SHENZHEN FIYTA HOLDINGS LTD.
2005 ANNUAL REPORT
(Summary)

§1 Important

1.1 The Board of Directors and all the directors of the Company hereby confirm that there are no important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individually and/or jointly, for the truthfulness, accuracy and completion of the whole contents herein.This summary is cited from the full text of the annual report. An investor who wants to know the detail, should read the full text of the annual report. This annual report is prepared in both Chinese and English. Should there be any difference in understanding of the two versions, the Chinese version shall prevail.

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

1.3 Mr. Wang Baoying director, failed to be present at the Board meeting due to work requirement..

1.4 Both Pricewaterhouse Coopers Zhongtian Certified Public Accountants and PRICEWATERHOUSECOOPERS CHINA LTD produced a standard unqualified auditors' report without any explanatory notice for the Company.

1.5 Mr. Wu Guangquan, the Chairman of the Board, Mr. Xu Dongsheng, the General Manager, Mr. Li Dehua, the Deputy General Manager and Chief Accountant, and Mr. Liu Biao, the Financial Manager hereby guarantee the accuracy and completeness of the financial report enclosed in this annual report.

1.6 Except that the Financial Report (§9.2) of the English version is drawn up according to the Auditors' Report as prepared in accordance with International Financial Report Standards, all financial data are based on Chinese Accounting Standards.

§2 Company Information

2.1 Basic Information

Short form of the stock	FIYTA A , FIYTA B
Stock code	000026, 200026
Stock Exchange listed with	Shenzhen Stock Exchange
Registered Address	FIYTA Technology Building, Gaoxin S. Road 1, Nanshan District
Office Address:	20th Floor, FIYTA Technology Building, Gaoxin S. Road 1, Nanshan District
Post Code	518057
Internet Website	http:// www. fiyta.com.cn

E-mail	szfiyta@public.szptt.net.cn

2.2 Communication Information

	Secretary of the Board	Securities Affairs Representative
Name	Hao Huiwen	Chen Zhuo
Address	20th Floor, FIYTA Technology Building, Gaoxin S. Road 1, Nanshan District	
Tel	0755－86013992 86013669	
Fax	0755-83348369	
E-mail	investor@fiyta.com.cn	

§3 Financial Highlights

3.1 Accounting Data Summary

In RMB

Items	2005 (report year)	2004 (previous year)	Year-on-year increase/ decrease (%)	2003
Principal business income	341,504,786.91	278,246,963.00	22.73%	228,133,082
Total profit	18,563,592.41	3,523,936.00	426.79%	5,708,012
Net profit	16,006,999.87	1,907,880.00	738.99%	5,088,057
Net profit after deduction of non- recurring loss/gain	17,181,233.23	2,473,894.00	594.50%	-6,775,168
Net cash flows arising from operating activities	-14,006,618.19	-24,942,143.00	43.84%	-11,746,162
	End of 2005 (End of the report year)	End of 2004 (End of the previous year)	Year end -on-year end increase/ decrease (%)	End of 2003
Total assets	621,275,547.20	627,537,297.71	-1.00%	572,847,496
Shareholders' equity (excluding minority equity)	533,371,239.36	517,364,239.49	3.09%	515,456,362

3.2 Financial Data Summary

In RMB

Items	2005 (report year)	2004 (previous year)	Year-on-year increase/ decrease (%)	2003
Earnings per share	0.064	0.008	738.99%	0.020
Net assets-income ratio	3.00%	0.37%	Decrease by2.63 percentage	0.99%
Net assets-income ratio based on the net profit after deducting non-recurring gains/ loss	3.22%	0.48%	Increase by 2.74 percentage	-1.31%

Net cash flows per share arising from operating activities	-0.056	-0.100	43.84%	-0.047
	End of 2005 (End of the report year)	End of 2004 (End of the previous year)	Year end -on-year end increase/ decrease (%)	End of 2003
Net assets per share	2.139	2.075	3.09%	2.067
Net assets per share after adjustment	2.087	2.030	2.81%	2.030

non-recurring gain/loss items

√ applicable ☐ inapplicable

Non-recurring gain and loss items	Amount In RMB
Income from disposal of fixed assets	296,008.09
Carry-back of the reserves for devaluation provided in the previous years.	430,222.22
Losses from short term investments	-2,058,204.69
Non-operating revenue & expenditure	98,557.02
Amount affected by the income tax	59,184.00
Total	-1,174,233.36

3.3 Differences between Domestic and International Accounting Standards

√ applicable ☐ inapplicable

In RMB ‘000

	Domestic Accounting Standard (CAS)	International Accounting Standard (IAS)
Net profit	16,007	15,553
Note to the discrepancies	Net profit as audited by Yuehua Certified Public Accountants Co., Ltd. 16,007 Adjustment on provision for bad debt -454 Net profit audited by Morison International according to IAS. 15,553	

§4 Changes in Share Capital and Particulars about Shareholders

4.1 Change in Shares

In Shares

	Before change	Increase/ Decrease (+ / -) as of the year	After the change
1. Circulating Shares not Listed			
Promoters’ shares	130,248,000	0	130,248,000
Including: domestic legal person shares	130,248,000	0	130,248,000
Total	130,248,000	0	130,248,000
2. Circulating Shares Listed			
1) RMB ordinary shares	60,749,999	0	60,749,999
Including: senior executives’ shares	48,211	0	48,211
2) Foreign shares listed domestically	58,320,000	0	58,320,000

Total	119,069,999	0	119,069,999
3. Total shares	249,317,999	0	249,317,999

4.2 Top 10 shareholders and Shares Held by Top 10 Shareholders of Circulating Shares

Total shareholders ended the report period					20895
Shares Held by Top 10 Shareholders					
Shareholders	Increase/Decrease in the year	Number of shares held at year end	Shareholding proportion (%)	Type (negotiable/non-negotiable	Shares pledged or frozen
CATIC SHENZHEN HOLDINGS LTDS.	0	130,248,000	52.24	Domestic legal person shares	0
Wu Minghong	unknown	815,300	0.33	Listed A shares	unknown
Zeng Ying	537,490	792,490	0.32	Listed B shares	unknown
CHAN KEUNG	5,900	774,883	0.31	Listed B shares	unknown
KUNG NGAI HIN	522,200	629,820	0.25	Listed B shares	unknown
Ou Yanping	49,157	500,458	0.20	Listed B shares	unknown
Zhang Jiansheng	unknown	457,400	0.18	Listed B shares	unknown
Lin Hongbo	0	362,880	0.15	Listed B shares	unknown
China Pingan Insurance (HK) Co., Ltd.	0	359,070	0.14	Listed B shares	unknown
Xue Peiming	0	336,800	0.14	Listed B shares	unknown

Shares held by the top ten shareholders		
Shareholders (in full name)	Quantity of negotiable shares held at the end of the period	Types (A-, B- or H-shares, or others)
Wu Minghong	815,300	Negotiable A-shares
Zeng Ying	792,490	Negotiable B-shares
CHAN KEUNG	774,883	Negotiable B-shares
KUNG NGAI HIN	629,820	Negotiable B-shares
Ou Yanping	500,458	Negotiable B-shares
Zhang Jiansheng	457,400	Negotiable B-shares
Lin Hongbo	362,880	Negotiable B-shares
China Pingan Insurance (HK) Co., Ltd.	359,070	Negotiable B-shares
Xue Peiming	336,800	Negotiable B-shares
Lin Zhihua	305,700	Negotiable B-shares
Relationship/concerted action among the above shareholders	The Company has never found any business relations among the top ten shareholders or they belong to the persons of concerted action as specified in the Measures on Listed Companies on Disclosing the Shareholding Information.	

4.3 About the Controlling Shareholder and the Actual Controller

4.3.1 Change in the Controlling Shareholder and the Actual Controller

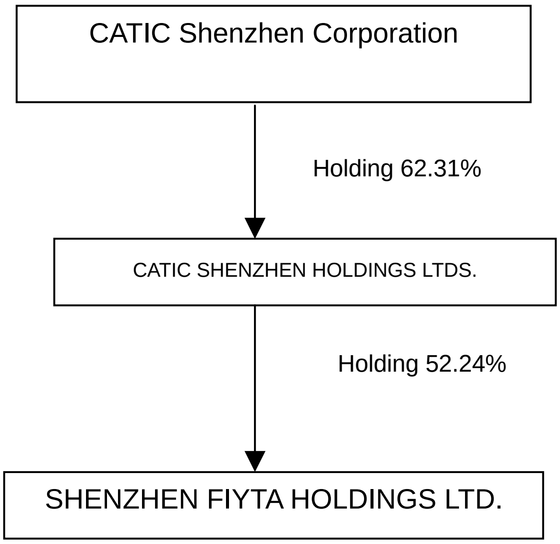
□ applicable √ inapplicable

4.3.2 About the Controlling Shareholder and the Other Actual Controller(s)

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

Actual controller of the controlled shareholder CATIC Shenzhen Corporation is a state enterprise founded in April, 1982, with the registered capital: RMB 80 million, and legal representative: Wu Guangquan; Principal businesses:Import and export of motor vehicles, equipment and machinery made within the Group.

4.3.3 Diagram of the controlling relationship between the Company and actual controller



§5 Directors, Supervisors and Senior Executives

5.1 Change in shares held by Directors, supervisors and senior executives

Name	Title	Sex	Age	Office Term	Number of shares held at year beginning	Number of shares held at year end	Reason of Change	Payment from the Company(10 k yuan)	Payment from shareholder or other revlant parties
Wu Guangquan	Chairman of the Board	male	43	May, 2003 to May, 2006	0	0	—	0.00	YES
Lai Weixuan	Vice-Chairman of the Board	male	41	May, 2004 to May, 2006	0	0	—	0.00	YES
Sui Yong	Director	male	47	May, 2003 to May, 2006	0	0	—	0.00	YES
Wang Baoying	Director	male	41	May, 2005 to May, 2006	0	0	—	0.00	YES
Xu Dongsheng	Director and General Manager	male	39	May, 2003 to May, 2006	0	0	—	57.00	NO
Zhu Gensen:	Director	male	57	May, 2003 to May, 2006	0	0	—	25.53	NO
Cai Zheng	Independent director	male	64	May, 2003 to May, 2006	0	0	—	3.00	NO
Hua Xiaoning	Independent director	male	42	May, 2003 to May, 2006	0	0	—	3.00	NO
Guo Wanda	Independent director	male	40	May, 2005 to May,	0	0	—	3.00	NO

				2006					
Shao Kexiong:	Chairman of Supervisory Committee	male	55	May, 2003 to May, 2006	0	0	—	0.00	YES
Zhang Songhua:	Supervisor	male	52	May, 2003 to May, 2006	0	0	—	19.30	NO
Tang Boxue	Supervisor	male	44	Dec, 2005 to May, 2006	0	0	—	13.60	NO
Lu Binqiang:	Deputy General Manager	male	44	May, 2003 to May, 2006	48210	48210	-	31.30	NO
Li Dehua:	Deputy General Manager and Chief Accountant	male	45	May, 2003 to May, 2006	0	0	—	31.30	NO
Li Bei	Deputy General Manager	male	50	May, 2003 to May, 2006	0	0	—	31.30	NO
Fang Juan	Deputy General Manager	female	46	Jan, 2004 to May, 2006	0	0	—	31.30	NO
Hao Huiwen:	Secretary of the Board	male	37	May, 2003 to May, 2006	0	0	—	25.53	NO
TotaL								275.16	

§6 Report of the Board of Directors

6.I Overall Operation Discussion and Analysis

I. Operation Review

FIYTA is a domestic renowned timepieces manufacturer and world well-known watches chain retailers. In the year 2005, the Company positively carried forward the strategic program of “Viola tricolor” and lead various businesses wit the brand strategy according to the Company’s guiding principle of “focusing on brand molding, intensifying teamwork, reinforcing system operation and increasing revenue and creating profit” and reinforced various managerial work. During the report period, the Company unceasingly improved and cohered the teamwork through information sharing, training reinforcement, business learning, etc. In addition, based on the Company’s practical conditions, the Company positively introduced and carried out “Balanced Score Card” and “Six Sigma” Management, devoted great efforts on 5 S management; developed innovative sales channels through development of self-owned brands and unceasingly deepened and developed professional cooperation both at home and abroad.

In the report period, the Company achieved a quite good operation result in various businesses. FIYTA watches and Harmony Famous Brand Watches chain shops have realized brand operation development and earning power upgrading. Meanwhile, the property operation has also brought about and added profit to the Company.

Items	2005	2004	Year-on-year
Principal business income	341,504,786.91	278,246,963.00	22.73%
Principal business profit	129,173,020.42	101,141,752.00	27.71%
Total profit	18,563,592.41	3,523,936.00	426.79%
Net profit	16,006,999.87	1,907,880.00	738.99%

Net profit	16,006,999.87	1,907,880.00	738.99%

In the report period, the income from the principal businesses in the report period was RMB 341,505 thousand, a 22.73% growth over the same period of the previous year, which was mainly due to big growth in income from retails of famous brand watches and properties. The Company realized a total profit amounting to RMB 18,564 thousand and net profit amounting to RMB 16,007 thousand, growing respectively by 426.79% and 738.99% over the same period of the previous year, which was mainly due to big growth of earning power and income from the Company's watch business and properties. At the end of the report period, the Company's total assets was RMB 621,276 thousand and shareholders' equity was RMB 533,371 thousand which respectively decreased by 1.00% and increased 3.09% over the same period of the previous year.

1. FIYTA watches

In the report period, the Company, starting from the brand strategy, continuously enhanced the customer orientation, leaped from the misunderstanding of low level competition of home-made watches, devoted great efforts on carrying out integrated marketing and promotion by means of "Shenzhou Six Spacecraft" space flight watches and thus the brand identity has been further upgraded. Meanwhile, the Company exerted great efforts to push ahead the shift from price promotion to value promotion and achieved a good result by taking various measures in resolute implementation of the sales terminal: FIYTA watch, following the honorable title of "China Made Top Brand Watch" granted in 2002, was again granted the title of "China Made Top Brand Watch by the General Administration of Quality Supervision, Inspection and Quarantine of the People's Republic of China in the report period. On October 12, 2005, the Company successfully developed work watch for astronauts of Shenzhou Six Spacecraft which accompanied Shenzhou Six Manned Spacecraft in the space. Through pile upon pile of tests, the watches successfully finished the task. They have further established the international position of FIYTA among the world three principal space flight watches, powerfully consolidated the brand identity of FIYTA watches in terms of leading technology and exquisite quality, which have endowed FIYTA Brand with lofty significance of representing the development level of the Chinese time keeping culture. Afterwards, National museum of China held a collection ceremony in Beijing, and permanently collected "FIYTA Space Flight Watch, China's National Treasure of Timepiece" and "Limited Treasured Up Set of China's National Treasure of Timepiece".

The Company further enhanced the coordinative efficiency improvement in development, production and sales of FIYTA watches, streamlined the research and development process, constructed and expanded the R & D design platform and improved the encouragement of the designers' team. In 2005, the Company successfully held the Second "FIYTA Cup Watch Design Competition" and "China International Summit of Art, Watch and Design. The design competition collected 289 pieces of works for competition from 26 colleges and institutions both at home and abroad. Colani , a world famous design master, Ding Shaoguang, a famous American visiting artist, Lasik, President of the Prospects Department of DaimlerChrysler AG, and other VIPs participated in prizes awarding and achieved extensive effect and good result. The Company took hold of the general trend towards medium and high grade and reinforced the development of medium and high price products and mechanical watches; continued to keep the leading position of technology in the timepiece field. The Company has been frequently involved in preparation and revision of the national timepiece standard and timepiece industrial standard. In terms of sales management, the Company focused on achievements orientation by means of work reporting of the managers and assessment of the salespersons, continuously made personnel adjustment, recruited personnel through various channels and improved the criteria of recruitments; The Company increased investment in key regions, improved the special counters and properties for terminal identity, and upgrade the terminal execution power by means of characteristic activities, such as enhancement of work plan of salespersons and shop patrol record, promotion of personalized services, communications with customers, etc., and realized information share by means of mobile phone message platform, current market price overview, communication with customers and special surveys, etc.; unceasingly carried out sales training management and effectively upgraded the capacity of terminal sales interception.

In the first half year, the Company realized sales income amounting to RMB 117,804 thousand from FIYTA watches, a small drop over the same period of the previous year. However, as the sales volume of medium and high grade watches increased by a big margin and the costs was brought under good control, the Company had not only fulfilled the preset profit earning objective but also further upgraded the brand competitiveness. In 2005, FIYTA Watch has been honorably rewarded as "No. 1 Product of the Same Kind in the National Market" issued by China Industrial Information Statistic Information Delivery Center of the State Bureau of Statistics successively for 11 years. The retail unit price of FIYTA watch also rose by a big margin.

2. Retail of Famous Brand Watches

In the report period, the Company enthusiastically expanded and optimized the Harmony famous watch sales network, insisted on the operation philosophy of "integrity, warmness, professional and standardization", based on the conception of fanning out from point to area, enhancing regions, by taking the flagship shops in regions as leaders, putting forth effort to develop brand franchised shops and high grade chain shops and developing shops in shop in a proper way, and improved the identity and competitiveness by means of setting up new shops, optimizing the network, reforming the old shops, managing VIP customers, etc. Meanwhile, the Company unceasingly deepened the cooperation with the international brand. The Company has established direct cooperation with Rolex Group. Such top brand groups as Richemont, Swatch Group highly appraised the Company's development and management and offered positive support to the Company; the global and Asia-Pacific presidents of 20 global eminent brands, including Raymond Weil, Girard-Perregaux, IWC, Ulysse Nardin, Omega, Longines, etc. paid visits to the Company in succession, which has not only further richened the resources for development of the Company, but also enhanced the influential force of Harmony Brand.

During the report period, Harmony World Watches Center newly established 5 high grade shops, including Xidan Shop in Beijing, Shanghai Omega Flagship Shop, Hangzhou Lixing Shop, Shanghai Longzhimeng Shop, etc. So far, there have been 41 chain shops in various big and medium shops throughout the country. In 2005, Harmony World Watches Center still kept rapid growth trend. The revenue from retail of famous watches amounted to RMB 180,271 thousand, a 39.45% growth over the same period of the previous year and net profit amounted to RMB 2,446 thousand, a 41.88% growth over the same period of the previous year.

3. Property Management

In the report period, FIYTA Technology Building located in Shenzhen Hi-tech Park and FIYTA Building located within Shenzhen Huaqiangbei Business Zone experienced a good operation status. The housing lease rate of both FIYTA Building and FIYTA Technology Building at the end of the report year was 100% and the total rental income in the report year amounted to RMB 41,132 thousand. In addition, the Company got excellent results in the assessments of the property management work of FIYTA Technology Building at the district, municipal and provincial levels.

II. Development Prospect

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

Over the years, with continuous improvement of China's macro economy, people's disposable income has been growing, which has created a consumption foundation for watch market; meanwhile, consumers' demand of time keeping function of a watch, specially a medium or high grade watch is being weakened while the symbolic characteristic of a watch is more and more outstanding. A medium or high grade watch has progressively become a symbol of life quality and taste. Such good economic environment and consumption demand are helpful to support and consolidate the high and medium grate position of FIYTA watches and development of Harmony famous watch chain sales network.

2. Development Strategy and Operation Plan in 2006

In 2006, the Company shall intensify the cooperation, enhance communication and carry out work in a creative way according the guideline of "carrying through the company's philosophy, improving the quality of manpower, reinforce brand integration and devote efforts to innovative development so as to upgrade the Company's operation efficiency and profit-earning level. On the basis of steadily developing FIYTA Brad and keeping the biggest home-made watch market share position, the Company shall focus on enhancing fostering of high-grade band and starting establishment of fashionable brand. On the basis of consolidating and adjusting Harmony's existing network points, continue to establish 6 to 10 new chain shops in key cities, unceasingly improve the economic beneficial result; on the basis of stablising the existing tenants of the property, reinforce the communication with the customers and control the operation risk in an effective way.

2. Fund for Development Strategy and Application Plan
In 2006, the Company expects to invest RMB 90 million for expanding and newly setting up Harmony Famous Brand Watches chain shops. At present, the Company's asset-liability ratio is quite low and the funds may be raised through short term loan from bank.

3. Risks in Connection with Strategic Operation Objectives
(1) The market competition of the timepiece industry the Company is engaged in is quite intense; the rising trend of sales of imported watches has been continuing; the scale of China-made watches is generally not big and majority of them has been in low level competition. With upgrading of the position of partial high-grade shopping centers, China-made watches have been progressively marginalized. Such products are involved in the risk of shrinkage in their sales channels.

Directing against such development trend, the Company has successfully leaped from the misunderstanding about China-made watches and promoted value based marketing through unceasingly upgrading the brand value and offering value added services satisfactory to the customers and improved FIYTA brand identify. The Company has consolidated the high and medium grade sales channels by using its own advantages, richened and developed the sales channels through Harmony Famous Brand Watches chain shops, Henglianda and other domestic business chain network, and participated in the competition of the domestic famous brand watch market.

(2) In order to comply with the rapid change of the market, the Company has to unceasingly weed through the old and bring forth the new. As a result, the expenses on R & D, promotion and inventories increased somewhat, which has also brought about the risk of the capital in occupancy of funds.

The Company has positively taken countermeasures, reinforced the survey on customers, made deepened analysis on customers' demand improved the successfulness of the products by means of unfolding the quality functions; pushed ahead standardization of products, conducted centralized procurement and reduced the risks; enhanced the control over the service life cycle of products, established and improved the product withdrawal mechanism; adjusted and improved the sales management system, effectively improved the fund utilization efficiency and reduced the risk of business operation.

6.2 Principal Businesses Classified Based on Sectors and Products

In RMB 10'thousand

Based on sectors or products	Income from principal business	Costs of principal business	Gross interest rate (%)	Increase/decrease Growth of income from principal business over the previous year（％）	Increase/decrease of costs of principal business over the previous year（％）	Increase/decrease of gross profit rate over the previous year (%)
Industry	12,010.22	5,835.00	51.42%	-1.26%	-9.07%	4.18%
Trading	18,027.09	14,185.23	21.31%	39.45%	34.69%	2.78%
Property management	4,113.17	892.00	78.31%	50.42%	59.92%	1.29%
Incl.: related transactions	—	—	—	—	—	—
Sales of FIYTA watches	11,780.40	6,186.76	47.48%	-3.07%	-3.56%	0.26%
Sales of foreign famous watches	18,027.09	14,185.23	21.31%	39.45%	34.69%	2.78%
Incl.: related transactions	—	—	—	—	—	—

6.3 Principal Businesses Based on Regions

In RMB 10‘thousand

Regions	principal business income	Increase/decrease of revenue from the principal businesses over the previous year (%)
Northeast China	3,994.74	16.53%
North China	2,740.01	-6.42%
Northwest China	6,681.57	38.91%
East China	4,181.49	19.22%
Southwest China	1,267.13	-10.83%
South China	10,942.54	21.77%

6.4 Application of the Proceeds Raised through Share Offering

□ applicable √ inapplicable

6.5 Investment with the Funds not Raised by Share Offering

√ applicable □ inapplicable In RMB 10‘thousand

Name of project	Investment	Process of project	Project benifit
Harmony Famous Brand Watches chain shop project	5,592.00	In the report period, Harmony Famous Brand Watches Center set up another 5 new chain shops. At the end of the year, there were altogether 41 chain shops through out medium and big cities in China.	244.6
Beijing Henglianda Timepiece Co., Ltd.	500.00	Shenzhen Harmony World Watches Center and Beijing Huntly Swiss Watch Co., Ltd. respectively contributed RMB 5 million taking 50% of the equity respectively and jointly set up Beijing Henglianda Timepieces Co., Ltd. Henglianda, with registered capital of RMB 10 million, was mainly engaged in contracting the timepieces zones of shopping centers throughout China to sell both imported and China-made watches.	-37.5
Total	6,092.00		

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

□ applicable √ inapplicable

6.7 Profit Distribution or Converting Capital Public Reserve into Share Capital

As audited by Yuehua Certified Public Accountants Co., Ltd. according to the Chinese accounting Standards (CAS) and Morison International according to the International Accounting Standards (IAS), the Company’s net profit of the consolidated statement in the year 2005 was RMB 16,006,999.87 and RMB15,553 thousand respectively .

1. Profit Distribution

As the Company earned small net profit in the year 2005 which still has to be used to make up for the losses of previous years. Therefore, the Company has decided not to provide statutory surplus public reserve and the statutory public welfare fund, not to conduct profit distribution in cash/bonus shares or convert the public reserve into share capital for the year 2005.

2. Making up for Losses with Surplus Public Reserve

In accordance with the relevant provisions of the PRC Company Law and the Sources and Procedures for Making Up for Losses and Information Disclosure and based on the Company’s profit and practical conditions of business development, the Company plans to make up for the

losses with the retained surplus public reserve for the year 2005. As audited by Yuehua Certified Public Accountants, ended December 31, 2005, the Company's consolidated net profit was RMB 16,006,999.87, plus the retained earnings at the year beginning amounting to RMB -54,268,783.68, the Company's accumulative retained earnings was RMB -38,261,783.81; the parent company's net profit was RMB 15,093,272.59, plus the retained earnings amounting to RMB -46,906,763.09 at the year beginning, the accumulative retained earnings amounted to RMB -31,813,490.50. The Company plans to use the surplus public reserve amounting to RMB 31,813,490.50 to make up for the retained earnings. After making up for the losses, the Company's consolidated retained earnings shall be RMB -6,448,293.31 and the parent company's retained earnings shall be RMB 0. The independent directors of the Company approved the above proposal of the Board of Directors. In their opinion, the proposal complies with the Company's actual development conditions; the proposal needs to be approved by 2005 Shareholders' General Meeting.

The company is making profit in the report term but not yet have any dividend plan.

√ applicable □inapplicable

Provide reason for not undertaking Profit Distribution when the company is making profit during the report term	Using and planning of retained profit
As the Company's net profit was small, and in addition, had to make up losses of previous years with the profit continuously.	The profit generated this term will be used to cover previous losses.

§7 Important Events

7.1 Assets Acquisition

□ applicable √ inapplicable

7.2 Sales of Assets

□ applicable √ inapplicable

7.3. Material Guarantees

□ applicable √ inapplicable

7.4 Significant Related Transaction

7.4.1 Related Sales And Purchasing

√ applicable □ inapplicable

Related Parties	Relationship with the Related Parties	Products sold and labor services provided to the related parties		Products purchased and labor services received from the related parties	
		Amount in transaction	Proportion in the amount of the similar transactions	Amount in transaction	Proportion in the amount of the similar transactions
Shenzhen CATIC Property Management Co., Ltd.	A subsidiary of the Company's actual controller	—	—	RMB 2.7516 million	100%
Shenzhen Rainbow Supermarket Co., Ltd.	A subsidiary of the Company's actual controller	—	—	RMB 0.9699 million	10%

7.4.2 Credits and Debts Interchange

√ applicable □ inapplicable

In RMB '000

Related Parties	Funds supplied to the related parties	Funds supplied to the Company by the related parties

	Amount incurred	Balance	Amount incurred	Balance
CATIC Shenzhen Corporation	-150.00	0.00	0.00	0.00
Total	-150.00	0.00	0.00	0.00

7.5 Assets Management on Commission
☐applicable √inapplicable

7.6. Events of Commitment
☐ applicable √ inapplicable

7.7 Material Suits and Arbitration
☐ applicable √ inapplicable

§8 Report of the Supervisory Committee

I. Work Summary

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

2. In the report year, the Supervisory Committee held altogether two meetings.
(1) The 6th meeting of the Fourth Supervisory Committee was held on April 13, 2005. The meeting adopted the following resolutions:
① 2004 Work Report of the Supervisory Committee; ② Proposal on Regular Related Transactions in 2005; ③ 2004 Annual Report.

(2) The 7th meeting of the Fourth Supervisory Committee was held on August 8, 2005. The meeting reviewed and approved 2005 Semi-Annual Report and the Summary.

3. Supervisors of the Supervisory Committee attended all the Board meetings held in 2005 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 2004 Shareholders' General Meeting, addressed 2004 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 2005, the Supervisory Committee exercised fully the powers authorized according to the relevant laws and regulations of the state and the Articles of Association, conducted sustainable and effective supervisions over such issues as Company's operation according to the law and the work of the senior executives. Our independent opinions are summarized as follows:

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

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

standard and unqualified auditors' report for the Company, which truly and objectively reflected the Company's financial position and operation result of the year 2005.

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

§ 9 Financial Report

9.1 Auditors' Opinion
Standard Unqualified Auditors' Report

9.2 Financial Statement (attached hereafter)

9.3 In comparison with the latest annual report, there is no change in the accounting policy and accounting estimation or correction of accounting error in the report period.

9.4 There is no material accounting error in the report period.

9.5 In comparison with the latest annual report, there is one change in the consolidation range in the report period.
Xi'an Haomen Restaurants & Recreation Co., Ltd. stopped business activities before the end of 2003. It was not consolidated the Group's consolidated statements commencing from 2005.

9.2 Financial Statement

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2005

	Notes	2005 RMB'000	2004 RMB'000
Turnover	6	341,505	278,247
Cost of sales		(212,332)	(177,105)
Gross profit		129,173	101,142
Other revenue	6	4,266	3,391
Selling expenses		(59,041)	(55,225)
Administrative expenses		(50,512)	(35,617)
Other operating expenses		(4,720)	(10,282)
Profit from operations	7	19,166	3,409
Finance costs	9	(1,056)	(323)
Profit before taxation		18,110	3,086
Income tax	11	(2,712)	(2,818)
Profit for the year		15,398	268
Attributable to:			
Equity holders of the parent		15,553	205
Minority interests		(155)	63
		15,398	268
Earnings per share			
Basic	12	RMB0.062	RMB0.001

CONSOLIDATED BALANCE SHEET
AT DECEMBER 31, 2005

	Notes	2005 RMB'000	2004 RMB'000
ASSETS			
Non-currents assets			
Property, plant and equipment	13	77,182	70,291
Investment properties	14	181,174	187,600
Construction in progress	15	135	1,290
Prepaid lease payments	16	15,081	15,542
Available-for-sale investments	17	10,386	4,885
Deferred tax assets	18	15,466	15,466
Other non-current assets		1,554	1,947
		300,978	297,021
Current assets			
Inventories	19	233,861	203,983
Trade receivables	20	27,205	18,730
Bills receivable		550	-
Other receivables and prepayments	21	32,551	36,674
Amount due from an ultimate company	22	-	1,500
Tax recoverable		1,403	-
Financial assets at fair value through profit or loss	23	4,949	11,819
Bank balances and cash		47,711	84,792
		348,230	357,498
Total assets		649,208	654,519

CONSOLIDATED BALANCE SHEET – (continued)
AT DECEMBER 31, 2005

	Notes	2005 RMB'000	2004 RMB'000
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Registered capital	26	249,318	249,318
Reserves	27	284,410	268,857
Equity attributable to equity holders of the parent		533,728	518,175
Minority interests		7,503	7,336
Total equity		541,231	525,511
Non-current liabilities			
Deferred income		3,000	3,000
Current liabilities			
Trade payables		28,992	65,264
Staff welfare payable		18,820	18,713
Other payables and accruals		24,641	21,582
Amount due to a related company	24	215	-
Amount due to an invested company	24	12,309	-
Tax payable		-	449
Bank loan - secured	25	20,000	20,000
		104,977	126,008
Total liabilities		107,977	129,008
Total assets less current liabilities		649,208	654,519

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2005

	Share capital RMB'000	Capital reserves RMB'000	Statutory reserves RMB'000	(Accumulated losses)/ Retained profits RMB'000	Total RMB'000
Balance at December 31, 2003	249,318	191,108	114,519	(36,975)	517,970
Net profit for the year	-	-	-	205	205
Balance at December 31, 2004	249,318	191,108	114,519	(36,770)	518,175
Net profit for the year	-	-	-	15,553	15,553
Transfer from statutory reserve to accumulated losses	-		(31,813)	31,813	-
Balance at December 31, 2005	249,318	191,108	82,706	10,596	533,728

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 RMB'000	2004 RMB'000
Cash flows from operating activities		
Profit before taxation	18,110	3,086
Adjustment for:		
Amortisation of prepaid lease payments	461	461
Amortisation of non-current assets	393	560
Depreciation of investment properties	6,426	4,367
Depreciation of property, plant and equipment	9,319	7,358
Dividend income	(110)	-
Gain on disposal of property, plant and equipment	(296)	(73)
Gain on disposal of financial assets at fair value through profit or loss	(1,104)	(258)
Fair value loss on financial assets at fair value through profit or loss	2,058	9,857
Reversal of inventory obsolescence	-	(3,386)
Investment income from designated deposits	-	(351)
Interest paid	1,056	323
Interest income	(600)	(650)
Provision for impairment loss on available-for-sale investments	5,539	-
Provision for obsolescent inventory	1,538	-
Provision for doubtful debts	420	443
Operating profit before working capital changes	43,210	21,737
Increase in inventories	(31,416)	(47,948)
(Increase)/Decrease in trade receivables	(9,663)	716
Increase in bill receivable	(550)	-
Decrease/(Increase) in other receivables and prepayments	4,891	(2,569)
Decrease in amount due from a related company	1,500	-
Increase in amount due to a related company	215	-
(Decrease)/Increase in trade payables	(36,272)	4,059
Increase in staff welfare payable	107	36
Increase in other payables and accruals	3,059	443
Increase in amount due to an invested company	12,309	-
Decrease/(Increase) in financial assets at fair value through profit or loss	5,916	(17,104)
Cash used in operations	(6,694)	(40,630)
Interest paid	(1,056)	(323)
Tax paid	(4,564)	(1,415)
Net cash used in operating activities	(12,314)	(42,368)

CONSOLIDATED CASH FLOW STATEMENT – (continued)
FOR THE YEAR ENDED DECEMBER 31, 2005

	2005 RMB'000	2004 RMB'000
Cash flows from investing activities		
Interest received	600	650
Proceeds on disposal of property, plant and equipment	1,546	1,002
Purchase of property, plant and equipment	(15,342)	(39,053)
Acquisition of available-for-sale investments	(11,040)	-
Dividend income from available-for-sale investments	110	-
Investment income from designed deposit	-	351
Payments for construction in progress	(963)	(24,221)
Decrease in designated deposits	-	51,004
Decrease in minority interests	322	-
Net cash used in investing activities	(24,767)	(10,267)
Cash flows from financing activities		
Proceeds from borrowings	20,000	20,000
Repayments of borrowings	(20,000)	(100)
Net cash from financing activities	-	19,900
Net decrease in cash and cash equivalents	(37,081)	(32,735)
Cash and cash equivalents at the beginning of the year	84,792	117,527
Cash and cash equivalents at the end of the year	47,711	84,792
Analysis of cash and cash equivalents at the end of the year		
Bank balances and cash	47,711	84,792