Financial Report

These consolidated financial statements have not been audited, but have been reviewed by the company's directors.

I. Accounting Statements

Balance Sheet

Prepared by: SHENZHEN FIYTA HOLDINGS LTD. June 30, 2007 In RMB

Assets	Ending balance		Opening balance	
	Consolidated	Parent company	Consolidated	Parent company
Current assets:				
Monetary funds	67,373,208.75	61,305,801.33	60,226,078.54	48,521,282.16
Transaction based financial assets	2,970,000.00	2,970,000.00	2,138,400.00	2,138,400.00
Notes receivable				
Accounts receivable	35,284,640.15	17,727,618.21	29,949,363.85	12,258,698.48
Advance to Suppliers	12,058,462.35	-0.01	7,785,252.34	59,999.99
Dividend receivable		2,770,434.88	244,066.90	2,770,434.88
Other receivables	21,437,385.99	262,622,917.04	13,863,209.85	214,996,031.04
Inventories	435,474,193.84	55,616,949.61	371,196,239.94	55,072,650.67
Non-current assets due within a year				
Other current assets	0.00	0.00	0.00	0.00
Total current assets	574,597,891.08	403,013,721.06	485,402,611.42	335,817,497.22
Non-current assets:				
Long term accounts payable				
Long-term equity investment	5,519,041.29	147,433,298.65	5,519,041.29	161,199,323.70
Real Estate Investment				
Fixed assets	260,723,533.15	242,370,034.41	260,501,370.86	242,888,183.06
Construction-in-progress	205,261.50	205,261.50	151,261.50	151,261.50
Engineering supplies				
Disposal of fixed assets				
Intangible assets	11,643,695.56	11,530,495.56	11,815,732.72	11,702,532.72
Goodwill				
Long-term expenses to be apportioned	7,923,238.20	6,041,404.06	8,557,457.77	6,226,236.60
Deferred income tax	4,135,520.20	4,003,061.18	3,162,755.00	3,030,295.98
Other non-current assets				
Total non-current assets	290,150,289.90	411,583,555.36	289,707,619.14	425,197,833.56
Total assets	864,748,180.98	814,597,276.42	775,110,230.56	761,015,330.78

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

Balance Sheet (Cont'd)

Prepared by: SHENZHEN FIYTA HOLDINGS LTD. June 30, 2007 In RMB

Shareholders' equity and liabilities	Ending balance		Opening balance	
	Consolidated	Parent company	Consolidated	Parent company
Liabilities				
Current liabilities				
Short-term Loan	190,000,000.00	190,000,000.00	140,000,000.00	140,000,000.00
Accounts payable	47,621,390.26	1,703,505.91	39,397,856.09	11,749,442.14
Advance from customers	3,862,052.99	74,292.00	550,455.25	242,866.25
Staff's wages payable	5,099,331.72	2,042,139.61	4,838,675.92	2,048,540.41
Taxes payable	-21,751,641.51	3,789,861.31	-17,689,494.22	4,235,357.75
Dividends payable				
Other payables	32,363,157.74	32,741,594.67	26,635,471.04	28,622,329.62
Total other current liabilities	0.00	0.00	0.00	0.00
Total current liabilities	257,194,291.20	230,351,393.50	193,732,964.08	186,898,536.17
Long-term Loan	0.00			
Bonds payable				
Long term accounts payable	5,000,000.00		5,000,000.00	
Special accounts payable	3,000,000.00	3,000,000.00	3,000,000.00	3,000,000.00
Deferred income tax			967,398.56	967,398.56
Total non-current liabilities	8,000,000.00	3,000,000.00	8,967,398.56	3,967,398.56
Total liabilities	265,194,291.20	233,351,393.50	202,700,362.64	190,865,934.73
Owner's equity				
Paid-up capital	249,317,999.00	249,317,999.00	249,317,999.00	249,317,999.00
Capital Reserve	191,847,232.65	191,847,232.65	191,847,232.65	191,847,232.65
Surplus Reserve	101,480,997.62	101,480,997.62	101,480,997.62	101,480,997.62
Retained Earnings	49,181,988.51	38,599,653.65	22,181,958.14	27,503,166.78
Total owners' equity attributable to the parent company	591,828,217.78	581,245,882.92	564,828,187.41	570,149,396.05
Minority shareholders' equity:	7,725,672.00		7,581,680.51	
Total owner's equity	599,553,889.78	581,245,882.92	572,409,867.92	570,149,396.05

Total liabilities and owners' equity	864,748,180.98	814,597,276.42	775,110,230.56	761,015,330.78

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

Statement of Profit and Profit Distribution

Prepared by: SHENZHEN FIYTA HOLDINGS LTD. June 30, 2007 In RMB

Items	Jan. to Jun., 2007		Jan. to Jun., 2006	
	Consolidated	Parent company	Consolidated	Parent company
I. Business income	350,380,602.40	100,926,241.66	231,353,224.49	84,240,346.76
Less: Business costs	230,404,336.46	42,956,580.97	147,959,110.10	37,942,818.18
Business Taxes and Surcharge	2,106,269.38	1,744,703.03	1,393,440.96	1,200,007.23
Sales expenses	47,669,139.13	26,650,743.15	36,359,095.06	22,164,024.18
Overheads	34,079,236.97	19,815,542.67	27,926,820.32	15,864,374.25
Financial expenses	6,812,413.20	104,635.54	2,085,547.19	272,387.15
Investment income	836,668.09	836,668.09	1,335,191.64	1,335,191.64
III. Operating profit	30,145,875.35	10,490,704.39	16,964,402.50	8,131,927.41
Plus: Non-operating income	843,780.30	331,739.40	186,868.70	
Less: Non-operating expenses	6,858.77		72,658.55	3,556.96
IV. Total profit	30,982,796.88	10,822,443.79	17,078,612.65	8,128,370.45
Less: Income tax expense	3,838,775.02	-274,043.08	4,013,334.62	2,460,180.05
V. Net profit	27,144,021.86	11,096,486.87	13,065,278.03	5,668,190.40
Net profit attributable to the owner of the parent company	27,000,030.37	11,096,486.87	13,185,342.01	5,668,190.40
Minority shareholders' equity	143,991.49		-120,063.98	
VI. Earnings per share				
(I) Basic earnings per share	0.108		0.053	
(II) Diluted earnings per share	0.108		0.053	

Items	Jan. to Jun., 2007		Jan. to Jun., 2006	
	Consolidated	Parent company	Consolidated	Parent company
Net profit	27,000,030.37	11,096,486.87	13,185,342.01	5,668,190.40
Plus: Retained earnings at year beginning	22,181,958.14	27,503,166.78	-6,448,293.31	
Profit available for distribution	49,181,988.51	38,599,653.65	6,737,048.70	5,668,190.40
Less: Provision of				

statutory surplus public reserve				
Provision of statutory public welfare fund				
Profit available for distribution to the investors	49,181,988.51	38,599,653.65	6,737,048.70	5,668,190.40
Less: Dividends of common shares payable				
Retained Earnings	49,181,988.51	38,599,653.65	6,737,048.70	5,668,190.40

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

Cash Flow Statement

Prepared by: SHENZHEN FIYTA HOLDINGS LTD. Jan to Jun 2007 In RMB

Items	Report Period		Same Period of the Previous Year	
	Consolidated	Parent company	Consolidated	Parent company
I. Net cash flows arising from operating activities				
Cash received from sales of goods and supply of labor	409,107,319.92	103,924,762.27	279,614,438.26	95,107,822.32
Other business related cash receipts	5,389,442.42	2,776,003.47	1,498,569.30	1,009,428.31
Subtotal of cash flow in	414,496,762.34	106,700,765.74	281,113,007.56	96,117,250.63
Cash paid for purchase of goods and reception of labor services	337,985,392.66	31,526,203.50	225,397,611.12	36,853,225.59
Cash paid to and for staff	36,542,923.26	16,962,882.54	28,530,696.04	13,018,518.31
Taxes paid	19,117,691.66	11,573,497.56	12,412,814.74	7,373,835.97
Other operation related cash payments	52,442,868.72	77,209,800.69	41,336,526.13	63,257,829.46
Subtotal of cash flow out	446,088,876.30	137,272,384.29	307,677,648.03	120,503,409.33
Net cash flows arising from operating activities	-31,592,113.96	-30,571,618.55	-26,564,640.47	-24,386,158.70
II. Cash flows arising from investment activities:				
Cash received from recovery of investment			3,000,000.00	3,000,000.00
Net amount of cash received from disposal of fixed assets, intangible assets and other long term assets	561,045.00	561,045.00	112,885.00	
Subtotal of cash flow in	561,045.00	561,045.00	3,112,885.00	3,000,000.00
Cash paid for construction/purchase of fixed assets, intangible assets and other long term assets	6,844,601.83	2,227,708.28	10,123,823.65	5,408,915.42
Subtotal of cash flow out	6,844,601.83	2,227,708.28	10,123,823.65	5,408,915.42
Net cash flow arising from investment activities	-6,283,556.83	-1,666,663.28	-7,010,938.65	-2,408,915.42
III. Cash flows arising from fund raising activities:				
Cash received from borrowings	70,000,000.00	70,000,000.00	40,000,000.00	40,000,000.00
Subtotal of cash flow in	70,000,000.00	70,000,000.00	40,000,000.00	40,000,000.00
Cash paid for liabilities repayment	20,000,000.00	20,000,000.00		
Cash paid for dividend/profit distribution or repayment of interest	4,977,199.00	4,977,199.00	1,461,300.00	1,461,300.00
Subtotal of cash flow out	24,977,199.00	24,977,199.00	1,461,300.00	1,461,300.00
Net cash flow arising from fund-raising activities	45,022,801.00	45,022,801.00	38,538,700.00	38,538,700.00

IV. Influence upon cash due to change of exchange rate				
V. Net increase of cash and cash equivalents	7,147,130.21	12,784,519.17	4,963,120.88	11,743,625.88

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

Cash Flow Statement (Cont'd)

Prepared by: SHENZHEN FIYTA HOLDINGS LTD. Jan to Jun 2007 In RMB

Items	Amount in report period		Amount of the same period of the previous year	
	Consolidated	Parent company	Consolidated	Parent company
1. Net cash flows arising from adjustment of net profit into operating activities				
Net profit	27,144,021.86	11,096,486.87	13,065,278.03	5,668,190.40
Plus: Provision for devaluation of assets				
Depreciation of fixed assets	6,200,211.04	4,724,571.07	5,850,888.12	4,917,277.63
Amortization of intangible assets	359,537.16	359,537.16	417,847.20	417,847.20
Long-term expenses to be apportioned	3,302,849.54	2,220,011.73	2,469,351.64	1,169,681.81
Loss (less: income) from disposal of fixed assets, intangible assets and other long term assets	-31,739.40	-31,739.40	-114,210.15	
Losses from rejection of fixed assets				
Financial expenses	5,166,704.98		1,298,781.76	155,000.00
Investment loss	-836,668.09	-836,668.09	-1,335,191.64	-1,335,191.64
Decrease of deferred income tax	-972,765.20	-972,765.20	410,047.05	410,047.05
Increase of deferred income tax	-967,398.56	-967,398.56		
Decrease of inventories	-63,702,089.90	31,565.06	-56,393,135.11	-2,280,589.53
Decrease (less: increase) of operative items receivable	-17,168,271.15	-41,270,536.57	4,583,862.10	-3,268,672.08
Increase (less: decrease) of operative items payable	9,913,493.76	-4,924,682.62	3,181,840.53	-30,239,749.54
Net cash flows arising from operating activities	-31,592,113.96	-30,571,618.55	-26,564,640.47	-24,386,158.70
2. Investment and fund-raising activities with no cash income and expenses involved				
Capital converted from liabilities				
Convertible company bonds due within a year				
3. Net increase of cash and cash equivalents:				
Ending cash balance	67,373,208.75	61,305,801.33	52,673,326.99	41,732,415.87
Less: Opening cash balance	60,226,078.54	48,521,282.16	47,710,206.11	29,988,789.99
Plus: Ending balance of cash equivalent				
Less: Opening balance of cash equivalent				

equivalent				
Net increase of cash and cash equivalents	7,147,130.21	12,784,519.17	4,963,120.88	11,743,625.88

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

II. Notes to the Accounting Statements

(I) Principal Accounting Policies, Accounting Estimation and Preparation of the Consolidated Financial Statements

1. Basis for Preparation of Accounting Statements

The financial statements are prepared according to the enterprise accounting standards and the Enterprise Accounting System promulgated by the central government.

2. Fiscal Year

The Company adopts the calendar year for its fiscal year. A fiscal year is from January 1 to December 31 of years.

3. Functional currency for bookkeeping

The Company uses Renminbi as the functional currency for bookkeeping.

4. Bookkeeping basis and valuation principle:

The Company adopts the accrual basis for its bookkeeping. All the assets are stated based on the costs at the time of acquisition and reverse for impairment of the assets is provided in case of subsequent impairment of the assets.

5. Foreign Currency Translation

Foreign currency transactions are stated in Renminbi after conversion at the exchange rate published by the People's Bank of China on the first day of the month when a transaction takes place. An item in foreign currency shall be stated after conversion based on the exchange rate as of the balance sheet date. The exchange differences arising from differences between the spot rate as at the balance sheet date and that recognized initially or the difference in the spot rate as at the previous balance sheet rate is charged to the current gain and loss. The non-monetary items in foreign currency measured based on the historical cost are converted based on the rate of the transaction day without change of the amount of the functional currency for bookkeeping; the non-monetary items in foreign currency measured based on the fair value is converted based on the exchange rate as of the date of determining the fair value; the differences between the amount of the functional currency for bookkeeping after conversion and the original book amount are treated as change in fair value and charged to the current gain and loss.

The exchange gain/loss arising from the borrowings attributable to the purchase/construction of the fixed assets will be treated based on the principle of capitalization of the borrowing expenses;

the exchange gain/loss in directly connection with development of real estate property shall be capitalized before completion of the real estate property.

6. Cash and cash equivalents

Cash listed in the statement of cash flow refers to the cash in hand and bank deposits and cash equivalents ready for payment at any time. Cash equivalent refers to the investment held by the Company with short term (not exceeding 3 months), strong liquidity and low risk of value fluctuation that is easy to be converted into cash of known amount.

7. Calculation for Financial Instruments

Financial instruments include financial assets and financial liabilities

Financial assets are classified into four types at the initial recognition as follows:

(1) The financial assets measured based on the fair value and with the changes stated to the current gain and loss include tradable financial assets and the financial assets measured based on the fair value and with the changes stated to the current gain and loss.

(2) Held to maturity investments

(3) Loans and accounts receivable

(4) Financial Assets Available for Sale

Financial liabilities are classified into four types at the initial recognition as follows:

(1) The financial liabilities measured based on the fair value and with the changes stated to the current gain and loss include tradable financial liabilities and the financial liabilities measured based on the fair value and with the changes stated to the current gain and loss.

(2) Other Financial Liabilities

8. Accounts receivable and provision for bad debts

Accounts receivable refer to accounts receivable and other receivables. The Company adopts the allowance method for possible loss arising from bad debts. Accounts receivable are listed based on the net amount of the amount actually incurred less the provision for bad debts.

(1) Accounts Receivable

Accounts receivable include the accounts receivable from the related parties and that receivable from non-related parties.

Reserve for bad debts is provided after assessment of the recoverability of the accounts receivable. Reserve for bad debits is provided when evidence proves that it is difficult to recover any accounts receivable. For the accounts receivable for which no special reserve for bad debts is provided, general reserve for bad debts is provided based on the following proportions by means of aging:

Age	Proportion
within a year	5%
1 -2 years	10%
2 -3 years	30%
Over 3 years	50%

(2) Criteria for determining bad debts:

Bad debts are recognized when irrefutable evidence shows that certain account receivable is impossible to be recovered because of debtor's dissolution, bankruptcy, insolvency, serious deficiency of cash flow, etc. and offset with the reserve for corresponding bad debt already provided.

9. Inventories:

Inventories include raw materials, products in process, finished products, commodities in stock, low-priced and easily-worn articles and packing materials, etc. which are stated based on the lower of the cost and the net realizable value.

Inventories are charged based on the actual cost at the time of acquisition. The costs of raw materials and finished products at the time of delivery are calculated based on the weighted average; the costs of low-priced and easily-worn articles are calculated based on once-and-for-all resale at the time of receiving; packing materials are charged to the production cost on once-and-for-all basis at the time of receiving. Costs of finished products and products in process include those of raw materials, direct manpower, and all indirect production expenses amortized at proper proportion at normal production capacity.

Reserve for price-falling of inventories is provided based on the balance of the cost of individual inventory items higher than the net realizable value.

The net realizable value of the inventories was determined based on the market price less the estimated costs to incur at the time of completion, the sales costs and relevant taxes in process of normal production and operation.

The Company adopts perpetual inventory system as its stock taking system.

10. Long term Equity Investment

(1) Long-term equity investment

Long term investment includes the Company's equity investment in its subsidiaries, associates, joint ventures and the investees on which the Company has no control power, joint control power or significant influence without quotation in the active market and whose fair value is not reliably measurable.

Recognition of initial investment cost

Consolidation of Enterprises under the Same Control

The consolidated party takes cash payment, assignment of non-cash assets or assuming liabilities as the consolidation consideration. It is necessary to take the share of the book value of the owner's equity of the party consolidated as the initial investment cost of the long term equity investment. For the differences between the initial investment cost of the long term equity investment, cash paid and non-cash assets assigned and the book value of the liabilities assumed, it is necessary to adjust the capital reserve. In case the capital reserve is not sufficient to offset, it is necessary to adjust the retained earnings. In case the party consolidated takes the equity securities issued as the consolidation consideration, it is necessary to take the share of the book value of the owner's equity of the party consolidated acquired on the consolidation date as the initial investment cost of the long term equity investment. In case of taking the total book amount of the shares issued as the capital stock, for the balance between the initial investment cost of the long term equity investment and the total book amount of the shares issued, it is necessary to adjust the capital reserve. In case the capital reserve is not sufficient to offset, it is necessary to adjust the retained earnings.

Consolidation of Enterprises not under Same Control

For the consolidation of an enterprise fulfilled in a single exchange transaction, the consolidation costs are the assets paid, liabilities incurred or assumed and the fair value of equity based securities as issued for the purpose of obtaining the control power of the party purchased. For the consolidation of an enterprise fulfilled in a number of exchange transactions, the consolidated cost is the sum of every single transaction costs. All direct relevant expenses incurred to the purchaser in consolidation of an enterprise should be charged to the cost of enterprise consolidation. In case there is any provision on some future event as specified in the consolidation contract or agreement which may influence the consolidation costs, while such future event is expected to probably occur on the date of purchase and the amount which affects the combination cost can be reliably measured, the purchaser should charge it to the consolidation cost.

Long term equity investment obtained in a way other than the long term equity investment formed in the enterprise consolidation

The long term equity investment as acquired by cash payment should take the purchase consideration as actually paid as the initial investment costs, which include the expenses, tax and duties and other necessary expenditures in direct connection with the long term equity investment; The long term equity investment obtained by issuing equity based securities should be regarded as initial investment cost based on the fair value of the equity based securities as issued; the long term equity investment provided by the investor should be taken as the initial investment cost based on the value as specified in the investment contract or agreement provided that the value as specified in the contract or agreement is unfair.

Successive Measurement of Long Term Equity Investment

In case the investor can exercise control over the investees or has no common control power or significant influence, while there is no quotation in the active market or the investment cannot be reliably measured based on the fair value, the cost method is used for calculating the long term equity investment; the long term equity investment calculated based on the cost method is charged based on the initial investment cost; additional or recovered investment should adjust the cost of the long term equity investment; the cash dividend or profit announced for distribution by the investee is recognized as the current investment income; the investment income recognized by the investor is only limited to the amount of accumulated net profit distributed after the investee has accepted the investment; the aforesaid amount exceeding the profit or cash dividend is recovered as the initial investment cost;

The long term equity investment is calculated based on the equity method if the investor has control or joint control power and produces significant influence upon the investee. In case the long term equity investment is greater than the fair value based share in the investee's recognizable net assets enjoyable by the investor, the initial investment cost in the long term equity investment shall not be adjusted. In case the initial cost of long term equity investment is smaller than the fair value based share in the investee's recognizable net assets enjoyable by the Company, the balance shall be charged to the current gain and loss and at the same time long term equity investment cost shall be adjusted. After the investor has acquired the long term equity investment, the investment gain/loss should be recognized according to the share in the realized net gain/loss in the investee which can be enjoyed or should be shred; The investor should reduce the book value of long term equity investment correspondingly according to the part enjoyable in the profit or cash dividend announced for distribution by the investee; The net loss incurred to the investee as recognized by the investor should be reduced to zero in maximum based on the book value of long term equity investment and other long term equity which has actually formed net investment in the investee except that the investor has the obligation of assuming extra loss.

In disposal of long term equity investment, the balance between the par value and the price when it is actually obtained is stated in the gains/losses of the very year. For the long term equity investment calculated based on the equity method, in case the other change in the owners' equity other than the net gain and loss in the investee is charged to the owners' equity, in disposal of that investment, the party that has formerly been stated in the owners' equity at the time of disposal of that investment should be transferred to the current gain and loss based on the corresponding proportion.

(2) Impairment of long-term equity investment

At the end of the period if the recoverable amount is lower than their book value due to continuously falling market price, worsened operation of the investee, reserve for devaluation of long term investment shall be provided based on the balance of the recoverable amount lower than the book value of the long term investment.

11. Fixed assets pricing and depreciation

Fixed assets refer to tangible assets used for producing commodities, providing labor services, leasing, operation or management with service life exceeding one year and higher unit value. Commencing from January 1, 2001, when any land is used for self-use project construction, the book value of the land use right forms part of the costs of housing and building.

Fixed assets purchased or newly constructed are stated at the actual cost at the time of obtainment. For the fixed assets evaluated at the time of the Company's restructuring, the value confirmed by the state assets authority through the appraisal is the value for book entry.

Fixed assets are depreciated by straight line method based on the entry value less the predicted net residue value within the predicted service life. For the fixed assets for which reserve for impairment is provided, the depreciation amount is determined according to the book value after deduction of the reserve for impairment and the remaining service life.

The estimated service life, predicted residual ratio and annual depreciation ratio are stated as follows:

Types of fixed assets	Estimated service life	Estimated residual ratio	Annual depreciation rate
Housing and buildings	20 to 35 years	5%	2.7%-4.8%
Machines & equipment	10 years	5%-10%	9%-9.5%

Motor vehicles	5 years	5%	19%
Electronic equipment	5 years	5%	19%
Other equipment	5 years	5%	19%
Refurbishment	5 years	0%	20%

Income from disposal of fixed assets, including sales, assignment, scrapping, or impairment, is charged to the non-operating income or expenditure after deduction of its book value and relevant taxes.

Expenditures for repairing and maintenance of fixed assets are charged to the current expenses at the time of incurrence. The follow-up expenditures arising from major restructuring, extension, improvement, refurbishment of fixed assets, etc. may be capitalized when the economic benefit of such fixed assets which flows into the enterprise has exceeded the amount as previously estimated. For the follow-up expenditures for major restructuring, extension, improvement, etc., depreciation is provided during the useful period of the fixed assets according to the straight-line method, and for the expenditures for refurbishment, depreciation is provided within the predicted beneficial period according to the straight-line method.

Fixed assets are stated at the lower of the book value and the recoverable amount at the end of a period. In case there is any sign or change in environment which shows that the book value of individual fixed assets may exceed the amount recoverable, the Company shall make impairment test over such asset. If the book value of some individual asset exceeds the amount recoverable, the balance shall be recognized as the impairment loss.

12. Construction in process

Construction-in-progress refers to capital assets in process of construction or installation and is stated in the engineering costs based on the expenses actually paid. The engineering costs involved in valuation include the building expenses and other direct expenses, cost of machines and equipment, installation cost; but also include loan expenses incurred in the special loan of such project before the fixed asset has reached the predicted application status. Depreciation starts to be provided commencing from the next month after construction-in-progress is transferred to fixed assets when it reaches the useful status as predicted; that which has been put into application but has not yet undergone the procedures of completion settlement, it may be charged based on the estimated value and shall not be adjusted after the actual value has been determined.

In case there is any sign or change in environment which shows that the book value of individual construction-in-progress may exceed the amount recoverable, the Company shall make impairment test over such asset. If the book value of some individual asset exceeds the amount recoverable, the balance shall be recognized as the impairment loss.

13. Loan expenses

Loan expenses, such as interest arising from designated loans for purchase/construction of fixed assets, start to be capitalized and charged to the cost of such assets when asset expenditures and loan expenses have already incurred and the purchase/construction activities have already started in order to make the assets reach the predicted application status. The capitalization stops when the fixed asset as purchased/constructed has reached the predicted application status and the follow-up loan expenses are stated in the loss/gain of the very period.

For interest expense in each period in the loan expenses which does not exceed the limit of the interest expenses actually incurred in the designated loan in the very period based on the accumulated expenditure weighted average of the fixed assets as purchased/constructed in the very period and the weight average interest rate of the relevant loan, the capitalization amount is determined.

Expenses of other loans are directly stated as financial expenses in the very period of incurrence.

14. Intangible Assets

Intangible asset is land use right and is stated as the net amount of cost less the accumulated amortization.

The land use right as purchased is used as the actual cost based on the amount actually paid.

Intangible assets are stated at the lower of the book value and the recoverable amount at the end of a period. In case there is any sign or change in environment which shows that the book value of individual intangible assets may exceed the amount recoverable, the Company shall make impairment test over such asset. If the book value of some individual asset exceeds the amount recoverable, the balance shall be recognized as the impairment loss.

15. Long-term expenses to be proportioned

Long-term expenses to be proportioned including expense for trademark use fee and various expenses already paid but the amortization term is over one year (with one year exclusive) are amortized on average basis according to the predicted beneficial period and are presented as the net amount actually paid less the accumulated amortization.

16. Wages to the Employees

The Company's on-service staff join the staff's social security system established and managed by the local government, including pension and medical insurance and other social security system. With the exception of the above, the Company has no other significant staff's benefit commitment.

According to relevant regulations, the Company provides insurance premiums and public reserve based on a certain proportion of total wages not less than the minimum as specified but not exceeding the maximum and hands in to the social security authority. The corresponding payments are stated in the current production costs or expenses.

17. Dividend Distribution

The cash dividend to be distributed with approval of the shareholders' general meeting is recognized as liability in the very period of approval.

18. Special accounts payable

Special accounts payable refer to the fund appropriated for special purpose to the company by the government, such as the special fund for technical innovation, technical research, etc. as well as the fund obtained from other sources.

The Company used this fund for purchasing fixed assets and the corresponding amount is transferred to the capital reserve upon approval by the relevant departments after successful completion inspection.

19. Income recognition

Sales of goods/products

Sales income is recognized when the significant risks and rewards of ownership of the goods have been transferred to customers, the economic benefits associated with the transaction can flow into the Company and the amount of sales-related costs can be measured reliably.

Labor services

Income from labor services is recognized based on the percentage of completion in the very period when labor service has been supplied.

Other incomes are recognized on the following basis:

Interest income – it is recognized based on the deposit term and effective yield.

Subsidy income – it is recognized when actually received.

For the operation lease, the rent of the operation lease is recognized based on the straight line method in different periods during the lease term.

20. Operating Lease

Operating lease refers to a lease with the major risks in connection with the ownership of the assets as well as the rewards belonging to the leasor. The rent from the operation leasing is recognized as the expenses within the lease period based on the straight-line method.

21. Accounting Treatment of Income Tax

The Company adopts the balance sheet liability approach in accounting treatment of the income tax expenses

1) The balance sheet day. According to the differences based on the provision of the tax law from the accounting treatment, such differences can be distinguished from provisional difference of tax payable and provisional difference for offsetting, which can be recognized as deferred income tax asset and deferred income tax liability and are measured according to the income tax amount with the predicted amount payable (or reimbursable) calculated according to the tax law. The income tax and deferred income tax of the very period are stated to the gain and loss of the very period as the income tax expenses or income but excluding the deferred income tax arising from transaction or events in consolidation of enterprises and directly charged to the owner's equity.

22. Method of preparing the consolidated financial statements

The range of consolidated financial statement includes the Company and the subsidiaries in the consolidation range. Commencing from the date of obtaining a subsidiary's eventual control power, the Company starts to consolidate the income, costs and profit in the corresponding period; and stops consolidation commencing from the date of losing the eventual control power. The balance of the material current accounts, transactions and unrealized profit in the Company are offset while preparing the consolidated statements. The part in the owner's equity of a subsidiary in the consolidation range which does not belong to the Company is presented individually on the consolidated financial statement.

If the accounting policy adopted by a consolidated subsidiary differs from that by the Company while such difference occurred therefrom affects greatly the consolidated statements, the accounting policy implemented by the Company shall be adjusted.

(II) Taxes

Taxes and tax rates applicable to the Company are as follows:

Taxes	Tax rate	Taxation basis

Value-added tax	17%	Balance of 17%of the taxable sales less the input tax allowed for offsetting in the current period.
Business tax	5%	Housing lease income
Urban construction tax		Amount of VAT and business tax paidin the very period
Business income tax(1)	15%,33%	Amount of income taxable
Housing Tax (2)	1.2%	70% of the cost of the real estate

(1) The Company provides the business income tax based on the balance of the total income less the items permitted for deduction as the taxable income amount. According to the relevant cases of the income tax, the Company, a company incorporated within Shenzhen Special Economic Zone, applies tax rate of 15%; the other companies incorporated in other places apply tax rate of 33%.

In addition, Shenzhen FIYTA Sophisticated Timepieces Manufacture Co., Ltd., one of the Company's subsidiaries, has been approved by the local tax authority to enjoy preferential treatment of two years' total exemption and three years' half exemption from business income tax commencing from the year of making profit. The year 2002 is the first year the said subsidiary made profit on accumulated basis; In the report year, the said subsidiary provided its business income tax based on the taxation rate of 7.5%.

(2) a. According to Article 5 of the Circular of Shenzhen Local Tax Bureau on Printing and Issuing the Questions and Answers on a Number of Policies on Use of Housing Tax and Vehicle and Vessel Use Tax, a production operator should pay Housing Tax based on 70% of the cost of the real estate at the tax rate of 1.2%. The Company pays the Housing Tax according to the tax rate as specified in the aforesaid circular.

(2) b. According to Article 9 of the Measures for Implementation of Housing Tax in Shenzhen Special Economic Zone, tax payers that have newly constructed or purchased housing and buildings (excluding housing and buildings constructed illegally) can be exempted from the housing tax for three years commencing from the month of construction or purchase. On June 27, 2006, the Company finished registration and filing with the Statement of Tax Exemption and Reduction Registration and Filling SHEN DI SHUI SAN JI YING JIAN BEI GAO ZI [2005] No. 35121 through No. 3 Inspection Office of Shenzhen Local Tax Bureau The Company may enjoy tax exemption commencing from the date of registration and filing.

(3) Other taxes are paid according to the specific regulations of the central government.

(III) Controlled Subsidiaries

Subsidiaries	Registered place	Legal representative:	Registered capital	Investment by the Company Original currency	Conversion in RMB	Proportion directly/ indirectly controlled by the Company	Principal Business	Consolidated or not (Y/N)	Remarks
Xi'an Haomen Restaurants & Recreation Co., Ltd.	Xi'an	Men Tengshan	HK$16,000,000.00	RMB11,040,000.00	11,040,000.00	62%	Catering, recreation, fine goods	N	IV 1. a
Shenzhen Harmony World Watches Center Co., Ltd.	Shenzhen	Xu Dongsheng	RMB123,800,000.00	RMB122,300,000.00	122,300,000.00	98.79%	purchase sales and repair services of timepieces and components	Yes	
Shenzhen Feijing Sophisticated Optical Instruments Manufacture Co., Ltd.	Shenzhen	Xu Dongsheng	RMB7,000,000.00	RMB6,300,000.00	6,300,000.00	99.879%	Processing, producing and selling optical instruments	N	IV.2
Shenzhen FIYTA Sophisticated Timepieces Manufacture Co., Ltd.	Shenzhen	Xu Dongsheng	RMB10,000,000.00	RMB9,000,000.00	9,000,000.00	99.879%	Producing various clocks and watches, movements, spares and parts, sophisticated timepieces, and repairing	Y	

Shenzhen Harmony World Watches Center Co., Ltd.	Shenzhen	Fang Juan	RMB2,800,000.00	RMB1,400,000.00	1,400,000.00	50%	High grade clocks and watches, glasses, ornaments, gifts, general merchandise and handicrafts (excluding gold and silver jewelry)	Y	IV 1. b

(IV) Notes to the Consolidated Financial Statements

1. Monetary funds

Items	June 30, 2007	December 31, 2006
Cash on hand	534,602.79	422,854.50
Bank deposit	65,096,238.25	58,410,164.42
Other Monetary Funds	1,742,367.71	1,393,059.62
Total	67,373,208.75	60,226,078.54

As at June 30, 2007, other monetary funds held by the Company were mainly for providing security for the short term investments.

As at June 30, 2007, monetary fund at the year end includes the following foreign currency balances:

Foreign Currencies	Amount, in RMB	Exchange rate	Conversion in RMB
HK$	6,224,642.51	0.9744	6,065,291.66
US$	551,474.94	7.6155	4,199,757.41
Pound Sterling	110	15.3	1,683.00
Total			10,266,732.07

2. Transactional Financial Instruments

Items	Fair value at the end of the period	Fair value at the beginning of the period
Financial assets that are measured at fair value and changes in the value are charged to current gain and loss.	2,970,000.00	2,138,400.00

3. Accounts receivable

Items	June 30, 2007	December 31, 2006
Accounts receivable	76,486,854.28	71,151,577.98
Less: provision for designated bad debts	38,095,601.88	38,095,601.88
Provision for general bad debts	3,106,612.25	3,106,612.25
Net amount of accounts receivable	35,284,640.15	29,949,363.85

Aging of accounts receivable and reserve for bad debts are as follows:

Age	June 30, 2007			December 31, 2006		
	Amount	Proportion	Provision for bad debts	Amount	Proportion	Provision for bad debts
Within a year	29,665,809.25	39.24%	827,238.29	23,881,051.12	33.56%	827,238.29
1 to 2 years	1,724,389.62	2.24%	141,878.06	1,411,929.36	1.99%	141,878.06
2 to 3 years	5,992,372.84	7.78%	2,112,861.34	6,788,308.38	9.54%	2,112,861.34
Over 3 years	39,104,282.57	50.74%	38,120,236.44	39,070,289.12	54.91%	38,120,236.44
Total	76,486,854.28	100.00%	41,202,214.13	71,151,577.98	100.00%	41,202,214.13

As at June 30, 2007, in the balance of other receivables, there are no arrears from the shareholders that hold more than 5% (including 5%) of the Company's shares.

As at June 30, 2007, the total amount of accounts receivable owed by top five debtors was RMB 5,945,616,.25, taking 7.72% of the total amount receivable.

As at June 30, 2007, the accounts receivable for which reserve for bad debts has been provided at bigger proportions on accumulated basis are summarized as follows:

Company Names	Balance of accounts receivable at year end	Reserve for bad debt provided at year end	Age
Beijing Urban/Rural Trade Center Co., Ltd.	2,033,710.15	2,033,710.15	Over 3 years
Qingdao Handry Timepieces, Glasses and Jewelry Co.	1,298,215.01	1,298,215.01	Over 3 years
Timepieces and Sewing Machine Wholesale Station of Yingkou General Merchandise Co.	982,604.03	982,604.03	Over 3 years
Siping No. 1 Department Store	823,302.04	823,302.04	Over 3 years
Anshan Timepieces and Photographic Equipment Co.	807,815.02	807,815.02	Over 3 years
Jilin Timepieces and Photographic Paraphernalia Wholesale Co.	890,387.77	890,387.77	Over 3 years
Shenyang Cultural Building Co., Ltd. Timepiece Branch	773,020.92	773,020.92	Over 3 years
Qingdao Orient Group Co., Ltd.	764,149.26	764,149.26	Over 3 years
Anshan Timepiece and Sewing Machine Co.	696,745.88	696,745.88	Over 3 years
Shantou Overseas Time Lounge	647,818.28	647,818.28	Over 3 years
Datong Timepeice and Sewing Machining Purchase and Supply Station	623,586.07	623,586.07	Over 3 years
Beijing Blue Island Building	638,980.96	638,980.96	Over 3 years
Kunming Yutaixiang Timepeices Co.	609,251.89	609,251.89	Over 3 years
Xidan Department Store of Beijing Xidan Department Store Co., Ltd.	544,265.48	544,265.48	Over 3 years

Others (below RMB 500,000 for a single item)	28,585,226.85	25,961,749.12	Over 3 years
Total	40,719,079.61	38,095,601.88	

4. Other receivables

Items	Ending balance	Opening balance
Other receivables	28,468,169.47	19,108,880.64
Less: reserve for bad debts	7,030,783.48	7,030,783.48
Total	21,437,385.99	12,078,097.16

Aging of other receivables and reserve for bad debts is as follows:

Age	Ending balance			Opening balance		
	Amount	Proportion	Provision for bad debts	Amount	Proportion	Provision for bad debts
Within a year	14,306,727.25	49.11%	298,665.99	5,973,319.80	31.26%	298,665.99
1 to 2 years	3,014,735.82	10.83%	233,204.28	2,332,042.80	12.20%	233,204.28
2 to 3 years	504,325.16	1.81%	89,523.81	298,412.70	1.56%	89,523.81
Over 3 years	10,642,381.24	38.25%	6,409,389.40	10,505,105.34	54.98%	6,409,389.40
Total	28,468,169.47	100.00%	7,030,783.48	19,108,880.64	100.00%	7,030,783.48

As at June 30, 2007, in the balance of other receivables, there were no arrears from the shareholders holding more than 5% (including 5%) of the Company's shares.

As at June 30, 2007, other receivables for which reserve for bad debts has been provided at bigger proportions on accumulated basis are summarized as follows:

Company Names	Ending balance of other receivables	Reserve for bad debt provided at year end	Age
Xinlongtai Industrial Co., Ltd.	1,573,876.89	1,573,876.89	Over 3 years
Zhuangtu Commodities Trading Center	641,807.20	641,807.20	Over 3 years
Xi'an Aviation Engine Co.	602,551.69	602,551.69	Over 3 years
Shenzhen Feijing Sophisticated Optical Instruments Manufacture Co., Ltd.	6,199,676.83	1,293,685.48	2 to 3 years
Total	9,017,912.61	4,111,921.26	

5. Advance to Suppliers

Items	Ending balance		Opening balance	
Age of advances to suppliers	Amount	Proportion	Amount	Proportion
Within a year	12,058,462.35	100.00%	7,725,252.35	99.23%

2 to 3 years		0.00%	59,999.99	0.77%
Total	12,058,462.35	100.00%	7,785,252.34	100.00%

As at June 30, 2007, in the advances to suppliers, there were no arrears owed by any shareholding holding over 5% (with 5% inclusive) of the Company's shares.

6. Inventories and Provision for falling price of inventories

Items	Opening balance			Ending balance
Cost				
Raw materials	43,408,372.98			45,670,717.91
Packing materials and low-value consumption goods	2,864.00			
Products in process	1,930,715.85			69,522.41
Finished products and goods in stock	372,047,127.60			431,620,367.30
Total	417,389,080.43			477,360,607.62
Provisions for price falling of inventories				
		Increase in the year	Decrease in the year	
Raw materials	18,747,520.18			18,747,520.18
Finished products	27,445,320.31		4,306,426.71	23,138,893.60
Total	46,192,840.49			41,886,413.78
Inventories, net	371,196,239.94			435,474,193.84

(1) In process of normal production and operation, the net realizable value of the inventories was determined based on the market price less the estimated sales costs and relevant taxes in process of normal production and operation.

(2) That the cost of inventories at the end of the period increased by 14.23% over the year beginning was mainly due to the corresponding growth of inventories and corresponding increase of inventory reserve with growth of sales in the year resulted from increase of 6 new shops.

(3) Reserve for price falling of inventories decreased by 9.32% was mainly due to disposal and discarding of partial inventories in the report period and reverse for price falling of finished products in stock transferred out.

8. Long-term equity investment

Items	Ending balance	Opening balance
Stock investment (1)	3,085,000.00	3,085,000.00
Other equity investment (2)	2,734,041.29	2,734,041.29
Total long-term equity investment	5,819,041.29	5,819,041.29
Provision for impairment of long-term equity investments (3)	300,000.00	300,000.00
Long-term equity investment, net	5,519,041.29	5,519,041.29

(1) Stock investment

Investees	Nature of Shareholders	Q'ty	Investment Proportion	Initial investment cost
HUANENG POWER (a)	Corporate shares	1,100,000	0.13%	3,000,000.00
Xi'an Tangcheng Joint Stock Co., Ltd.	Corporate shares	500,000	0.10%	85,000.00
Total				3,085,000.00

(2) Other equity investment

Investees	Starting and Ending Year of Investment	Proportion of shares held	Investment amount
Shenzhen Research Institute of Northwest China Polytechnic University	2002.2-2022.2	50%	1,500,000.00
Xi'an Haomen Restaurants & Recreation Co., Ltd. (b)	1994-2009	62%	5,800,500.87
Shenzhen CATIC Culture Transmit Co., Ltd.	1995.5-2008.5	15%	300,000.00
Shenzhen Feijing Sophisticated Optical Instruments Manufacture Co., Ltd. (c)	1997-2007	90%	-4,866,459.58
Total			2,734,041.29

(3) Provision for impairment of long-term equity investments

Investees	Opening balance	Increase in the report	Decrease in the	Ending balance

		period	report period	
Shenzhen CATIC Culture Transmit Co., Ltd.	300,000.00	--	--	300,000.00

Shenzhen CATIC Culture Transmit Co., Ltd. wound up in October, 2005. The Company recognized all the book balance of the investment amounting to RMB 300,000.00 as reserve for impairment of long term investment.

9. Fixed assets and accumulative depreciation

	Opening balance	Increase in the report period	Decrease in the report period	Ending balance
Original value				
Housing and buildings	289,864,143.05	3,952,501.65		293,816,644.70
Machines & equipment	9,668,721.46	22,325.00		9,691,046.46
Motor vehicles	9,463,070.49	716,223.62		10,179,294.11
Electronic equipment	9,829,613.01	1,039,183.90	-	10,868,796.91
Other equipment	6,231,910.68	93,581.00		6,325,491.68
Sub-total	325,057,458.69	5,823,815.17	-	330,881,273.86
Accumulative depreciation				
Housing and buildings	50,820,632.17	3,756,193.10	-	54,576,825.27
Machines & equipment	6,044,621.86	303,372.60		6,347,994.46
Motor vehicles	4,457,874.48	643,919.94		5,101,794.42
Electronic equipment	6,041,854.52	1,014,364.50		7,056,219.02
Other equipment	4,064,189.76	265,100.91	-	4,329,290.67
Sub-total	71,429,172.79	5,982,951.05	-	77,412,123.84
Net value	253,628,285.90			253,469,150.02
Provisions for impairment of fixed assets				
Housing and buildings	2,600,000.00			2,600,000.00
Sub-total	2,600,000.00			2,600,000.00
Book value	251,028,285.90			250,869,150.02

10. Improvement of fixed assets rented for operation

Items	Refurbishment of retail shops
Opening balance	9,473,084.96
Increase in the report period	4,450,594.08
Depreciation in the report period	4,069,295.91
Ending balance	9,854,383.13

11. Construction in process

Project	Budget	Opening balance	Increase in the report period	Transferred into the fixed assets in the report period	Ending balance	Funds source
Air conditioning engineering for FIYTA Technology Building	302,523.00	151,261.50			151,261.50	Self-raised fund
Illumination engineering for FIYTA Technology Building	120,000.00		54,000.00		54,000.00	Self-raised fund
Total		151,261.50	54,000.00	0.00	205,261.50	

None of the aforesaid construction in progress experienced borrowing expenses necessary to be capitalized.

12. Intangible assets

Types	Initial amount	Accumulatively amortized in the report period	Opening balance	Increase in the report period	Amount amortized in the period	Transfer out in the report period	Ending balance	Remaining amortization term	Way of acquisition
Land use right FIYTA Building at	15,487,349.60	3,956,854.04	11,702,532.72		172,037.16		11,530,495.56	33	Purchase

Zhenhua road, Futian District									
Trademark use right	113,200.00			113,200.00			113,200.00	10年	Purchase
Total	15,600,549.60	3,956,854.04	11,702,532.72	113,200.00	172,037.16	-	11,643,695.56	-	-

13. Long-term expenses to be proportioned

Types	Amount initially incurred	Accumulatively amortized in the report period	Opening balance	Increase in the report period	Amount amortized in the period	Transfer out in the report period	Ending balance	Remaining amortization term
Cost for making special counters	10,687,550.10	6,106,932.01	4,906,625.02	1,854,938.23	2,180,945.16		4,580,618.09	1-2年
ERP expenses	1,128,004.00	678,978.40	498,230.00	68,704.00	117,908.40		449,025.60	1-2年
Trademark licensing royalty	3,750,000.00	2,807,492.34	1,130,007.66		187,500.00		942,507.66	4年
Refurbishing expenses and others	10,304,275.88	8,353,189.03	2,022,595.09	636,469.26	707,977.50		1,951,086.85	3-4年
Total	25,869,829.98	17,946,591.78	8,557,457.77	2,560,111.49	3,194,331.06	0.00	7,923,238.20	

14. Asset of deferred income tax

Items	Ending balance	Opening balance
Asset of deferred income tax	4,135,520.20	3,162,755.00
Total	4,135,520.20	3,162,755.00

15. Short-term Loan

Types of Borrowings	Ending balance	Opening balance
Bank loans		
- Secured loans	190,000,000.00	140,000,000.00

The annual interest rate of the aforesaid bank loan is 6.12-6.57% and CATIC Shenzhen Holdings Ltd., the Company's holding shareholder, offered guarantee and assumed joint responsibility of guarantor.

16. Accounts payable

As at June 30, 2007, the total accounts payable in the Company was RMB 47,621,390.26.

As at June 30, 2007, in the accounts payable, there are no arrears from the shareholders that hold more than 5% (with 5% inclusive) of the Company's shares.

As at June 30, 2007, there are none in the big accounts payable with age exceeding 3 years.

17. Advance Receipts

As at June 30, 2007, the total advance receipts in the Company was RMB 3,862,052.99. Of the advance receipts, there was no big account with age exceeding 1 year.

In the advance receipts, there are no arrears owed to the shareholders that hold more than 5% (with 5% inclusive) of the Company's shares.

18. Other payables:

As at June 30, 2007, the total other payables in the Company was RMB 32,363,157.74.

As at June 30, 2007, in the other payables, there are no arrears from the shareholders that hold more than 5% (with 5% inclusive) of the Company's shares.

19. Taxes payable

Taxes	Ending balance	Opening balance
Business tax	674,250.42	406,253.85
Value-added tax	-26,288,477.72	-20,985,036.19
Urban construction tax	119,930.73	106,724.42
Business income tax	3,218,278.06	2,293,642.64
Others	137,461.00	285,906.20
Stamp tax	321,888.49	138,093.93
Total	-21,751,641.51	-17,754,415.15

20. Salaries Payable to Staff

Salaries payable to staff at the end of the period was RMB 5,099,331.72, the amount at the beginning of the period was RMB 4838675.92. The amount at the end of the period was mainly the salaries payable to staff amounting to RMB 1,274,655.39; and the expenses, such as the amount of staff's insurance premium, education surcharge, etc. was RMB 3,824,676.33.

21. Long term accounts payable

Items	Ending balance	Opening balance
Fund for financing the construction of the Company's technology center (1)	3,000,000.00	3,000,000.00
Loan (2)	5,000,000.00	5,000,000.00
Total	8,000,000.00	8,000,000.00

(1) According to the document SHEN JING MAO FA [2002] No. 93, the Company's technology center has been certified as an enterprise technology center at municipal level in Shenzhen. For this reason, the Company was granted financing fund for constructing the technology center amounting to RMB 3,000,000.00, which was all used for purchasing equipment.

(2) The fund was borrowed by Shenzhen Harmony World Watches Center Co., Ltd., one of the Company's subsidiaries from Beijing Heng Da Li Swiss Clocks and Watches Co., Ltd., one of its associates.

22. Liabilities of deferred income tax

Items	Ending balance	Opening balance
Liabilities of deferred income tax	-	967,398.56
Total	-	967,398.56

23. Capital Stock

	Ending balance	Increase/ Decrease resulting from the change in the report period					Opening balance
		Shares allotted	Bonus shares	Public Reserve Converted shares	Others	Sub-total	
(I) Non-negotiable shares							
1. Promoters' shares including:	130,248,000.00	--	--	--	--	--	130,248,000.00
Domestic corporate shares	130,248,000.00	--	--	--	--	--	130,248,000.00
Total non-negotiable shares	130,248,000.00	--	--	--	--	--	130,248,000.00
(II) Listed negotiable shares							

1. Domestically listed ordinary shares (in RMB)	60,749,999.00	--	--	--	--	--	60,749,999.00
Including: Senior executives' shares	48,210.00	--	--	--	--	--	48,210.00
2. Foreign shares listed domestically	58,320,000.00	--	--	--	--	--	58,320,000.00
Total listed negotiable shares	119,069,999.00	--	--	--	--	--	119,069,999.00
(III) Total Capital Stock	249,317,999.00	--	--	--	--	--	249,317,999.00

The aforesaid capital stock has been verified by Shekou Zhonghua Certified Public Accountants by Capital Verification Report SHE ZHONG YAN ZI BAO ZI (1998) No. 16.

24. Capital Reserve

Items	Opening balance	Increase in the report period	Decrease in the report period	Ending balance
Share capital premium	177,354,784.00	--	--	177,354,784.00
Value added in assets assessment	13,753,691.65	--	--	13,753,691.65
Price difference in related transactions	738,757.00	--	--	738,757.00
Total	191,847,232.65	--	--	191,847,232.65

25. Surplus Reserve

Items	Opening balance	Increase in the report period	Decrease in the report period	Ending balance
Statutory surplus public reserve	39,496,103.62		--	39,496,103.62
Statutory public welfare fund				--
Statutory discretionary surplus public reserve	61,984,894.00	--	--	61,984,894.00
Total	101,480,997.62			101,480,997.62

26. Retained earnings

Items	Amount
Retained earnings at year beginning	22,181,958.14
Plus: Profit in the report period	27,000,030.37
Surplus public reserve transferred in	--
Less: Allotting statutory public reserve	
Dividend payable for common shares	--
Retained earnings at year end	49,181,988.51

27. Operation Income and Costs

	Amount in report period		Amount of the same period of the previous year	
Sectors	Income from principal businesses	Principal business cost	Income from principal businesses	Principal business cost
Watch manufacture and retail	324,046,518.51	229,018,444.46	207,309,628.98	143,307,169.21
Income from property management rent	27,341,859.04	3,887,910.12	22,433,450.34	3,917,301.69
Other business	2,491,094.41	996,851.48	1,610,145.17	734,639.20
Total	353,879,471.96	233,903,206.02	231,353,224.49	147,959,110.10

28. Taxes and surcharge of principal business

Items	Amount in the report period	Amount of the same period of the previous year
Business tax	1,465,701.53	820,580.73
Urban construction tax	216,163.81	171,480.31
Educational Surcharge	356,538.59	363,382.65
Others	67,865.45	37,997.27
Total	2,106,269.38	1,393,440.96

30. Operation costs

Items	Amount in the	Amount of the

	report period	same period of the previous year
Operation costs	47,669,139.13	36,359,095.06

The operation costs in the report period increased by RMB 11,310,044.07 over the same period of the previous year was mainly due to growth of timepieces retail business which resulted in increase of advertisement costs and rental.

31. Financial Expenses

Items	Amount in the report period	Amount of the same period of the previous year
Interest income – bank deposit	229,135.52	141,796.95
Interest payment – bank loan	5,166,704.98	1,298,781.76
Exchange losses	361,339.06	31,281.50
Service charges	1,513,504.68	876,280.88
Others		21,000.00
Total	6,812,413.20	2,085,547.19

Of the financial expenses in the report year, the interest payment for the bank loan increasing by RMB 3,867,923.22 was mainly due to bank loan amounting to RMB 190,000,000 at the end of the report period, a RMB 130,000,000.00 growth over the same period of the previous year and the interest payment increased correspondingly.

32. Investment income

Items	Amount in the report period	Amount of the same period of the previous year
Earnings from stock investment	836,668.09	1,335,191.64
Earning from securities investment	--	--
Dividend distributed to the Investees involved in calculation based on the cost method	--	
Provision for devaluation of long-term investments	--	

Provisions for devaluation of short-term investment		
Total	836,668.09	1,335,191.64

33. Non-operating income

Items	Amount in the report period	Amount of the same period of the previous year
Income from disposal of fixed assets	31,739.40	70,399.03
Income from insurance claim	100,000.00	
Governmental reward	700,000.00	
Others	12,040.90	116,469.67
Total	843,780.30	186,868.70

34. Non-operating expenditures

Items	Amount in the report period	Amount of the same period of the previous year
Loss from disposal of fixed assets	--	57,616.88
Penalty payment	6,858.77	2,725.96
Others	--	12,315.71
Total	6,858.77	72,658.55

(V) Notes to the relevant items on the accounting statements of the parent company

1. Accounts receivable

Items	Amount in report period	Opening balance
Accounts receivable	58,101,206.70	52,632,286.97
Less: reserve for bad debts	40,373,588.49	40,373,588.49
Net amount of accounts receivable	17,727,618.21	12,258,698.48

Aging analysis of the Company’s accounts receivable is as follows:

	Amount in report period			Opening balance		
	Amount	Proportion	Provision for bad debts	Amount	Proportion	Provision for bad debts
Within a year	8,938,861.63	15.38%	172,597.90	3,451,957.98	6.56%	172,597.90
1 to 2 years	1,137,580.26	1.96%	130,135.26	1,301,357.56	2.47%	130,135.26
2 to 3 years	7,122,389.35	12.26%	2,112,861.34	7,042,871.15	13.38%	2,112,861.34
Over 3 years	40,902,375.46	70.40%	37,957,993.99	40,836,100.28	77.59%	37,957,993.99
Total	58,101,206.70	100.00%	40,373,588.49	52,632,286.97	100.00%	40,373,588.49

2. Other receivables

Items	Amount in report year	Opening balance
Other receivables	268,993,705.52	221,152,860.25
Less: reserve for bad debts	6,370,788.48	6,370,788.48
Other receivables, net	262,622,917.04	214,782,071.77

(1) Aging analysis of the Company's other receivables is as follows:

	Amount in report year			Opening balance		
	Amount	Proportion	Provision for bad debts	Amount	Proportion	Provision for bad debts
Within a year	254,837,711.41	94.74%	177,226.73	207,640,874.12	93.89%	177,226.73
1 to 2 years	472,318.56	0.18%	27,325.86	273,258.60	0.12%	27,325.86
2 to 3 years	1,246,085.24	0.46%	89,523.81	1,110,705.91	0.50%	89,523.81
Over 3 years	12,437,590.31	4.62%	6,076,712.08	12,128,021.62	5.49%	6,076,712.08
Total	268,993,705.52	100.00%	6,370,788.48	221,152,860.25	100.00%	6,370,788.48

3. Long-term equity investment

Items	Opening balance	Increase in the report period	Decrease in the report period	Ending balance
Stock investment (1)	3,085,000.00			3,085,000.00
Subsidiaries (4)	156,614,323,70		13,766,025.05	142,848,298.65
Other equity investment (2)	1,800,000.00			1,800,000.00
Total long-term equity investment	161,499,323.70			147,733,298.65
Provision for impairment of long-term equity investments (3)	300,000.00			300,000.00
Net amount of long-term equity investment	161,199,323.70			147,433,298.65

The long term equity investment of the Company includes:

(1) Stock investment

Investees	Nature of Shareholders	Q'ty	Proportion in the registered capital of the investee	Initial investment cost
Wanneng Joint Stock Co., Ltd.	Corporate shares	1,100,000	0.13%	3,000,000.00
Xi'an Tangcheng Joint Stock Co., Ltd.	Corporate shares	500,000	0.10%	85,000.00
Total				3,085,000.00

(2) Other equity investment

Investees	Starting and Ending Year of Investment	Investment Proportion	Investment amount
Shenzhen Research Institute of	2002.2-2022.2	50%	1,500,000.00

Northwest China Polytechnic University			
Shenzhen CATIC Culture Transmit Co., Ltd.	1995.5-2008.5	15%	300,000.00
Total			1,800,000.00

(3) Provision for impairment of long-term equity investments

Investees	Opening balance	Increase in the report period	Decrease in the report period	Ending balance
Shenzhen CATIC Culture Transmit Co., Ltd.	300,000.00	--	--	300,000.00

(4) Subsidiaries

Investees	Starting and Ending Year of Investment	Investment Proportion (%)	Investment amount: Opening balance	Investment amount: Ending balance	Change in accumulated equity: Opening balance	Change in accumulated equity: Increase in the report period	Change in accumulated equity: Dividend to be distributed	Change in accumulated equity: Ending balance	Book Balance: Opening balance	Book Balance: Ending balance
Shenzhen Harmony World Watches Center Co., Ltd.	1997-2012	98.79	122,425,000.00	122,425,000.00	2,198,348.32			2,198,348.32	124,623,348.32	124,623,348.32
Shenzhen Harmony World Watches Center Co., Ltd.	1993-2008	50	1,400,000.00	1,400,000.00	983,877.69			983,877.69	2,383,877.69	2,383,877.69
Shenzhen FIYTA Sophisticated Timepieces Manufacture Co., Ltd.	1999-2009	90	9,000,000.00	9,000,000.00	19,673,056.40		13,766,025.05	5,907,031.35	28,673,056.40	14,907,031.35
Shenzhen Feijing Sophisticated Optical Instruments Manufacture Co., Ltd.	1997-2007	90	6,300,000.00	6,300,000.00	-11,166,459.58			-11,166,459.58	-4,866,459.58	-4,866,459.58
Xi'an Haomen Restaurants & Recreation Co., Ltd.	1994-2009	62	11,040,000.00	11,040,000.00	-5,239,499.13			-5,239,499.13	5,800,500.87	5,800,500.87
Total			150,165,000.00	150,165,000.00	6,449,323.70			-7,316,701.35	156,614,323.70	142,848,298.65

4. Operating Income and Cost

Sectors	Amount in report year		Amount of the same period of the previous year	
	Operation income	Operation costs	Operation income	Operation costs
Sales of timepieces	72,500,380.17	38,071,819.37	60,754,623.11	33,295,393.37
Income from property management	27,341,859.04	3,887,910.12	22,433,450.34	3,917,301.69
Other business	1,084,002.45	996,851.48	1,052,273.31	730,123.12
Total	100,926,241.66	42,956,580.97	84,240,346.76	37,942,818.18

6. Investment income

Items	Amount in the report period	Amount of the same period of the previous year
Earnings from stock investment	836,668.09	1,335,191.64
Earning from securities investment	--	--
Dividend distributed to the Investees involved in calculation based on the cost method	--	
Provision for devaluation of long-term investments	--	
Provisions for devaluation of short-term investment		
Total	836,668.09	1,335,191.64

(VI) Related Parties and Related Transactions

1. Related parties with controlling relationship

(1) Basic information of the related parties with control relationship and the relationship with the Company are as follows:

Company Names	Registered address	Principal business	Relationship	Ownership or type	Legal representative:
CATIC SHENZHEN HOLDINGS LTDS.	Shenzhen	Investing to set up entities, domestic trade, materials supply and sales	The Company's parent company	Joint stock co., ltd.	Wu Guangquan

CATIC Corporation	Shenzhen	Shenzhen	Import and export of motor vehicles, equipment and machinery made within the Group.	shareholder of the Company's parent company	Solely owned by the state	Wu Guangquan

(2) Registered capital of the related party with control relationship and the change

Company Names	December 31, 2006	Increase in the report year	Decrease in the report year	June 30, 2007
CATIC SHENZHEN HOLDINGS LTDS.	642,000,000.00	--	--	642,000,000.00
CATIC Shenzhen Corporation	80,000,000.00	--	--	80,000,000.00
Shenzhen Feijing Sophisticated Optical Instruments Manufacture Co., Ltd.	7,000,000.00	--	--	7,000,000.00
Shenzhen FIYTA Sophisticated Timepieces Manufacture Co., Ltd.	10,000,000.00	--	--	10,000,000.00
Shenzhen Harmony World Watches Center Co., Ltd.	123,800,000.00	--	--	123,800,000.00
Xi'an Haomen Restaurants & Recreation Co., Ltd.	HK$ 16,000,000.0C	--	--	HK$ 16,000,000.00
Shenzhen Harmony World Watches Center Co., Ltd.	2,800,000.00	--	--	2,800,000.00
Beijing Henglianda Timepiece Co., Ltd.	10,000,000.00			10,000,000.00

(3) Shares held by the related party which can control the Company and the change:

Entity Names	Ending balance Amount
CATIC SHENZHEN HOLDINGS LTD. – direct holding	130,248,000.00

CATIC Shenzhen Corporation	
- Indirect holding	81,153,009.00

(4) Shares or equity in the related party controlled by the Company directly or indirectly held and the change

Company Names	Opening balance		Increase in the report period		Decrease in the report period		Ending balance	
	Amount	Proportion	Amount	Proportion	Amount	Proportion	Amount	Proportion
Shenzhen Feijing Sophisticated Optical Instruments Manufacture Co., Ltd.	6,300,000.00	99.00%	--	--	--	--	6,300,000.00	99.00%
Shenzhen FIYTA Sophisticated Timepieces Manufacture Co., Ltd.	9,000,000.00	99.00%	--	--	--	--	9,000,000.00	99.00%
Shenzhen Harmony World Watches Center Co., Ltd.	122,425,000.00	98.79%	--	--	--	--	122,425,000.00	98.79%
Xi'an Haomen Restaurants & Recreation Co., Ltd.	11,040,000.00	62.00%	--	--	--	--	11,040,000.00	62.00%
Shenzhen Harmony World Watches Center Co., Ltd.	2,800,000.00	50.00%	--	--	--	--	2,800,000.00	50.00%
Beijing Henglianda Timepiece Co., Ltd.	5,000,000.00	50.00%	--	--	--	--	5,000,000.00	50.00%

2. Related Parties without Control Relationship

Company Names	Relationship with the Company
Shenzhen CATIC Property Management Co., Ltd.	controlled by the same parent company shareholder
Shenzhen Rainbow Supermarket Co., Ltd.	controlled by the same parent company shareholder
Shenzhen Shenhang Electronic Machinery Co. Ltd.	Minority shareholders

Beijing Heng Da Li Swiss Clocks and Watches Co., Ltd.	Associate of a controlled subsidiary
Shenzhen Maiwei Cable TV Equipment Co Ltd	controlled by the same parent company

3. Related transactions

(1) Pricing policy

The transactions with the related parties are priced based on the prices specified in the agreements executed by both parties.

(2) Significant transactions between the Company and the related parties are stated as follows:

	Amount in report year	Amount of the same period of the previous year
Items and companies	Amount in transaction	Amount in transaction
(1) Receiving labor services		
Shenzhen CATIC Property Management Co., Ltd.	440,567.94	887,134.21
(2) Leases (Operating rent)		
Shenzhen CATIC Property Management Co., Ltd.	402,480.00	402,480.00
(3) Leases (operating lease)		
Shenzhen CATIC Real Estate	659,700.00	472,449.60
Shenzhen CATIC Sunshine Real Estate Development Co., Ltd.		144,300.00
Shenzhen Maiwei Cable TV Equipment Co Ltd	154,379.80	347,188.80
(4) Payment for sales expenses with designated counters in the supermarket		
Shenzhen Rainbow Supermarket Co., Ltd.	2,405,177.70	1,215,370.28
Total	4,062,305.44	3,468,922.89

4. Balance of the Current Accounts with Related Parties

Items and companies	Ending balance	Opening balance	Remarks

Accounts receivable			
Shenzhen Rainbow Supermarket Co., Ltd.	72,933.80	668,927.30	
Other receivables			
Shenzhen CATIC Property Management Co., Ltd.	58,341.58	130,278.58	Deposit in security
Xi'an Haomen Restaurants & Recreation Co., Ltd.	2,400,000.00	2,400,000.00	Current account
CATIC Real Estate	109,950.00	219,900.00	Current account
Other payables			
Xi'an Haomen Restaurants & Recreation Co., Ltd.	12,311,302.88	12,311,302.88	Account recovered
Shenzhen CATIC Property Management Co., Ltd.	716,462.66	528,796.57	Current account
Accounts payable			
Xi'an Haomen Restaurants & Recreation Co., Ltd.	89,442.46	89,442.46	Current account
Long term accounts payable			Current account
Beijing Heng Da Li Swiss Clocks and Watches Co., Ltd.	5,000,000.00	5,000,000.00	Borrowings

(VII) Contingencies

Ended the report period, the Company had no significant contingencies necessary to be disclosed

(VIII) Commitments

1. Capital Commitment

Ended the report period, the Company had no capital payment commitment for which agreement had been executed but not necessary to be confirmed on the accounting statement.

2. Operation Lease Commitments

According to the irrevocable operational lease contracts as executed already, the future minimum rentals necessary to be paid are summarized as follows:

Items	Ending balance	Opening balance
Within a year	9,232,971.00	7,345,100.00
1 to 2 years	8,926,714.00	6,462,300.00

2 to 3 years	4,462,736.00	5,948,000.00
Over 3 years	422,300.00	844,600.00
Total	23,044,721.00	20,600,000.00

(IX Miscellaneous

According to the document [2007] SHANG HE JING WAI TOU ZI ZHENG ZI NO. 00276, FIYTA（HONGKONG）LIMITED, the Company's subsidiary incorporated in Hong Kong, has been approved by the Ministry of Commerce of the People's Republic of China with registered capital of US$ 1.2858 million. Its capital was 100% contributed by Shenzhen FIYTA Holdings Ltd. It is mainly engaged in sales of various analog watches and movements, spares and parts, various timing instruments. At present, the corporate registration and registration with the industry and commerce authority are in process of handling.

(X) Post Events

The Company published the third announcement of the Prospectus of Equity Separation Reform on July 14, 2007 (Refer to Securities Times and http://www.cninfo.com.cn)The equity reform work is still in progress at the present.

(XI) Provisions for impairment of fixed assets

Items	Opening balance	Increase in the report period	Decrease in the report period	Ending balance
I. Provision for bad debts	48,232,997.61			48,232,997.61
Incl.: Accounts receivable	41,202,214.13			41,202,214.13
Other receivables	7,030,783.48			7,030,783.48
II. Provisions for impairment of inventories	46,192,840.49		4,306,426.71	41,886,413.78
III. Reserve for impairment of transactional financial assets	4,357,600.00		831,600.00	3,526,000.00
IV. Provision for impairment of the held to the due investment				-
V. Provision for impairment of long-term equity investments	300,000.00			300,000.00
VI. Provision for impairment of fixed assets	2,600,000.00			2,600,000.00
VII. Provision for impairment of investment based real estate				-
VIII. Provision for impairment of engineering supplies				-
IX. Provision for impairment of construction-in-progress				-
X. Provision for impairment of production based biological assets				-
XI. Provision for impairment of oil and gas assets				-
XII. Provision for impairment of intangible assets				-

XIII. Provision for impairment of goodwill				-
XIV. Others				-
Total	101,683,438.10			96,545,411.39

(XII) Statement of Changes in Owner's Equity

Statement of Changes in Owner's Equity

Prepared by: SHENZHEN FIYTA HOLDINGS LTD. January to December, 2006 In RMB

Items	Total owners' equity attributable to the parent company						
	Paid-up capital	Capital Reserve	Less: shares in stock	Surplus Reserve	Retained Earnings	Minority shareholders' equity:	Total owner's equity
I. Balance at the end of the previous year	249,317,999.00	191,847,232.65		98,654,301.02	-6,448,293.31	7,502,682.77	540,873,922.13
Plus: Change of accounting policy							
Correction of previous errors							
II. Balance at the year beginning	249,317,999.00	191,847,232.65		98,654,301.02	6,448,293.31	7,502,682.77	540,873,922.13
III. Amount involved in increase/decrease in the year				2,826,696.60	26,436,525.03	77,367.72	29,340,589.35
(I) Net profit					29,263,221.63	77,367.72	29,340,589.35
(II) Profit and loss directly charged to the owner's equity							
1. Net change in the fair value of the financial assets available for sale							
2. Influence from change of the other owner's equity							

of the investee							
3. Influence from the income tax in connection with the owner’s equity as charged							
4. Others							
Total of the aforesaid (I) and (II)	-	-	-	-	29,263,221.63	77,367.72	29,340,589.35
(III) Capital provided and decreased by the owner							
1. Capital provided by the owner							
2. Amount of share payment charged to the owner’s equity							
3. Others							
(IV) Profit Distribution				2,826,696.60	-2,826,696.60		0.00
1. Provision of surplus public reserve				2,826,696.60	-2,826,696.60		0.00
2. Distribution to the owner							
(V) Internal carry-over of owner’s equity							
1. Increased capital converted from capital reserve							
2. Increased capital converted from surplus reserve							
3. Making up Deficit with Surplus Public Reserve							
IV. Ending balance	249,317,999.00	191,847,232.65		101,480,997.62	19,988,231.72	7,580,050.49	570,214,511.48

Statement of Change in Owner’s Equity

Prepared by: SHENZHEN FIYTA HOLDINGS LTD. Jan. to Jun., 2007 In RMB

	Total owners’ equity attributable to the parent company		

	Paid-up capital	Capital Reserve	Less: shares in stock	Surplus Reserve	Retained Earnings	Minority shareholders' equity:	Total owner's equity
I. Balance at the end of the previous year	249,317,999.00	191,847,232.65		101,480,997.62	19,988,231.72	7,580,050.49	570,214,511.48
Plus: Change of accounting policy					2,193,726.42	1,630.02	2,195,356.44
Correction of previous errors							
II. Balance at the year beginning	249,317,999.00	191,847,232.65		101,480,997.62	22,181,958.14	7,581,680.51	572,409,867.92
III. Amount involved in increase/decrease in the year					27,000,030.37	143,991.49	27,144,021.86
(I) Net profit					27,000,030.37	143,991.49	27,144,021.86
(II) Profit and loss directly charged to the owner's equity							-
1. Net change in the fair value of the financial assets available for sale							-
2. Influence from change of the other owner's equity of the investee							-
3. Influence from the income tax in connection with the owner's equity as charged							-
4. Others							-
Total of the aforesaid (I) and (II)	-	-	-	-			

					27,000,030.37	143,991.49	27,144,021.86
(III) Capital provided and decreased by the owner							
1. Capital provided by the owner							
2. Amount of share payment charged to the owner's equity							
3. Others							
(IV) Profit Distribution							
1. Provision of surplus public reserve							
2. Distribution to the owner							
3. Others							
(V) Internal carry-over of owner's equity							
1. Increased capital converted from capital reserve							
2. Increased capital converted from surplus reserve							
3. Making up Deficit with Surplus Public Reserve							
IV. Ending balance	249,317,999.00	191,847,232.65		101,480,997.62	49,181,988.51	7,725,672.00	599,553,889.78