of Regular Related Transactions in 2011, the Report on Self-assessment of Internal Control, and the Proposal on Application for the Guarantee Amount to HARMONY in 2011.

(2) The 12th meeting of the Sixth Board of Directors was held on April 27, 2011. The meeting reviewed and approved 2011 1st Quarterly Report, and the Proposal for Implementation of the Internal Control of the Company.

(3) The 13th meeting of the Sixth Board of Directors was held on August 15, 2011. The meeting reviewed and approved 2011 Semi-Annual Report and the Summary.

(4) The 14th meeting of the Sixth Board of Directors was held on October 20, 2011. The meeting reviewed and approved 2011 3rd Quarterly Report and Summary.

3. Supervisors of the Supervisory Committee attended all the Board meetings held in 2011 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 2010 Annual Shareholders' General Meeting, addressed 2010 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 2011, 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. In the report period, the Company established sound internal control system and Company's decision-making procedures complied with the laws and regulations; holding of the shareholders' general meeting and board meetings and decision making procedures were legal and effective; the Board of Directors carried out their work conscientiously and with responsibility, the Company's decision making was scientific and reasonable, the internal control system was sound and was implemented practically; directors, managers and other senior executives had done due diligence in their work, seriously implemented the resolutions of the Shareholders' General Meeting and the Board Meetings, and had never been found involved in any action against the law, regulations and the Articles of Association or harmful to the Company's interest in implementing their duties. The Company's internal control and self-assessment complied with the Basic Regulations on the Internal Control of Enterprises jointly promulgated by the State Ministry of Finance and China Securities Regulatory Commission, the Announcement of China Securities

Regulatory Commission [2011] No. 41 and Guide of Internal Control of Listed Companies of Shenzhen Stock Exchange and the relevant documents; the self-assessment truly and entirely reflected the present situation of construction of the Company's internal control system and implementation.

2. RSM China CPAs produced a standard and unqualified auditor's report for the Company after auditing, which truly and objectively reflected the Company's financial position and operation result of the year 2011. The Company received the Official Reply on Approval of Fiyta Holdings Ltd. for Non-public Offering (ZHENG JIAN XU KE [2010] No. 1703) from China Securities Regulatory Commission on November 29, 2010. The Company issued 31,230,480 new shares by non-public offering and raised proceeds totaling CNY 499,999,984.80, and completed the procedures of registration for custody and sales restriction of the newly issued A shares with China Securities Depository and Clearing Company Limited Shenzhen Branch on December 14, 2010.

The Company has applied the proceeds according to the proceeds investment plan as disclosed, the resolution of the General Meeting and the review and approval procedures and disclosed the application conditions and application result of the proceeds according to the regulation.

The Company insisted on the deposit principle of centralized deposit of the proceeds so as to facilitate supervision and management. Ended December 31, 2011, there existed no change in the application of the proceeds from offering. The practical use of the proceeds agreed with the plan for implementation of the projects invested with the proceeds from offering. There existed no such event that changed in disguised form the proceeds investment orientation and harmed the shareholders' interest. The procedures of review and approval of the application of the proceeds were legal and valid and in compliance with the relevant provisions of the Guide of Shenzhen Stock Exchange on Regulatory Operation of the Companies Listed with the Main Board and the Regulations for Management of the Specialized Deposit and Application of the Proceeds Raised by the Company from Share-Offering.

In accordance with the concerned law, rules and regulations, including Guidelines of Shenzhen Stock Exchange on the Regulated Operation of Companies Listed on the Main Board and Rules of Shenzhen Stock Exchange for the Listing of Stocks, etc., the Board of Directors made a subjective presentation on the deposit and application of the proceeds raised through share-offering in 2011 and issued the Subjective Report on Deposit and Application of the Proceeds Raised through Share-offering in 2011. RSM China CPAs, the auditor engaged by the Company for the year 2011 issued a standard unqualified verification report, and the Supervisory Committee approved the Subjective Report on Deposit and Application of the Proceeds Raised through Share Offering in 2011.

4. The Company's acquisition of assets was based on the market price and was carried out according to the principle of openness, fairness and justness, had never been found involved in insider transaction, done any harm to the minority shareholders' equity or caused loss of the Company's assets.

5. The related transactions incurred in the Company were carried out fairly and based on reasonable price; independent directors all expressed independent opinions; the related directors took the measure of avoiding voting for such transaction, had never done any harm to the minority shareholders' equity or caused any loss of the Company's assets.

Chapter 9 Significant Events

I. The Company was not involved in any material lawsuit or arbitration in the report year.

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

(1) Purchase of the Plant by Montres Chouriet SA

The Company held the 25th meeting of the Sixth Board of Directors on June 13, 2011. The Company reviewed and approved the Proposal on Purchase of Plant by Montres Chouriet SA and approved Montres Chouriet SA to conclude plant purchase agreement with the transferer. (For the detail, refer to the Announcement on Purchase of the Plant for Construction of the Assembling Line by Montres Chouriet SA 2011-026).

2. Bidding for the industrial land at Guangming New Zone, Shenzhen

The Company held the 26th meeting of the Sixth Board of Directors on July 6, 2011. The meeting reviewed and approved the Proposal on Authorizing the Company to Bid for the industrial land at Guangming New Zone, Shenzhen. In order to adapt itself to the new industrial environment and technology development situation and carry forward rapid development of watch industry, the Company plans to set up "FIYTA Watch R & D and Manufacture Center so as to satisfy the requirements of continuous improvement and innovation in respect of R & D, manufacture, production, machining and assembling; and at the same time, construct the corresponding supplementary infrastructures. On July 12, 2011, the Company concluded the Letter of Confirmation for Auction (SHEN DI JIAO (2001) No. 35) with Urban Planning Land and Resources Commission of Shenzhen Municipality which confirmed that the Company acquired the land use right of Lot A625-0047 in open selling of the land use right. (For the detail, refer to the announcement on the resolution of the 26th meeting of the Sixth Board of Directors and the Announcement on Acquisition of the Land Use Right 2011-029).

3. Acquisition of the Equity in Liaoning Hengdarui Commerce & Trade Co., Ltd.

On December 14, 2011, the Company held the 29th meeting of the Sixth Board of Directors. The meeting reviewed and approved the Proposal on Acquisition of the Equity in Liaoning Hengdarui Commerce & Trade Co., Ltd. (Hengdarui) by Shenzhen Harmony World Watches Center Co., Ltd. The Company and CATIC Trust Co., Ltd. jointly concluded the Agreement on Assignment of the Equity to the Third Party and the Contract on Equity Assignment according to which HARMONY acquired 100% equity in Hengdarui held by CATIC Trust Co., Ltd. (For the detail, refer to the announcement on the equity acquisition and the related transaction 2011-038).

4. Acquisition of 25% Equity in Shanghai Watch Industry Co., Ltd.

On December 14, 2011, the Company held the 29th meeting of the Sixth Board of Directors. The meeting reviewed and approved the Proposal for Authorizing the Company to Bid for 25% Equity in Shanghai Watch Co., Ltd. and acquired 25% equity in Shanghai Watch with affirmation by Beijing Equity Exchange. On December 30, 2011, the Company concluded the Equity Exchange Contract with Shenzhen CATIC Investment Management Co., Ltd., the assigner, in which the relevant equity was confirmed. (For the detail, refer to the Announcement on Resolutions of the 29th Meeting of the Sixth Board of Directors 2011-037).

5. Assignment of 50% Equity in Shenzhen Harmony World Watches Center Co., Ltd.

On December 14, 2011, the Company held the 29th meeting of the Sixth Board of Directors. The meeting reviewed and approved the Proposal on Acquisition of 50% Equity in Shenzhen Harmony World Watches Center Co., Ltd. (For the detail, refer to the Announcement on Resolutions of the 29th Meeting of the Sixth Board of Directors 2011-037).

III. Related transactions

1. Related Parties

(1) Shenzhen CATIC Property Management Co., Ltd. is one of the indirectly controlled subsidiaries

of the Company as its eventual controller, with the legal representative: Shi Zhenglin, the registered capital: CNY 50 million and principal business: property management, real estate lease; after-sale service of real estate, management of municipal works, landscape engineering, environmental sanitation, management and services of life facilities; installation, repairing and maintenance of air conditioner, water and power supply, mechanical and electrical equipment; housing refurbishment and repairing; housing refurbishment and repairing; logistic services to and management of enterprises and institutions; planning and consulting of conferences and etiquette. The Company entrusted the company to supply property management services for FIYTA Building and FIYTA Technology Building based on the market price; lease its shop sites for business operation and lease premises to the company and the payment settlement is done by means of account transfer with bank.

(2) Shenzhen Rainbow Supermarket Co., Ltd. is a controlled subsidiary of the Company's actual controller. Its legal representative is Wu Guangquan; its registered capital is CNY 800.20 million; its principal business is wholesale and retail of general merchandise, textile products, garments, food, table salt, beverage, health food, agricultural and sideline products, household appliances and electronic products, cultural and sports articles and equipment, building materials and chemical products, mechanical equipment, hardware, furniture, tools, arts and crafts, etc. and the relevant complementary services; wholesale and retail of alcoholic drinks; retail of tobacco products; retail of gold, silver and jewelry ornaments; retail of domestic books, journals and audio-video products; parking service to motor vehicles; business activities carried out in a way of franchised operation; lease of self-owned properties.

The Company rents counters in supermarkets for selling watch products and makes payment settlement by means of credit transfer.

(3) Shennan Circuit Co., Ltd. is a controlled subsidiary of the Company's controlling shareholder. Its legal representative is You Lei; its registered capital is CNY 139.80 million; its principal business is: printed circuit; manufacture, machining and sales of chemical analysis instruments and industrial automation instruments, meters and equipment, microelectronic parts and components, office automation, photoelectric equipment, computer and software, high-grade household appliances; import and export; photoengraving; electroplating; general freight transport; production and sales of electronic assembly, module and module set encapsulation products; production and sales of communication technology products and communication equipment. The Company offers labor service to this company based on the market price and makes payment settlement by means of credit transfer.

(4) Shenzhen Maiwei Cable TV Devices Co., Ltd. is a controlled subsidiary of the Company's controlling shareholder. Its legal representative is Jin Shiwei and the registered capital is CNY 20 million. It is mainly engaged in reception, modulation, amplification, distribution and testing components, devices and equipment for cable TV system, and installation and testing. The Company leases premises to the company and payment settlement is made by means of bank account transfer.

(5) CATIC Securities Co., Ltd. is a controlled subsidiary of Aviation Industry Corporation of China. Its legal representative is Du Hang, registered capital is CNY 1325.8758 million. Its main business is: securities brokerage; securities investment consulting; financial consulting in connection with securities trading and securities investment activities; underwrite and recommendation of securities; self-operation of securities; management of securities assets; sale of the securities investment fund by proxy. The Company leases premises to the company and payment settlement is made by means of bank account transfer.

(6) Grand Skylight Hotel Management Co. Ltd., Shenzhen is an indirectly controlled subsidiaries of the Company's eventual controller, the legal representative is Chen Hongliang and the registered capital is CNY 200 million. It is mainly engaged in hotel management consulting and planning, investing and setting up entities; property management; development of hotel management software. The Company leased the operation right of Xi'an Chengheng International Hotel to the

company based on the market price and the rent is settled by means of bank account transfer.

(7) CATIC Real Estate Co., Ltd. is a controlled subsidiary of the Company's eventual controller, its legal representative is Qiu Shenqian, registered capital is CNY 333.4807; its main business is development and operation of real estate; being engaged in different investments, set up and operate supermarket and hotel service supplementary facilities; domestic trade and materials supply and sales; management and operation of its own properties, holding exhibition and spot sale of different products, carrying out technology exchange activities, holding technology and academic exchanges; assigning labor force abroad. The Company leases premises to the company and payment settlement is made by means of bank account transfer.

(8) CATIC Shenzhen Holdings Limited is the Company's controlling shareholder whose legal representative is Wu Guangquan and registered capital is CNY 673.3671 million. It is mainly engaged in the business of investing and setting up entities; domestic trade and materials supply and sales. It offers guarantee to the Company for bank loans and charges guarantee fee according to the regulation and makes payment settlement by means of credit transfer.

(9) CATIC Shenzhen Company Limited is the Company's actual controller, whose legal representative is You Lei, registered capital is CNY1000. Its principal business includes import and export of commodities and technology as importer/exporter or agent other than export of the products unifiedly specified for joint operation and import of the products unifiedly run by specifically authorized companies; compensation trade; Investment and initiation of entities; domestic commerce and supply and sale of goods and materials (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government); sales of home-made automobiles (with cars exclusive); development of real estate; import & export and domestic sales of lubricating oil, fuel oil, chemical products and chemical materials (excluding dangerous chemicals), purchase and sales of coke (excluding the commodities monopolized for operation, under control of and for exclusive sale by the central government). The Company leases premises to the company and its controlled subsidiaries according to the market price and payment settlement is made by means of credit transfer.

(10) CATIC International Holdings Limited is the parent company of CATIC Shenzhen Company Limited, the Company's actual, whose legal representative is Wu Guangquan and registered capital is CNY 8059 million. It is mainly engaged in the business of assigning labor force abroad for the engineering projects abroad; sales of sales of methylbenzene, acetone, methyl ethyl ketone, piperidine, ether, potassium permanganate, chloroform, sulfuric acid, hydrochloric acid, acetic anhydride, combustible liquid, combustible solid, articles inflammable naturally and with moisture, oxidizer and organic peroxide, toxic and corrosive goods; insurance for motor vehicles, assets of enterprises, household property and cargo freight; General businesses: import and export; warehousing; industry, hotel, property, real estate development investment and management; new energy equipment development, sales and repairing; exhibition; technology transfer and technical services in connection with the aforesaid business. The Company sells watches to the company and its controlled subsidiaries based on the market price and makes payment settlement by means of credit transfer.

(11) Aviation Industry Corporation of China is the actual controller of AVIC Shenzhen Company Limited, the Company's actual controller. Its legal representative is Lin Zuoming and the registered capital is CNY 64,000 million. Its principal business is aviation, non-aviation civil products and tertiary industry services, its legal representative is Lin Zuoming and its registered capital CNY 64000 million. Its principal business is aviation business, non-aviation products and tertiary industry. The Company sells watches to the company and its controlled subsidiaries based on the market price and makes payment settlement by means of credit transfer.

2. Regular Related Transactions in Connection with Entrusted Sales and Acceptance of Labor Services

(1) In the report period, the payment for property management and property lease costs to CATIC

Property was totally CNY 2.3895 million. CATIC Property offers property management services to the Company's FIYTA Building and FIYTA Technology Building. The transactions between the two parties were based on the market price which is determined according to the principles of fairness and the contracts, improving the professional service level and doing no harm to either party's interests.

(2) The Company sells watches through Rainbow Supermarket and pays sales costs for the franchised counters of the supermarket amounting to CNY 16.7224 million. Rainbow Supermarket has established several ten shopping malls in such big cities in Shenzhen, Beijing, Xiamen, Nanchang, etc. Thanks to its high grade market positioning, good operation and reputation and rapid expansion in the economically advanced regions, Rainbow Supermarket has become excellent channel in sales of the Company's watches; and at the same time, can offer conditions to the Company for establishing specialized sales counters, which is favorable for upgrading the Company's income from the watch business and does no harm to the Company's interests.

(3) In the report period, the Company collected property rental income amounting to CNY 7.2016 million from CATIC Shenzhen Company Limited and its controlled subsidiaries. Both Parties' transactions were based on the contract concluded according to the principle of market price, which did no harm to the Company's interests.

(4) In the report period, the Company received CNY 0.8656 million of property rental income from CATIC Securities. Both Parties' transactions were based on the contract concluded according to the principle of market price, which did no harm to the Company's interests.

(5) In the report period, the Company collected income for the entrusted processing from Shennan Circuit Co., Ltd. amounting to CNY 2.6536 million. Both Parties' transactions were based on the contract concluded according to the principle of market price, which did no harm to the Company's interests.

(6) In the report period, the Company received CNY 25.1428 million of income from odd purchase of FIYTA watches by Aviation Industry Corporation of China and its controlled subsidiaries. Both Parties' transactions were based on the contract concluded according to the principle of market price, which did no harm to the Company's interests.

(7) In the report period, the Company received rental income amounting to CNY 3.5 million from Grand Skylight Hotel Management Co. Ltd., Shenzhen. Both Parties' transactions were based on the contract concluded according to the principle of market price, which did no harm to the Company's interests.

3. Transaction Purpose and the Impact upon the Company

(1) CATIC Property offered management services for both of the Company's FIYTA Building and FIYTA Technology Building which is favorable for improving professional service, improving the management level, ensuring and increasing the Company's income from property lease. Meanwhile, the Company offered property lease services to CATIC Shenzhen Company Limited and its controlled subsidiaries and CATIC Securities based on the marketing principle. It is predicted that such related transactions shall still continue in 2012.

(2) The Company sells watches through the franchised counters in Rainbow Supermarket. Rainbow Supermarket has established several over several ten supermarkets in such big cities as Shenzhen, Beijing, Xiamen, Nanchang, etc. In 2012, it is predicted that more such supermarkets shall be set up throughout the country. The Company's franchised counters shall follow at the same time and the transaction amount is predicted to increase somewhat. As Rainbow Supermarket enjoys high market position and good reputation and 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) CATIC Real Estate Co., Ltd. and its controlled subsidiaries are expected to expand its business in the commercial real estate in 2012. Due to the positioning in the medium- and high-grade market of its commercial real estate part, the Company's sales outlets are expected to choose the synchronous follow-up. The cooperation between the Company and CATIC Property in respect of channel development helps to promote improvement of the Company's sales and shall not harm the Company's interests.

(4) CATIC Shenzhen Company Limited (Hutchison Whampoa CATIC Real Estate Limited) is expected to start business in 2012. Due to its medium- and high-grade market positioning and core business location, the Company's sales outlets are expected to choose the synchronous follow-up. The cooperation between the Company and CATIC Shenzhen in respect of channel development helps to promote improvement of the Company's sales and shall not harm the Company's interests.

(5) Since the acquisition of Xi'an Chengheng International Hotel Building, the Company has entrusted Grand Skylight Hotel Management Co. Ltd., Shenzhen to manage Xi'an Chengheng International Hotel. For the purpose of better focusing on the principal business and improving economic interest and at the same time enhancing the operator's initiative, the Company held the 3rd meeting of the Sixth Board of Directors on July 29, 2009 at which the Proposal on Change of the Way of Operation of Xi'an Chengheng International Hotel was approved. Through mutual consultation of the both parties, the operation of the hotel was changed from the existing entrusted operation into lease with the lease term of three years and the rental was CNY3.5 million per year. In 2012, this transaction shall continue.

(6) The above related transaction will be favorable for the Company's principal business and belongs to the Company's normal business scope. The related transaction is priced based on the market price of the similar service in a fair and reasonable way and will not cause any harm to the Company's interest.

(7) The above transactions do not affect the Company's independence and the Company's business will not be caused dependent on or be controlled by the related parties due to such transactions.

4. For the detail of other related transactions, refer to notes to the financial statements.

The related liabilities between the Company and Rainbow Supermarket, CATIC Property, CATIC Real Estate, CATIC Shenzhen Company Limited, etc., four of the Company's related parties, were all the liabilities resulted from normal sales of goods or expenses for property management, property lease, etc.

5. Practical Implementation of Related Transactions. (For the detail, refer to the Announcement of FIYTA Holdings Ltd. on Implementation of Regular Related Transactions in 2011 and the Predicted Regular Related Transactions in 2012.)

IV. Horizontal Competitions

Shenzhen CATIC Investment Management Co., Ltd. (CATIC Investment) is a solely invested subsidiary of CATIC Shenzhen Company Limited, the Company's actual controller. It was incorporated in 1993 with registered capital of CNY 150 million. CATIC Investment mainly relies on the brand and superiorities in the industry of Aviation Industry Corporation of China and CATIC Shenzhen, absorbs and utilizes the external resources by means of resource integration, merger and acquisition, etc., serves the companies under the group, looks for investment opportunities for CATIC Shenzhen and its subordinate enterprises, expands industrial size and effectively deploy the upstream and downstream resources. In 2010, CATIC Investment held 25% equity in Shanghai Watch Industry Co., Ltd. by means of shareholding, CATIC Shenzhen Company Limited and Shenzhen CATIC Investment Management Co., Ltd. have issued the Letter of Undertaking concerning assignment of the equity in Shanghai Watch Industry Co., Ltd. Shenzhen CATIC Investment Management Co., Ltd. committed that before 2011, it may assign all the equity in Shanghai Watch Industry to the Company or to a unrelated third party at appropriate time. On

December 14, 2011, the Company held the 29th meeting of the Sixth Board of Directors. The meeting reviewed and approved the Proposal for Authorizing the Company to Bid for 25% Equity in Shanghai Watch Industry Co., Ltd. and acquired the 25% equity with affirmation by Beijing Equity Exchange. On December 30, 2011, the Company concluded the Equity Exchange Contract with Shenzhen CATIC Investment Management Co., Ltd., the assigner, in which the relevant equity was confirmed. So far, the issue of horizontal competition between the Company and the Group has been settled.

V. 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. Outward Guarantees

(1) In the report period, Shenzhen Harmony World Watches Center Co., Ltd., one of the Company's subsidiaries, borrowed working capital amounting to CNY Sixty-eight Million (CNY68,000,000.00) from Bank of China Shenzhen Branch for the purpose of expanding retail network and supplementing working capital for circulation. On February 21, 2011, the Company held the 21st meeting of the Sixth Board of Directors. The meeting approved the Company to offer guarantee with joint responsibility to HARMONY for the loan. (For the detail, refer to the Announcement on Offering Guarantee to the Controlled Subsidiary 2011-003).

(2) In the report period, FIYTA (Hong Kong) Limited, one of the Company's subsidiaries, applied to China Construction Bank (Asia) Limited and Bank of China (Hong Kong) Limited for loans amounting to HKD Ten Million (HKD10,000,000.00) respectively with total amount of HKD Twenty Million (HKD20,000,000.00) for its working capital for the purpose of supplementing working capital for circulation to meet the requirement of its business development. On April 27, 2011, the Company held the 23rd meeting of the Sixth Board of Directors. The meeting approved the Company to offer guarantee with joint responsibility to FIYTA (Hong Kong) for the loans. (For the detail, refer to the Announcement on Offering Guarantee to the solely invested subsidiary 2011-021).

(3) In the report period, FIYTA (Hong Kong) Limited, one of the Company's subsidiaries, applied to China Construction Bank (Asia) Limited for loan amounting to HKD Sixty Million (HKD60,000,000.00) for its working capital for the purpose of supplementing working capital for circulation to meet the requirement of its business development. On June 13, 2011, the Company held the 25th meeting of the Sixth Board of Directors. The meeting approved the Company to offer guarantee with joint responsibility to FIYTA (Hong Kong) for the loan. (4) In the report period, FIYTA (Hong Kong) Limited, one of the Company's subsidiaries, applied to China Construction Bank (Asia) Limited for loan amounting to HKD Sixty Million (HKD60,000,000.00) for its working capital for the purpose of supplementing working capital for circulation to meet the requirement of its business development. On June 13, 2011, the Company held the 25th meeting of the Sixth Board of Directors. The meeting approved the Company to offer guarantee with joint responsibility to FIYTA (Hong Kong) for the loan. (For the detail, refer to the Announcement on Offering Guarantee to FIYTA (Hong Kong) Limited 2011-034).

(5) In the report period, Shenzhen FIYTA Technology Development Co., Ltd., one of the Company's subsidiaries, applied to China Development Bank Shenzhen Branch for loan amounting to HKD Thirty Million (HKD30,000,000.00) for its working capital for the purpose of supplementing working capital for circulation to meet the requirement of its business development. On August 15, 2011, the Company held the 27th meeting of the Sixth Board of Directors. The meeting approved the Company to offer guarantee with joint responsibility to the subsidiary for the loan. (For the detail, refer to the Announcement on Offering Guarantee to the subsidiary 2011-039).

(6) In the report period, Shenzhen Harmony World Watches Center Co., Ltd., one of the Company's subsidiaries, borrowed working capital amounting to CNY One Hundred Million (CNY100,000,000.00) from Industrial and Commercial Bank of China Shenzhen Branch for the

purpose of expanding retail network and supplementing working capital for circulation. On December 28, 2011, the Company held the 30th meeting of the Sixth Board of Directors. The meeting approved the Company to offer guarantee with joint responsibility to HARMONY for the loan. (For the detail, refer to the Announcement on Offering Guarantee to the Controlled Subsidiary 2011-045).

3. In the report period, the Company had no entrusted management of finances.

4. In the report period, the Company had no other significant events arising from contracts.

VI. Implementation of the Commitments by the Company or the Shareholders Holding over 5% of the Company's Shares

(1) The Company started to implement the equity separation reform plan on November 7, 2007. In the Company's equity separation reform plan, the commitments made by CATIC Shenzhen Holdings Limited (CATIC Shenzhen), the shareholder holding over 5% of the Company's shares, and the implementation are summarized as follows:

CATIC Shenzhen committed that upon completion of the equity separation reform of FIYTA, the non-negotiable shares held by CATIC Shenzhen would not be listed with Shenzhen Stock Exchange for trading within 36 months after the day when such shares got approved for listing. Within 24 months after the 3-year sales restriction term expires, in case CATIC Shenzhen would sell the non-negotiable FIYTA shares it was holding through listing with Shenzhen Stock Exchange, the sales price must not be lower than CNY 25.00 per share.

Implementation of the commitment: The commitment is in process of implementation. Commencing from the date when the equity separation reform was fulfilled to the end of the report period, CATIC Shenzhen has not reduced or assigned any restricted shares held by CATIC Shenzhen.

(2) In the report period, the Company started the plan of non-public offering of A shares. The plan was approved by China Securities Regulatory Commission with the Official Reply on Approval of Fiyta Holdings Ltd. for Non-public Offering (ZHENG JIAN XU KE [2010] No. 1703) on November 29, 2010. The Company completed the procedures of registration for custody and sales restriction of the newly issued A shares with China Securities Depository and Clearing Company Limited Shenzhen Branch on December 14, 2010. The commitments made by CATIC Shenzhen Holdings Limited, the shareholder holding over 5% of the Company's shares, as one of the target investors of the share-offering, and the implementation are as follows:

CATIC Shenzhen Holdings Limited shall not assign the new shares subscribed by it within 36 months commencing from the date of ending of the non-public offering by Fiyta Holdings Ltd. (from December 30, 2010 to December 29, 2013) according to the law, regulations and regulatory documents, including the Measures of Administrative Measures for the Issuance of Securities by Listed Companies, Rules for Implementation of the Non-public Issuing of Shares by Listed Companies, Rules of Shenzhen Stock Exchange for the Listing of Stocks as well as the Contract for Subscription of the Shares Non-publically Issued by Fiyta Holdings Ltd.

Status of implementation of the commitment: The commitment is in process of implementation.

(3) Shenzhen CATIC Investment Management Co., Ltd. accepted 25% equity in Shanghai Watch Industry Co., Ltd. (Shanghai Watch Industry) held by Shanghai Aijian Trust & Investment Co., Ltd. through assignment in April 2010, becoming the second biggest shareholder of Shanghai Watch Industry. As Shenzhen CATIC Investment Management Co., Ltd. is the controlled subsidiary of CATIC Shenzhen Company Limited while CATIC Shenzhen Company Limited is the actual controller of FIYTA, horizontal competition is composed. The background and purpose of CATIC Shenzhen Company Limited in holding the shares of Shanghai Watch Industry is to support development of the Company's business, improve the Company's competitiveness in stead of planning to do and participate in the same business as the Company by itself; while CATIC Shenzhen Company Limited has already made

commitment of avoiding horizontal competition. Shenzhen CATIC Investment Management Co., Ltd. has also committed that within or before 2011, it may assign all the equity in Shanghai Watch Industry held by the Company or to an independent third party on proper occasion.

Implementation of the commitment: On December 14, 2011, the Company held the 29th meeting of the Sixth Board of Directors. The meeting reviewed and approved the Proposal for Authorizing the Company to Bid for 25% Equity in Shanghai Watch Industry Co., Ltd. and acquired the 25% equity with affirmation by Beijing Equity Exchange. On December 30, 2011, the Company concluded the Equity Exchange Contract with Shenzhen CATIC Investment Management Co., Ltd., the assigner, in which the relevant equity was confirmed. So far, the issue of horizontal competition between the Company and the Group has been settled.

VII. CPAs Engagement and Remuneration Payment

In the report period, the Company engaged RSM China CPAs as both the domestic and international auditor.

Types	Name	Remuneration in 2011 (CNY 10,000)	Successive service years
Stock A and Stock B	RSM China CPAs	65	4

VIII. Equity in other listed companies held by the Company

In the report period, there was no equity in any other listed company held by the Company.

IX. Reception of Investigation Visitors and Interviews

In the report period, the Company implemented the Guidelines of Listed Companies for Fair Information Disclosure and positively enhanced the construction of the relationship with investors. In the reception of the investigation visitors and interviews, the Company and its officers 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 in the report period is summarized as follows:

Reception Time	Reception place	Way of reception	Visitors received	Discussion topics and provision of materials
January 11, 2011	Company	On-Site Survey	Fortis Haitong Investment Management Co., Ltd., CITIC-Prudential Fund Management Company Ltd., China Nature Asset Management Co., Ltd., Minsheng Royal Fund Management Co., Ltd., Dongxing Securities Co., Ltd., Da Cheng Fund Management Co., Ltd., Rongtong Fund Management Co., Ltd.	Development trend of the domestic luxury goods sector, some measures concerning the Company's strategic development, brand construction, terminal management in the past three years. Provision of the Company's public brochures in 2011.
January 14, 2011	Company	On-Site Survey	Zheshang Securities Co., Ltd.	
January 18, 2011	Company	On-Site Survey	China Merchants Securities Co., Ltd. Shenzhen Haiheng Investment Co., Ltd.	
March 14, 2011	Company	On-Site Survey	Shanghai Shenyin & Wanguo Securities Research Institute Co., Ltd.	
April 1, 2011	Company	On-Site Survey	China Securities Co., Ltd.	
April 20, 2011	Company	On-Site Survey	Shanghai Zexi Investment Management Co., Ltd., Guosen Securities Co., Ltd., Sealand Securities Co., Ltd., Huaxia Fund Management Co., Ltd.	
April 28, 2011	Company	On-Site Survey	Xiangcai Securities Co., Ltd.	
May 12, 2011	Company	On-Site Survey	China Galaxy Securities Co., Ltd.	
May 17, 2011	Company	On-Site Survey	Liuhe Investment Co., Ltd.	
May 18, 2011	Company	On-Site Survey	Lion Fund Management Co., Ltd.	

June 9, 2011	Company	On-Site Survey	Shenzhen Team-Top Investment Management Co., Ltd., Pingan Dawa Funds Management Co., Ltd., Yinhua Fund Management Co., Ltd., Jiangsu Winlast Investment & Development Co., Ltd., Beijing Xinyuan Lanzhong Investment Management Co., Ltd., Guotai Asset Management Co., Ltd., Orient Securities Asset Management Co., Ltd., Invesco Great Wall Fund Management Co., Ltd., CITIC Securities Co., Ltd.
July 14, 2011	Company	On-Site Survey	Guosen Securities Co., Ltd., Rongtong Fund Management Co., Ltd., Shanghai Zexi Investment Management Co., Ltd., Huaxia Fund Management Co., Ltd., Fullgoal Fund Management Co., Ltd., China Universal Asset Management Co., Ltd.
August 16, 2011	Company	On-Site Survey	China International Capital Corporation Limited,, Shanghai Yuankai Group Co., Ltd.
September 7, 2011	Company	On-Site Survey	HSBC Jintrust Fund Management Limited and New Thinking Investment Management Co., Ltd.
September 16, 2011	Company	On-Site Survey	Orient Securities Company Limited, RCM Asia Pacific Limited,, China Investment Securities Co., Ltd., Everbright Securities Co., Ltd. and Pacific Insurance (Assets Management Co., Ltd.)
September 30, 2011	Company	On-Site Survey	Penghua Fund Management Co., Ltd.
October 25, 2011	Company	On-Site Survey	Shenzhen Taihe Investment Management Co., Ltd., and Tianfeng Securities Co., Ltd.
November 4, 2011	Company	On-Site Survey	Shanghai Shenyin & Wanguo Securities Research Institute Co., Ltd., and Invesco Great Wall Fund Management Co., Ltd.
November 10, 2011	Company	On-Site Survey	Huatai United Securities Co., Ltd.
November 17, 2011	Company	On-Site Survey	Changan Fund Management Co., Ltd., CITIC Securities Co., Ltd., Zheshang Securities Co., Ltd., Guotai Junan Securities Co., Ltd., China Southern Fund Management Co., Ltd., CCB Principal Asset Management Co., Ltd., First-Trust Fund Management Co., Ltd., Yingda Securities Co., Ltd., Huatai Securities Co., Ltd., BNY MELLON WESTERN FMC., Wanjia Asset Management Co., Ltd. Fortis Haitong Investment Management Co., Ltd. and Lord Abbett China
December 13, 2011	Company	On-Site Survey	Dongguan Securities Co., Ltd., China Capital Investment Group,, Guangdong New Value Investment Co., Ltd., HuaChuang Securities Co., Ltd., Minsheng Life Insurance Co., Ltd., and Sunshine Insurance Group Corporation Limited, Zhongshan Securities Co., Ltd., Newtop-Founder Investment Management Co., Ltd., Xinhua Fund Management Co., Ltd., GF Securities Co., Ltd., Yunnan International Trust Co., Ltd., Shanghai Simple Asset Management Co., Ltd. (LLP), Rongtong Fund Management Co., Ltd., Western Securities Co., Ltd., and Guangzhou Securities Co., Ltd.

X. 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 or independent directors.

XI. Implementation of the Social Responsibilities of the Company in the Report Period

The Company paid close attention to the demands. Rights and interests of the employees, customers, cooperation partners, shareholders, environment, society, other parties, scrupulously abided by credibility and commitments, insisted on harmony and coexistence of all the stakeholders, implemented the law and principles, enhanced the communication and coordination with relevant interested parties, positively assumed the social responsibility of enterprise, and devoted efforts for sustainable development of the society and environment. (For the detail, refer to the Report on Social Responsibility of the Company issued by the Company.)

XII. Provisional Announcement Information Disclosed in the Report Period

Announcement No.	Date	Description	Presses where the information is disclosed	Websites for information disclosure
2011-001	January 14, 2011	Announcement of FIYTA on Resolutions of the 20 th Meeting of the Sixth Board of Directors	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-002	January 18, 2011	Announcement on Resolutions of 2010 2 nd Extraordinary Shareholders' Meeting	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-003	February 22, 2011	Announcement on Offering Guarantee to HARMONY	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-004	February 22, 2011	Announcement of FIYTA on Resolutions of the 21 st Meeting of the Sixth Board of Directors	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-005	March 1, 2011	Announcement of FIYTA on Resolutions of the 22 nd Meeting of the Sixth Board of Directors	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-006	March 1, 2011	Announcement on Resolutions of the 21 st Meeting of the Sixth Supervisory Committee	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-007	March 1, 2011	2010 Annual Report Summary	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-008	March 1, 2011	Announcement on Implementation of the Regular Related Transacts in 2010 and Prediction of Regular Related Transactions in 2011	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-009	March 1, 2011	Announcement on Establishment of FIYTA Sales Co., Ltd.	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-010	March 1, 2011	Subjective Report on Deposit and Application of the Proceeds Raised through Share Offering in 2010	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn

2011-011	March 5, 2011	Announcement on Modification of Corporate Business Licence	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-012	March 9, 2011	Suggestive Announcement	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-013	March 17, 2011	Notice on 2010 Annual General Meeting	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-014	March 17, 2011	Resolution of the Extraordinary Meeting of the Sixth Board of Directors of FIYTA	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-015	April 6, 2011	Announcement of Performance Growth Forecast	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-016	April 8, 2011	Announcement on Resolutions of 2010 Annual General Meeting	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-017	April 20, 2011	Announcement on Distribution of Dividends and Bonus Shares	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-018	April 28, 2011	2011 1 st Quarterly Report, the Text	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-019	April 28, 2011	Announcement on Resolutions of the 23 rd Meeting of the Sixth Board of Directors	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-020	April 28, 2011	Announcement on Resolutions of the 12 th Meeting of the Sixth Supervisory Committee	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-021	April 28, 2011	Announcement on Offering Guarantee to Fiyta (Hong Kong) Limited	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-022	April 29, 2011	Announcement on the Related Transactions	Securities Times and	http://www.cninfo.com.cn

		of FIYTA	Hong Kong Commercial Daily	
2011-023	April 29, 2011	Announcement on the Resolutions of the 24 th Meeting of the Sixth Board of Directors, FIYTA	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-024	June 14, 2011	Announcement on Resolutions of the 25 th Meeting of the Sixth Board of Directors	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-025	June 14, 2011	Announcement on Offering Guarantee to Fiyta (Hong Kong) Limited	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-026	June 14, 2011	Announcement on Montres Chouriet SA to Purchase the Factory Buiding and Construct the Assembling Line.	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-027	July 5, 2011	Announcement on the Semi-Annual Business Growth Forecast of 2011	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-028	July 7, 2011	Announcement on Resolutions of the 26 th Meeting of the Sixth Board of Directors	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-029	July 14, 2011	Announcement on the Company's Success in Bidding for the Land Use Right	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-030	August 5, 2011	Announcement on Resignation of One of the Company's Independent Directors	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-031	August 17, 2011	2011 Semi-Annual Report Summary	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-032	August 17, 2011	Announcement on Resolutions of the 27 th Meeting of the Sixth Board of Directors	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-033	August 17, 2011	Announcement on Resolutions of the 13 th	Securities Times and	http://www.cninfo.com.cn

		Meeting of the Sixth Supervisory Committee	Hong Kong Commercial Daily	
2011-034	August 17, 2011	Announcement on Offering Guarantee to Fiyta (Hong Kong) Limited	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-035	October 11, 2011	Announcement on the Performance Growth Forecast of January to September 2011	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-036	October 21, 2011	2011 3rd Quarterly Report, the Text	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-037	December 15, 2011	Announcement on Resolutions of the 29 th Meeting of the Sixth Board of Directors	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-038	December 15, 2011	Announcement on Equity Acquisition and Related Transactions	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-039	December 15, 2011	Announcement on Offering Gurantee to the Subsidiaries for their Loan	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-40	December 15, 2011	Notice on Holding 2011 1 st Extraordinary Shareholders' Meeting	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-041	December 22, 2011	Announcement on Resolutions of the Extraordinary Meeting of the Sixth Board of Directors	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-042	December 22, 2011	Notice on Postponing 2011 1 st Extraordinary Shareholders' Meeting	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-043	December 27, 2011	Suggestive Announcement on Holding 2011 1 st Extraordinary Shareholders' Meeting	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-044	December 29, 2011	Announcement on Resolutions of the 30 th Meeting of the Sixth	Securities Times and Hong Kong	http://www.cninfo.com.cn

		Board of Directors	Commercial Daily	
2011-045	December 2011	29, Announcement on Offering Guarantee to the Controlled Subsidiaries	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn
2011-046	December 2011	29, Announcement on Conclusion of the Framework Contract for 2012-2014 Regular Related Transaction Prediction.	Securities Times and Hong Kong Commercial Daily	http://www.cninfo.com.cn

Chapter 10 Financial Report
(Attached hereinafter)

Chapter 11 Documents Available for Inspection

- I. Accounting Statements signed by and under the seal of the legal representative, chief accountant and accounting supervisor**
- II. Original of the Auditors' Report under the seal of the accounting firm and signed by and under the seals of certified public accountants.**
- III. Originals of all documents and manuscripts of announcements of the Company disclosed in Securities Times and Hong Kong Commercial Daily as designated by China Securities Regulatory Commission.**

**Board of Directors
FIYTA Holdings Ltd.**

February 28, 2012

FIYTA Holdings Ltd.

Auditors' Report

Zhong Rui Yue Hua Shen Zi (2012) No.0558



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AUDITORS' REPORT

Zhong Rui Yue Hua Shen Zi (2012) No. 0558

To the shareholders of FIYTA Holdings Ltd.:

We have audited the accompanying financial statements of FIYTA Holdings Ltd. (the "Company") and its subsidiaries, which comprise the consolidated and the Company's balance sheet as at 31 December 2011, the consolidated and the Company's income statement, the consolidated and the Company's cash flow statement for the year then ended and consolidated and the Company's statement of change in shareholders' equity, and notes to the financial statements.

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing and fairly presenting financial statements in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining necessary internal control in order that financial statements are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with Chinese Certified Public Accountants' ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements give a true and fair view of the consolidated financial position of FIYTA Holdings Ltd. and its subsidiaries as at 31 December 2011, and of their consolidated financial performance and their consolidated cash flows for the year then ended and, of the financial position of FIYTA Holdings Ltd. as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in all material aspects in accordance with Accounting Standards for Business Enterprises.

RSM China Certified Public Accountants Chinese Certified Public Accountant: 刘贵彬

Beijing, China

Chinese Certified Public Accountant: 邢向宗

23 February 2012

Consolidated Balance Sheet

as at 31 December 2011

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

	Note	Closing Balance	Opening Balance
Current assets			
Cash and bank balances	VII. 1	169,627,301.98	613,455,817.52
Accounts receivable	VII. 2	268,900,768.37	175,896,199.78
Prepayments	VII. 3	55,639,710.01	36,644,253.43
Other receivables	VII. 4	32,918,996.43	27,390,628.12
Inventory	VII. 5	1,640,904,483.64	1,048,392,625.70
Other current assets	VII. 6	44,245,896.17	3,946,533.14
Total current assets		2,212,237,156.60	1,905,726,057.69
Non-current asset			
Long-term equity investments	VII. 7	1,948,572.76	1,981,913.65
Investment properties	VII. 8	272,490,648.63	165,381,973.79
Fixed assets	VII. 9	162,646,929.11	251,742,068.63
Construction in progress	VII. 10	249,000.00	-
Intangible assets	VII. 11	37,065,827.49	19,237,532.22
Goodwill	VII. 12	-	-
Long-term deferred expenses	VII. 13	122,586,473.17	72,152,718.07
Deferred income tax assets	VII. 14	46,250,916.43	20,316,790.34
Other non-current assets	VII. 16	40,300,250.00	-
Total non-current assets		683,538,617.59	530,812,996.70
Total assets		2,895,775,774.19	2,436,539,054.39

Consolidated Balance Sheet (continued)

as at 31 December 2011

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

	Note	Closing Balance	Opening Balance
Current liabilities			
Short-term loans	VII. 18	980,107,000.00	728,253,730.00
Accounts payable	VII. 19	191,460,941.62	156,353,328.00
Advances from customers	VII. 20	3,740,327.89	8,464,969.63
Employee remuneration payable	VII. 21	27,414,469.57	19,980,930.64
Taxes payable	VII. 22	50,237,284.28	18,492,700.45
Interest payable	VII. 23	2,138,573.07	1,202,198.61
Dividend payable	VII. 24	-	190,263.50
Other payables	VII. 25	32,998,587.03	29,418,337.74
Non-current liabilities due within one year	VII. 26	149,600,000.00	-
Other current liabilities	VII. 27	4,814,572.85	2,645,322.20
Total current liabilities		1,442,511,756.31	965,001,780.77
Non-current liabilities			
Long-term loan	VII. 28	57,030,567.09	181,440,065.11
Deferred income tax liabilities		128,393.19	131,259.28
Other non-current liabilities	VII. 29	2,350,000.00	2,400,000.00
Total Non-current liabilities		59,508,960.28	183,971,324.39
Total liabilities		1,502,020,716.59	1,148,973,105.16
Shareholders' equity			
Share capital	VII. 30	392,767,870.00	280,548,479.00
Capital reserves	VII. 31	530,606,952.78	643,381,884.88
Surplus reserves	VII. 32	131,323,437.78	121,066,992.16
Undistributed profit	VII. 33	343,661,076.07	222,514,569.59
Foreign currency translation difference		(7,355,528.69)	(1,515,341.96)
Total shareholders' equity attributable to shareholders of the parent company		1,391,003,807.94	1,265,996,583.67
Minority shareholders' interests		2,751,249.66	21,569,365.56
Total shareholders' equity		1,393,755,057.60	1,287,565,949.23
Total liabilities and shareholders' equity		2,895,775,774.19	2,436,539,054.39

Legal Representative: 吴光权 Chief Financial Officer: 李德华 Financial Manager: 胡性龙

Consolidated Income Statement

for the Year Ended 31 December 2011

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	2011	2010
1. Revenue		2,561,054,602.40	1,780,754,430.95
incl: Revenue of sales	VII. 34	2,561,054,602.40	1,780,754,430.95
2. Cost of sales		2,374,335,452.90	1,680,696,358.86
incl: Operating cost	VII. 34	1,658,959,419.29	1,208,774,705.22
Business taxes and surcharges	VII. 35	14,365,769.96	6,727,249.54
Distribution expenses	VII. 36	433,763,804.40	263,683,507.47
Administrative expenses	VII. 37	196,332,602.06	145,677,445.67
Financial expenses	VII. 38	65,207,111.38	47,810,082.48
Impairment loss	VII. 39	5,706,745.81	8,023,368.48
Add: Investment gain/ losses	VII. 40	(33,340.89)	60,595.73
Incl: gain from investment in associates and jointly controlled enterprises		(33,340.89)	60,595.73
3. Operating profit		186,685,808.61	100,118,667.82
Add: Non-operating income	VII. 41	5,550,160.44	14,066,794.00
Less: Non-operating expenses	VII. 42	656,990.26	692,302.89
incl: losses arising from disposal of non-current assets		487,159.95	55,831.26
4. Profit before income tax		191,578,978.79	113,493,158.93
Less: Income tax	VII. 43	32,319,678.81	19,474,613.42
5. Net profit		159,259,299.98	94,018,545.51
Net profit attributable to shareholders of the parent company		159,457,800.00	93,990,182.93
Profit attributable to minority shareholders		(198,500.02)	28,362.58
6. Earnings per share			
Basic earnings per share	VII. 44	0.406	0.269
Diluted earnings per share	VII. 44	0.406	0.269
7. Other comprehensive income	VII. 45	(5,908,143.71)	(714,230.18)
8. Total comprehensive income		153,351,156.27	93,304,315.33
Total comprehensive income attributable to shareholders of the parent company		153,617,613.27	93,354,784.57
Total comprehensive income attributable to minority shareholders		(266,457.00)	(50,469.24)

Legal Representative: 吴光权 Chief Financial Officer: 李德华 Financial Manager: 胡性龙

Consolidated Cash Flow Statement

for the Year Ended 31 December 2011

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	2011	2010
Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		2,803,628,886.51	1,986,622,172.84
Refund of taxes		-	-
Other cash received relating to operating activities	VII. 46	24,855,798.29	20,656,065.81
Subtotal of cash inflows from operating activities		2,828,484,684.80	2,007,278,238.65
Cash paid for purchasing goods and services		2,505,221,941.44	1,615,936,277.23
Cash paid to and for employees		291,984,458.41	199,854,522.75
Cash paid for all types of taxes		152,691,524.44	90,349,938.72
Other cash paid relating to operating activities	VII. 46	288,077,555.12	199,623,151.83
Subtotal of cash outflows in operating activities		3,237,975,479.41	2,105,763,890.53
Net cash flows from operating activities	VII. 47	(409,490,794.61)	(98,485,651.88)
Cash flows from investing activities			
Cash received from return of investments		1,350,000.00	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		163,391.40	15,106,520.00
Subtotal of cash inflows from investing activity		1,513,391.40	15,106,520.00
Cash paid to acquire fixed assets, intangible assets and other long-term assets		150,635,953.92	62,405,516.04
Cash paid for investments		82,567,450.00	-
Cash paid for acquisition of subsidiaries		-	7,871,391.55
Other cash paid relating to investing activities	VII. 46	-	4,890,000.00
Subtotal of cash outflows in investing activity		233,203,403.92	75,166,907.59
Net cash flows in investing activities		(231,690,012.52)	(60,060,387.59)
Cash flows from financing activities:			
Cash received from investors		-	483,640,993.32
include: cash received from minority shareholders of subsidiaries		-	361,008.52
Cash received from borrowings		1,315,525,196.00	858,253,730.00
Other cash received relating to financing activities		-	-
Subtotal of cash inflows from financing activities		1,315,525,196.00	1,341,894,723.32
Cash repayments of borrowings		1,036,637,455.74	602,014,973.89
Cash paid for dividends, profits distribution and interest		79,337,918.13	62,396,795.08
Other cash payments relating to financing activities	VII. 46	2,071,600.00	1,147,483.50
Subtotal of cash outflows in financing activities		1,118,046,973.87	665,559,252.47
Net cash flows from financing activities		197,478,222.13	676,335,470.85
Effect of foreign exchange rate changes on cash and cash equivalents		(125,930.54)	(35,194.05)
Net increase in cash and cash equivalents	VII. 47	(443,828,515.54)	517,754,237.33
Add: cash and cash equivalents at the beginning of the year	VII. 47	613,455,817.52	95,701,580.19
Cash and cash equivalents at the end of the year	VII. 47	169,627,301.98	613,455,817.52

Legal Representative: 吴光权 Chief Financial Officer: 李德华 Financial Manager: 胡性龙

Consolidated Statement of Changes in Shareholders' Equity

for the Year Ended 31 December 2011

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	2011							2010						
	Total shareholders' equity attributable to shareholders of parent company					Minority interest	Total shareholders' equity	Total shareholders' equity attributable to shareholders of parent company					Minority interest	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Others			Share capital	Capital reserve	Surplus reserve	Undistributed profits	Others		
I. Balance as at 31 December 2010	280,548,479.00	643,381,884.88	121,066,992.16	222,514,569.59	(1,515,341.96)	21,569,365.56	1,287,565,949.23	249,317,999.00	191,847,232.65	115,946,088.88	158,577,089.84	(879,943.60)	20,411,058.30	735,219,525.07
Add: Amounts affected by changes of accounting policies	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Correction of prior periods errors	-	-	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance as at 1 January 2011	280,548,479.00	643,381,884.88	121,066,992.16	222,514,569.59	(1,515,341.96)	21,569,365.56	1,287,565,949.23	249,317,999.00	191,847,232.65	115,946,088.88	158,577,089.84	(879,943.60)	20,411,058.30	735,219,525.07
III. Changes in current year	112,219,391.00	(112,774,932.10)	10,256,445.62	121,146,506.48	(5,840,186.73)	(18,818,115.90)	106,189,108.37	31,230,480.00	451,534,652.23	5,120,903.28	63,937,479.75	(635,398.36)	1,158,307.26	552,346,424.16
1. Net profit	-	-	-	159,457,800.00	-	(198,500.02)	159,259,299.98	-	-	-	93,990,182.93	-	28,362.58	94,018,545.51
2. Other comprehensive income	-	-	-	-	(5,840,186.73)	(67,956.98)	(5,908,143.71)	-	-	-	-	(635,398.36)	(78,831.82)	(714,230.18)
Subtotal of item 1 and 2	-	-	-	159,457,800.00	(5,840,186.73)	(266,457.00)	153,351,156.27	-	-	-	93,990,182.93	(635,398.36)	(50,469.24)	93,304,315.33
3. changes in equity contribution	-	(555,541.10)	-	-	-	(18,551,658.90)	(19,107,200.00)	31,230,480.00	451,534,652.23	-	-	-	1,399,040.00	484,164,172.23
(1) Increase in contribution by shareholders	-	-	-	-	-	-	-	31,230,480.00	451,534,652.23	-	-	-	1,399,040.00	484,164,172.23
(2) Others	-	(555,541.10)	-	-	-	(18,551,658.90)	(19,107,200.00)	-	-	-	-	-	-	-
4. profit distribution	-	-	10,256,445.62	(38,311,293.52)	-	-	(28,054,847.90)	-	-	5,120,903.28	(30,052,703.18)	-	(190,263.50)	(25,122,063.40)
(1) Surplus reserve	-	-	10,256,445.62	(10,256,445.62)	-	-	-	-	-	5,120,903.28	(5,120,903.28)	-	-	-
(2) distribution to shareholders	-	-	-	(28,054,847.90)	-	-	(28,054,847.90)	-	-	-	(24,931,799.90)	-	(190,263.50)	(25,122,063.40)
(3) others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Internal transfer of shareholders' equity	112,219,391.00	(112,219,391.00)	-	-	-	-	-	-	-	-	-	-	-	-
(1) Capitalization of capital reserve	112,219,391.00	(112,219,391.00)	-	-	-	-	-	-	-	-	-	-	-	-
(2) Others	-	-	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance as at 31 December 2011	392,767,870.00	530,606,952.78	131,323,437.78	343,661,076.07	(7,355,528.69)	2,751,249.66	1,393,755,057.60	280,548,479.00	643,381,884.88	121,066,992.16	222,514,569.59	(1,515,341.96)	21,569,365.56	1,287,565,949.23

Legal Representative: 吴光权

Chief Financial Officer: 李德华

Financial Manager: 胡性龙

Balance Sheet

as at 31 December 2011

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	Closing Balance	Opening Balance
Current assets			
Cash and bank balances		49,327,161.12	529,568,738.47
Accounts receivable	XIII.1	157,324,732.29	41,753,368.93
Dividends receivable		34,607,884.20	50,196,167.69
Other receivables	XIII.2	879,552,488.89	545,533,120.97
Inventory		60,263,407.14	103,224,490.80
Total current assets		1,181,075,673.64	1,270,275,886.86
Non-current assets			
Long-term equity investments	XIII.3	734,148,292.76	354,489,913.65
Investment property		272,490,648.63	165,381,973.79
Fixed assets		103,792,286.84	228,700,096.61
Construction-in-progress		249,000.00	-
Intangible assets		30,695,325.97	12,241,014.82
Long-term deferred expenses		22,046,301.93	21,221,733.80
Deferred income tax assets		3,642,026.85	3,926,911.99
Other non-current assets		40,300,250.00	-
Total non-current assets		1,207,364,132.98	785,961,644.66
Total assets		2,388,439,806.62	2,056,237,531.52

Balance Sheet (continued)

as at 31 December 2011

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	Closing Balance	Opening Balance
Current liabilities			
Short-term loan		912,000,000.00	600,000,000.00
Accounts payable		9,109,177.41	57,467,235.33
Advances from customers		1,466,500.43	1,589,073.41
Employee remuneration payable		4,839,475.00	8,500,000.00
Taxes payable		17,593,036.57	11,056,809.52
Interest payable		1,907,509.99	1,160,498.61
Other payables		43,019,929.22	22,516,478.86
Non-current liabilities due within one year		149,600,000.00	-
Total current liabilities		1,139,535,628.62	702,290,095.73
Non-current liability			
Long-term loans		-	180,000,000.00
Deferred income tax liabilities		128,393.19	131,259.28
Other non-current liabilities		2,350,000.00	1,900,000.00
Total non-current liabilities		2,478,393.19	182,031,259.28
Total liabilities		1,142,014,021.81	884,321,355.01
Shareholders' equity			
Share capital		392,767,870.00	280,548,479.00
Capital reserve		531,162,493.88	643,381,884.88
Surplus reserve		131,323,437.78	121,066,992.16
Undistributed profits		191,171,983.15	126,918,820.47
Total shareholders' equity		1,246,425,784.81	1,171,916,176.51
Total liabilities and shareholders' equity		2,388,439,806.62	2,056,237,531.52

Legal Representative: 吴光权 Chief Financial Officer: 李德华 Financial Manager: 胡性龙

Income Statement

for the Year Ended 31 December 2011

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	2011	2010
1. Revenue	XIII. 4	450,025,211.43	330,880,810.75
Less: operating cost	XIII. 4	246,942,171.62	150,711,154.62
Business taxes and surcharges		7,003,580.52	4,459,171.28
Distribution expenses		97,504,985.35	109,121,068.30
Administrative expenses		62,022,822.86	60,794,246.95
Financial expenses		25,036,759.60	15,130,798.69
Impairment loss		(728,771.37)	3,665,602.38
Add: Investment gain	XIII. 5	88,355,368.83	51,681,986.06
Incl: gain from investment in associates and jointly controlled enterprises		(33,340.89)	60,595.73
2. Operating profit/loss		100,599,031.68	38,680,754.59
Add: Non-operating income		3,223,122.12	12,739,572.07
Less: Non-operating expenses		450,038.03	554,462.42
incl: losses arising from disposal of non-current assets		443,638.03	23,091.35
3. Profit before income tax		103,372,115.77	50,865,864.24
Less: Income tax		807,659.57	(343,168.54)
4. Net profit		102,564,456.20	51,209,032.78
5. Other comprehensive income		-	-
6. Total comprehensive income		102,564,456.20	51,209,032.78

Legal Representative: 吴光权 Chief Financial Officer: 李德华 Financial Manager: 胡性龙

Cash Flow Statement

for the Year Ended 31 December 2011

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	2011	2010
Cash flows from operating activities:			
Cash received from the sale of goods or rendering of services		394,194,014.14	361,114,887.74
Other cash received relating to operating activities		85,831,523.17	7,323,692.45
Subtotal of cash inflows from operating activities		480,025,537.31	368,438,580.19
Cash paid for purchasing goods and services		205,898,394.02	157,089,665.81
Cash paid to and for employees		75,095,175.85	72,087,446.49
Cash paid for all types of taxes		37,433,413.40	24,073,203.49
Other cash paid relating to operating activities		446,755,575.81	313,074,137.65
Subtotal of cash outflows in operating activities		765,182,559.08	566,324,453.44
Net cash flows from operating activities	XIII. 6	(285,157,021.77)	(197,885,873.25)
Cash flows from investing activities			
Cash received from return of investments		1,350,000.00	-
Cash received from investment income		61,263,246.36	54,307,096.85
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		150,326.60	15,102,420.00
Subtotal of cash inflows from investing activity		62,763,572.96	69,409,516.85
Cash paid to acquire fixed assets, intangible assets and other long-term assets		33,522,764.33	8,876,614.40
Cash paid for investments		429,991,970.00	-
Subtotal of cash outflows in investing activity		463,514,734.33	8,876,614.40
Net cash flows in investing activities		(400,751,161.37)	60,532,902.45
Cash flows from financing activities:			
Cash received from investors		-	483,279,984.80
Cash received from borrowings		1,110,000,000.00	720,000,000.00
Subtotal of cash inflows from financing activities		1,110,000,000.00	1,203,279,984.80
Cash repayments of borrowings		828,400,000.00	525,000,000.00
Cash paid for dividends, profits distribution and interest		73,861,794.21	56,799,166.08
Other cash payments relating to financing activities		2,071,600.00	1,120,000.00
Subtotal of cash outflows in financing activities		904,333,394.21	582,919,166.08
Net cash flows from financing activities		205,666,605.79	620,360,818.72
Effect of foreign exchange rate changes on cash and cash equivalents		-	-
Net increase in cash and cash equivalents	XIII. 6	(480,241,577.35)	483,007,847.92
Add: cash and cash equivalents at the beginning of the year	XIII. 6	529,568,738.47	46,560,890.55
Cash and cash equivalents at the end of the year	XIII. 6	49,327,161.12	529,568,738.47

Legal Representative: 吴光权 Chief Financial Officer: 李德华 Financial Manager: 胡性龙

Statement of Changes in Shareholders' Equity

for the Year Ended 31 December 2011

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	2011					2010				
	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total shareholders' equity	Share capital	Capital reserve	Surplus reserve	Undistributed profits	Total shareholders' equity
I. Balance as at 31 December 2010	280,548,479.00	643,381,884.88	121,066,992.16	126,918,820.47	1,171,916,176.51	249,317,999.00	191,847,232.65	115,946,088.88	105,762,490.87	662,873,811.40
Add: Amounts affected by changes of accounting policies	-	-	-	-	-	-	-	-	-	-
Correction of prior periods errors	-	-	-	-	-	-	-	-	-	-
II. Balance as at 1 January 2011	280,548,479.00	643,381,884.88	121,066,992.16	126,918,820.47	1,171,916,176.51	249,317,999.00	191,847,232.65	115,946,088.88	105,762,490.87	662,873,811.40
III. Changes in current year	112,219,391.00	(112,219,391.00)	10,256,445.62	64,253,162.68	74,509,608.30	31,230,480.00	451,534,652.23	5,120,903.28	21,156,329.60	509,042,365.11
1. Net profit	-	-	-	102,564,456.20	102,564,456.20	-	-	-	51,209,032.78	51,209,032.78
2. Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Subtotal of item 1 and 2	-	-	-	102,564,456.20	102,564,456.20	-	-	-	51,209,032.78	51,209,032.78
3. changes in equity contribution	-	-	-	-	-	31,230,480.00	451,534,652.23	-	-	482,765,132.23
(1) Increase in contribution by shareholders	-	-	-	-	-	31,230,480.00	451,534,652.23	-	-	482,765,132.23
(2) Others	-	-	-	-	-	-	-	-	-	-
4. profit distribution	-	-	10,256,445.62	(38,311,293.52)	(28,054,847.90)	-	-	5,120,903.28	(30,052,703.18)	(24,931,799.90)
(1) Surplus reserve	-	-	10,256,445.62	(10,256,445.62)	-	-	-	5,120,903.28	(5,120,903.28)	-
(2) distribution to shareholders	-	-	-	(28,054,847.90)	(28,054,847.90)	-	-	-	(24,931,799.90)	(24,931,799.90)
5. Internal transfer of shareholders' equity	112,219,391.00	(112,219,391.00)	-	-	-	-	-	-	-	-
(1) Capitalization of capital reserve	112,219,391.00	(112,219,391.00)	-	-	-	-	-	-	-	-
(2) Others	-	-	-	-	-	-	-	-	-	-
IV. Balance as at 31 December 2011	392,767,870.00	531,162,493.88	131,323,437.78	191,171,983.15	1,246,425,784.81	280,548,479.00	643,381,884.88	121,066,992.16	126,918,820.47	1,171,916,176.51

Legal Representative: 吴光权

Chief Financial Officer: 李德华

Financial Manager: 胡性龙

FIYTA Holdings Ltd.
Notes to the Financial Statements
for the Year Ended 31 December 2011
(Expressed in RMB Yuan unless otherwise indicated)

I. COMPANY STATUS

Fiyta Holdings Ltd. (the "Company") was founded, under the approval of Shen Fu Ban Fu (1992) 1259 issued by the General Office of Shenzhen Municipal Government, through the restructuring of former Shenzhen Fiyta Time Industrial Company by the promoter of China National Aero-Technology Import and Export Shenzhen Industry & Trade Center (name changed to "China National Aero-Technology Shenzhen Co., Ltd" lately) on 25 December 1992, and the name changed to "Shenzhen Fiyta Holdings Limited".

Pursuant to the approval of Shen Ren Yin Fu Zi (1993) 070 issued by the People's Bank of China Shenzhen Special Economic Zone Branch, the Company issued Renminbi ordinary shares (A shares) and Renminbi special shares (B shares) publicly on 10 March 1993. On 3 June 1993, both the Company's A shares and B shares were listed and traded on Shenzhen Stock Exchange pursuant to the approval of Shen Zheng Ban Fu[1993]20 issued by Shenzhen Securities Regulatory Office and Shen Zheng Shi Zi (1993)16 issued by Shenzhen Stock Exchange.

On 30 January 1997, the company name changed to Shenzhen Fiyta Holdings Limited with the approval of Shenzhen Municipal Administration for Industry and Commerce.

On 4 July 1997, China National Aero-Technology Shenzhen Co., Ltd. ("CATIC Shenzhen Company") transferred 72,360,000 corporate shares (accounting for 52.24% of the Company's total share capital) to Shenzhen China Aviation Group Company Limited (previously known as "Shenzhen China Aviation Industry Company Limited", hereinafter referred to as "China National Aviation Group") according to share transfer agreement signed by both parties. As a result, the Company's controlling shareholder changed from CATIC Shenzhen Company to China National Aviation Group.

On 26 October 2007, the Company implemented split-share reform. Under the premise of maintaining the Company's total of 249,317,999 shares unchanged, the Company's shareholders of non-tradable shares paid 3.1 shares per 10 tradable shares to all the tradable share shareholders registered on option registration date designated by the split-share reform

program. At that point, after the reform, the shares held by China National Aviation Group reduced to 44.69% from 52.24%.

On 29 February 2008, due to expanding the scope of business, the Company's corporate business license was altered from Shen Si Zi No. 4403011001583 to No. 440301103196089 with the approval of Shenzhen Municipal Administration for Industry and Commerce.

With the approval of "Reply of China Securities Regulatory Commission (CSRC) to the Approval of Private Placement of Shenzhen FIYTA Holdings Limited" (Zheng Jian Xu Ke[2010]1703) and "Reply of State-owned Assets Supervision and Administration Commission of the State Council (SASAC) on Issues in Private Placement of Shenzhen Fiyta Holdings Limited" (SASAC(2010)430) in 2010, the Company is approved to issue not more than 50,000,000 ordinary shares (A shares) by private placement. After the completion of the placement on 9 December 2010, the Company's registered capital increased to RMB280,548,479.00 and the equity capital of the Company held by China National Aviation Group reduced to 41.49%.

On 8 April 2011, the Company increased its share capital by 4 shares for every 10 shares using the capital reserves on the basis of total shares of 280,548,479 as at 31 December 2010. Total shares of the Company changed to 392,767,870 shares after the increase.

As at 31 December 2011, the Company has accumulatively issued 392,767,870 shares in total (refer to Notes VII. 30 for details).

The business scope of the Company and its subsidiaries (collectively referred to as the "Group") mainly includes: producing and selling of analogue quartz watches and its movements, components, various timing devices, processing and wholesaling karat gold jewellery watches (production sites are to be declared separately); domestic commercial and material supply and distributing business (excluding goods under exclusive operational rights, special control and exclusive sales); property management and leasing; import and export business of self-design, construction; import and export business (according to Shen Mao Guan Deng Zheng Zi No.2007-072).The legal representative of the Company is Wu GuangQuan. The residence of the Company is Fiyta Technology Building located at Gao Xin Nan Yi Dao, Nanshan District, Shenzhen.

The Company's parent company is China National Aviation Group and the ultimate parent company is Aviation Industry Corporation of China (AVIC).

Corporate governance institutions that are established by the Company include general meeting of shareholders, board of directors, board of supervisors, audit committee, strategy committee and nomination, remuneration and evaluation committee. The Company has administration, human resources, finance, audit, general office of board of directors, property, R&D, innovative design and other functional departments.

The financial statements were approved by the resolution of Board of Directors of the Company and authorised for issue on 23 February 2012.

II. BASIS OF PREPARATION

The financial statements of the Group have been prepared based on going concern assumption and based on actual transactions and events occurred. It is prepared in accordance with the requirements of “Accounting Standards for Business Enterprises - Basic Standard” and 38 Specific Standards issued by the Ministry of Finance on 15 February 2006, and application guidance, illustrations to the standards and related pronouncements (collectively known as “Accounting Standards for Business Enterprises” or “CAS”). These financial statements also comply with the disclosure requirements of “Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports” (revised in 2010) issued by China Securities Regulatory Commission (CSRC).

According to Accounting Standards for Business Enterprises, the accrual basis is adopted for the Group’s accounting activity. Except for some financial instruments, the financial statements are measured using historical cost. In case of impairment occurred on assets, provisions for impairment are provided for in accordance with related rules.

III. STATEMENT OF COMPLIANCE

The financial statements have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises. These financial statements present truly and completely the financial position as at 31 December 2011, the results of operations and the cash flows for the year then ended of the Company and the Group. In addition, the financial statements of the Company and the the Group comply with, in all material respects, the disclosure requirements for financial statements and notes to the financial statements under “Regulation on the Preparation of Inforamtion Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports” as revised by CSRC in 2010.

IV. ACCOUNTING POLICIES AND ESTIMATES

1. Accounting period

The accounting period of the Group includes accounting year and interim accounting period. An interim period refers to a reporting period which is shorter than a full accounting year. The accounting year of the Group is the calendar year, i.e. from 1 January to 31 December of each year.

2. Recording currency

Renminbi (RMB) is the functional currency of the main economic environment in which the Company and its domestic subsidiaries operate. The Company and its domestic subsidiaries adopt Renminbi as the recording currency.

Except for the Swiss-based subsidiary Montres Chouriet SA (the “Swiss Company”), which is a subsidiary of Fiyta (Hong Kong) Limited (Fiyta Hong Kong), uses Swiss Franc as the recording currency according to the main economical environment where the Swiss Company operated, all other subsidiaries outside the mainland China, including HARMONY World Watches International Limited (World Watches International), a subsidiary of Shenzhen HARMONY World Watches Center Co., Ltd (HARMONY Company), Fiyta Hong Kong and its subsidiary Station 68 Limited (Station 68) as well as Nature Art Limited and Protop Limited, which are special purpose vehicles controlled by Station 68, use Hong Kong Dollar (HKD) as the recording currency.

The currency used in preparing the Group’s financial statements for year 2011 is Renminbi.

3. Accounting treatment for business combinations

Business combination refers to transactions or events that combine two or more separate enterprises and form one reporting entity. Business combinations are classified into business combinations involving enterprises under common control and business combinations involving enterprises not under common control.

(1) Business combination involving entities under common control

If the enterprises involved in a combination are subject to control of the same party or parties both before and after the combination, and that control is not temporary in nature, it is business

combination under common control. The party who obtains control over other participating enterprises on the combination date is the combining party, and the other participating enterprises are combined parties in a business combination under common control. Combination date means the date on which the combining party actually obtains control over the combined parties.

Assets and liabilities that the combining party obtained are measured using book value of the combined party's accounts on combination date. Difference between book value of net assets the combining party obtained and book value of combination consideration paid (or the aggregate nominal amount of shares issued) is recognized in capital reserve (share premium). If the capital reserve (share premium) is insufficient to offset, retained earnings will be adjusted accordingly.

All direct expenses incurred by the acquirer in relation to the combination are included in the current profit or loss at the time such expenses incurred.

(2) Business combinations involving entities not under common control

If the enterprises involved in a combination are not subject to control of the same party or parties both before and after the combination, it is the business combination involving entities not under common control. The party who obtains control over the other participating enterprises on acquisition date is the acquirer, and the other participating enterprises are the acquiree in a business combination not under common control. The acquisition date is the date on which the acquirer actually obtains the control over the acquirees.

As for business combinations involving enterprises not under common control, combination cost includes assets paid, liabilities incurred or assumed, and the fair value of equity securities issued by the acquirer to obtain control over the acquiree on the acquisition date. Fees for auditing, legal service, evaluation and consultation, and other administrative expenses incurred for the combination are recognized in profit or loss in the period in which such expenses incurred. Transaction costs incurred by the acquirer for issuing equity securities or debt securities as combination consideration are recognized in initial recognition amount of equity securities or debt securities. Contingent consideration, if any, is included in acquisition cost at its fair value on the acquisition date. If, within 12 months, new or further evidence revealed regarding conditions that already existed on acquisition date, the contingent consideration required to be adjusted, adjusting the goodwill arising from the acquisition accordingly. For acquisition that realized step

by step through multiple transfer transactions, the equity of the acquiree held by the acquirer before the acquisition date are re-measured using fair value on the acquisition date. Any difference between the fair value and its carrying amount is recognized as investment gain and transfer other comprehensive income related to this part of equity to investment gain in the period where the acquisition date falls. The acquisition cost is the aggregate of fair value of acquiree's equity held by the acquirer before the acquisition date and fair value of additional equity acquired on the acquisition date.

Acquisition cost incurred by the acquirer and identifiable net assets acquired in the acquisition are measured at fair value on the acquisition date. If the acquisition cost is greater than the fair value of the part of identifiable net assets acquired on the acquisition date, the difference is recognized as goodwill. If the acquisition cost is lesser than the fair value of the part of identifiable net assets acquired on the acquisition date, review the fair value of each identifiable asset, liability and contingent liability that acquired and the calculation of acquisition cost. If, after the review, the acquisition cost is still lesser than the fair value of the part of identifiable net assets acquired, the difference is recognized in profit or loss in corresponding period.

Deductible temporary differences that the acquirer obtained from the acquiree, which are not recognized on acquisition date due to the conditions of recognition as deferred tax assets are not fulfilled, are recognized as deferred tax assets and correspondingly deduct goodwill if new or further evidence shows, within 12 months after the acquisition date, that relevant conditions exist on the acquisition date and it is probable that the economic benefit arising from the deductible temporary differences on acquisition date can be realized. If the goodwill is insufficient to the deduction, the excess part is recognized in profit or loss in corresponding period. Deferred tax assets recognized in relation to acquisition that other than the circumstances mentioned above are recognized in profit or loss in corresponding period.

4. Method of preparing consolidated financial statements

(1) Principles in determining the scope of the consolidation

The scope of consolidation is determined on the basis of control. Control refers to the right that the Company is able to make decision on financial and operational policies of the invested company, and receiving benefits from the business activities conducted by the invested company. The scope of the consolidation includes the Company and all its subsidiaries. Subsidiary means enterprise or entity that is controlled by the Company.

(2) Method of preparing consolidated financial statements

The Group begins to include a subsidiary in the scope of consolidation from the date that the Company acquires the net assets and effective control over the operation and business decisions of the subsidiary. A subsidiary is excluded out of the scope of the Group's consolidation from the date the Company loses effective control over it. For subsidiary that is disposed, the operating performance and cash flows before the disposal date are properly included in the consolidated income statement and consolidated cash flow statement. The opening balance of the consolidated balance sheet is not adjusted if the disposal occurs in the same period. The business performance and cash flows of the addition of subsidiary through combination involving entities not under common control after the acquisition date have been properly included in the consolidated income statement and consolidated cash flow statement, and no adjustments are made to the opening balance and comparative figures of the consolidated financial statements. For addition of subsidiary through combination involving entities under common control, the business performance and cash flows from the beginning of the period to the combination date are properly included in the consolidated income statement and consolidated cash flow statement, and the comparative figures of the consolidated financial statements are adjusted at the same time.

If the accounting policies or accounting period adopted by the subsidiary are not in line with the Company, necessary adjustments are made to the financial statements of the subsidiary according to the Company's accounting policies and period when preparing consolidated financial statements. If the subsidiary is acquired through combinations involving entities not under common control, the adjustments are made based on the fair value of its identifiable net assets on the acquisition date.

All material intra-group current account balances, transactions and unrealized profits are offset when preparing the consolidated financial statements.

The part of subsidiary shareholders' equity and current period net profit or loss that do not attribute to the Company are presented separately under shareholders' equity and net profit in consolidated financial statements as minority shareholders' equity and minority shareholders' profit or loss respectively. Portion of subsidiaries' current net profit or loss attributable to minority shareholder's equity are presented under the title of "minority shareholders' profit or loss" under net profit in consolidated income statement. If subsidiary's losses that attributable to minority

shareholders exceed the opening owners' equity attributable to minority shareholders, minority shareholders' equity is deducted.

If the Company loses control over a subsidiary due to partial disposal of equity investment or other reasons, the remaining equity is measured at fair value on the date when the control is lost. The difference between the sum of consideration received for disposal of equity interest and the fair value of remaining equity interest less the net assets attributable to the Company calculated continuously since the purchase date based on shareholding percentage before disposal are recognized in investment gain in the period when the control is lost. Other comprehensive income related to equity investment in the subsidiary is transferred to investment gain at the time control is lost. The remaining equity interests are measured subsequently according to "CAS No. 2 – Long-term Equity Investment" or "CAS No. 22 – Recognition and measurement of Financial Instrument". See Note IV. 7 Financial instrument or Note IV. 10 Long-term equity investment for details.

5. Determination of cash and cash equivalents

The Group's cash and cash equivalents include cash on hand, deposit that can be used for immediate payment, and Group's investments that are with characteristics of short term (generally matures in three months from the date of purchase), highly liquid, readily convertible to known amount of cash, and with insignificant risks of changes in value.

6. Foreign currency transactions and financial statements translation

(1) Translation of foreign currency transactions

Initial recognition of foreign currency transactions incurred by the Group are translated to recording currency using the spot exchange rate at the trading date (usually refers to middle rate of foreign exchange rate on that day published by the People's Bank of China). For foreign currency exchange transactions and transactions related to foreign currency exchange, they are translated into recording currency using actual exchange rate.

(2) Translation of monetary items and non-monetary items denominated in foreign currencies

At the balance sheet date, monetary items denominated in foreign currencies are translated using the spot rate at the balance sheet date. Translation differences arising from the translation

are recognized in current profit or loss.

Non-monetary items denominated in foreign currencies that are measured using historical costs are still measured using recording currency translated at the spot rate at transaction date. Non-monetary items denominated in foreign currency which are measured using fair value are translated at spot rate of the day the fair value is determined. The differences between amount of recording currency after the translation and the original amount of recording currency are treated as changes in fair value (including exchange rate change) and are recognized in current profit or loss or recognized in capital reserves as other comprehensive income.

(3) Translation of financial statements prepared in foreign currencies

In preparing of the consolidated financial statements involving overseas operations, if there is any foreign-currency monetary item constituting substantially net investment in overseas operation, the exchange difference arising from exchange rate variation is listed in recognized as “translation difference” under owners’ equity in balance sheet. In case of disposal of overseas operation, it is charged to the profit and loss of the period.

Financial statements of foreign businesses that denominated in foreign currencies are translated to financial statements in RMB using following rules: asset and liability items in balance sheet are translated using the spot rate on balance sheet date; except for “undistributed profit”, all other items in owners’ equity are translated using the spot rate on the date the corresponding transactions occurred. Revenue and expenses items in income statement are translated using the average rate on the transaction date. The undistributed profit at the beginning of the year is the year end balance translated at the prior year. The undistributed profit at the year end is presented using translated items in profit distribution. Difference between the translated assets and sum of liabilities and owners’ equity is recognized in other comprehensive income as translation differences and is presented separately under owners’ equity in balance sheet. When disposing overseas operations and losing controls over the operations, relevant translation differences that originally presented under owners’ equity are charged to profit or loss entirely or proportionately according to percentage of disposal.

Cash flows denominated in foreign currency and cash flows of subsidiaries outside Mainland China are translated using the average exchange rate on the date when cash flows occur. The amount of cash changes due to exchange rate variations are recognized as adjustment item and presented in the cash flow statement separately.

The balance at the beginning of the year and amount actually incurred prior year are presented using figures in prior year's translated financial statements.

7. Financial instruments

(1) Determination of fair values for financial assets and financial liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. If there is an active market for a financial instrument, the quoted price in the active market shall be used to establish the fair value of the financial instruments. Quoted prices from an active market are prices that are readily and regularly available from an exchange, broker, industry association or pricing service agency etc... and represent prices used in actual market transactions on an arm's length basis. If no active market exists for a financial instrument, the Group establishes fair values by using valuation techniques. Valuation techniques include using the prices quoted in latest market transactions between knowledgeable, willing parties for reference, referencing to the current fair value of another instrument that is substantially the same in nature, discounted cash flow method and option pricing model, etc...

(2) Classification, recognition and measurement of financial assets

Financial assets which are traded in conventional manner are recognized or derecognized on the transaction date. On initial recognition, financial assets are classified into fair value through profit or loss financial assets, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets. The financial assets are initially measured at fair value. For fair value through profit or loss financial assets, the transaction costs are directly recognized into current profit or loss. For financial assets under other categories, relevant transaction costs are included in their initial recognition amounts. Financial assets of the Group are mainly receivables.

Receivables refer to non-derivative financial assets with no quoted price in active markets and with fixed or determinable recoverable amounts. Financial assets that are classified as receivables by the Group include accounts receivable and other receivables.

Receivables are measured subsequently at the amortized cost by using the effective interest rate method. Gain or losses incurred at the time of derecognition, impairment or amortization are

charged to current profit or loss.

(3) Impairment of Finance Assets

The Group examines the book value of other financial assets at each balance sheet date, and if there are any objective evidences indicating impairment of financial assets, impairment provision is provided.

For impairment provision of receivables, please refer to Notes IV. 8.

(4) Recognition and measurement of transfer of financial assets

Financial asset is derecognized if one of the following conditions is satisfied: (a) the contractual rights of receiving cash flows from the financial asset is terminated; (b) financial asset has been transferred, and substantially all risks and reward associated with the ownership of the financial asset have been transferred to transferee; (c) the financial asset has been transferred. The enterprise neither transfers nor retains substantially all the risks and rewards associated with the ownership of the financial asset, but it has not retained control over the financial asset.

If the enterprise neither transfers nor retains substantially all the risks and rewards associated with the ownership of a financial asset, and it retains control over the financial asset, it recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizing associated liability. The extent of continuing involvement in the transferred asset is the extent to which the enterprise is exposed to risks of changes in the value of the transferred asset.

For a entire transfer of a financial asset that satisfies the derecognition criteria, the difference between the carrying amount of the financial asset transferred and the sum of the consideration received from the transfer and any cumulative gain or loss that had been recognized in other comprehensive income is recognized in current profit or loss.

If a part of the transferred financial asset qualifies for derecognition, the carrying amount of the transferred financial asset in its entirety shall be allocated between the part that is derecognized and the remaining portion apportionately based on the relative fair value of each part. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the part derecognized and any cumulative gain or loss attributable to it that had been recognized in other comprehensive income is recognized in current profit or loss.

(5) Classification and measurement of financial liabilities

On initial recognition, financial liabilities are classified in financial liabilities at fair value through profit or loss and other financial liabilities. A financial liability is initially recognized at fair value. Transaction costs for financial liability at fair value through profit or loss are charged to current profit or loss. Transaction costs for other financial liabilities are included in their initial recognition amounts. The Group's financial liabilities are mainly other financial liabilities and financial guarantee contracts.

(a) Other financial liabilities

Other financial liabilities are measured subsequently at amortized cost using effective interest rate method. Gain or losses arising from derecognizing or amortization are charged to current profit or loss.

(b) Financial guarantee contracts

These contracts are not classified as financial liabilities at fair value through profit or loss. It is initially measured at fair value and subsequently measured at the higher of the amount determined according to "CAS No. 13 – Contingent Events" and the initial amount less accumulated amortization recognized according to "CAS No. 14 – Revenue".

(6) Derecognition of financial liabilities

A financial liability (or part of it) can only be derecognized only when the present obligations are fully (or partly) discharged. If an agreement between the Group (the debtor) and creditor indicates that the present financial liability are to be replaced with a new financial liability which has substantially different terms compare with the present financial liability, the present financial liability is derecognized and the the new financial liability is recognized.

When a financial liability is entirely or partly derecognized, the difference between the carrying amount of the derecognized financial liability and the consideration paid (including any non-cash assets transferred or new financial liabilities undertook) is charged to current profit or loss.

(7) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities can be presented in the balance sheet using net figure

after offsetting only when the Group has the legal rights to offset the financial assets and liabilities that are already recognized and plans to exercise such rights, and the Group intends to settle corresponding financial assets and liabilities on net basis or to realize the financial asset and settle the financial liability simultaneously. Other than situations mentioned above, financial assets and liabilities are presented separately in balance sheet and can not be offset.

(8) Equity Instrument

An equity instrument is a contract that evidences any residual interest in the assets of the Group after deducting all of its liabilities. The equity instrument will increase the owners' equity by deducting transaction costs from consideration received for the issuance of the equity instrument.

All kinds of distributions to the owners of equity instrument (excluding stock dividends) decrease the owners' equity. The Group does not recognize fair value changes for equity instrument.

8. Receivables

Receivables include accounts receivable and other receivables.

(1) Recognition principle for bad debts provision

The Group examines, at the balance sheet date, the carrying amounts of receivables and impairment provision is recognized if following objective evidences that indicating impairment to receivables occurs: (a) severe financial difficulties of the debtor; (b) a breach of contract by the debtor (such as a default or breach of contract in interest or principle repayments); (c) it is probable that the debtor will be bankrupted or conduct other financial reorganization; (d) other objective evidences indicating there is an impairment of the receivables.

(2) Method of recognizing bad debt provision

(a) Determination and providing bad debt provision for receivables which are individually significant in amount and provided for bad debt individually

The Group identifies single accounts receivable item that above RMB800,000.00 and single other receivable item that above RMB500,000.00 as receivables that individually significant in

amount.

The Group conducts impairment test on individually significant receivables separately. Financial assets that are not impaired after standalone impairment tests will be tested again by including it in a portfolio of financial assets with similar credit risk characteristics. Receivables that have been impaired in standalone test will not be tested again by including it in a portfolio of financial assets with similar credit risk characteristics.

(b) Determination of receivables that recognize bad debt provision under credit risk portfolio and bad debt provision recognition

i. Basis of determining portfolio with similar credit risk characteristics

Receivables that are not individually significant in amount and receivables that are individually significant in amount but not impaired after individual impairment test are grouped into different asset portfolios based on similarity and correlation of the credit risk characteristics. These credit risk characteristics reflect the ability of the debtor to repay all amounts due according to terms of contracts related to the assets under test and are in connection with estimation of future cash flows expected to be generated by these assets.

Basis of portfolio determination

Item	Basis of portfolio determination
Portfolio of aging	Based on aging of receivables
Portfolio of specific accounts	Receivables from petty cash advanced to employees, from subsidiaries of the Company and sales revenue between the last settlement date of the same department store and the balance sheet date

ii. Recognizing bad debt provision based on credit risk portfolio

If the impairment test is carried out for a portfolio of assets, the amount of bad debt provision is recognized based on the structure of the portfolio and similar credit risk characteristics (the ability of repayment by the debtor according to contract terms) by assessing historical experience on impairing assets with similar credit risk characteristics, current economic condition, and losses that already exist in the portfolio.

Method of recognizing bad debt provision for different portfolios

Item	Method
Portfolio of aging	Analyzing the aging of receivables
Portfolio of specific accounts	No bad debt provision is recognized as the risk of impairment does not exist according to its credit risk characteristics

i) Recognizing bad debt provision based on aging analysis method within the portfolio

Aging	Percentage of provision recognized for accounts receivable (%)	Percentage of provision recognized for other receivables (%)
Within 1 year (inclusive)	5	5
1-2 years (inclusive)	10	10
2-3 years (inclusive)	30	30
Above 3 years	50	50

ii) Recognizing bad debt provision using other method within the portfolio

Name of portfolio	Percentage of provision recognized for accounts receivable (%)	Percentage of provision recognized for other receivables (%)
Portfolio of specific accounts	-	-

Based on historical experience, the Group's receivables from petty cash advanced to employees, from subsidiaries of the Company and sales revenue between the last settlement date of the same department store and the balance sheet date are with high recoverability and low possibility of incurring bad debt, as a result, no bad debt provisions are provided for such receivables.

(c) Receivables that are insignificant in amount individually but recognize bad debt provision individually

The Group conducts impairment test to receivables that insignificant in amount individually but with the following characteristics: receivables that involving dispute or legal case, arbitration with the other party; obvious indicators show that it is probable that the debtor is unable to fulfill the repayment obligation. Standalone impairment test is carried out for this kind of receivables. If any objective evidence indicate that the receivables impaired, impairment losses are recognized based on the difference between the carrying amount and the present value of estimated future cash flows. Bad debt provision is recognized accordingly.

(3) Reversal of bad debt provision

If, subsequent to the recognition of an impairment loss on a receivable, there are objective evidences of a recovery in value of the receivable and the recovery is related objectively to events occurred after the impairment was recognized, the impairment loss recognized previously is reversed and recognized in profit or loss. The carrying amount after the reversal shall not exceed the amortized cost of the receivable on the reversal date as if there is no impairment previously.

9. Inventory

(1) Classification of inventory

Inventory mainly includes raw material, work-in-process and stored goods.

(2) Costing method of acquiring and delivering of inventory

The inventory is valued using actual cost when it is acquired. The cost of inventory includes cost of purchase, manufacturing cost and other costs. Costing methods used for inventory usage and shipment include: weighted average costing (for stored goods of watches with Fiyta brandname), specific identification method (for stored goods of branded watches), and first-in-first-out method (for raw material for Fiyta watches).

(3) Determination of net realizable value of the inventory and method of recognizing impairment provision

Net realizable value (NRV) equals to estimated selling price less estimated costs of completion, estimated selling costs and related taxes in the ordinary course of business. The determination of net realizable value of the inventory is based on reliable evidence and taking into consideration of the intents of holding the inventory and impacts of events after the balances sheet date. In particular: (a) the NRV of inventories that are available for sale such as finished goods and materials held for trading are determined using the estimated selling price less estimated selling expenses and related taxes if the business is in the ordinary course of operation; (b) the NRV of materials that need to be processed are determined using estimated selling price of finished goods which is manufactured from the material less estimated cost of

completion, estimated selling expenses and related taxes if the business is in the ordinary course of operation.

The Company recognizes inventory impairment provision for Fiyta brand watches based on models.

Impairment provisions for branded watches are recognized by specific item.

Impairment provisions for raw materials of Fiyta watches are recognized by categories based on terminal selling status of Fiyta finished watches taking into considerations of the exchangeability of the spare parts and the special usage of materials.

On balance sheet date, inventory is measured at lower of cost and NRV. If the NRV is lower than cost, impairment provision is recognized.

If, after the impairment provision is recognized, the influence conditions are no longer exist and as a result, the NRV of the inventory is higher than its carrying amount, the impairment provision recognized previously can be reversed. The amount reversed is to be recognized in current profit or loss.

(4) The inventory system is perpetual inventory system

(5) Amortization of low-value consumables and packaging material

The low-value consumables and packaging material are amortized using one-off method at the time it is used.

10. Long-term equity investment

(1) Determination of investment cost

If the long-term equity investment was originated from business combination involving entities under common control, the initial investment cost is the acquired portion of the carrying amount of the combined party's owner equity on the combination date. If the long-term equity investment was originated from business combination involving entities not under common control, the acquisition cost is the aggregate of assets paid, liabilities incurred or undertook and fair value of

equity securities issued by the acquirer. Agent fees incurred by the acquirer for the acquisition such as audit, legal service, and valuation and consultation fees, and other related administration expenses are charged to current profit or loss at the time such expenses incurred. Transaction cost incurred for issuing equity securities or debt securities, which are used as considerations for the combination, are included in the initial recognition amount of the equity securities or debt securities.

Equity investments that other than the kind originated from business combinations are measured at cost initially. The investment cost differs based on ways of acquiring the long-term equity investment. It can be determined based on cash consideration actually paid by the Group, fair value of equity securities issued by the Group, value stimulated in investment contract or agreement reached, fair value or carrying amount of assets that is exchanged in a non-monetary asset transfer transaction, or the fair value of the long-term equity investment itself. Expenses that directly related to the acquisition of the long-term equity investment, taxes and other necessary expenditure are included in the investment cost.

(2) Subsequent measurement and recognition of gain or losses

Cost method is used for measurement of long-term equity investment if there is no common control with or significant influence to the invested entity, and there is no quotation in an active market and the fair value cannot be measured reliable. Equity method is used for measurement of long-term equity investment if there is common control with or significant influence to the invested entity. If a long-term equity investment that does not involving control or joint control or significant influence to the invested entity and its fair value can be measured reliably, it is treated as available for sale financial assets.

Besides, the Company adopts cost method to measure long-term equity investment if it can implement control over the invested entity in its financial statements.

(a) Long-term equity investments that are measured using cost method

Under cost method, long-term equity investment is measured at initial investment cost. Current period investment gain or losses are recognized according to the cash dividend or profit distribution that is announced by the invested entity, except for cash dividend or profit distribution that is already announced but not distributed which is included in the consideration that actually paid.

(b) Long-term equity investments that are measured using equity method

If the initial investment cost of a long-term equity investment, which is measured using equity method, is greater than the portion of fair value of the identifiable net assets of the invested entity attributable to the Company, the initial investment cost of the long-term equity investment is not adjusted. Otherwise, the difference is charged to current profit or loss, and the cost of long-term equity investment is adjusted accordingly.

Under equity method measurement, current period investment gain or losses are the net profit or losses, which are realized by the invested entity in the same year, that attributable to the Company. The portion of net profit or loss that attributable to the Company is determined based on the fair value of the identifiable assets of the invested entity and after adjusting invested entity's net profit according to the accounting policies and accounting period of the Group. For unrealized gain or losses from internal transactions between the Group and its associated enterprises and joint invested enterprises, the part attributable to the Group, calculated based on percentage of shareholding, is offset and, on this basis, the investment gain or losses are calculated. However, for unrealized internal transaction losses between the Group and invested entities, the impairment loss attributable to assets transfer is not offset according to "CAS No. 8 – Asset Impairment". For other comprehensive income of invested entity, the Company will adjust carrying amount of long-term equity investment and recognizing other comprehensive income in capital reserves accordingly.

The invested entity's net loss attributable to the Group reduces the carrying amount of long-term equity investment and other long-term equities that in nature of net investment to the invested entity to the extent of zero. If the Group undertakes obligations of the invested entity's extra losses, provision is to be recognized according to liabilities estimated, and charge to investment loss in current period. Net profit of the invested entity that is realized in subsequent period, the Group offset the unrealized losses using the profit attributable to the Group. After all losses are offset, resume recognizing gains attributable to the Group.

(c) Purchasing minority equity

When preparing consolidated financial statements, the difference, resulted from addition of long-term equity investment and shares of net assets calculated continuously since acquisition date (or combination date) according to new shareholding, is adjusted to capital reserve. If the capital reserve is insufficient to offset, adjusting retained earnings.

(d) Disposal of long-term equity investment

In consolidated financial statements, the parent company can dispose part of the long-term equity investment to a subsidiary given that the parent does not lose control over the subsidiary. The difference between consideration received for the disposal and the part of net assets disposed attributable to the parent is recognized in owners' equity. If the parent company loses control over a subsidiary because of long-term equity investment disposal, the accounting treatment shall refer to accounting policies stated in Note IV, 2 – "Preparing consolidated financial statements".

For long-term equity investment disposal other than situations mentioned above, the difference of carrying amount of disposed equity and the consideration actually received is charged to current profit or loss. If the long-term equity investment is measured using equity method, the comprehensive income that originally recognized in owners' equity shall be charged to current profit or loss apportionately at the disposal. Residual equity is recognized as long-term equity investment or other related financial assets at its carrying amount, and subsequent measurement follows accounting policies of long-term equity investment or financial assets stated in the notes. If the measurement of residual equity changes from cost method to equity method, retrospective adjustment is needed according to related rules.

(3) Basis of determining joint control over or significant influence to the invested entity

Control means a company has the ability to establish an enterprise's financial and business policies, and can obtain benefit from the operation of the enterprise. Joint control means jointly control of a certain business activity according to the agreement of contract. It exists only when the agreement on important accounting and business policies that needs to be reached between investors who share the control rights. Significant influence means participation in decision making to a company's finance and business policies, but could not control or jointly control with other parties to the policy making. In determining whether the Company can control or implement significant influence on invested entity, potential voting factors, such as convertible debt and options and warrants that can be converted or excuted in current period held by investors and other parties, have been taking into consideration.

(4) Impariment test and recognizing impairment provision

The Group checks whether there is any indicators of impairment to the long-term equity

investment on each balance sheet date. If it indicates impairment to the assets, recoverable amount will be estimated. If the recoverable amount of the assets is lower than its carrying amount, impairment provision is recognized based on the difference and charged to current profit or loss.

Impairment loss of long-term equity investment is not allowed to reverse in subsequent accounting period.

11. Investment property

Investment property is property held to earn rentals or for capital appreciation or both. It includes buildings that are already leased out.

An investment property is measured initially at cost. If it is probable that the benefit related to subsequent expenditures incurred for an investment property will flow into the Company and that the cost can be measured reliably, the expenditure is included in the cost of investment property. Other subsequent expenditures are charged to profit or loss in the period in which they are incurred.

The Group adopts cost method for subsequent measurement to investment property. Depreciation or amortization policy for investment properties are the same as the one for plants and buildings or land use rights.

Please refer to Note IV. 17 "Impairment of non-current non-financial assets" for details of impairment test and impairment provision recognition for investment property.

When the usage of the property changed from investment property to self-use property, the property is transferred from investment property to fixed asset or intangible asset on the changing date. If the usage of the property changes from self-use to earn rental or capital appreciation, the property is switched to investment property from fixed asset or intangible asset. If it switched to investment property that measured using cost method, it is recognized using the carrying amount before the switch. If it switched to investment property that measured using fair value method, it is recognized using the fair value on the switching date.

The investment property is derecognized when it is disposed or ceased usage permanently and it is estimated that no benefit can be obtained from the disposal. Disposal income arising from

selling, transfer, disposing and damaging the investment property, less its carrying amount and taxes related to the disposal, is recognized in profit or loss.

12. Fixed asset

(1) Recognition principles

Fixed assets refer to tangible assets that are held for the purpose of goods production, providing services, lease, or for administrative purposes with useful life of more than one accounting year.

(2) Depreciation method

Fixed asset is recognized initially at cost taking into consideration of estimated disposal expenses. The fixed asset is depreciated on straight-line basis over its estimated useful life from the next month after it reached estimated useful condition. The useful lives, estimated residual ratios and annual depreciation rates for each category of fixed assets are as follows:

Categories	Estimated useful lives (year)	Estimated net residual value ratios (%)	Annual depreciation rates (%)
Plants and buildings	20-35	5	2.7-4.8
Machinery equipments	10	5-10	9-9.5
Transportation vehicles	5	5	19
Electronics devices	5	5	19
Other equipments	5	5	19

Estimated net residual value of a fixed asset is the estimated amount that the Group would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset's useful life is passed and in the condition expected at the end of its useful life.

(3) Impairment test and impairment provision recognition for fixed asset

For impairment test and impairment provision recognition for fixed asset, please refer to Note IV. 17 "Impairment of non-current non-financial asset".

(4) Others

Subsequent expenditure in relation to fixed asset is recognized in the cost of the fixed asset and derecognizing the carrying amount of the part replaced if it is probable that the economic benefit related to the fixed asset will flow in the entity and the cost can be measured reliably.

Subsequent expenditures other than this are charged to current profit or loss.

When a fixed asset is sold, transferred, retired or damaged, the disposal proceed net of the carrying amount and related taxes is charged in profit or loss for the current period.

The Group conduct reviews to the useful life, estimated net residual rate and depreciation method at least at each end of the accounting year. Any changes will be treated as changes in accounting estimates.

13. Construction in progress

Construction in progress is measured at actual project expenditure which includes construction expenditures and other related expenses. Construction in progress is transferred to fixed asset when the asset reaches its estimated useful condition.

For impairment test and impairment provision recognition for construction in progress, please refer to Note IV. 17 "Impairment of non-current non-financial asset".

14. Borrowing cost

Borrowing cost includes loan interest, associated expenses incurred in connection with the arrangement of borrowings and exchange difference arising from foreign currency loans. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset can be capitalized starting from the time the necessary acquisition or production for bringing the asset to its estimated useful or sellable condition started, and given that the capital expenditure and borrowing cost have been incurred. The capitalization stops when the asset reaches its estimated useful or sellable conditions. Other borrowing costs are charged to profit or loss at the time they are incurred.

15. Intangible assets

(1) Intangible assets

An Intangible asset is the identifiable non-monetary asset without physical substances that is owned or controlled by the Group.

An intangible asset is initially measured at its cost. Expenditures related to the intangible asset

are included in its cost if it is probable that the related economic benefit will flow into the Group and the cost can be measured reliably. Other expenditures apart from this will be charged to profit or loss in corresponding period at the time it incurred.

Land use right is generally accounted for as intangible asset. When the plants or buildings are constructed by the Group, expenditures on the land use right and on the buildings shall be recognized as the intangible asset and the fixed asset respectively. When the plants or buildings are purchased, the consideration paid shall be allocated between the land use right and the buildings. If it can be allocated reasonably, recognize entirely as fixed assets.

An intangible asset with a finite useful life shall be amortized by using the straight-line method over its estimated useful life when it is available for use. The depreciable amount of an intangible asset is its cost less estimated residual value and impairment provision. An intangible asset with an indefinite useful life is not amortized.

For an intangible asset with a finite useful life, its useful life and amortize method are reviewed at the end of each accounting period. Any changes will be treated under changes in accounting estimates. Besides, the useful life of the intangible assets with indefinite useful life will be reviewed at the end of each accounting period. If there is evidence indicating that it is foreseeable that the period during which the economic benefit associated with the asset would flow into the entity, its useful life will be estimated and the asset will be amortized in accordance to the amortization policies applicable for an intangible asset with finite useful life.

(2) Research and development expenditure

The Group's expenditure on internal research and development projects are classified into expenditure on the research phase and expenditure on the development phase.

Expenditure on the research phase is recognized in profit or loss in the period in which it is incurred.

Expenditure on the development phase is capitalized and recognized as intangible asset only when all of the following conditions are satisfied: (a) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (b) the intention to complete the intangible asset and use or sell it; (c) the intangible asset will generate economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of

the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (d) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; (e) the expenditure attributable to the intangible asset during its development phase can be measured reliably. Expenditures on the development phase, failing to meet the above conditions, are recognized in profit or loss in the period it is incurred.

Expenditures which cannot be divided into expenditures on research phase and expenditures on development phase are charged entirely in current profit or loss.

(3) Impairment test and impairment provision recognition for intangible assets

For impairment test and impairment provision recognition for intangible asset, please refer to Note IV. 17 "Impairment of non-current non-financial asset".

16. Long-term deferred expenses

Long-term deferred expenses refer to expenditures which are incurred but shall be expensed over the beneficiary period of more than one year. Long-term deferred expenses shall be recognized at the actual cost and amortized on straight-line basis over its beneficiary period. The amortization period is normally 2 to 5 years.

17. Impairment of non-current non-financial assets

The Group assesses, on balance sheet date, whether there are indicators for impairment to fixed assets, construction in process, intangible assets with finite useful life, investment property measured at cost, and long-term equity investment to subsidiaries, joint ventured companies and associated companies. If there are any indicators of impairment, recoverable amount is estimated and impairment test is conducted. Impairment tests are conducted each year to goodwill, intangible assets that with indefinite useful life and intangible assets that have not reached its useful condition despite whether there is indicators of impairment.

If the recoverable amount of an asset is less than its carrying amount in the impairment test, provision for impairment shall be made for the difference and recognized as an impairment loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. The fair value of an

asset is determined according to the price in a sale agreement in an arm's length transaction. If there is no sale agreement but an active market for the asset, the fair value shall be determined according to the current bid price. If there is no sale agreement or active market for the asset, the fair value shall be based on the best information available. Costs of disposal include legal costs related to the disposal of the asset, related taxes, cost of removing the asset and direct cost to bring the asset into its condition of sale. The present value of expected future cash flows of an asset shall be determined by estimating the future cash flows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to those future cash flows. Provision for impairment shall be made and recognized on an individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Company shall determine the recoverable amount of the asset group to which the asset belongs. An asset group is the minimum group of assets which can generate cash flows independently.

When conducting impairment test on goodwill, which is presented separately in balance sheet, the carrying amount of goodwill will be allocated to asset group or combination of asset group which are expected to enjoy benefit from the synergy effect in a business combination. If the test results indicate that the recoverable amount of the asset group or combination of asset group, which consist goodwill allocated, is lower than its carrying amount, impairment loss is recognized accordingly. The impairment loss reduces the carrying amount of goodwill that allocated to the asset group or combination of asset group. If the goodwill is insufficient to deduct, then offsetting other assets within the asset group or combination of asset group apportionately based on the weight of the carrying amount of assets other than goodwill in the asset group or combination of group.

Once an impairment loss is recognized, it shall not be reversed in subsequent periods.

18. Provisions

A provision is recognized when obligation related to contingencies satisfies following condition: (1) the obligation is a present obligation of the Group; (2) it is probable that an outflow of economic benefits will be required to settle the obligation; and (3) and the amount of the obligation can be measured reliably.

At the balance sheet date, a provision shall be initially measured at the best estimate of the expenditure required to settle the related present obligation, taking the risks, uncertainties and time value of money that related to the contingencies into consideration.

When all or part of the expenditure that needed for settling a provision is expected to be reimbursed by a third party, the reimbursement shall be recognized as an asset separately only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the carrying amount of the provision.

19. Revenue

(1) Revenue from sale of goods

Revenue from the sale of goods shall be recognized only when all of the following conditions are satisfied: (a) significant risk and rewards of ownership of the goods have been transferred to the buyer; (b) the seller retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; (c) the amount of revenue can be measured reliably; (d) it is probable that the associated economic benefits will flow to the seller, and (e) the associated costs incurred or to be incurred can be measured reliably.

(2) Revenue from rendering of service

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction are recognized using the percentage of completion method on balance sheet date. The percentage of completion is calculated based on the proportion of services performed to date to the total volume of services to be performed.

The outcome of a transaction involving the rendering of services can be estimated reliably when all of the following conditions are satisfied: (a) the amount of revenue can be measured reliably; (b) it is probable that the associated economic benefits will flow to the entity; (c) the percentage of completion can be measured reliably; and (d) the costs incurred and to be incurred for the transaction can be measured reliably.

When the outcome of a transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognized to the extent of costs incurred and expected to be recovered. Costs of service provided are charged to the current profit or loss as service costs. If the costs incurred are not expected to be recoverable, no revenue is recognized.

(3) Revenue from rendering usage rights

The revenue is recognized on accrual basis and based on related contracts or agreements.

(4) Interest income

The interest income shall be calculated based on the tenure of the Group's monetary funds used by others and the actual interest rates used.

(5) Revenue from property leasing

The amount of revenue from property leasing are recognized when the rentals are collected or evidence of receipt of payments are obtained in accordance with the tenure (consider rental-free period, if any) and rental stated in the leasing contract or agreement.

20. Government grants

Government grants are monetary assets or non-monetary assets obtained by the Group from the government free of charge. It does not include capital contributions from the government as an owner. Government grants are classified into government grants related to assets and government grants related to income.

If a government grant is in form of monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of non-monetary asset, it is measured at fair value. If the fair value cannot be measured reliably, it is measured at a nominal amount and recognize directly in the current profit or loss.

A government grant related to asset is recognized as deferred income, and evenly amortized and charged to profit or loss over its useful life. If a government grant related to income is used to compensate related expenses and losses in subsequent periods, it is recognized as deferred income. If it is used to compensate related expenses and losses that are already incurred, it is charged to current profit or loss directly.

If a government grant already recognized needs to be repaid, the carrying amount of related deferred income, if any, is to be reduced. Any excess are charged to current profit or loss. If there is no deferred income, the repayment is charged to current profit or loss directly.

21. Deferred tax asset / deferred tax liability

(1) Current corporate income tax

At the balance sheet date, current income tax liabilities (or assets) for the current period and prior periods shall be measured at the amount expected to be paid (refunded) according to the

requirement of taxation laws. The taxable income used to calculate current period income tax expenses is calculated by making corresponding adjustments to current period profit before tax in accordance with relevant taxation regulations.

(2) Deferred tax asset and deferred tax liability

Temporary differences can be recognized as deferred tax asset and deferred tax liability using balance sheet liability method. Temporary differences arise from: the difference between the carrying amount and tax base of certain assets and liabilities; the difference between the carrying amount and the tax base of an item which are not recognized as assets and liabilities but its tax base can be determined according to relevant taxation laws.

A deferred tax liability shall not be recognized for the taxable temporary differences arising from the following events: (a) the initial recognition of goodwill; (b) the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: (i) the transaction is not a business combination; (ii) at the time of the transaction, it affects neither accounting profit nor taxable profit (or deductible loss). For taxable temporary differences associated with investment in subsidiaries, associates and interests in jointly controlled enterprises, a deferred tax liability shall not be recognized if both of the following conditions are satisfied: (a) the Group is able to control the timing of the reversal of the temporary differences; and (b) it is probable that the temporary difference will not reverse in the foreseeable future. Except for exceptions mentioned above, the Group recognizes all other taxable temporary difference as deferred tax liability.

A deferred tax asset shall not be recognized for the deductible temporary differences associated with the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: (a) the transaction is not a business combination; (b) at the time of the transaction, it affects neither accounting profit nor taxable profit (or deductible loss). For deductible temporary differences associated with investment in subsidiaries, associates and interests in jointly controlled enterprises, a deferred tax asset shall not be recognized if one of the following conditions is satisfied: (a) it is probable that the temporary difference will not reverse in the foreseeable future; and (b) taxable profits will not be available in the future, against which the temporary difference can be utilized. Except for exceptions mentioned above, the Group recognizes deductible temporary difference as deferred tax asset to the extent of the future taxable profit which is probably achieved by the Group.

A deferred tax asset shall be recognized for the carryforward of unused deductible losses and tax credits to the extent that it is probable that future taxable profit will be available against which the deductible losses and tax credits can be utilized.

At the balance sheet date, deferred tax assets and deferred tax liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, according to the requirement of tax laws.

At the balance sheet date, the carrying amount of a deferred tax asset shall be reviewed. The Company shall reduce the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available in future periods to allow the benefit of the deferred tax asset to be utilized. Any such reduction in amount shall be reversed to the extent that it becomes probable that sufficient taxable profit will be available.

(3) Corporate income tax

The corporate income tax includes current income tax and deferred income tax.

The current income tax and deferred income tax shall be recognized in the current profit or loss except for: (a) the income tax arising from events or transactions which are recognized in the comprehensive income or owners' equity are recognized in the comprehensive income or owners' equity accordingly; and (b) the income tax arising from business combinations which are adjusted to the carrying amount of goodwill.

22. Leasing

A finance lease is a lease that transfers substantially all the risks and rewards associated with the ownership of an asset. Title of the asset may or may not eventually be transferred. An operating lease is a lease other than a finance lease. The Group's lease is operating lease.

(1) Accounting treatment for the Group as lessee under operating leases

Lease payments under an operating lease are recognized as cost of relevant assets or charged to profit or loss for the current period on straight-line basis over the lease term. Initial direct costs incurred are charged to profit or loss for the current period directly. Contingent rentals are charged to profit or loss in the period in which they are actually incurred.

(2) Accounting treatment for the Group as lessor under operating leases

Lease receipts under an operating lease are recognized by the in the current profit or loss on a straight-line basis over the lease term. Significant initial direct costs are capitalized when they are incurred, and are recognized in profit or loss over the lease term on the basis on which the lease income is recognized. Insignificant initial direct costs shall be charged to the current profit or loss directly. Contingent rentals are charged to profit or loss in the period in which they are actually incurred.

23. Employee remuneration

In the accounting period in which an employee has rendered service to the Group, the Group recognizes the employee benefits payable as a liability.

Expenditures paid by the Group for the social security system set up the government, such as basic pension insurance, medical insurance, housing funds and others, are recognized in the costs of related assets or the current profit or loss.

When the Group terminates the employment relationship with employees before the end of the employment contracts or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision shall be recognized for the compensation arising from termination of employment relationship with employees, with a corresponding charge to the profit or loss for the current accounting period, when both of the following conditions are satisfied: (a) the Group has a formal plan for termination of employment relationship or has made an offer for voluntary redundancy, which will be implemented immediately; (b) the Group cannot unilaterally withdraw from the termination plan or the redundancy offer.

The earlier retirement plan shall be accounted for in accordance with the accounting principles for compensation for termination of employment. The salaries or wages and the social contributions to be paid for the employees who retire before schedule from the date on which the employees stop rendering services to the Company to the scheduled retirement date, shall be recognized (as compensation for termination of employment) in the current profit or loss if the recognition principles for provisions are satisfied.

24. Significant accounting judgments and estimates

When adopting the accounting policies, the Group needs to make judgments, estimates and assumptions for the carrying amount of items which are presented in financial statements and

cannot be measured accurately due to internal uncertainties of business. The judgments, estimates and assumptions that are made according to historical experience of the management and with consideration of other relevant factors will have effects on the reported amounts of revenue, expenses, assets as well as liabilities and the disclosure of contingent liabilities at the balance sheet date. The uncertainties of these estimates will probably result in significant adjustments on the carrying amounts of assets or liabilities which will be affected by those judgments, estimates and assumptions in future accounting periods.

The judgments, estimates and assumptions are reviewed by the Group periodically on going concern basis. If the changes in accounting estimates affect current period only, the amounts affected are recognized in current period. If the change affects both current and future periods, the amounts affected are recognized in the current accounting period as well as subsequent accounting periods.

At the balance sheet date, significant areas that require the Group to make judgments, estimates and assumptions to the amounts of financial statements items are as follows:

(1) Bad debt provision recognition

The allowance method is adopted by the Group to account for losses on bad debts in accordance with the accounting policies for receivables. Impairment of accounts receivable is made based on estimation of its recoverability, which requires the management to make judgments and estimates. The difference between the actual outcome and the estimates will have effects on the carrying amounts of accounts receivable and on provision or reversal of the provision for bad debts of the accounting period in which the estimates will be changed.

(2) Recognition of inventory impairment provision for branded watches

For the brand watches in distribution with stock aging of over 3 years, the Group's management believes it is with an upgoing trend for its price and the sales of branded watches is promising in the future. The Group's management checked the branded watches for its NRV at the end of the accounting period, and believed that the full amount of value of branded watches can be recovered even in the case that the stock aging of the branded watches increase. If there is any evidence indicated that the NRV is lower than its carrying amount, adjustments will be made in the period when such indicators appear. Impairment to branded watches requires the management to make judgements and estimation on the basis of obtaining reliable evidences

and taking consideration of the intention of holding the branded watches and events after the balance sheet date. The difference between actual outcome and the previous estimation will affect the carrying amount of the inventory and recognizing or reversal of inventory impairment provision.

The Group's management believes the method of recognizing and reviewing impairment provision for branded watches is appropriate.

(3) Impairment provision for non-current non-financial assets

At the balance sheet date, the Group judges whether there are indicators of impairment for non-current assets other than financial assets. For an intangible asset with an indefinite useful life, except for annually impairment test, if there are any indicators of impairment occurs, a impairment test will be conducted. For non-current assets other than financial assets, an impairment test shall be made if there are evidences indicating the carrying amounts cannot be recovered in full amount.

An asset or asset group is impaired when its carrying amount is higher than its recoverable amount (i.e. the higher of its fair value less the disposal expenses and the present value of the estimated future cash flows).

The net amount of fair value less the disposal expenses are determined with reference to the quoted price of similar assets in a sales agreement in an arm's length transaction or an observable market price less incremental costs directly attributable to disposal of the asset.

When estimating the present value of future cash flows, significant judgments are involved to the the production output, selling price, relevant business costs of the asset (or asset group) and the discount rate adopted in calculating the present value. In estimating the recoverable amount, the Group will adopt all information available, such as forecasts for the production output, the selling price and relevant business costs, which are made according to reasonable and supportive assumptions.

The Group conducts impairment test to goodwill at least once a year. This requires estimating the present value of future cash flows of asset group or combination of asset group to which goodwill has been allocated. In estimating the present value of future cash flows, the Group needs estimate future cash flows generated from the asset group or the combination of asset

groups and choose appropriate discount rates.

(4) Depreciation and amortization

Taking the residual value into consideration, an investment property, fixed asset and intangible asset are depreciated or amortized on a straight-line basis over its useful life. The Group reviews the useful life periodically to determine the amount of depreciation or amortization which shall be recognized in each accounting period. The useful life is determined according to historical experience of similar assets and technological renovation estimated. The amount of depreciation or amortization shall be adjusted in future accounting periods if there are material changes in estimates made before.

(5) Deferred income tax asset

A deferred tax asset shall be recognized for the unused deductible losses to the extent that it is probable that future taxable profit will be available against which the deductible losses can be utilized. Taking the taxation planning into consideration, the management of the Group is required to make significant amount of judgments to estimate the time and the amount of future taxable profit in order to determine the amount of deferred income tax assets to be recognized.

(6) Corporate income tax

For some transactions in the Group's ordinary course of business, uncertainties exist in their tax treatment and calculation. An approval from the tax authority is needed to determine whether an item is deductible before tax. If the final confirmation from the tax authority differs with the original estimation, the difference will have effects on the current income tax and deferred income tax of the period in which the final confirmation is made by the tax authority.

(7) After-sale quality warranty

The Group has the obligation to provide warrant to the quality of goods sold, and is responsible for damages arising from the repair and replacement due to defective goods. The Group estimates and draws related provision on its after-sale quality warranty commitment to customers with respect to the goods sold. In the case that the contingent event becomes a current obligation and performance of the current obligation may be very likely to cause economic benefit flow out of the Group, the Group recognizes provision based on the best estimates to be spent for fulfilling the related current obligation. Otherwise, if the event does not

become a current obligation, no predictions needed. In the course of judgment, the Group needs to consider the recent maintenance data which may not be likely to reflect the future maintenance situations. Any increase or reduction of the provision may possibly affect the profit or loss in the future year.

V. Taxation

1. Value-added tax

The Company and its domestic subsidiaries are general taxpayers of value-added tax (VAT). The taxable amount for VAT is the remaining of the current output tax offset by deductible input tax. The output tax rate of VAT is 17%.

2. Business tax

It is levied at 5% to the Company and its domestic subsidiaries on the revenues from property leasing, rendering of services, and transferring assets usage right.

3. Consumption tax

The amount of consumption tax is calculated at 20% on the taxable base for import or manufacturing luxury watches by the Company and its domestic subsidiaries.

4. Urban maintenance and construction tax, educational surcharge and local educational surcharge

The Company and its subsidiaries located in Shenzhen pay city maintenance and construction tax at 1% on the turnover tax actually paid before 1 December 2010, and 7% thereafter. Subsidiaries that are outside Shenzhen pay city maintenance and construction tax at 7% on the turnover tax actually paid.

The Company and its domestic subsidiaries pay educational surcharge at 3% on turnover tax actually paid.

The Company and its subsidiaries located in Shenzhen pay local educational surcharges at 2% on turnover tax actually paid starting from 1 January 2011 pursuant to Shen Fu Ban (2011) No.60 "Notice of Publishing the Interim Administrative Measures on Imposing Shenzhen Municipal Local Educational Surcharge" issued by the General Office of Shenzhen Municipal Government.

5. Corporate income tax

Name of the Company and its subsidiaries	Tax rate applicable	Tax rate applicable
	this year	prior year
The Company (Note (1), (2) and (3))	24%	22%
HARMONY Company (Note (1) and (2))	24%	22%
Shenzhen Fiyta Precision Timing Manufacture Co., Ltd. (Manufacture Company (Note (3) and (4)))	15%	15%
Shenzhen World Famous Watch Center Co., Ltd (Watch Center) (Note (1))	24%	22%
Fiyta Hong Kong (Note (5))	16.5%	16.5%
Station 68 (Note (5))	16.5%	16.5%
Nature Art Limited (Note (5))	16.5%	16.5%
Protop Limited (Note (5))	16.5%	16.5%
World Watches International (Note (5))	16.5%	-
Shenzhen Fiyta Technology Co., Ltd (Technology Company) (Note (6))	25%	25%
Shenzhen Xiangji Trading Co., Ltd (Trading Company) (Note (6))	25%	25%
Beijing Henglianda Watch Center Co., Ltd (Henglianda Company) (Note (6))	25%	25%
Kunming Lishan Department Store Co., Ltd. (Lishan Department Store) (Note (6))	25%	25%
Harbin World Watches Distribution Co., Ltd. (Harbin Company) (Note (6))	25%	25%
Shenzhen Harmony Culture Communication Co., Ltd (Culture Company) (Note (6))	25%	25%
Emile Choureit Timing (Shenzhen) Ltd. (Emimle Choureit Shenzhen Company) (Note (6))	25%	25%
Fiyta Sales Co., Ltd (Sales Company) (Note (6))	25%	-
Swiss Company (Note (7))	30%	30%

Note:

(1) According to “State Council Notice on Implementing Transitional Preferential Policies to Corporate Income Tax” (Guo Fa [2007] No. 39 issued by State Administration of Taxation, the preferential tax rates enjoyed by enterprises will be phased to legal tax rate in 5 years step by step since 1 January 2008. As a result, the income tax rate for 2011 is 24% for the companies registered in Shenzhen.

(2) According to the regulations stated in Guo Shui Fa (2008) No. 28, “Interim Administration

Method for Levy of Corporate Income Tax to Enterprise that Operates Cross-regionally”, the head office of the Company and its branch offices, the head office of HARMONY Company and its branch offices adopt tax submission method of “unified calculation, managing by classes, pre-paid in its registered place, settlement in total, and adjustment by finance authorities” starting from 1 January 2008. Branch offices of the Company and HARMONY Company prepay 50% of the enterprise income tax according to its taxable income in the place where it is registered. Another 50% will be settled by the head office of the Company and HARMONY Company with Shenzhen State Taxation Bureau.

(3) According to Notice of “Pre-tax Deduction of Enterprise Research and Development Expenses (Interim)”, Guo Shui FA (2008) No. 116 issued by State Administration of Taxation on 10 Dec. 2008, research and development expenses, which are charged to profit or loss instead of being capitalized as intangible assets, that incurred by the Company and the Manufacture Company for developing new technology, new product and new technique can be deducted by 50% extra on top of actual expensed charged in profit or loss.

(4) According to “Notice on Registration for Tax Remission”, Shen Di Shui Jian Nan Bei Gao Zi (2009) No. 091026 issued by Shenzhen Municipality Nanshan District Local Taxation Bureau, the company is entitled to the preferential tax rate that is applicable for hi-tech enterprises supported by the State since 1 January 2009. Its income tax rate is 15% for a period from January 2009 to December 2011.

(5) These companies are registered in Hong Kong and the income tax rate of Hong Kong applicable is 16.50% this year.

(6) According to the People's Republic of China Enterprise Income Tax Law, the income tax rate is 25% for residential enterprises since 1 January 2008.

(7) A tax rate of 30% is applicable for Swiss Company as it registered in Switzerland.

6. Property tax

In accordance with Article 5 of “Notice to Publish “Reply to Issues Related to Property Tax and Vehicle and Vessel Usage Tax”, Shen Di Shui Fa (1999) No.374 issued by Shenzhen Local Taxation Bureau, property leased out by manufacturing or business entity are taxed at 1.2% on the bases of 70% of the original cost of the property.

Properties of the Group that situated in Shenzhen are taxed according to this notice. Properties situated in other cities are taxed according to local regulations.

VI. Business combination and consolidated financial statements

1. Details of subsidiaries

(1) Subsidiaries that are established by setup or investment

Monetary unit: in ten thousands ('0000)

Name of Subsidiary	Type of Subsidiary	Place of Registration	Business Nature	Registered Capital	Business Scope	Type of Business Formation	Legal Representative	Organization code	Amount of investment at the year end	Balance of other items that substantially form net investment to subsidiary
HARMONY Company (Note a)	holding	Shenzhen	commerce	60,000 (RMB)	Purchase, sales and maintenance of watch, clock and related spare parts	Limited liability	Xu Dongsheng	279313935	60,130.72 (RMB)	-
Manufacture Company	holding	Shenzhen	manufacture	1,000 (RMB)	Manufacturing and maintenance of watch and its movements, spare parts, and precise timing devices	Limited liability	Xu Dongsheng	715210802	1,000 (RMB)	-
Watch Center (Note b)	holding	Shenzhen	commerce	280 (RMB)	Sales of luxury watch and clock, glasses, accessories, gifts, artcraft (excelling gold and silver jewelry)	Limited liability	Fang Juan	192236228	140 (RMB)	-
Fiyta Hong Kong	holding	Hong Kong	commerce	6,506 (HKD)	Commerce and investment	Limited liability	-	37954781	6,506 (HKD)	-
Station 68	holding	Hong Kong	commerce	380 (HKD)	Sales of watches, domestic trading	Limited liability	-	50994724	300 (HKD)	-
Harbin Company	holding	Harbin	commerce	50 (RMB)	Purchase and sale and maintenance of clock, watch and accessory	Limited liability	Lu Bingqiang	127592103	50 (RMB)	-
Henglianda Company (Note c)	holding	Beijing	commerce	3,000 (RMB)	Sales of watches and maintenance	Limited liability	Fang Juan	775466877	3,130 (RMB)	-
Technology Company	holding	Shenzhen	manufacture	1,000 (RMB)	R&D, manufacture, sales of watches, high-tech components production and processing	Limited liability	Xu Dongsheng	69396758X	1,000 (RMB)	-
Trading Company	holding	Shenzhen	commerce	500 (RMB)	Watches and gifts sales and other related consultancy service, other domestic trading	Limited liability	Xu Dongsheng	697108950	500 (RMB)	-
Culture Company	holding	Shenzhen	commerce	50 (RMB)	Conduct cultural related activities, advertisement business	Limited liability	Fang Juan	562782024	50 (RMB)	-
Emile Chouriet Shenzhen	holding	Shenzhen	commerce	500 (HKD)	Wholesale, import & export and related business of timepieces, parts, accessories; watch aftersale service	Limited liability	Lu Bingqiang	550312818	500 (HKD)	-
World Watches International (Note d)	holding	Hong Kong	commerce	1000 (HKD)	Sales and maintenance service	Limited liability		53289178-000-11-10-4	1000 (HKD)	-
Sales Company (Note e)	holding	Shenzhen	commerce	5000 (RMB)	Design, R&D, sales of all kinds of clock and watch, timing devices and related accessories; jewelry sales and import, export business	Limited liability	Xu Dongsheng	57476869-2	5000 (RMB)	-

(continued)

Name of Subsidiary	Percentage of Shareholding (%)	Percentage of voting power (%)	In the scope of consolidation (Yes/No)	Minority shareholders' interest	Amount in minority shareholder interest used to offset minority shareholder loss	Owners' equity of parent company after deducting the excess of Minority's attributable share of losses in current period over its share of opening balance of subsidiary's owners' equity	Note
HARMONY Company (Note a)	100.00	100.00	Yes	-	-	-	-
Manufacture company	100.00	100.00	Yes	-	-	-	-
Watch Center (Note b)	50.00	50.00	Yes	140.00	-	-	-
Fiyta Hong Kong	100.00	100.00	Yes	-	-	-	-
Station 68	60.00	60.00	Yes	135.12	-	-	-
Harbin Company	100.00	100.00	Yes	-	-	-	-
Henglianda Company (Note c)	100.00	100.00	Yes	-	-	-	-
Technology Company	100.00	100.00	Yes	-	-	-	-
Trading Company	100.00	100.00	Yes	-	-	-	-
Culture Company	100.00	100.00	Yes	-	-	-	-
Emile Chouriet Shenzhen	100.00	100.00	Yes	-	-	-	-
World Watches International (Note d)	100.00	100.00	Yes	-	-	-	-
Sales Company (Note e)	100.00	100.00	Yes	-	-	-	-

Note:

- a. The Company originally owned 99.50% shareholdings of HARMONY Company. Pursuant to the approval of the resolution passed on the 13th meeting of the Sixth Board of Directors held on 14 August 2010, 0.50% of the shareholdings of HARMONY Company held by CATIC Shenzhen Company were transferred to the Company. The shareholding transfer price is determined to be RMB2,810,000.00, upon agreement reached by both parties, based on the valuation report of Zhong Lian Ping Bao Zi (2010) No. 511 issued by China United Assets Appraisal Co., Ltd. On 4 January 2011, HARMONY Company finished the procedure of alteration of its commercial and business registration. On 10 May 2011, the Company paid the consideration for the shareholding transfer, and as a result, the Company owned 100% of the shareholdings of HARMONY Company.
- b. Watch Center used to be a joint venture of the Group. According to the agreement signed between the Company and another shareholder of Water Center, Shenzhen Airlines Electronic Machinery Co., Ltd. (Shenzhen Airline Electronic), the latter is entitled to a fixed yield since 2003, but does not participate in Watch Center's operation. The Company actually controlled the Watch Center's financial and operational management since then. Therefore, Watch Center was included in the

Company's the consolidation scope. Watch Center was closed down due to the removal of premise in 2008.

- c. HARMONY Company held, previously, 50% of the shareholdings of Henglianda Company. Pursuant to the approval of the resolution passed on the 17th meeting of the Sixth Board of Directors held on 17 December 2010, HARMONY Company purchased 50% of shareholdings held by Beijing Hengdeli Swiss Watches Co., Ltd (Beijing Hengdeli). Both parties agreed that the shareholding transfer base date was 31 October 2010 and the consideration for the transfer was RMB16,300,000.00. On 16 February 2011, Henglianda Company finished the procedure of alteration of its commercial and business registration. On 3 March 2011, HARMONY Company paid all shareholding transfer consideration and since then, it held 100% of shareholdings of Henglianda Company.
- d. It is established in Hong Kong on 16 November 2010. On 4 May 2011, HARMONY Company invested HKD10,000,000.00.
- e. It is established by the Company with investment of RMB50,000,000.00 in August 2011. The business term is from 3 May 2011 to 3 May 2061.
- (2) Subsidiaries acquired through business combinations involving entities not under common control

Monetary unit: in ten thousands ('0000)

Name of Subsidiary	Type of Subsidiary	Place of Registration	Business Nature	Registered Capital	Business Scope	Type of Business Formation	Legal Rep.	Organization code	Amount of investment at the year end	Balance of other items that substantially form net investment to subsidiary
Lishan Department Store	holding	Kunming	Commerce	500 (RMB)	Domestic trading, materials supply and distributing	Limited liability	Lu Wanjun	77552086-1	120(RMB)	-
Swiss Company	holding	Swiss	Commerce	25 (CHF)	Manufacture And sales of Emile watch	Limited liability	Deper Jean	-	-	-

(continued)

Name of Subsidiary	Percentage of Shareholding (%)	Percentage of voting power (%)	In the scope of consolidation (Yes/No)	Minority shareholders' interest	Amount in minority shareholder interest used to offset minority shareholder loss	Owners' equity of parent company after deducting the excess of Minority's attributable share of losses in current period over its share of opening balance of subsidiary's owners' equity	Note
Lishan Department Store	100.00	100.00	Yes	-	-	-	-
Swiss Company	100.00	100.00	Yes	-	-	-	-

2. The business entity which is controlled by special purpose vehicles (SPV)

Based on the equity trust agreement signed by Station 68, the subsidiary of Fiyta Hong Kong, and the trustee of Nature Art Ltd and ProTop Ltd on 10 December 2009, Station 68 as the trustor owns the right of earnings from shareholding and other related right of Nature Art Ltd and ProTop Ltd. It was agreed that the trustee agrees to transfer its rights from time to time based on trustor's instructions. Since then Station 68 owned the control rights over Nature Art Ltd and ProTop Ltd, and the two entities were included in the scope of consolidation by Station 68.

Nature Art Ltd and ProTop Ltd are the suppliers of fashion brand watches to the Group. Major transactions that are included in the scope of consolidation between the SPVs of Nature Art Ltd and ProTop Ltd and the Company, and major asset and liability items and corresponding year end balances of Nature Art Ltd and ProTop Ltd that are recognized in consolidated financial statements are presented as follows:

		Monetary unit: RMB Yuan
Item	Major transactions with the Company	Major assets, liabilities items recognized in the consolidated statements and its year-end balances
End of 2011:		
Nature Art Limited	Purchase fashion brand watches	
Current asset		308,745.37
Current liability		344,628.57
Net asset		(45,080.87)
End of 2010:		
Nature Art Limited	Purchase fashion brand watches	
Current asset		7,585.77
Current liability		26,037.54
Net asset		(18,451.77)
(Continued)		
Item	Major transactions with the Company	Major assets, liabilities items recognized in the consolidated statements and its year-end balances
End of 2011:		
ProTop Limited	Purchase fashion brand watches	
Current asset		130,257.10
Non-current asset		-
Current liability		50,304.79
Net asset		81,932.93
End of 2010:		
ProTop Limited	Purchase fashion brand watches	
Current asset		1,341,473.46
Non-current asset		88,272.37
Current liability		1,282,385.69
Net asset		147,360.14

3. Explanation to changes in scope of consolidation

As disclosed in Note VI. 1, the Group's scope of consolidation expanded as World Watch International and Sales Company were newly established by the Group this year.

On 8 November 2011, the Company applied for the cancellation of Xi'an Chengheng Industrial Co., Ltd (Xi'an Chengheng), a 100% shareholding subsidiary of the Company. Since then, it was excluded from the scope of the Company's consolidation.

4. Entities that are newly included in or excluded out of the scope of consolidation in the reporting period

(1) Subsidiaries that are newly included in the scope of consolidation in current year

Name of subsidiary	Net asset at year end	Net profit in current year
World Watches International	8,102,857.32	(4,245.39)
Sales Company	29,951,081.44	(20,048,918.56)

(2) Subsidiaries that are excluded out of the scope of consolidation in current year

Name of subsidiary	Net asset at disposal date	Net profit from the beginning of the year till disposal date
Xi'an Chengheng	9,642,204.73	(230,670.93)

5. Exchange rate of the main items in financial statements translation of overseas entities

Item	Assets and liabilities	
	31 December 2011	1 January 2011
Fiyta Hong Kong	1HKD = 0.8107 RMB	1HKD = 0.8509 RMB
World Watch International	1 HKD = 0.8107 RMB	1 HKD = 0.8509 RMB
Swiss Company	1 CHF = 6.7085 RMB	1 CHF = 7.0562 RMB
Item	Income, expense and cash flow items	
	Year 2011	Year 2010
Fiyta Hong Kong	1 HKD = 0.8308 RMB	1 HKD = 0.8657 RMB
World Watch International	1 HKD = 0.8308 RMB	1 HKD = 0.8657 RMB
Swiss Company	1CHF =6.8824 RMB	1CHF = 6.8115 RMB

Station 68 is a subsidiary of Fiyta Hong Kong. ProTop Ltd and Nature Art Ltd are business entities controlled by Fiyta Hong Kong. The way of foreign currency translation of these entities are the same as Fiyta Hong Kong.

VII. Notes to main items of the consolidated financial statements

Unless otherwise specified, the beginning of the year refers to 1 January 2011 and the end of the year refers to 31 December 2011.

1. Cash and bank balances

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	Amount in RMB	Amount in foreign currency	Exchange rate	Amount in RMB
Cash on hand:						
-RMB	-	-	437,956.14	-	-	261,223.99
-USD	306.00	6.3009	1,928.08	306.00	6.6227	2,026.54
-HKD	14,105.81	0.8107	11,435.58	1,476.66	0.8509	1,256.49
-EUR	3,959.45	8.1625	32,319.01	3.90	8.8065	34.34
-GBP	110.00	9.7116	1,068.28	110.00	10.2182	1,124.00
-CHF	15,341.75	6.7085	102,920.13	2,454.05	7.0562	17,316.03
-Ringgit	414.00	1.9889	852.93	-	-	-
Bank deposit:						
-RMB	-	-	141,764,955.85	-	-	605,847,744.06
-USD	195,760.73	6.3009	1,233,468.78	125,038.69	6.6227	828,093.73
-HKD	31,352,088.52	0.8107	25,417,138.16	7,226,436.44	0.8509	6,148,857.42
-CHF	90,930.00	6.7085	610,003.91	40,091.70	7.0562	282,895.00
Other monetary funds						
-RMB	-	-	13,255.13	-	-	65,245.92
Total			169,627,301.98			613,455,817.52

Note: among the bank balances, amount of RMB422,520.00 is the security deposit for letter of performance guarantee issued by HARMONY Company, which will be expired on 30 June 2012.

2. Accounts receivable

(1) Accounts receivables presented by types

Types	Closing balance			
	Book value		Provision for bad debt	
	Amount	Percentage (%)	Amount	Percentage (%)
Receivables that are individually significant in amount and provided for bad debt separately	10,988,318.49	3.47	10,988,318.49	100.00
Receivables provided for bad debt by portfolio:				
Portfolio based on aging of receivables	99,639,705.01	31.46	4,552,318.36	4.57
Specific receivables	173,813,381.72	54.89	-	-
Subtotal	273,453,086.73	86.35	4,552,318.36	1.66

Types	Closing balance			
	Book value		Provision for bad debt	
	Amount	Percentage (%)	Amount	Percentage (%)
Receivables that are individually insignificant in amount but provided for bad debt separately	32,229,445.53	10.18	32,229,445.53	100.00
Total	316,670,850.75	100.00	47,770,082.38	15.09

(Continued)

Type	Opening balance			
	Book value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Receivables that are individually significant in amount and provided for bad debt separately	10,988,318.49	4.97	10,988,318.49	100.00
Receivables provided for bad debt by portfolio:				
Portfolio based on aging of receivables	51,348,742.23	23.23	4,083,646.82	7.95
Specific receivables	128,631,104.37	58.18	-	-
Subtotal	179,979,846.60	81.41	4,083,646.82	2.27
Receivables that are individually insignificant in amount but provided for bad debt separately	30,114,190.99	13.62	30,114,190.99	100.00
Total	221,082,356.08	100.00	45,186,156.30	20.44

(2) Receivables presented by account aging

Item	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	272,662,371.86	86.11	177,775,351.80	80.41
1 to 2 year	769,220.02	0.24	429,855.42	0.19
2 to 3 years	390,196.33	0.12	10,723.48	0.01
Over 3 years	42,849,062.54	13.53	42,866,425.38	19.39
Total	316,670,850.75	100.00	221,082,356.08	100.00

(3) Provision for bad debt

(a) Bad debt provision for receivables that are individually significant in amount and provided for bad debt separately

Receivables	Book value	Bad debt provision	Percentage of provision	Reason
Beijing Chengxiang Trade Center Limited	2,033,710.15	2,033,710.15	100.00	unrecoverable
Qingdao Hengdeli Timepiece Spectacles and jewelry Co., Ltd	1,298,215.01	1,298,215.01	100.00	unrecoverable
Yingkou Department Store Timepiece and Sewing Machine Wholesale Station	982,604.03	982,604.03	100.00	unrecoverable
Jilin Timepiece and Photograph Devices Wholesale Co., Ltd	890,387.77	890,387.77	100.00	unrecoverable

Receivables	Book value	Bad debt provision	Percentage of provision	Reason
Siping No.1 Department Store	823,302.04	823,302.04	100.00	unrecoverable
Anshan Timepiece and Photograph Devices Co., Ltd	807,815.02	807,815.02	100.00	unrecoverable
Customers to be checked	4,152,284.47	4,152,284.47	100.00	unrecoverable
Total	10,988,318.49	10,988,318.49		

(b) Receivables provided for bad debt by portfolio:

i. Bad debt provision that recognized based on aging analysis

Aging	Closing balance			Opening balance		
	Book value		Bad debt provision	Book value		Bad debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
within 1 year	98,585,730.49	98.94	4,384,572.49	49,155,629.05	95.73	2,447,630.62
1~2 years	722,581.43	0.73	68,327.94	418,473.80	0.81	43,130.16
2~3 years	331,393.09	0.33	99,417.93	10,723.48	0.02	5,361.74
over 3 years	-	-	-	1,763,915.90	3.44	1,587,524.30
Total	99,639,705.01	100.00	4,552,318.36	51,348,742.23	100.00	4,083,646.82

ii. Bad debt provision that recognized using other methods:

Name of portfolio	Book value	Bad debt provision
Specific accounts	173,813,381.72	-

(c) Receivables that individually insignificant in amount but provided for bad debt separately

Receivables	Book value	Percentage of bad debt recognized (%)	Bad debt provision	Reason for recognition
Bad and doubtful debts	32,229,445.53	100.00	32,229,445.53	unrecoverable

The amount of individual receivable account with obvious evidence indicating that the customers cannot perform the payment obligations is less than RMB 800,000.00. The Group believes that there are significant risks of recovering these receivables, therefore, recognize bad debt provision by 100% of such receivables.

(4) During the reporting period, there are no receivables due from any shareholders held over 5% (inclusive) voting shares of the Company.

(5) Top five receivable accounts

Entity name	Relation with the Group	Amount	Aging	Percentage of total accounts receivable (%)
China Resources (Shenzhen) Co., Ltd	Non-related party	7,237,347.97	within 1 year	2.29

Entity name	Relation with the Group	Amount	Aging	Percentage of total accounts receivable (%)
Xi'an Jinying International Shopping Center Co., Ltd	Non-related party	4,292,475.60	within 1 year	1.36
Fuzhou Dayang Department Store Co., Ltd.	Non-related party	3,662,262.83	within 1 year	1.16
China Resources Sun Hung Kai Properties (Hangzhou) Limited	Non-related party	3,139,723.00	within 1 year	0.99
Shenzhen Nanbeizhou Hardware Co., Ltd.	Non-related party	2,594,803.50	within 1 year	0.82
Total		20,926,612.90		6.62

(6) Receivables from related parties

For details, see Note VIII.6 Receivables from and payables to related parties.

(7) Amounts of receivables denominated in foreign currencies and exchange rate are as follows:

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
USD	27,494.95	6.3009	173,242.93	28,229.20	6.6227	186,953.52
HKD	9,254,766.66	0.8107	7,502,839.33	1,694,573.47	0.8509	1,441,912.57
CHF	15,071.00	6.7085	101,103.80	39,132.00	7.0562	276,123.22

3. Prepayments

(1) Prepayments presented by aging

Account aging	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
within 1 year	54,198,876.97	97.41	35,747,261.28	97.55
1~2 years	1,105,861.04	1.99	716,932.15	1.96
2~3 years	154,972.00	0.28	-	-
over 3 years	180,000.00	0.32	180,060.00	0.49
Total	55,639,710.01	100.00	36,644,253.43	100.00

(2) Top five prepayment accounts

Name of entity	Relationship with the Group	Amount	Aging	Reason for unsettlement
AVIC Trust Co., Ltd.	Related party	28,050,000.00	within 1 year	Prepayment of consideration for shareholding transfer
Borui Trading Co., Ltd.	Non-related party	4,080,288.00	within 1 year	Not due
Sensheng Industrial Co., Ltd.	Non-related party	3,228,350.96	within 1 year	Not due
Taxes for imported watches at Customs	Non-related party	2,935,716.64	within 1 year	Security deposit for imported watches
Shenzhen Youpin Decoration Engineering Limited	Non-related party	2,586,500.00	within 1 year	Advance payment for renovation

Total	40,880,855.60
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(3) During the reporting period, there is no prepayment to any shareholder with 5% of total voting shares of the Company.

(4) The amount of prepayments in foreign currency and exchange rates are as follows

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
HKD	4,482,862.69	0.8107	3,634,256.78	9,583,285.48	0.8509	8,154,417.62
CHF	3,664.90	6.7085	24,585.98	3,665.00	7.0562	25,860.97

4. Other receivables

(1) Other receivables presented by types

Type	Closing balance			
	Book Value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables that individually significant in amount and provided for bad debt separately	2,215,684.09	5.85	2,215,684.09	100.00
Other receivables provided for bad debt by category:				
Aging	21,936,734.70	57.95	1,241,275.52	5.66
Specific account combination	12,223,537.25	32.29	-	-
Subtotal	34,160,271.95	90.24	1,241,275.52	3.63
Other receivables that individually insignificant in amount but provided for bad debt separately	1,480,064.11	3.91	1,480,064.11	100.00
Total	37,856,020.15	100.00	4,937,023.72	13.04

(continued)

Type	Opening balance			
	Book Value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables that individually significant in amount and provided for bad debt separately	-	-	-	-
Other receivables provided for bad debt by category:	-	-	-	-
Aging	19,829,774.47	61.94	4,465,791.17	22.52
Specific account combination	12,026,644.82	37.57	-	-
Subtotal	31,856,419.29	99.51	4,465,791.17	14.02
Other receivables that individually insignificant in amount but provided for bad debt separately	156,020.47	0.49	156,020.47	100.00

Type	Opening balance			
	Book Value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Total	32,012,439.76	100.00	4,621,811.64	14.44

(2) Other receivables presented by aging

Item	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
within 1 year	24,640,702.17	65.09	21,058,359.00	65.78
1~2 years	7,906,428.27	20.89	5,171,256.90	16.15
2~3 years	697,479.27	1.84	1,586,857.16	4.96
over 3 years	4,611,410.44	12.18	4,195,966.70	13.11
Total	37,856,020.15	100.00	32,012,439.76	100.00

(3) Bad debt provision

(a) Bad debt provision for other receivables that are individually insignificant in amount and provided for bad debt separately

Other receivables	Book value	Bad debt provision	Provision (%)	Reason
Shenzhen Xinlongtai Industrial Co., Ltd.	1,573,876.89	1,573,876.89	100.00	unrecoverable
Zhuangtu Commodity Trading Center	641,807.20	641,807.20	100.00	unrecoverable
Total	2,215,684.09	2,215,684.09		

(b) Other receivable provided for bad debt by combination

i. Other receivables with bad debt provision recognized by accounts aging:

Item	Closing balance			Opening balance		
	Book value		Bad debt provision	Book value		Bad debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
within 1 year	21,055,597.79	95.99	991,460.41	13,608,039.14	68.62	707,635.48
1~2 years	388,136.58	1.77	31,686.41	1,951,845.20	9.84	65,648.36
2~3 years	33,542.33	0.15	8,862.70	658,162.40	3.32	118,779.60
over 3 years	459,458.00	2.09	209,266.00	3,611,727.73	18.22	3,573,727.73
Total	21,936,734.70	100.00	1,241,275.52	19,829,774.47	100.00	4,465,791.17

ii. Other receivables with bad debt provision recognized by other method:

Combination	Book value	Bad debt provision
Specific accounts combination	12,223,537.25	-

(c) Other receivables with insignificant in amount individually at year end but are recognized

bad debt provision individually

Other receivables	Book value	Percentage (%)	Bad debt provision	Reason for recognition
Rental	814,950.63	100.00	814,950.63	unrecoverable
Loans	400,000.00	100.00	400,000.00	unrecoverable
Advances to employees resigned	156,020.47	100.00	156,020.47	unrecoverable
Shareholding transfer consideration	109,093.01	100.00	109,093.01	unrecoverable
Total	1,480,064.11		1,480,064.11	

(4) During the report period, there are no other receivables from any shareholder with 5% (inclusive) of total voting shares of the Company.

(5) Top five other receivable accounts

Name of entity	Relationship with the Group	Amount	Aging	Percentage of other receivables (%)
China Resources (Shenzhen) Limited	Nont-related party	1,579,020.00	1-2 years	4.17
Shenzhen Xinlongtai Industrial Co., Ltd	Nont-related party	1,573,876.89	Over 3 years	4.16
China Resources Sun Hung Kai Properties (Hangzhou) Limited	Nont-related party	1,307,568.00	1-2 years	3.45
Shenzhen Yitian Holiday World Property Development Co., Ltd	Nont-related party	1,090,523.00	1-2 years	2.88
Swiss Watch International Business (Shanghai) Co., Ltd	Nont-related party	918,627.20	Within 1 year	2.43
Total		6,469,615.09		17.09

(6) Receivables from related parties

For details, see Note VIII.6 Receivables from and payables to related parties.

(7) The amount of other receivables denominated in foreign currency and exchange rate are as follows

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
CHF	383,495.00	6.7085	2,572,676.21	233,056.00	7.0562	1,644,489.75
HKD	506,323.20	0.8107	410,476.22	846,168.10	0.8509	720,004.44

5. Inventory

(1) Inventory Classification

Item	Closing balance
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	Carrying amount	Impairment provision	Book value
Raw materials	158,461,195.42	22,595,495.27	135,865,700.15
Work-in-process products	24,453,989.02	-	24,453,989.02
Goods in stock	1,495,548,483.35	14,963,688.88	1,480,584,794.47
Total	1,678,463,667.79	37,559,184.15	1,640,904,483.64

(continued)

Item	Opening balance		
	Carrying amount	Impairment provision	Book value
Raw materials	75,456,394.56	20,429,279.11	55,027,115.45
Work-in-process products	13,299,075.48	-	13,299,075.48
Goods in stock	994,388,732.16	14,322,297.39	980,066,434.77
Total	1,083,144,202.20	34,751,576.50	1,048,392,625.70

Note: at the year end, the balance of the Group's inventory of branded watches with aging over 3 years is RMB107,299,115.91, accounts for 8.15% of the closing balance of all branded watches. The opening balance of the branded watches of the Group's inventory with aging over 3 years is RMB76,417,873.20, about 8.59% of the opening amount of the branded watches.

(2) Changes in inventory impairment provision

Item	Opening balance	Increased	Decreased		Closing balance
			Reversed	Written-off	
Raw materials	20,429,279.11	2,166,216.16	-	-	22,595,495.27
Goods in stock	14,322,297.39	641,391.49	-	-	14,963,688.88
Total	34,751,576.50	2,807,607.65	-	-	37,559,184.15

(3) Reasons for recognizing and reserving of inventory impairment provision

Item	Basis for recognizing inventory impairment provision	Reason for reversal of inventory impairment provision this year	Percentage of reversed amount accounts for closing balance of this type of inventory (%)
Raw materials	Net realizable value lower than related cost	-	-
Goods in stock	Net realizable value lower than related cost	-	-

6. Other Current Assets

Item	Nature	Closing balance	Opening balance
Deductible input tax of VAT (Note)	Input tax	39,840,898.57	-
Housing rental	Store rental	3,932,802.45	3,315,176.10
Others	Advertisement fees	472,195.15	631,357.04
Total		44,245,896.17	3,946,533.14

Note: it is the input tax of VAT balance of the Group that has not been offset at the end of current year

7. Long-term equity investment

(1) Classification of the long-term equity investment

Item	Opening balance	Increased	Decreased	Closing balance
Investment in associated companies	1,896,913.65	-	33,340.89	1,863,572.76
Other equity investment	385,000.00	-	-	385,000.00
Less: impairment provision for the long-term equity investment	300,000.00	-	-	300,000.00
Total	1,981,913.65	-	33,340.89	1,948,572.76

(2) Details of the long-term equity investment

Investee	Accounting method	Investment cost	Opening balance	Increase / decrease	Closing balance
Northwest Polytechnical University Shenzhen Institute	Equity method	1,350,000.00	1,896,913.65	(33,340.89)	1,863,572.76
Xi'an Tangcheng Co., Ltd	Cost method	85,000.00	85,000.00	-	85,000.00
Shenzhen Zhonghang Culture Co. Ltd	Cost method	300,000.00	300,000.00	-	300,000.00
Total			2,281,913.65	(33,340.89)	2,248,572.76

(Continued)

investee	Shareholding in investee (%)	Voting shares in investee (%)	Explanation on inconsistency between the shares percentage and voting percentage in investee	Provision for impairment	Provision recognize d this year	Cash dividend this year
Northwest Polytechnic University Shenzhen Institute (NPU Shenzhen Institute) (note)	45.00	50.00	Interest distributed by 50% as agreed among shareholders	-	-	-
Xi'an Tangcheng Limited	0.10	0.10	-	-	-	-
Shenzhen Zhonghang Culture Co. Ltd	15.00	15.00	-	300,000.00	-	-
Total				300,000.00	-	-

Note: on 30 December 2011, the Company signed meeting memorandum with NPU Shenzhen Institute and agreed that the Company transfers the 45% equity in NPU Shenzhen Institute to

Shenzhen Northwest Industrial Technology Research Institute Co., Ltd at a consideration of RMB1,650,000.00. It is agreed that the base date of financial clearance is 30 September 2011. As at 31 December 2011, related procedures regarding the transfer are still in process.

(3) Investment in associate companies

Investee	Enterprise nature	Reg. place	Legal rep.	Business nature	Reg. capital	Share percent age held by the Group (%)	Voting percentage of the Group in investee (%)
NPU Shenzhen Institute	Institution	Shenzhen	Zheng Yongan	Education, training, scientific research	3,000,000.00	45	50

(Continued)

investee	Total asset the year end	Total liability the year end	Total net asset the year end	total sales revenue this year	Total net profit this year	Relation	Org. code
NPU Shenzhen Institute	4,941,318.77	808,287.11	4,133,031.66	382,265.00	10,781.17	Associate company	-

(4) Detail of provision for the long-term equity investment impairment

Item	Opening balance	Increased this year	Decreased this year	Closing balance
Shenzhen Zhonghang Culture Co., Ltd	300,000.00	-	-	300,000.00

8. Investment property

(1) Details of the investment property

Item	Opening balance	Increased	Decreased	Closing balance
the investment real estate with subsequent measurement by the costing model	165,381,973.79	107,108,674.84	-	272,490,648.63
Less: provision for the investment real estate impairment	-	-	-	-
Total	165,381,973.79	107,108,674.84	-	272,490,648.63

(2) The investment real estate measured by cost method

Item	Opening balance	Increase	Decrease	Closing balance
A. Total original cost	231,774,832.24	127,221,660.33	-	358,996,492.57
Property and buildings	231,774,832.24	127,221,660.33	-	358,996,492.57
B. Total accumulated depreciation	66,392,858.45	20,112,985.49	-	86,505,843.94
Property and buildings	66,392,858.45	20,112,985.49	-	86,505,843.94
C. Total impairment provision	-	-	-	-
Property and buildings	-	-	-	-

Item	Opening balance	Increase	Decrease	Closing balance
D. Total book value	165,381,973.79			272,490,648.63
Property and buildings	165,381,973.79			272,490,648.63

Note: The addition of property of cost of RMB127,221,660.33 and accumulated depreciation of RMB10,368,794.98 are transferred from self-use property into investment property based on the intend of holding of the Company's management. The depreciation recognized this year is RMB9,744,190.51.

9. Fixed assets

(1) Fixed assets

Item	Opening balance	Increase	Decrease	Closing balance
A. Total original cost	329,719,406.06	43,875,637.47	131,085,403.53	242,509,640.00
Incl: property and buildings	241,300,139.29	22,808,900.00	127,517,208.64	136,591,830.65
Machinery	25,099,720.30	13,488,038.67	350,754.97	38,237,004.00
Transport vehicles	12,166,522.89	2,124,724.00	1,609,419.13	12,681,827.76
Electronic devices	21,162,701.34	3,363,228.21	965,629.64	23,560,299.91
Other equipment	29,990,322.24	2,090,746.59	642,391.15	31,438,677.68
B. Accumulated depreciation		Increase	Decrease	
Total cumulative depreciation	77,977,337.43	15,044,096.50	13,158,723.04	79,862,710.89
Incl: property and buildings	28,559,964.56	3,415,836.55	10,395,163.84	21,580,637.27
Machinery	10,987,524.93	2,664,066.25	198,071.71	13,453,519.47
Transport vehicles	7,371,721.47	1,320,432.18	1,528,958.94	7,163,194.71
Electronic devices	12,370,127.97	2,668,611.31	639,625.22	14,399,114.06
Other equipment	18,687,998.50	4,975,150.21	396,903.33	23,266,245.38
C. Total carrying amount	251,742,068.63	-	-	162,646,929.11
Incl: property and buildings	212,740,174.73	-	-	115,011,193.38
Machinery	14,112,195.37	-	-	24,783,484.53
Transport vehicles	4,794,801.42	-	-	5,518,633.05
Electronic devices	8,792,573.37	-	-	9,161,185.85
Other equipment	11,302,323.74	-	-	8,172,432.30
D. Total impairment provision	-	-	-	-
Incl: property and buildings	-	-	-	-
Machinery	-	-	-	-
Transport vehicles	-	-	-	-
Electronic devices	-	-	-	-
Other equipment	-	-	-	-
E. Total book value	251,742,068.63	-	-	162,646,929.11
Incl: property and buildings	212,740,174.73	-	-	115,011,193.38

Item	Opening balance	Increase	Decrease	Closing balance
Machinery	14,112,195.37	-	-	24,783,484.53
Transport vehicles	4,794,801.42	-	-	5,518,633.05
Electronic devices	8,792,573.37	-	-	9,161,185.85
Other equipment	11,302,323.74	-	-	8,172,432.30

Note: As described in Note VII. 8, the decrease of property of cost of RMB127,221,660.33 and accumulated depreciation of RMB10,368,794.98 are transferred to investment property based on the intend of holding of the Company's management.

The depreciation recognized this year is RMB15,044,096.50.

(2) Fixed assets with restricted ownership

As at 31 December 2011, the property with the original cost of RMB3,307,253.08, carrying amount of RMB3,217,484.76 was mortgaged for the Group's long-term loan of RMB1,197,658.09.

(3) Fixed assets leased out by operating lease

Category of asset leased out by operating lease	Book value at the year end	Book value at the beginning of the year
Property and buildings	-	165,774,200.29

(4) Fixed assets with application of certificate for property right is still in process

Item	Reason for certificate for property rights not receive	Predicted date for receiving the certificate	Book value
Office rooms for Harbin branch	Property right defective	Unknown	383,975.52

(5) Cost of the Group's assets that are fully depreciated but still in use amount to RMB26,732,472.97.

10. Construction in progress

Item	Closing balance			Opening balance		
	Carrying amount	Impairment provision	Book value	Carrying amount	Impairment provision	Book value
Fiyta tech. building ground carpark project	249,000.00	-	249,000.00	-	-	-

11. Intangible assets

Item	Opening balance	Increase	Decrease	Closing balance
A. Total original costs	29,155,773.85	19,359,521.38	773,638.28	47,741,656.95
Land-use right	15,487,349.60	18,793,600.00	-	34,280,949.60
Software system	2,529,964.45	565,921.38	-	3,095,885.83
Right to use trademarks	11,138,459.80	-	773,638.28	10,364,821.52
B. Accumulated amortization	9,918,241.63	916,530.23	158,942.40	10,675,829.46
Land-use right	5,161,114.16	344,074.32	-	5,505,188.48
Software system	766,635.14	514,535.95	-	1,281,171.09
Right to use trademarks	3,990,492.33	57,919.96	158,942.40	3,889,469.89
C. Total impairment provision	-	-	-	-
Land-use right	-	-	-	-
Software system	-	-	-	-
Right to use trademarks	-	-	-	-
D. Total book value	19,237,532.22	-	-	37,065,827.49
Land-use right	10,326,235.44	-	-	28,775,761.12
Software system	1,763,329.31	-	-	1,814,714.74
Right to use trademarks	7,147,967.47	-	-	6,475,351.63

Note: Amortization recognized this year is RMB916,530.23. As at 31 Dec 2011, the application of property right for the land-use right purchased in Guangming New District by the Group at RMB18,793,600.00 is still in process.

12. Goodwill

(1) Goodwill details

Name of investee or events constituting goodwill	Opening balance	Increase	Decrease	Closing balance	Impairment provision at the year end
Lishan Department Store	1,735,756.48	-	-	1,735,756.48	1,735,756.48

(2) Methods of impairment test to goodwill and provision recognition

HARMONY Company, a subsidiary of the Company, acquired 100% shares of Lishan Department Store on 31 March 2008 with consideration of RMB1,200,000.00. On the date of acquisition, the fair value of identifiable net assets of Lishan Department Store was RMB(535,756.48). HARMONY Company recorded the difference of RMB1,735,756.48 as goodwill in the consolidated financial statements. At the end of 2008, it carried out the

impairment test for the goodwill. As the recoverable amount was lower than its book value, HARMONY Company charged the goodwill impairment losses of RMB1,735,756.48 to the profit or loss in year 2008.

13. The Long-term deferred expenses

Item	Opening balance	Increase	Amortization	Other decrease	Closing balance	Reason for other decrease
Counter fabrication expenses	14,880,791.22	29,835,874.47	15,911,671.90	-	28,804,993.79	-
Renovation expenses	53,153,516.95	58,423,700.20	32,174,343.73	-	79,402,873.42	-
Fee for representation	3,978,571.35	13,538,547.48	3,978,571.35	-	13,538,547.48	-
Others	139,838.55	946,558.36	246,338.43	-	840,058.48	-
Total	72,152,718.07	102,744,680.51	52,310,925.41	-	122,586,473.17	

14. Deferred income tax assets

(1) Deferred income tax assets that already recognized

Item	Closing balance		Opening balance	
	Deferred income tax assets	Deductible temporary difference & deductible losses	Deferred income tax assets	Deductible temporary difference & deductible losses
Asset impairment provision	6,526,517.64	29,671,929.03	5,651,946.35	26,080,437.76
Offset internal unrealized profit	31,842,591.98	128,427,656.86	13,811,119.39	59,466,701.13
Deferred income	287,500.00	1,150,000.00	99,000.00	600,000.00
Deductible loss	4,518,836.87	19,311,171.71	754,724.60	3,882,873.37
Others (note)	3,075,469.94	12,301,879.74	-	-
Total	46,250,916.43	190,862,637.34	20,316,790.34	90,030,012.26

Note: According to “Regulations on Implementing the Corporate Income Tax Law of the People’s Republic of China”, the part advertisement and marketing promotion expenses exceeded 15% of sales revenue are recognized as deferred income tax assets.

(2) The details of unrecognized deferred income tax assets

Item	Closing balance	Opening balance
Impairment provision of asset	62,630,117.70	60,514,863.16
Deferred income	1,200,000.00	1,800,000.00
Total	63,830,117.70	62,314,863.16

Note: the Group did not recognize above deductible temporary difference mainly because there would be uncertainty on whether sufficient taxable income can be obtained in future. Besides,

the subsidy for enterprise technical center construction upto RMB1,200,000.00 that recognised in deferred income did not recognize deferred tax assets.

15. Details about asset impairment provision

Item	Opening balance	recognized this year	decreased this year		Closing balance
			Reversed	Written-off	
A. Bad debt provision	49,807,967.94	2,899,138.16	-	-	52,707,106.10
B. Inventory impairment provision	34,751,576.50	2,807,607.65	-	-	37,559,184.15
C. Provision for the long-term equity investment impairment	300,000.00	-	-	-	300,000.00
D. Provision for goodwill impairment	1,735,756.48	-	-	-	1,735,756.48
Total	86,595,300.92	5,706,745.81	-	-	92,302,046.73

16. Other non-current asset

Item	Details	Closing balance	Opening balance
Shenzhen CATIC Investment Management Company Limited (CATIC Invsetment Company))	Prepayment for consideration of shareholding transfer	40,300,250.00	-

Note: it represented consideration pre-paid to China Beijing Equity Exchange for purchasing 25% of shareholdings of Shanghai Watch Industry Co., Ltd (Shanghai Watch) from Shenzhen CATIC Investment Co. Ltd. (CATIC Investment Company).

17. Assets with restricted ownership or use right

Item	Closing balance	Reason for restriction
Book value of the asset for mortgage:	3,217,484.76	For mortgage
Asset with restricted ownership or use right for other reasons:	383,975.52	Defective in property rights
Total	3,601,460.28	

Note: Please refer to Note VII. 9.

18. Short-term loans

Item	Closing balance	Opening balance
Guaranteed loan (Note)	910,107,000.00	668,253,730.00
Credit Loan	70,000,000.00	60,000,000.00
Total	980,107,000.00	728,253,730.00

Note: the loan is guaranteed by China National Aviation Group.

19. Payables

(1) Details of payables

Item	Closing balance	Opening balance
Trade payables	167,271,669.39	140,330,134.06
Payables for material purchase	23,977,932.47	15,811,854.18
Engineering Warranty Payable	211,339.76	211,339.76
Total	191,460,941.62	156,353,328.00

(2) During the report period, there are no payables to any shareholder or related party with 5% (inclusive) of total voting shares of the Group.

(3) Payables in significant amount with account aging over 1 year

Creditor	Amount	Reasons for unpaid	Settled after the balance sheet date?
Foshan Shunde Daliang Weiye Watch Co., Ltd.	519,571.54	Invoice not issued	No
Shenzhen Clock and Watch Market Co., Ltd.	234,463.28	Invoice not issued	No
Chengheng International Limited	221,582.15	Incurred but unpaid	No
Total	975,616.97		

(4) Payable balances denominated in foreign currencies are as follows:

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
HKD	930,049.53	0.8107	753,991.15	17,162,709.26	0.8509	14,603,749.31
CHF	21,536.00	6.7085	144,474.26	21,536.00	7.0562	151,962.32
Total			898,465.41			14,755,711.63

20. Advances from customers

(1) Details of the advances received

Item	Closing balance	Opening balance
Advances from customers	3,740,327.89	8,464,969.63

(2) During the report period, there is no received deposit from any shareholder with 5% (inclusive) of total voting shares of the Company.

(3) Received deposit from related parties

For details, see Note VIII.6 Receivables from and payables to related parties.

(4) Advances from customers that are denominated in foreign currencies are as follows:

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
HKD	116,728.66	0.8107	94,631.92	705,530.57	0.8509	600,335.96

21. Employee remuneration payable

Item	Opening balance	increase this year	decrease this year	Closing balance
A. Wages, bonuses and allowance	19,810,762.31	249,059,082.69	241,727,111.05	27,142,733.95
B. Employee Welfare	-	6,735,469.56	6,735,469.56	-
C. Social insurance	1,155.32	27,263,024.81	27,264,180.13	-
Incl.: 1.medical insurance	163.90	6,578,589.01	6,578,752.91	-
2.endowment insurance	972.72	15,528,768.93	15,529,741.65	-
3.annuity fee	-	2,820,013.68	2,820,013.68	-
4.unemployment insurance	7.45	1,020,048.86	1,020,056.31	-
5.work-related injury insurance	-	439,596.45	439,596.45	-
6.reproduction insurance	11.25	768,658.17	768,669.42	-
7. others	-	107,349.71	107,349.71	-
D. Housing funds	-	9,170,516.23	9,170,516.23	-
E. Expenditure for trade union and employee training	162,631.26	6,864,085.24	6,762,941.95	263,774.55
F. Others	6,381.75	325,818.81	324,239.49	7,961.07
Total	19,980,930.64	299,417,997.34	291,984,458.41	27,414,469.57

The Group estimated that the employee benefit accrued at year end will be distributed in the coming accounting year.

22. Taxes payable

Item	Closing balance	Opening balance
Value added tax	17,516,474.89	3,388,267.58
Consumption tax	135,853.85	-
Business tax	621,281.77	551,432.79

Item	Closing balance	Opening balance
Corporate income tax	30,759,501.94	13,502,946.07
Individual income tax	697,477.62	582,038.39
City maintenance & construction tax	113,965.11	206,564.52
Property tax	-	105,000.00
Educational surcharges	27,595.81	30,206.92
Stamp duty	7,797.88	17,282.43
Enbankment protection fee	36,252.21	28,004.81
Others	321,083.20	80,956.94
Total	50,237,284.28	18,492,700.45

23. Interest payable

Item	Closing balance	Opening balance
Interest for bank loan	2,138,573.07	1,202,198.61

24. Dividend payable

Name of entity	Closing balance	Opening balance	Reasons for not paid over 1 year
CATIC Shenzhen Company	-	190,263.50	

25. Other payables

(1) Details of other payables

Item	Closing balance	Opening balance
within 1 year	21,026,798.40	18,685,715.31
1~2 years	3,066,028.22	2,997,601.79
2~3 years	1,544,025.24	680,766.66
over 3 years	7,361,735.17	7,054,253.98
Total	32,998,587.03	29,418,337.74

(2) During the reporting period there is no other payable to any shareholder with 5% (inclusive) of total voting shares of the Company.

(3) Payables to related parties

For details, see Note VIII.6 Receivables from and payables to related parties.

(4) Other payables in significant amount and with account aging over 1 year:

Creditor	Amount	Reasons for unpaid	Settled after the balance sheet date?
Shenzhen Tencent Computer System Co., Ltd.	2,600,000.00	within lease term	No
Cogent Systems (Shenzhen) Co., Ltd.	541,122.40	within lease term	No
Zhu Jin	500,000.00	Meal card guarantee	No

Creditor	Amount	Reasons for unpaid	Settled after the balance sheet date?
Hong Kong Chengheng Int. Ltd.	432,745.32	No expected repayment as promotion compensation	No
Shenzhen Uni-phone Self-service Kara-Ok Entertainment Supermarket Limited	432,429.00	within lease term	No
Shenzhen CATIC Real Estate limited (CATIC Real Estate)	424,800.00	within lease term	No
Sun Dawei	368,057.80	Not due	No
VIA Electronics (Shenzhen) Co., Ltd.	337,105.20	within lease term	No
Shenzhen Pastawang Food Chain Limited	329,000.00	within lease term	No
Shenzhen Yongantang Chain Pharmacy Limited	301,644.00	within lease term	No
Shenzhen Good Family Sports-Ware Chain Limited	279,578.00	within lease term	No
Oracle R&D Center (Shenzhen) Limited	238,140.00	within lease term	No
China Merchants Bank Shenzhen Sci-tech Park Branch	231,840.00	within lease term	No
Shenzhen Honestar Electronic Limited	218,280.00	within lease term	No
Shenzhen Oriental Boiler Control Co., Ltd.	213,778.40	within lease term	No
Total	7,448,520.12		

(5) Other payables in significant amount

Creditor	Closing balance	Nature or content
Shenzhen Tecent Computer System Limited	2,600,000.00	Lease guarantee
NPU Shenzhen institution	1,350,000.00	Consideration of equity transfer
Tao Hengyang	580,000.00	Personal loan
Beijing Yongsheng Xinxin Decoration Co., Ltd.	547,200.00	Decoration expense
Cogent Systems (Shenzhen) Co., Ltd.	541,122.40	Lease guarantee
Zhu Jin	500,000.00	Meal card guarantee
China Aviation Foundation	500,000.00	Promotion cost
Beijing Fengyi Decoration Co., Ltd.	459,000.00	Remaining of project fee and warranty
NOBLESSE	434,095.80	Ads expense
Hong Kong Chengheng Int. Limited	432,745.32	Promotion cost
Shenzhen Uni-phone Self-service Kara-Ok Entertainment Supermarket Limited	432,429.00	Lease guarantee
China Aviation Estate	424,800.00	Lease guarantee
Shenzhen Good Family Sportsware Chain Limited	414,630.00	Lease guarantee
Sun Dawei	368,057.80	Travel expense
Total	9,584,080.32	

(6) Other payables include the following amount in foreign currencies:

Item	Opening balance			Closing balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
HKD	1,854,972.85	0.8107	1,503,826.49	5,543,264.00	0.8509	4,716,763.34

Item	Opening balance			Closing balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
USD	-	-	-	3,613.12	6.6227	23,928.61
CHF	113,000.00	6.7085	758,060.50	34,000.00	7.0562	239,910.80
Total			2,261,886.99			4,980,602.75

26. Non-current liability that will be due within one year

(1) Details of non-current liability that is due within one year

Item	Closing balance	Opening balance
Long-term loan that is due within one year	149,600,000.00	-

Note: it is warranted by China National Aviation Group.

(2) Long-term loan that is due within one year

Creditors	Starting date	Ending date	Interest rate (%)	Currency	Closing balance		Opening balance	
					Foreign currency amount	RMB amount	Foreign currency amount	RMB amount
China Construction Bank Co.,Ltd. Shenzhen Branch	2010-1-21	2012-1-20	4.05	RMB	-	60,000,000.00	-	-
Guangdong Development Bank Shenzhen Donghai Branch	2009-12-1	2012-12-1	4.86	RMB	-	50,000,000.00	-	-
Ningbo Bank Shenzhen Branch	2009-7-15	2012-6-28	4.9875	RMB	-	19,800,000.00	-	-
Consumer Unit								
Ningbo Bank Shenzhen Branch	2009-9-3	2012-6-28	4.9875	RMB	-	19,800,000.00	-	-
Consumer Unit								
Total						149,600,000.00		-

27. Other current liability

Item	Content	Closing balance	Opening balance
Accrued expense	Accrued expense for shopping centers	4,814,572.85	2,645,322.20

28. Long-term Loans

(1) Classification of long-term loans

Item	Closing balance	Opening balance
Guaranteed loan (Note a)	205,432,909.00	180,000,000.00
Mortgage loan (Note b)	1,197,658.09	1,440,065.11
Less: Long-term loan that is due within one year (note VII. 26)	149,600,000.00	-
Total	57,030,567.09	181,440,065.11

Note a: amount up to RMB55,832,909.00 are guaranteed by the Company to Fiyta Hong Kong. The remaining upto RMB149,600,000.00 are guaranteed by the China Aviation Group to the Company.

Note b: The original cost of property upto RMB3,307,253.08, book value of RMB3,217,484.76 were mortgaged for the loan as described in Note VII.9.

(2) Top five long-term loans

Creditors	Starting date	Ending date	Interest rate (%)	Currency	Closing balance		Opening balance	
					Foreign currency amount	RMB amount	Foreign currency amount	RMB amount
China Construction Bank (Asia) Co.,Ltd.	2011-8-18	2013-8-18	Floating	HKD	34,435,000.00	27,916,454.50	-	-
China Construction Bank (Asia) Co.,Ltd.	2011-9-23	2013-9-23	Floating	HKD	34,435,000.00	27,916,454.50	-	-
China Construction Bank (Asia) Co.,Ltd.	2011-11-30	2017-11-30	4.25%	HKD	1,477,313.54	1,197,658.09	1,692,402.29	1,440,065.11
China Construction Bank Co.,Ltd. Shenzhen Branch	2010-1-21	2012-1-20	4.86	RMB	-	-	-	90,000,000.00
Guangdong Development Bank Shenzhen Donghai Branch	2009-12-1	2012-12-1	4.86	RMB	-	-	-	50,000,000.00
Ningbo Bank Shenzhen Branch	2009-7-15	2012-6-28	4.86	RMB	-	-	-	20,000,000.00
Consumer Unit Ningbo Bank Shenzhen Branch	2009-9-3	2012-6-28	4.86	RMB	-	-	-	20,000,000.00
Total						57,030,567.09		181,440,065.11

29. Other non-current liabilities

Item	Content	Closing balance	Opening balance
Deferred income	Government subsidy	2,350,000.00	2,400,000.00

Details of the deferred income:

Item	Closing balance	Opening balance
Fund to finance establishing of the technology center (Note (1))	1,200,000.00	1,800,000.00
Special funds of provincial cooperation by production, study and research (Note (2))	100,000.00	100,000.00
Government subsidy to assist enterprise go through financial crisis (Note (3))	-	500,000.00
Bonus for Patent Award (Note (4))	1,050,000.00	
Total	2,350,000.00	2,400,000.00

Note:

- (1) According to Shen Jing Mao Fa (2002) No. 93 jointly issued by Shenzhen Economic and Trade Committee, Shenzhen Finance Committee, Shenzhen State Taxation Bureau and Shenzhen Local Taxation Bureau, the technical center of the Company has been identified as the enterprise technical center of Shenzhen and obtained the construction assistance fund of the enterprise technical center of RMB3,000,000.00 for equipment purchasing. The project was finished at the beginning of 2009, and the amortization of this year is RMB600,000.00, and accumulated amortization is RMB1,800,000.00. As at 31 December 2011, the remaining balance is RMB1,200,000.00.
- (2) Special fund of provincial cooperation by production, study and research is obtained according to Yue Cai Jiao (2009) No.138.
- (3) It is recognized in current year. RMB300,000.00 is the assisting fund of development and application of the digital research and development system of the watch industry obtained according to the project contract of "Nanshan District Special Fund to Assist Enterprises in the Financial Crisis" numbered Nan Ke Zhuan (2009) No.144 signed with the Office of Science and Technology of the Nanshan District of Shenzhen. The remaining RMB 200,000.00 is the intellectual property assisting fund obtained according to the contract of "Medium and Small Enterprise Assisting Plan of Nanshan District Special Assisting Funds for Enterprises in the Financial Crisis in 2009 – Project of Implementing Invention and Patent" numbered Nan Zhi Fa 2009-2-5 signed with the Office of Science and Technology of Nanshan District of Shenzhen.
- (4) It is the bonus received for patent award received in accordance to According to Yue

Zhi Gui (2011) No. 144 issued by Guangdong Intellectual Property Office.

30. Share capital

Item	Opening balance		Increase or decrease this year					Closing balance	
	Amount	Percentage (%)	New shares issued	Bonus shares	Shares increased from reserves	Others	Subtotal	Amount	Percentage (%)
A. Share with sale restrictions									
1.State-owned holdings	123,645,981.00	44.07	-	-	49,458,392.00	-	49,458,392.00	173,104,373.00	44.07
2. Other domestic holdings	19,035,524.00	6.79	-	-	7,614,209.00	-	7,614,209.00	26,649,733.00	6.79
Include: Domestic legal person holdings	19,000,000.00	6.78	-	-	7,600,000.00	-	7,600,000.00	26,600,000.00	6.78
Domestic natural person holdings	35,524.00	0.01	-	-	14,209.00	-	14,209.00	49,733.00	0.01
Total with sale restriction	142,681,505.00	50.86	-	-	57,072,601.00	-	57,072,601.00	199,754,106.00	50.86
B. Shares with no sale restriction									
1. Ordinary Shares in RMB	79,546,974.00	28.35	-	-	31,818,790.00	-	31,818,790.00	111,365,764.00	28.35
2. Domestic Listed Foreign Shares	58,320,000.00	20.79	-	-	23,328,000.00	-	23,328,000.00	81,648,000.00	20.79
Total with no sale restriction	137,866,974.00	49.14	-	-	55,146,790.00	-	55,146,790.00	193,013,764.00	49.14
C. Total shares	280,548,479.00	100.00	-	-	112,219,391.00	-	112,219,391.00	392,767,870.00	100.00

Note: As described in Note I, the Company increased the share capital by 4 shares for every 10 shares using the capital reserves on the basis of total shares of 280,548,479 as at 31 December 2010. Total 112,219,391 shares were increased and the Company's total share capital changed to RMB392,767,870 after the increase. The increase of share capital has been verified with the capital verification report – Zhongrui Yuehua Yan Zi (2011) No. 093, which is issued by RSM China CPAs.

31. Capital reserve

Item	Opening balance	increase	decrease	Closing balance
Share premium	628,889,436.23	162,323.81	112,937,255.91	516,114,504.13
Other capital reserves	14,492,448.65	-	-	14,492,448.65
Total	643,381,884.88	162,323.81	112,937,255.91	530,606,952.78

Note: As described in Note VII. 30, the decrease of RMB112,219,391.00 in capital reserve was used to increase the share capital based on the total share capital on 31 Dec 2010. The remaining RMB717,864.91 is the difference between the long-term equity investment in HARMONY Company after acquired additional 0.5% of its shareholdings and the net assets of HARMONY Company attributable to the Company calculated based on new shareholding as a result of the Company purchased 0.5% of shareholding in HARMONY Company from CATIC

Shenzhen Company.

The amount increased this year is the difference between the long-term equity investment in Heng Lianda Company after acquired additional 50% of its shareholdings and the net assets of Heng Lianda Company attributable to HARMONY Company calculated based on new shareholdings as a result of the purchase of 50% of shareholdings in Heng Lianda Company from Beijing Hengdeli Company.

32. Surplus Reserve

Item	Opening balance	Increase	Decrease	Closing balance
Statutory surplus reserve	59,082,098.16	10,256,445.62	-	69,338,543.78
Discretionary surplus reserve	61,984,894.00	-	-	61,984,894.00
Total	121,066,992.16	10,256,445.62	-	131,323,437.78

Note: according to the Company Law and Articles of Association, the Group draws statutory surplus reserve at 10% of net profit. If the statutory surplus reserve is over 50% of the Company's registered capital, drawing of statutory surplus reserve can be stopped.

33. Undistributed profits

(1) Changes in undistributed profits

Item	2011	2010	Percentage for drawing or distribution
Undistributed profit at the end of prior year before adjustments	222,514,569.59	158,577,089.84	
Adjustments to undistributed profit at the beginning of year	-	-	
Undistributed profit at the beginning of a year after adjustment	222,514,569.59	158,577,089.84	
Plus: Net profit attributable to the owner of the parent company this year	159,457,800.00	93,990,182.93	
Less: statutory surplus reserve drawn	10,256,445.62	5,120,903.28	
Discretionary surplus reserve drawn	-	-	
Dividends payable for ordinary shares	28,054,847.90	24,931,799.90	
Undistributed profit at the end of this year	343,661,076.07	222,514,569.59	

(2) Profit distribution

Pursuant to the "Implementaion Notice of Equity Distribution for Year 2010" approved at the 2010 Annual General Meeting held on 8 April 2011, the Company distributed to all shareholders cash bonus of RMB1.00 (tax inclusive) for every 10 shares held based on total shares

280,548,479 as at 31 December 2010. Total cash dividend distributed was RMB28,054,847.90.

(3) Information on subsidiary's surplus reserve within the reporting period

In 2011, HARMONY Company, a subsidiary of the Company, drew surplus reserve of RMB9,902,837.01, of which RMB9,902,837.01 is attributable to the parent company. In 2011, Technology Company, a subsidiary of the Company, drew surplus reserve of RMB457,539.76, of which RMB 457,539.76 is attributable to the parent company.

34. Sales revenues and operation cost

(1) Sales revenues and operation cost

Item	2011	2010
Revenue from main businesses	2,540,577,588.18	1,768,413,898.34
Revenue from other businesses	20,477,014.22	12,340,532.61
Total revenue	2,561,054,602.40	1,780,754,430.95
Cost for main businesses	1,652,370,479.32	1,204,157,424.94
Cost for other businesses	6,588,939.97	4,617,280.28
Total operation cost	1,658,959,419.29	1,208,774,705.22

(2) Main businesses presented by industry sectors

Industry sector	2011		2010	
	Revenue	Operation cost	Revenue	Operation cost
Watches	3,125,960,110.04	2,218,188,524.80	2,022,917,677.43	1,488,927,971.10
Leasing	69,618,874.95	21,815,349.24	67,425,419.53	20,567,162.46
Subtotal	3,195,578,984.99	2,240,003,874.04	2,090,343,096.96	1,509,495,133.56
Less: the amount offset internally	655,001,396.81	587,633,394.72	321,929,198.62	305,337,708.62
Total	2,540,577,588.18	1,652,370,479.32	1,768,413,898.34	1,204,157,424.94

(3) Main businesses presented by product

Product	2011		2010	
	Revenue	Operation cost	Revenue	Operation cost
Branded watch	2,164,559,017.85	1,609,404,555.68	1,508,658,146.03	1,170,259,897.09
Fiyta watch	853,666,220.18	518,098,978.24	507,927,804.20	314,762,954.22
Material	88,576,149.34	76,864,669.23	-	-
Property leasing	69,618,874.95	21,815,349.24	67,425,419.53	20,567,162.46

Product	2011		2010	
	Revenue	Operation cost	Revenue	Operation cost
Fashion brand watch	19,158,722.67	13,820,321.65	6,331,727.20	3,905,119.79
Subtotal	3,195,578,984.99	2,240,003,874.04	2,090,343,096.96	1,509,495,133.56
Less: the amount offset internally	655,001,396.81	587,633,394.72	321,929,198.62	305,337,708.62
Total	2,540,577,588.18	1,652,370,479.32	1,768,413,898.34	1,204,157,424.94

(4) Main businesses presented by region

Region	2011		2010	
	Revenue	Operation cost	Revenue	Operation cost
Southern China	1,390,626,641.48	843,012,611.48	855,945,700.16	575,127,474.91
Northwest China	661,695,399.93	517,737,902.46	418,113,230.68	312,549,244.02
Northern China	456,895,713.64	353,885,121.70	323,275,249.56	252,051,485.25
Eastern China	295,684,677.85	224,498,949.95	204,313,730.80	152,438,444.74
Northeast China	231,436,368.52	184,759,064.02	175,911,965.18	135,392,106.86
Southwest China	159,240,183.57	116,110,224.43	112,783,220.58	81,936,377.78
Subtotal	3,195,578,984.99	2,240,003,874.04	2,090,343,096.96	1,509,495,133.56
Less: the amount offset internally	655,001,396.81	587,633,394.72	321,929,198.62	305,337,708.62
Total	2,540,577,588.18	1,652,370,479.32	1,768,413,898.34	1,204,157,424.94

(5) Sales revenue from top five customers

Period	Total revenue from top five customers	Percentage of total revenue in the same period (%)
Current year (2011)	333,042,703.50	13.00
Prior year (2010)	224,162,380.92	12.59

35. Business taxes and surcharges

Item	2011	2010
Consumption tax	763,223.08	26,688.89
Business tax	4,346,277.70	3,715,342.58
Urban maintenance and construction tax	4,990,258.66	969,838.37
Educational surcharge	2,341,979.76	1,515,147.78
Local educational surcharge	1,127,157.16	-
Others	796,873.60	500,231.92
Total	14,365,769.96	6,727,249.54

Note: please refer to Note V. Taxes for rate of related taxes.

36. Distribution expenses

Item	2011	2010
Wages	133,266,878.22	89,193,951.57
Rental	64,219,071.35	37,879,585.71
Advertising expense	47,811,531.58	28,457,663.92
Market promotion expense	39,975,659.14	30,442,628.08
Amortization of long-term deferred expense	33,085,139.52	12,948,680.68
Department store expense	24,591,111.17	7,661,501.67
Endowment insurance	10,392,432.27	8,138,414.40
Public utilities expense	8,932,625.27	6,346,063.06
Office expense	8,310,648.11	4,278,998.17
Packing expense	7,160,483.26	5,640,676.76
Others	56,018,224.51	32,695,343.45
Total	433,763,804.40	263,683,507.47

37. Administration expenses

Item	2011	2010
Wages	86,609,303.59	69,988,383.58
Research and development expense	23,826,052.18	11,565,415.01
Amortization of long-term deferred expense	18,816,488.74	16,038,267.96
Travel expense	8,344,539.75	6,367,157.65
Depreciation expense	5,262,136.18	5,787,564.96
Expense for endowment insurance	5,126,356.07	4,280,923.52
Housing fund and allowance	4,753,501.97	1,496,780.56
Oversea business expense	4,736,061.12	1,715,266.72
Office expense	4,478,975.27	3,463,794.50
Business entertainment	3,476,777.45	2,744,625.22
Expenditure for trade union	3,350,252.13	2,534,154.94
Expense for employee welfare	2,535,399.12	2,258,421.58
Others	25,016,758.49	17,436,689.47
Total	196,332,602.06	145,677,445.67

38. Financial expenses

Item	2011	2010
Interest expense	51,737,261.83	37,391,880.06
Less: interest income	2,956,948.10	1,265,604.34
Gain or loss in foreign exchange	(1,336,264.11)	(511,242.41)
Bank charges	15,630,977.93	11,071,769.85
Plus: fee for loan guarantee	2,071,600.00	1,120,000.00
Others	60,483.83	3,279.32
Total	65,207,111.38	47,810,082.48

39. Loss on impairment of assets

Item	2011	2010
Bad debt loss	2,899,138.16	1,753,600.35
Inventory impairment loss	2,807,607.65	6,269,768.13
Total	5,706,745.81	8,023,368.48

40. Investment gain

(1) Details of investment gain

Item	2011	2010
Investment income from the long-term equity investment measured by equity method	(33,340.89)	60,595.73

(2) Investment income from the long-term equity investment measured by equity method

Investee	2011	2010	Reason for increase/decrease
NPU Shenzhen Research Institute	(33,340.89)	60,595.73	Investee's net profit reduced this year

41. Non-operating income

Item	2011	2010	Amount included in this year's non-recurring profit or loss
Total gain on disposal of the non-current assets	117,361.32	6,971,464.24	117,361.32
Including: gain on disposal of fixed assets	117,361.32	6,971,464.24	117,361.32
Payables that cannot be paid	452,943.96	986,000.88	452,943.96
Government subsidy (see the table below: details of government subsidies)	4,006,718.21	5,647,255.01	4,006,718.21
Others	973,136.95	462,073.87	973,136.95
Total	5,550,160.44	14,066,794.00	5,550,160.44

Details of government subsidies:

Item	2011	2010	Notes
Special fund for developing cultural industry (Note 1)	800,000.00	570,000.00	
Fund to finance establishment of technical center (Note 2)	600,000.00	600,000.00	
Government subsidy from Shenzhen watch and clock Association for Basel Exhibition (Note 3)	560,162.21	421,335.01	
Specific project subsidy (Note 4)	570,000.00	-	
Specific capital subsidy for enterprises to go through financial crisis (Note 5)	500,000.00	-	
Quality Prize awarded by Nanshan District Government (Note 6)	500,000.00	-	
Fund for implementing standardize strategic (Note 7)	250,000.00	-	
Special funds of provincial cooperation by production, study and research (Note 8)	100,000.00	-	
R&D fund (Note 9)	100,000.00	-	

Item	2011	2010	Notes
Grant specifically for development of Shenzhen-based private and small, medium sized enterprises (Note 10)	26,556.00	205,920.00	
Allowance for international standardization technical exchange conference	-	150,000.00	
Allowance for leading enterprise in intellectual property right	-	200,000.00	
Funds for Fiyta's synchronization strategy of R&D and standardization	-	1,100,000.00	
Funds to financing Project for high-precision multipurpose automatic mechanism watch movement	-	2,200,000.00	
Prize for Technical Innovation Award of Shenzhen	-	200,000.00	
Total	4,006,718.21	5,647,255.01	

Note 1. The project funds of Shenzhou VII serial Aviation watches that acquired by the Company according to Shen Nan Wen Chan (2011) No.86, "Issuance of Notice of the Second Batch of Projects Subsidied under 2010 Specific Fund for Development Cultural Industry Nanshan District".

Note 2. As described in Note VII.29, it is the amortized amount to the funds of financing the establishment of the enterprise technical center.

Note 3. The subsidy granted to the Company by Shenzhen Watch and Clock Association in July 2011.

Note 4. Amount of RMB300,000.00 are specific fund obtained by HARMONY Company from Science, Industry, Trade, and Information Technology Commission of Shenzhen Municipality in March of 2011. In addition, amount of RMB160,000.00 is the backbone enterprise bonus acquired by Manufacture Company from Science, Industry, Trade, and Information Technology Commission of Shenzhen Municipality in December 2011. Amount of RMB100,000.00 is the sub-funds of intellectual property right obtained by Manufacture Company from Shenzhen Nanshan District Science and Technology Bureau in January of 2011; the rest of RMB10,000.00 is the domestic and international patents, and PCT international patent application subsidy the Company obtained from Shenzhen Market Supervisory Authority in July of 2011

Note 5. It is the recognized amount as described in Note VII.29. The subsidy is granted for project of watch industry R & D system of digital development and application.

Note 6. It is the Prize of Quality that Nanshan District Government awarded to Manufacture Company according to Shen Nan Fu (2011) No. 17, "Decision on Award of Five Enterprises the 2010 Nanshan District Government Quality Award".

Note 7. RMB150,000.00 among which is the operating standardize strategic fund that our company obtained from Shenzhen Market Supervisory Authority in February of 2011; the rest of RMB 100,000.00 is the operating standardize strategic fund that our subsidiary manufacture company acquired by the Shenzhen monitoring associated file No. [2010]26 about “Shenzhen City in 2010 the implementations of standardized strategic funding plan notice” issued by Shenzhen City Market Supervisory Authority and Shenzhen Municipal Finance Commission together.

Note 8. It is the Special funds of the Province, the Ministry of Cooperative obtained according to the file of Guangdong fiscal educational No. [2009]138

Note 9. Is the science and technology R&D fund given to our company according to the file of Shenzhen Science Industry Commerce Financial No. [2011]125 about issuance of the first batch of funded projects of the military class of 2010 Urban R & D funding of national and provincial research projects supporting the plan and the financing of capital proposed by Shenzhen Trade and Industry and Information Technology Commission and Shenzhen City, the Finance Committee together.

Note 10. It is the special funds of the Development of Shenzhen-based Private and Medium/Small Enterprises that our company received from Shenzhen Medium & Small Enterprise Service Center.

42. Non-operating expenses

Item	2011	2010	Amount included in non-recurring profit or loss this year
Loss in non-current assets disposal	487,159.95	55,831.26	487,159.95
Include: loss in fixed assets disposal	487,159.95	55,831.26	487,159.95
Penalty expense	200.00	400.00	200.00
Donation expense	-	500,000.00	-
Abnormal loss	15,234.20	74,358.97	15,234.20
others	154,396.11	61,712.66	154,396.11
Total	656,990.26	692,302.89	656,990.26

43. Income tax expense

Item	2011	2010
Current period income tax measured by the tax law and related regulations	58,256,670.99	27,041,885.43
Deferred income tax adjustment	(25,936,992.18)	(7,567,272.01)
Total	32,319,678.81	19,474,613.42

44. Basic EPS and diluted EPS

(1) Basic EPSs and diluted EPSs are presented as follows:

Profit during the reporting period	2011		2010	
	Basic EPS	Diluted EPS	Basic EPS	Diluted EPS
Net profit attributable to the Company's ordinary shareholders	0.406	0.406	0.269	0.269
Net profit attributable to the Company's ordinary shareholders after deducting non-recurring profits and losses	0.396	0.396	0.232	0.232

(2) The process to calculate EPS and diluted EPS

In the reporting period, there are no potential dilutive ordinary shares, therefore, diluted EPS equals to basic EPS.

(a) In calculating basic EPS, current period's net profit attributable to ordinary share shareholders is:

Item	2011	2010
the period's net profit attributable to ordinary share shareholders	159,457,800.00	93,990,182.93
Including: net profit attributable to continued operations	159,457,800.00	93,990,182.93
Net profit attributable to the Company's ordinary share shareholders after deducting non-recurring profit or loss	155,515,717.50	80,964,792.74
Including: net profit attributable to continued operations	155,515,717.50	80,964,792.74

(b) In calculation of the basic EPS, the denominator is the weighted average number of outstanding ordinary shares. The calculation process is as follows:

Item	2011	2010
Number of outstanding ordinary shares at the beginning of the year	349,045,199	249,317,999
Adjustment of distribution(Note 1)	-	99,727,200
Number of outstanding ordinary shares at the beginning of the year	349,045,199	349,045,199
Plus: Non-public placing shares(Note 2)	31,230,480	-
the weighted average number of the ordinary shares issued during the year (Note 3)	12,492,191	-
The weighted number of outstanding ordinary shares at the year end	392,767,870	349,045,199

Note 1: As described in Note I, the Company increased the share capital by 4 shares for every

10 shares using the capital reserves on the basis of total shares of 280,548,479 (249,317,999 shares after deducting 31,230,480 shares issued through non-public placing in 2010) as at 31 December 2010 on 8 April 2011. Total 99,727,200 shares were increased. According to regulations described in “Information Preparation and Disclosure Rules for Companies Issued Securities Publically No. 9 – Calculation and Disclosure of Return on Equity and Earnings per Share” (revised in 2010), the number of outstanding ordinary shares in issue prior year is adjusted up by 99,727,200 shares (4 bonus shares for every 10 shares based on total 249,317,999 shares, which is calculated using the total shares of 280,548,479 as at 31 December 2011 less 31,230,480 shares that issued through non-public placing in 2010).

Note 2: It is the share capital issued through non-public placing on 9 December 2010;

Note 3: It is the portion of share capital increase from capital reserve attributable to the share capital of 31,230,480 from non-public placing on 9 December 2010.

45. Other comprehensive income

Item	2011	2010
Translation differences of financial statements denominated in foreign currencies	(5,908,143.71)	(714,230.18)

46. Notes to cash flow statement

(1) Other cash received related to operating activities

Item	2011	2010
Product promotion expense	8,116,936.84	4,855,833.69
Government subsidy	4,406,718.21	1,747,255.01
Guarantee	3,478,762.43	3,290,287.84
Interest income	2,956,948.10	893,837.25
Advances to employees	2,050,938.31	748,348.98
Others	3,845,494.40	3,556,003.04
Temporary loans	-	1,310,000.00
Sponsor funds	-	4,254,500.00
Total	24,855,798.29	20,656,065.81

(2) Other cash paid related to operating activities

Item	2011	2010
Lease expense	64,183,585.13	39,637,441.79

Item	2011	2010
Advertising expense	45,504,779.58	26,781,063.58
Market promotion expense	39,950,710.05	27,061,071.82
Department store expense	16,296,372.30	7,661,501.67
Bank service charges	15,630,977.93	11,074,611.75
Office expense	12,677,156.34	8,007,402.25
Travel expense	10,725,380.45	9,355,270.93
Public utilities expenses	8,602,575.33	6,594,621.03
R&D expense	8,547,934.75	10,290,731.51
Entertainment expenses	6,347,597.90	4,516,337.75
Transportation expenses	5,645,791.88	4,192,965.30
Packaging expenses	4,759,657.14	5,642,351.76
Postage	2,900,155.44	2,179,485.62
Insurance expenses	1,761,611.90	2,053,261.10
Agent fees	1,678,745.35	1,621,411.30
Meeting expenses	1,251,168.28	2,278,265.82
Maintenance expense	1,014,735.97	1,417,495.74
Exhibition expense	917,108.02	1,520,340.65
Automobile expenses	776,891.00	1,854,455.87
Training expenses	563,389.70	2,690,785.35
Donations	-	500,000.00
Security expenses	-	425,698.15
Consultation expenses	88,500.00	288,880.80
Others	38,252,730.68	21,977,700.29
Total	288,077,555.12	199,623,151.83

(3) Other cash paid related to investing activities

Item	2011	2010
Advance payment for investment acquisition	-	4,890,000.00

(4) Other cash paid related to financing activities

Item	2011	2010
Guarantee expense	2,071,600.00	1,120,000.00
Others	-	27,483.50
Total	2,071,600.00	1,147,483.50

47. Supplementary information to cash flow statement

(1) Reconciliation from net profit to operating cash flows

Item	2011	2010
1. Reconciliation from net profit to operating cash flows		
Net profit	159,259,299.98	94,018,545.51
Plus: asset impairment provision	5,706,745.81	8,023,368.48
Depreciation of fixed asset and amortization of investment property	24,788,287.01	22,997,120.71
amortization of intangible asset	916,530.23	952,428.90
Amortization of long-term deferred expense	52,310,925.41	37,890,860.83
Loss (gain) on disposal of fixed assets, intangible assets and other long-term assets	369,798.63	(6,915,632.98)
Financial expense	55,652,830.11	38,511,880.06
Investment loss (gain)	33,340.89	(60,595.73)
Decrease (increase) of deferred income tax assets	(25,934,126.09)	(7,591,541.35)
Increase (decrease) of deferred income tax liabilities	(2,866.09)	24,269.34
Inventory decrease (increase)	(595,319,465.59)	(293,480,438.12)
Decrease (increase) of operating receivable	(162,582,689.49)	(93,010,058.12)
Increase of operating payables	75,310,594.58	100,154,140.59
Net cash flows from operating activities	(409,490,794.61)	(98,485,651.88)
2. Significant investment and financing activities not involving cash:		
3. Net changes in cash and cash equivalents:		
Closing balance of cash and bank balances	169,627,301.98	613,455,817.52
Less: opening balance of cash and bank balances	613,455,817.52	95,701,580.19
Plus: closing balance of cash equivalents	-	-
Less: opening balance of cash equivalents	-	-
Net increase in cash and cash equivalents	(443,828,515.54)	517,754,237.33

(2) Composition of cash and cash equivalents

Item	2011	2010
1. Cash	169,627,301.98	613,455,817.52
incl: Cash on hand	588,480.15	282,981.39
Bank deposit available for immediate payment	169,025,566.70	613,107,590.21
Other monetary funds available for immediate payment	13,255.13	65,245.92
2. Cash and cash equivalent	-	-
3. Cash and cash equivalent at the end of year	169,627,301.98	613,455,817.52

VIII. Related parties and related party transactions

1. Parent company of the Company

Parent company	Relationship	Enterprise type	Registered place	Legal representative	Business nature
China National Aviation Group	Parent company	Limited by shares	Shenzhen	Wu Guangquan	Investment in industries, domestic trade, material supply and distribution

(continued)

Parent company	Registered capital	Percentage of the Company shares held by parent company (%)	Voting percentage owned by parent company in the Company (%)	Ultimate controller of the Company	Org. code
China National Aviation Group	673,367,100.00	41.49	41.49	AVIC	219351229

Note: CATIC Shenzhen Company holds 58.77% shareholding of China National Aviation Group. CATIC Shenzhen Company is a wholly owned subsidiary of China Aero Space International Holdings Limited (CASI), and China Aviation Industry Corporation (AVIC) directly holds 62.52% of the equity of CASI. Therefore, the ultimate controlling party of the Company is China Aviation Industry Corporation.

2. Subsidiaries of the Company

See Note VI.1 Subsidiaries for details.

3. Associate company of the Group

See Note VII.7 (3) Long-term equity investment for details.

4. Other related parties of the Group

Other related parties	relationship with the Company	Organization code
Shenzhen CATIC Property Management Limited (CATIC Property Management)	Controlled by the same party	19219400-5
Shenzhen CATIC Building Equipment Co., Ltd. (CATIC Building Company)	Controlled by the same party	743201073
Rainbow Department Store Co., Ltd. (Rainbow Department Store)	Controlled by the same party	618842912
Shennan Circuits Co., Ltd. (Shennan Circuits)	Associated party of holding subsidiary	192195761
Shenzhen AVIC Display Technology Co., Ltd (AVIC Display Company)	Controlled by the same party	689407061
CATIC Real Estate Company	Controlled by the same party	279340845
Shenzhen Maiwei Cable TV Equipment Limited (Maiwei Company)	Controlled by the same party	618810902
AVIC Securities Co., Ltd. (AVIC Securities Company)	Controlled by the same party	741986153
AVIC Hotel Management Co., Ltd. (AVIC Hotel Company)	Controlled by the same party	76197033-5
Shenzhen AVIC Nanguang Elevator Co., Ltd. (AVIC Nanguang Company)	Controlled by the same party	192350741

Other related parties	relationship with the Company	Organization code
Shenzhen CATIC City Real Estate Development Co., Ltd. (CATIC City Real Estate Company)	Controlled by the same party	676667833
Shenzhen CATIC City Development Co., Ltd. (CATIC City Development Company)	Controlled by the same party	192194005
CATIC Property Development Co., Ltd. (CATIC Property Company)	Controlled by the same party	661015568
CATIC Guanlan Property Development Co., Ltd. (CATIC Guanlan Property)	Controlled by the same party	763495945
CATIC Changtai Investment Development Co., Ltd. (CATIC Changtai Company)	Controlled by the same party	732047808
Shenzhen CATIC Construction Supervision Co. , Ltd. (CATIC Construction Supervision Company)	Controlled by the same party	192309191
Shenzhen CATIC Jiufang Asset Management Limited (CATIC Jiufang Asset Mgmt Company)	Controlled by the same party	580064616
Liaoning Hengdarui Trading Company Co., Ltd. (Hengdarui Company)	Controlled by the same party	567551815
CATIC Trust Company	Controlled by the same party	158265930
Ganzhou CATIC Real Estate Development Co., Ltd. (Ganzhou CATIC Real Estate Company)	Controlled by the same party	664794739
Shenzhen CATIC Design and Decoration Co., Ltd. (CATIC Decoration Company)	Controlled by the same party	192268123

5. Transactions between related parties

(1) Related transactions about receiving labor service

Related party	Related transaction content	Related transaction pricing principle and decision-making procedure	2011		2010	
			Amount	Percentage of the same category transactions (%)	Amount	Percentage of the same category transactions (%)
CATIC Property Management	Property management	negotiated price	2,389,519.80	100.00	2,159,363.08	100.00
Rainbow Department Store	Counter sales	negotiated price	16,722,379.73	5.28	11,969,134.31	6.01
Hengdarui Company	Lease	negotiated price	2,812,500.00	4.19	-	-

(2) Related transactions about sales of product

Related party	Related transaction content	Related transaction pricing principle and decision-making procedure	2011		2010	
			Amount	Percentage of the same category transactions (%)	Amount	Percentage of the same category transactions (%)
CASI	product sales	negotiated price	-	-	2,419,206.84	0.90
AVIC	product sales	negotiated price	25,142,798.30	0.99	10,241,730.94	3.82
Rainbow Department Store	product sales	negotiated price	63,249,702.01	2.49	43,303,715.59	2.55
Shennan Circuits	Material sales	negotiated price	2,653,553.39	13.41	616,391.61	0.23

(3) Related party leasing

Leasor	Leasee	Nature of leased assets	Start date	End date	Basis for determination of lease income	Recognized rental income this year
the Company	CATIC Real Estate Company	property	2010-12-1	2012-5-15	negotiated price	2,528,247.00
the Company	Maiwei Company	property	2011-6-29	2012-1-31	negotiated price	387,612.00
the Company	CATIC Property Management	property	2007-10-1	2012-9-30	negotiated price	2,360,160.00
the Company	AVIC Securities Company	property	2010-8-1	2012-9-15	negotiated price	865,632.00
the Company	CATIC City Real Estate Company	property	2011-1-1	2012-5-15	negotiated price	21,600.00
the Company	CATIC City Development Company	property	2011-1-1	2012-5-15	negotiated price	21,600.00
the Company	CATIC Real Estate Company	property	2009-10-1	2011-1-31	negotiated price	7,560.00
the Company	CATIC Guanlan Property	property	2009-10-1	2012-5-15	negotiated price	88,920.00
the Company	CATIC Changtai Company	property	2011-1-1	2012-5-15	negotiated price	1,244,160.00
the Company	AVIC Hotel Company	property	2009-8-1	2012-7-31	negotiated price	3,500,000.00
the Company	AVIC Hotel Company	equipment	2009-8-1	2012-7-31	negotiated price	
the Company	Rainbow Department Store	property	2010-5-1	2013-4-30	negotiated price	360,000.00
the Company	CATIC Construction Supervision Company	property	2010-12-1	2012-5-15	negotiated price	172,800.00
the Company	CATIC Jiufang Asset Mgmt Company	property	2011-7-19	2013-6-30	negotiated price	90,909.00

(4) Related party guarantees

Guarantor	Guarantee	Amount guaranteed	Effective date	Expiring date	If the guarantee finished?
the Company	Manufacture Company	30,000,000.00	2011-6-21	2012-6-21	No
the Company	Fiyta Hong Kong	8,107,000.00	2011-5-13	2012-5-13	No
the Company	Fiyta Hong Kong	27,916,454.50	2011-9-6	2013-9-5	No
the Company	Fiyta Hong Kong	27,916,454.50	2011-8-10	2013-8-10	No
Manufacture Company	Technology Company	30,000,000.00	2011-12-26	2012-12-25	No
China National Aviation Group	the Company	450,000,000.00	2011-10-26	2013-10-26	No
China National Aviation Group	the Company	150,000,000.00	2011-3-1	2012-10-9	No
China National Aviation Group	the Company	50,000,000.00	2010-10-12	2012-4-12	No
China National Aviation Group	the Company	200,000,000.00	2011-7-1	2013-6-20	No
China National Aviation Group	the Company	100,000,000.00	2011-10-12	2013-10-11	No
China National Aviation Group	the Company	39,800,000.00	2009-7-15	2012-6-28	No
China National Aviation Group	the Company	50,000,000.00	2009-12-1	2012-12-1	No
China National Aviation Group	the Company	90,000,000.00	2010-1-21	2012-1-20	No
China National Aviation Group	the Company	60,000,000.00	2011-8-8	2012-8-7	No
Total		1,313,739,909.00			

As at 31 December 2011, the Group obtained loan guaranteed by China National Aviation Group up to RMB910,107,000.00 (refer to Note VII. 18) and RMB149,600,000.00 (refer to Note VII. 26). Total guaranteed loans amount to RMB1,059,707,000.00.

(5) Shareholding transfer

The Company purchased 25% the shareholding of the Shanghai Watch from CATIC Investment Company. As at 31 December 2011, the Company paid the shareholding transfer consideration up to RMB40,300,250.00 to China Beijing Equity Exchange.

The Company purchased 100% shareholding of Hengdarui Company from CATIC Trust Company. As at 31 December 2011, the Company paid the shareholding transfer consideration up to RMB28,050,000.00.

The Company purchased 0.50% shareholding of HARMONY Company from CATIC Shenzhen Company. The Company paid shareholding transfer consideration of RMB2,810,000.00 in 2011.

(6) Remuneration for key management members

Remuneration levels	2011	2010
Total amount of Remuneration (in ten thousands Yuan)	1,209.00	1,137.50
incl: (number of persons fall in corresponding remuneration level)		
Below 10	3	3
Between 30 and 100	2	2
Between 100 and 200	4	5
Over 200	2	1

(7) Other related transactions

The Company paid China National Aviation Group warranty fee of RMB1,840,000.00.

6. Receivables from and payables to related parties

(1) Receivables from and prepayment to related parties

Item	Closing balance		Opening balance	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt provision
Receivables:				
Rainbow Department Store	557,386.05	27,869.30	804,896.91	55,716.41
AVIC	612,683.00	30,634.15	327,994.00	26,223.55
CASI	-	-	196,477.00	9,823.85
Shennan Circuits	1,594,705.04	79,735.25	73,983.60	-
Total	2,764,774.09	138,238.70	1,403,351.51	91,763.81
Prepayment:				
CATIC Trust Company	28,050,000.00	-	-	-
CATIC Decoration Company	132,000.00	-	-	-
Total	28,182,000.00	-	-	-
Other receivables:				
AVIC Display Company	102,500.00	10,250.00	102,500.00	5,125.00
Ganzhou CATIC Real Estate Company	122,665.60	6,133.28	-	-
Rainbow Department Store	79,951.60	6,281.66	56,141.60	2,807.08
Total	305,117.20	22,664.94	158,641.60	7,932.08

(2) Payables to and advances from related parties

Item	Closing balance	Opening balance
Advance received:		
AVIC	515,296.00	2,943,763.91
Rainbow Department Store	28,110.64	-
Total	543,406.64	2,943,763.91
Other payables:		
CATIC Building Company	8,227.10	8,227.10
AVIC Nanguang Company	3,354.90	3,354.90
CATIC Real Estate Company	85,800.00	85,800.00
CATIC City Real Estate Company	107,280.00	107,280.00
CATIC City Development Company	107,280.00	107,280.00
AVIC Securities Company	150,000.00	150,000.00
Maiwei Company	64,602.00	64,602.00
CATIC Real Estate Company	424,800.00	424,800.00
Rainbow Department Store	82,234.87	60,000.00
NPU Shenzhen Institute	1,350,000.00	-
Total	2,383,578.87	1,011,344.00
Dividends payable:		
CATIC Shenzhen Company	-	190,263.50
Total	-	190,263.50

IX. Contingencies

As of 31 December 2011, the Company does not have any significant contingent events need to disclose.

X. Commitments

1. Capital commitments

Item	2011	2010
Contracts signed but not recognized in the financial statements		
- external investment commitment	28,050,000.00	-

2. Operating lease payment

As of the balance sheet date, the irrevocable operating lease contracts signed by the Group are as follows:

Item	2011	2010
The minimum lease payment for irrevocable operating lease:		
The 1 st year after the balance sheet day	48,365,970.37	39,436,800.00
The 2 nd year after the balance sheet day	37,813,993.80	36,284,300.00
The 3 rd year after the balance sheet day	24,037,408.33	30,639,000.00
Years afterwards	25,739,708.33	67,876,100.00
Total	135,957,080.83	174,236,200.00

XI. Events after the balance sheet date

1. On 4 January 2012, the resolution passed in the 1st Emergent Shareholders' Meeting held in 2011 approved the events as described in Note VIII. 5, which is HARMONY Company purchases 100% of shareholdings of Hengdarui Company (it owned the property rights of Store No.1928 in Shenyang which leased by HARMONY Company) from CATIC Trust Company. On 5 January 2012, both parties signed the shareholding transfer agreement and determined the purchase consideration of RMB56,100,000.00 based on the valuation report Zhong Tong Hua Ping Bao Zi (2011) No.450, issued by Beijing Zhongtonghua Asset Valuation Co., Ltd. As of 31 December 2011, HARMONY Company has already prepaid the amount of shareholding transfer consideration upto RMB28,050,000.00. Related shareholding transfer procedures are still being processed.

2. The resolution of 2011 profit distribution proposal has been passed in the 31st Board Meeting of the 6th Board of Directors on 23 February 2012. It proposed to distribute cash dividend of RMB1.00 (tax inclusive) for every 10 shares held by shareholders based on the total 392,767,870 shares as at 31 December 2011. Cash dividend that proposed to be distributed

amounts to RMB39,276,787.00. The proposal is waiting approval from Annual General Shareholders' Meeting.

3. Pursuant to the resolution passed in the 31st Board Meeting of the 6th Board of Directors on 23 February 2012, the Company plans to apply credit facility no more than RMB2,000,000,000.00 from banks in form of guaranteed loan, subsidiary loan and mortgage loan etc... in 2012. The proposal of credit facility application is waiting approval from Annual General Shareholders' Meeting.

4. Pursuant to the resolution passed in the 31st Board Meeting of the 6th Board of Directors on 23 February 2012, the Company plans to provide guarantee to HAMONY Company, Sales Company, Manufacturing Company, Technology Company, Fiyta Hong Kong and Trading Company for their application of credit facility of no more than RMB1,000,000,000.00 in 2012. This credit facility is under the total credit facility of RMB2,000,000,000.00 to be applied in 2012 mentioned above. The proposal of credit facility application is waiting approval from Annual General Shareholders' Meeting.

5. Pursuant to the resolution passed in the 31st Board Meeting of the 6th Board of Directors on 23 February 2012, the Company plans to transfer the 45% shareholdings in NPU Shenzhen Institute held to Shenzhen Northwest Industrial Technology Research Institute Co., Ltd. The consideration is determined to be RMB1,650,000.00, which is the book value of net assets of NPU Shenzhen Institute as at 30 September 2011.

XII. Notes to other significant events

The "Resolution of Authorising Fiyta Holding Ltd. to Participate in Bidding of 25% Shareholdings of Shanghai Watch Industries Co., Ltd" was approved in the 13th meeting of the 6th Board of Directors held on 14 December 2011. The Company then purchased 25% of Shanghai Watch's shareholding from CATIC Investment Company, a related company of the Company, through public bidding organized at China Beijing Equity Exchange Co., Ltd. On 30 December 2011, the Company signed "Equity Transaction Contract" with CATIC Investment Company. As at 31 December 2011, the Company has paid all consideration for equity transfer to China Beijing Equity Exchange Co., Ltd and related procedures are still in process.

Pursuant to the approval of resolution in the 13th meeting of the 6th Board of Directors held on 14 December 2011, the Company plans to transfer 50% of shareholdings in Watch Center to a natural person at a consideration of RMB1,400,000.00, which is determined on the basis of the

Watch Center's net assets as at 30 November 2011. As at 31 December 2011, related procedures are still in process.

XIII. Notes to main items in the Company's financial statements

1. Accounts receivable

(1) Receivables presented by types

Types	Closing balance			
	Book value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Receivables that are individually significant in amount and provided for bad debt separately	10,988,318.49	5.47	10,988,318.49	100.00
Receivables provided for bad debt by portfolio:				
Portfolio based on aging of receivables	6,339,107.00	3.16	368,520.22	5.81
Specific receivables	151,354,145.51	75.33	-	-
Subtotal	157,693,252.51	78.49	368,520.22	0.23
Receivables that are individually insignificant in amount but provided for bad debt separately	32,229,445.53	16.04	32,229,445.53	100.00
Total	200,911,016.53	100.00	43,586,284.24	21.69

(Continued)

Type	Opening balance			
	Book value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Receivables that are individually significant in amount and provided for bad debt separately	10,988,318.49	12.93	10,988,318.49	100.00
Receivables provided for bad debt by portfolio:				
Portfolio based on aging of receivables	13,134,239.25	15.45	2,157,775.72	16.43
Specific receivables	30,776,905.40	36.20	-	-
Subtotal	43,911,144.65	51.65	2,157,775.72	4.91
Receivables that are individually insignificant in amount but provided for bad debt separately	30,114,190.99	35.42	30,114,190.99	100.00
Total	85,013,654.13	100.00	43,260,285.20	50.89

(2) Receivables presented by account aging

Item	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
within 1 year	157,231,930.99	78.26	35,851,944.24	42.17
1~2 years	742,745.76	0.37	128,382.49	0.15
2~3 years	87,277.24	0.04	10,723.48	0.01
over 3 years	42,849,062.54	21.33	49,022,603.92	57.67
Total	200,911,016.53	100.00	85,013,654.13	100.00

(3) Bad debt provision

(a) Bad debt provision for receivables that are individually significant in amount and provided for bad debt separately

Receivables	Book value	Bad debt provision	Percentage of provision	Reason
Beijing Chengxiang Trade Center Limited	2,033,710.15	2,033,710.15	100.00	unrecoverable
Qingdao Hengdeli Timepiece Spectacles and jewelry Co., Ltd	1,298,215.01	1,298,215.01	100.00	unrecoverable
Yingkou Department Store Timepiece and Sewing Machine Wholesale Station	982,604.03	982,604.03	100.00	unrecoverable
Jilin Timepiece and Photograph Devices Wholesale Co., Ltd	890,387.77	890,387.77	100.00	unrecoverable
Siping No.1 Department Store	823,302.04	823,302.04	100.00	unrecoverable
Anshan Timepiece and Photograph Devices Co., Ltd	807,815.02	807,815.02	100.00	unrecoverable
Customers to be checked	4,152,284.47	4,152,284.47	100.00	unrecoverable
Total	10,988,318.49	10,988,318.49		

(b) Receivables provided for bad debt by portfolio

i. Bad debt provision that recognized based on aging analysis

Aging	Closing balance			Opening balance		
	book value		Bad debt provision	book value		Bad debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
within 1 year	5,267,353.57	88.77	285,955.28	11,244,045.12	85.61	552,051.43
1~2 years	683,279.43	10.78	68,327.94	115,554.75	0.88	12,838.25
2~3 years	28,474.00	0.45	14,237.00	10,723.48	0.08	5,361.74
over 3 years	-	-	-	1,763,915.90	13.43	1,587,524.30
Total	6,339,107.00	100.00	368,520.22	13,134,239.25	100.00	2,157,775.72

ii. Bad debt provision that recognized using other methods:

Name of portfolio	Book value	Bad debt provision
Specific accounts	151,354,145.51	-

(c) Receivables that individually insignificant in amount but provided for bad debt separately

Receivables	Book value	Percentage of bad debt recognized (%)	Bad debt provision	Reason for recognition
Bad and doubtful debts	32,229,445.33	100.00	32,229,445.33	unrecoverable

The amount of individual receivable account with obvious evidence indicating that the customers

cannot perform the payment obligations is less than RMB 800,000.00. The Group believes that there are significant risks of recovering these receivables, therefore, recognize bad debt provision by 100% of such receivables.

(4) During the reporting period, there are no receivables due from any shareholders held over 5% (inclusive) voting shares of the Company.

(5) Top five receivable accounts

Entity name	Relation with the Group	Amount	Aging	Percentage of total accounts receivable (%)
Sales Company	Subsidiary	101,110,300.63	within 1 year	50.33
Beijing Chengxiang Trade Center Limited	Non-related party	2,033,710.15	over 3 years	1.01
Chow Tai Fook Jewellery (Shenzhen) Co., Ltd.	Non-related party	1,698,000.00	within 1 year	0.85
Qingdao Hengdeli Timepiece Spectacles and jewelry Co., Ltd	Non-related party	1,298,215.01	over 3 years	0.65
Yingkou Department Store Timepiece and Sewing Machine Wholesale Station	Non-related party	982,604.03	over 3 years	0.49
Total		107,122,829.82		53.33

(6) Receivables from related parties

Company	relation with the Company	Amount	Percentage of total receivables (%)
Sales Company	subsidiary	101,110,300.63	50.33
Fiyta Hong Kong	subsidiary	929,167.42	0.46
AVIC	Ultimate controlling party	127,935.00	0.06
Rainbow Department Store	Controlled by the same party	38,196.81	0.02
Henglianda Company	subsidiary	12,827.74	0.01
Total		102,218,427.60	50.88

2. Other receivables

(1) Other receivables presented by types

Type	Closing balance			
	Book Value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables that individually significant in amount and provided for bad debt separately	2,215,684.09	0.25	2,215,684.09	100.00
Other receivables provided for bad debt by category:				

Type	Closing balance			
	Book Value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Aging	1,264,828.33	0.14	237,027.10	21.59
Specific account combination	878,560,687.66	99.44	-	-
Subtotal	879,825,515.99	99.58	237,027.10	0.03
Other receivables that individually insignificant in amount but provided for bad debt separately	1,480,064.11	0.17	1,480,064.11	100.00
Total	883,521,264.19	100.00	3,968,775.30	0.45

(Continued)

Type	Opening balance			
	Book Value		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Other receivables that individually significant in amount and provided for bad debt separately	-	-	-	-
Other receivables provided for bad debt by category:	-	-	-	-
Aging	8,093,002.32	1.47	3,734,037.03	46.14
Specific account combination	541,174,155.68	98.50	-	-
Subtotal	549,267,158.00	99.97	3,734,037.03	0.68
Other receivables that individually insignificant in amount but provided for bad debt separately	156,020.47	0.03	156,020.47	100.00
Total	549,423,178.47	100.00	3,890,057.50	0.71

(2) Other receivables presented by aging

Item	Closing balance		Opening balance	
	Amount	Percentage (%)	Amount	Percentage (%)
within 1 year	872,450,726.77	98.74	484,054,173.57	88.10
1~2 years	6,767,030.38	0.77	60,103,955.04	10.94
2~3 years	90,433.33	0.01	1,105,813.16	0.20
over 3 years	4,213,073.71	0.48	4,159,236.70	0.76
Total	883,521,264.19	100.00	549,423,178.47	100.00

(3) Bad debt provision

(a) Bad debt provision for other receivables that are individually insignificant in amount and provided for bad debt separately

Other receivables	Book value	Bad debt provision	Provision (%)	Reason
Shenzhen Xinlongtai Industrial Co., Ltd.	1,573,876.89	1,573,876.89	100.00	Unrecoverable
Zhuangtu Commodity Trading Center	641,807.20	641,807.20	100.00	Unrecoverable
Total	2,215,684.09	2,215,684.09	100.00	

(b) Other receivable provided for bad debt by combination

i. Other receivables with bad debt provision recognized by accounts aging:

Account aging	Closing balance			Opening balance		
	Book value		Bad debt provision	Book value		Bad debt provision
	Amount	Percentage (%)		Amount	Percentage (%)	
within 1 year	514,539.90	40.69	25,726.99	3,522,295.59	43.52	38,475.47
1~2 years	304,864.10	24.10	30,486.41	611,637.10	7.56	3,054.23
2~3 years	29,492.33	2.33	8,847.70	348,341.90	4.30	118,779.60
over 3 years	415,932.00	32.88	207,966.00	3,610,727.73	44.62	3,573,727.73
Total	1,264,828.33	100.00	273,027.10	8,093,002.32	100.00	3,734,037.03

ii. Other receivables with bad debt provision recognized by other method:

Combination	Book value	Bad debt provision
Specific accounts	878,560,687.66	-

(c) Other receivables with insignificant in amount individually at year end but are recognized bad debt provision individually

Other receivables	Book value	Percentage (%)	Bad debt provision	Reason for recognition
Rental	814,950.63	100.00	814,950.63	unrecoverable
Loan	400,000.00	100.00	400,000.00	unrecoverable
Petty cash advanced to employees resigned	156,020.47	100.00	156,020.47	unrecoverable
Consideration for equity transfer	109,093.01	100.00	109,093.01	unrecoverable
Total	1,480,064.11	100.00	1,480,064.11	

(4) During the report period, there are no other receivables from any shareholder with 5% (inclusive) of total voting shares of the Company.

(5) Top five other receivable accounts

Name of entity	Relationship with the Group	Amount	Aging	Percentage of other receivables (%)
HARMONY Company	subsidiary	765,262,316.69	within 1 year	86.62

Name of entity	Relationship with the Group	Amount	Aging	Percentage of other receivables (%)
Sales Company	subsidiary	43,402,341.35	within 1 year	4.91
Emile Chouriet Shenzhen	Subsidiary of the controlling shareholder	30,582,509.03	within 1 year	3.46
		1,682,289.30	1~2 years	0.19
Trading Company	subsidiary	13,849,315.39	within 1 year	1.57
		3,630,978.28	1~2 years	0.41
Technology Company	subsidiary	12,420,178.16	within 1 year	1.41
		676,540.74	1~2 years	0.08
Total		871,506,468.94		98.65

(6) Receivables from related parties

Company	relation with the Company	amount	Percentage of other receivables (%)
HARMONY Company	subsidiary	765,262,316.69	86.62
Sales Company	subsidiary	43,402,341.35	4.91
Emile Chouriet Shenzhen	subsidiary	32,264,798.33	3.65
Trading Company	subsidiary	17,480,293.67	1.98
Technology Company	subsidiary	13,096,718.90	1.48
Manufacture Company	subsidiary	4,994,900.00	0.57
Fiyta Hong Kong	subsidiary	1,147,471.00	0.13
AVIC Display Company	Controlled by the same party	102,500.00	0.01
Total		877,751,339.94	99.35

(7) The amount of other receivables denominated in foreign currency and exchange rate are as follows

Item	Closing balance			Opening balance		
	Amount in foreign currency	Exchange rate	RMB equivalent	Amount in foreign currency	Exchange rate	RMB equivalent
HKD	300.00	0.8107	243.21	8,397.50	0.8509	7,145.43

3. Long-term equity investment

(1) Classification of the long-term equity investment

Item	Opening balance	increase	Decrease	Closing balance
Investment in subsidiary	352,508,000.00	389,691,720.00	10,000,000.00	732,199,720.00
Investment in associated enterprises	1,896,913.65	-	33,340.89	1,863,572.76
Other equity investment	385,000.00	-	-	385,000.00
Less: provision for the long-term equity investment impairment	300,000.00	-	-	300,000.00
Total	354,489,913.65	389,691,720.00	10,033,340.89	734,148,292.76

(2) Details of the long-term equity investment

Investee	Accounting measurement	Investment cost	Opening balance	Increase or decrease	Closing balance
HARMONY Company	Cost method	601,307,200.00	298,500,000.00	302,807,200.00	601,307,200.00
Watch Center	Cost method	1,400,000.00	1,400,000.00	-	1,400,000.00
Harbin Company	Cost method	125,000.00	125,000.00	-	125,000.00
Manufacture Company	Cost method	9,000,000.00	9,000,000.00	-	9,000,000.00
Xi'an Chengheng	Cost method	10,000,000.00	10,000,000.00	(10,000,000.00)	-
Technology Company	Cost method	10,000,000.00	10,000,000.00	-	10,000,000.00
Fiyta Hong Kong	Cost method	55,367,520.00	18,483,000.00	36,884,520.00	55,367,520.00
Trading Company	Cost method	5,000,000.00	5,000,000.00	-	5,000,000.00
NPU Shenzhen Institute	Equity method	1,350,000.00	1,896,913.65	(33,340.89)	1,863,572.76
Xi'an Tangcheng Limited	Cost method	85,000.00	85,000.00	-	85,000.00
Shenzhen Zhonghang Culture Co. Ltd	Cost method	300,000.00	300,000.00	-	300,000.00
Sales company	Cost method	50,000,000.00	-	50,000,000.00	50,000,000.00
Total			354,789,913.65	379,658,379.11	734,448,292.76

(Continued)

investee	Shareholding in investee (%)	Voting shares in investee (%)	Explanation on inconsistency between the shares percentage and voting percentage in investee	Provision for impairment	Provision recognized this year	Cash dividend this year
HARMONY Company	100.00	100.00	-	-	-	54,607,884.20
Watch Center	50.00	100.00	Another shareholder enjoys fixed income with no involvement in operation	-	-	-
Harbin Company	100.00	100.00	-	-	-	-
Manufacture Company	100.00	100.00	-	-	-	30,786,321.10
Xi'an Chengheng	-	-	-	-	-	-
Technology Company	100.00	100.00	-	-	-	3,400,809.83
Fiyta Hong Kong	100.00	100.00	-	-	-	-
Trading Company	100.00	100.00	-	-	-	-
NPU Shenzhen Institute	45.00	50.00	The Company enjoyed 50% of the dividend as agreed in agreement	-	-	-
Xi'an Tangcheng Limited	0.10	0.10	-	-	-	-
Shenzhen Zhonghang Culture Co. Ltd	15.00	15.00	-	300,000.00	-	-
Sales company	100.00	100.00	-	-	-	-
Total				300,000.00	-	88,795,015.13

(3) Detail of provision for the long-term equity investment impairment

Item	Opening balance	Increase	Decrease	Closing balance
Other long-term equity investment:				
Shenzhen Zhonghang Culture Co. Ltd	300,000.00	-	-	300,000.00

4. Sales revenue and operating costs

(1) Sales revenue and operating costs

Item	2011	2010
Revenue from main business	443,613,197.13	324,893,484.73
Revenue from other businesses	6,412,014.30	5,987,326.02
Total of revenue	450,025,211.43	330,880,810.75
Cost for main business	240,787,862.53	145,764,880.61
Cost for other businesses	6,154,309.09	4,946,274.01
Total of operating cost	246,942,171.62	150,711,154.62

(2) Main businesses presented by industry sectors

Industry sector	2011		2010	
	Revenue	Cost	Revenue	Cost
Fiyta consumption goods	373,994,322.18	218,972,513.29	257,468,065.20	125,197,718.15
Property lease	69,618,874.95	21,815,349.24	67,425,419.53	20,567,162.46
Total	443,613,197.13	240,787,862.53	324,893,484.73	145,764,880.61

(3) Main businesses presented by regions

Region	2011		2010	
	Revenue	Cost	Revenue	Cost
Southern China	281,341,319.43	142,417,761.96	159,107,687.93	60,875,249.39
Eastern China	37,914,682.68	22,905,063.89	42,723,730.80	21,720,744.74
Northern China	36,263,113.66	21,262,983.20	37,045,249.56	18,304,057.82
Northwest China	36,442,932.65	21,800,105.86	30,369,630.68	15,376,144.02
Northeast China	27,785,396.93	18,266,842.93	29,161,965.18	16,187,806.86
Southwest China	23,865,751.78	14,135,104.69	26,485,220.58	13,300,877.78
Total	443,613,197.13	240,787,862.53	324,893,484.73	145,764,880.61

(4) Sales revenue from top five customers

Period	Total revenue from top five clients	Percentage of total revenue in the same period (%)
2011	169,892,782.09	37.75
2010	74,672,234.94	22.57

5. Investment income

(1) Details of investment income

Investee	2011	2010
Investment income from long-term equity investment measured by the cost method	88,795,015.13	51,621,390.33
Investment income from long-term equity investment measured by the equity method	(33,340.89)	60,595.73
Investment income arising from disposal of the long-term equity investment	(406,305.41)	-
Total	88,355,368.83	51,681,986.06

(2) Investment income from long-term equity investment measured by the cost method

Investee	2011	2010
HARMONY Company	54,607,884.20	37,862,436.53
Manufacture Company	30,786,321.10	13,758,953.80
Technology Company	3,400,809.83	-
Total	88,795,015.13	51,621,390.33

(3) Investment income from long-term equity investment measured by the equity method

Investee	2011	2010	Reason for increase/decrease
NPU Shenzhen Institute	(33,340.89)	60,595.73	Decrease in investee's net profit in 2011

6. Supplementary information to the cash flow statement

Item	2011	2010
1. Reconciliation from net profit to operating cash flows		
Net profit	102,564,456.20	51,209,032.78
Plus: asset impairment provision	(728,771.37)	3,665,602.38
Depreciation of fixed asset and amortization of investment property	19,114,778.37	19,254,463.19
amortization of intangible asset	905,210.23	818,341.66
Amortization of long-term deferred expense	16,718,862.03	14,664,713.20
Loss (gain) on disposal of fixed assets, intangible assets and other long-term assets	355,770.86	(6,947,774.81)
Financial expense	26,536,653.16	14,914,762.40
Investment loss (gain)	(88,355,368.83)	(51,681,986.06)
Decrease (increase) of the deferred income tax assets	284,885.14	(373,699.59)
Increase (decrease) of deferred income tax liabilities	(2,866.09)	24,269.34
Inventory decrease (increase)	44,094,571.87	(32,362,601.62)
Decrease (increase) of operating receivable	(381,543,724.85)	(240,590,605.13)
Increase of operating payables	(25,101,478.49)	29,519,609.01
Net cash flows from operating activities	(285,157,021.77)	(197,885,873.25)

Item	2011	2010
2.Significant investment and financing activities not involving cash:		
3.Net changes in cash and cash equivalents:		
Cash and bank balances at the end of the year	49,327,161.12	529,568,738.47
Less: cash and bank balances at the beginning of the year	529,568,738.47	46,560,890.55
Plus: cash equivalents at the end of the year	-	-
Less: cash equivalents at the beginning of the year	-	-
Net increase in cash and cash equivalents	(480,241,577.35)	483,007,847.92

Supplementary Information to the Notes of the Financial Statements

I. Details of non-recurring profit or loss

Item	this year	prior year
Profit or loss from non-current assets disposal	(369,798.63)	6,915,632.98
Government grants included in current profit or loss (except for the fixed or quantitative government grants closely related to the enterprise businesses and according to a nation-wide unified standard)	4,006,718.21	5,647,255.01
Other non-operating income and expenses besides the items above	1,256,250.60	811,603.12
Subtotal	4,893,170.18	13,374,491.11
The amount of income tax effect	918,100.27	225,892.28
Effect of minority interests (after tax)	32,987.41	123,208.64
Total	3,942,082.50	13,025,390.19

The Group recognized the non-recurring profit or loss items in accordance with “Explanatory Public Notice on Information Disclosure of Companies Having Publicly Issued Securities No.1 – Non-recurring Profit or Loss” (Zheng Jian Hui Gong Gao (2008) No. 43).

II. Return on Equity (ROE) and EPS

Profits of the reporting period	Weighted average ROE	EPS (RMB / share)	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders of the Company	12.05%	0.406	0.406
Net profit attributable to ordinary shareholders after deducting non-recurring profit or loss	11.75%	0.396	0.396

Note: (1) the weighted average ROE = “net profit attributable to the Company's ordinary shareholders” ÷ [“opening net assets attributable to the Company's ordinary shareholders” + “net profit attributable to the Company's ordinary shareholders” ÷ 2 – (“net asset decreased by cash dividends during reporting period, attributable to the Company's ordinary shareholders” * “cumulative number of months from the next month of net asset attributable to the Company's ordinary shareholders decrease to the end of the reporting period” ÷ “number of months in the reporting period”) + (“net assets changes arising from foreign currency financial statement translation” * “cumulative number of months from the next month of net asset changes due to other matters to the end of the reporting period” ÷ “number of months in the reporting period”) +

“net asset changes due to purchase of minority shareholdings in Henglianda Company” * “cumulative number of months from the next month of net asset changes due to other matters to the end of the reporting period” ÷ “number of months in the reporting period” + “net asset changes due to purchase of minority shareholdings in HARMONY Company” * “cumulative number of months from the next month of net asset changes due to other matters to the end of the reporting period” ÷ “number of months in the reporting period”]=
 $159,457,800.00 \div [1,265,996,583.67 + 159,457,800.00 \div 2 - (28,054,847.90 * 8 \div 12) + (-5,840,186.73 * 6 \div 12) + (162,323.81 * 9 \div 12) + (-717,864.91 * 12 \div 12)] = 12.05\%$

The weighted average ROE after deducting non-recurring profit or loss = “net profit attributable to the Company's ordinary shareholders after deducting non-recurring profits and losses” ÷ [“opening net assets attributable to the Company's ordinary shareholders” + “net profit attributable to the Company's ordinary shareholders” ÷ 2 – (“net asset decreased by cash dividends during reporting period, attributable to the Company's ordinary shareholders” * “cumulative number of months from the next month of net asset attributable to the Company's ordinary shareholders decrease to the end of the reporting period” ÷ “number of months in the reporting period”) + (“net assets changes arising from foreign currency financial statement translation” * “cumulative number of months from the next month of net asset changes due to other matters to the end of the reporting period” ÷ “number of months in the reporting period”) + “net asset changes due to purchase of minority shareholdings in Henglianda Company” * “cumulative number of months from the next month of net asset changes due to other matters to the end of the reporting period” ÷ “number of months in the reporting period” + “net asset changes due to purchase of minority shareholdings in HARMONY Company” * “cumulative number of months from the next month of net asset changes due to other matters to the end of the reporting period” ÷ “number of months in the reporting period”]=
 $155,515,717.50 \div [1,265,996,583.67 + 159,457,800.00 \div 2 - (28,054,847.90 * 8 \div 12) + (-5,840,186.73 * 6 \div 12) + (162,323.81 * 9 \div 12) + (-717,864.91 * 12 \div 12)] = 11.75\%$

Note (2): For the calculation of basic EPS and diluted EPS, see Note VII. 44.

III. Abnormal Items in the Group's consolidated financial statements and reasons

1. Balance sheet item:

Balance sheet items that with changes over RMB5,000,000.00 or over 30% by comparing the closing balance and the opening balance are analysed as follows:

(1) The closing balance of cash and balances amounting to RMB169,627,301.98 was 72.35% less than the opening balance. Main reasons for the change include:

- a. The fund received from non-public placing has been used by RMB285,530,000.00 this year;
- b. Prepayment of RMB40,300,000.00 to purchase 25% equity interest of Shanghai Watch Industry Co., Ltd;
- c. Prepayment of RMB28,050,000.00 by HARMONY Company for purchase of equity of Hengdarui Company;

(2) The closing balance of accounts receivable was increased by RMB268,900,768.37, or 52.87% compare with opening balance. The main reasons of the increase are that it is peak season for luxury watch market at the year end, the timing of ordinary settlement term with the department stores, and the overall increase in scale of sales;

(3) Closing balance of prepayment was RMB55,639,710.01, increased 51.84% compare with its opening balance. The main reason for increase is that HARMONY Company pre-paid RMB28,050,000.00 as part of the consideration of purchasing shareholdings of Hengdarui Company.

(4) Closing balance of inventory was RMB 1,640,904,483.64, increase 56.52% compared with its opening balance. The main reasons include:

- a. New stores of HARMONY Company opened and inventory prepared for it amounting to RMB413,100,000.00;

- b. Because of introducing new models of Fiyta watches and increasing the volume of consignment stock of Fiyta watches in stores, the stored goods increased RMB 121,880,000.00 compared with the same period of last year;
- (5) The closing balance of other current asset was RMB44,245,896.17, increased 1021.13% compare with its opening balance. This is mainly due to the Group's year end purchase increased, and as a result, the input tax of VAT increased;
- (6) The closing balance of investment property was RMB272,490,648.63, increased 64.76% compare with its opening balance. The main reason of this increase is that the Group re-classified Xi'an Prince Hotel from fixed asset to investment property according to the management's intent of holding the asset;
- (7) The closing balance of fixed asset was RMB162,646,929.11, decreased 35.39% compare with its opening balance. The main reasons include:
- a. The Group re-classified Xi'an Prince Hotel from fixed asset to investment property according to the management's intent of holding the asset. This re-classification involved RMB107,100,000.00.
- b. Swiss Company has purchased plants amounting to RMB22,830,000.00 this year;
- (8) The closing balance of intangible asset was RMB37,065,827.49, increased 92.67% compared with its opening balance. The main reason is that the Company purchased the land use right amounting to RMB18,790,000.00 in Guangming New District in Shenzhen;
- (9) The closing balance of long-term deferred expenses was RMB122,586,473.17, increased 69.90% compared with its opening balance. The main reasons include renovation expenses for newly opened shops of HARMONY Company and renonation and display counter process expenses for current shops amounting to RMB19,700,000.00; renovation expenses of Sales Company increased RMB15,210,000.00 due to new shops open; and renovation expenses for Fiyta Hong Kong and Emimle Choureit Shenzhen Company, etc... amount to RMB9,930,000.00;

(10) Deferred income tax asset at the year end was RMB46,250,916.43, increased 127.65% compared with the opening balance. The main reason are that the unrealized profit of internal sales increased, applicable tax rate for deductible temporary difference increased to 25% and the deductible losses increased;

(11) The closing balance of other non-current asset was RMB40,300,250.00, which is newly increased this year. The increase is the prepaid consideration for the acquisition of 25% shareholding of Shanghai Watch to China Beijing Equity Exchange;

(12) Short-term loan was RMB980,107,000.00 at the year end, increased 34.58% compare with the opening balance. The increase is mainly due to new stores opened and increases in purchasing and consequently increased the demand of working capital;

(13) Employee benefit payable was RMB27,414,469.57 at the year end, increased 37.20% compare with its opening balance due to the provision for bonus accrued by the Group at the year end increased;

(14) The closing balance of tax payable was RMB50,237,284.28, increased 171.66% compare with the opening balance mainly due to increase in VAT as a result of sales increase and increase in current period's corporate income tax as a result of increase in current year's net profit;

(15) The closing balance of non-current liability that is due in one year amounting to RMB149,600,000.00 was newly increased this year due to reclassification of long-term loan that is due in one year;

(16) The closing balance of long-term loan was RMB57,030,567.09, decreased 68.57% compare with its opening balance due to reclassification of long-term loan that is due in one year to non-current liability that is due in one year;

(17) The closing balance of share capital was RMB392,767,870.00, increased 40.00% compared with its opening balance due to the the Company converted capital reserve to ordinary shares on the basis of 280,548,479 shares as at 31 December 2010. Total share capital increased was 112,219,391 shares;

(18) The closing balance of capital reserve was RMB530,606,952.78, decreased 17.53% compared to its opening balance due to conversion of capital reserve to share capital;

(19) The closing balance of translation difference caused by financial statements denominated in foreign currencies was RMB-7,355,528.69 (minus), increased 385.40% compare with its opening balance due to the translation of financial statements of Fiyta Hong Kong, which are denominated in foreign currency;

(20) The closing balance of minority shareholders' interest was RMB2,751,249.66, decreased 87.24% compare with its opening balance. The main reasons are that HARMONY Company purchased the remaining 50% of the shareholding in Heng Lianda Company from its minority shareholders and the Company purchased the remaining 0.50% of the shareholding in HARMONY Company from the minority shareholders. As a result, the minority shareholders' interest decreased accordingly;

2. Income statement items

Analysis of main items in 2011 that are with changes over 30% or RMB5,000,000.00 in amount compared with 2010 figures are as follows:

(1) Operating income realized in 2011 was RMB2,561,054,602.40, increased 43.82% compare with 2010. The increase is mainly due to increase in income from newly opened stores of HARMONY Company and its subsidiary Heng Linda Company and from the steady expansion and development of original stores. At the same time the sales of Fiyta brand watches has increased as well;

(2) Operating cost incurred in 2011 was RMB1,658,959,419.29, increased 37.24% compare with last year mainly due to the increase of revenue. The percentage of increase in operating cost differs with the increase in revenue at 6.58% due to the manufacturer of branded watches, which is distributed by HARMONY Company, offer discounts to end users and caused the difference in variation in cost and revenue. Certain brand also offers promotion by discount;

(3) Business tax and surcharges incurred in 2011 was RMB14,365,769.96, increased 113.55% compare with last year. The main reason is the increase of turnover has lead to an increase of the turnover tax and surcharges. Besides, the rate of urban construction and maintenance tax in Shenzhen has also increased from 1% to 7% this year;

(4) Distribution expense incurred in 2011 was RMB433,763,804.40, increased 64.50% compare with last year. The increases are mainly due to:

a. The increase of operating income led to an increase of employee remuneration, social insurance and benefit totally RMB53,540,000.00;

b. The increase in promotion, market promotion events and advertising expense totally RMB28,890,000.00;

c. Lease expenses for newly opened stores up to RMB26,340,000.00;

d. Amortizaion of long-term deferred expenses increased by RMB20,140,000.00;

e. Expenses for department stores increased by RMB 16,930,000.00 due to increase in newly opened stores;

(5) Administrative expense incurred in 2011 was RMB196,332,602.06, increased 34.77% over the figure in last year. The increase is due to increase in recruitment and staff promotion in this year. As a result, the wages paid to the employees and social security insurance increased by RMB21,010,000.00. The R&D expenditure also increased by RMB12,260,000.00;

(6) Financial expense incurred in 2011 was RMB65,207,111.38, increased 36.39% over last year due to increase in loans, which caused the increase of the interest expense;

(7) Non-operating income recognized in 2011 is RMB5,550,160.44, decreased 60.54% compare with prior year. The decrease is because of the disposal gain of RMB6,900,000.00 from sales of Huashun Mansion in prior year;

(8) Income tax expense in 2011 is RMB32,319,678.81, increased 65.96% compare with prior year. The increase is due to the increase of the operating profit and the increase in income tax rate from 22% to 24%.