
FIYTA HOLDINGS LTD.

2017 Annual Report

March 2018

Section 1 Important Notice, Table of Contents and Definition

The Board of Directors, the Supervisory Committee, directors, supervisors and senior executives hereby individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are neither material omissions nor errors which would render any statement misleading.

Huang Yongfeng, the Company leader, Chen Zhuo, chief financial officer, and Tian Hui, the manager of the accounting department (treasurer) hereby confirm the authenticity and completeness of the financial report enclosed in this Annual Report.

With the exception of the following directors, all the other directors personally attended the Board Meeting for reviewing the Annual Report.

Names of the directors failed in attending the meeting personally	Posts of the directors failed in attending the meeting personally	Cause of failure in attending the meeting personally	Names of the attorneys
Wang Mingchuan	Director	Business trip	Chen Libin
Xiao Zhanglin	Director	Business trip	Wang Bo

Any perspective description, such as future plan, development strategy, etc. involved in the Annual Report shall not constitute the Company's substantial commitment to the investors and the investors should please pay attention to their investment risks.

In the Report, the Company has presented in detail the potential risks existing in the macro economy and operation. Investors are advised to read carefully the contents concerning risk factors possibly to be confronted with in the Company's future development prospects and the countermeasures in Section 4 Management Discussion and Analysis.

The profit distribution preplan reviewed and approved by the said board meeting is summarized as follows: with the Company's total share capital being 438,744,881 shares as the base, the Company would distribute cash dividend at the rate of CNY 2.00 for every 10 shares (with tax inclusive) and bonus share at the rate of 0 share (with tax inclusive) to the whole shareholders and no reserves would be converted into share capital.

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Definitions

Terms to be defined		Definition
This Company, the Company or FIYTA	Refers to	FIYTA Holdings Ltd.
AVIC International	Refers to	AVIC International Holding Corporation
the Sales Co.	Refers to	FIYTA Sales Co., Ltd.
Harmony	Refers to	Shenzhen Harmony World Watches Center Co., Ltd.
the Manufacture Co.	Refers to	Shenzhen FIYTA Sophisticated Timepieces Manufacture Co., Ltd.
the Technology Co.	Refers to	Shenzhen FIYTA Technology Development Co., Ltd.
the Hong Kong Co.	Refers to	FIYTA (Hong Kong) Limited
SHIYUEHUI	Refers to	Shiyuehui Boutique (Shenzhen) Co., Ltd.
HENG DARUI.	Refers to	Liaoning Hengdarui Commerce & Trade Co., Ltd.
Harbin Co.	Refers to	Harbin Harmony World Watch Distribution Co., Ltd.
Rainbow Ltd.	Refers to	Rainbow Department Store Co., Ltd.
AVIC Real Estate	Refers to	AVIC Real Estate Co., Ltd.
AVIC Property	Refers to	AVIC Property Management Co., Ltd.

Section 2 Company Profile and Financial Highlights

I. Company Profile

Short form of the stock:	FIYTAA, FIYTA B	Stock Codes:	000026 and 200026
Stock Exchange Listed with	Shenzhen Stock Exchange		
Company Name In Chinese	FIYTA Holdings Ltd.		
Abbreviation of Registered Company Name in Chinese	飞亚达公司		
Company name in foreign language (if any)	FIYTA HOLDINGS LTD.		
Short form of the Company name in foreign language (if any)	FIYTA		
Legal Representative	Huang Yongfeng		
Registered address:	FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen		
Postal Code of the Registered Address	518057		
Office Address	20 th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen		
Postal Code of the Office Address	518057		
Internet Web Site	www.fiytagroup.com		
E-mail	investor@fiyta.com.cn		

II. Liaison Persons and Communication Information

	Secretary of the Board	Securities Affairs Representative
Names	Lu Wanjun	Zhang Yong
Liaison Address	20 th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen	20 th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen
Tel.	0755 — 86013669	0755 — 86013669
Fax	0755 — 83348369	0755 — 83348369
E-mail	investor@fiyta.com.cn	investor@fiyta.com.cn

III. Information Disclosure and Place where the Regular Reports are Prepared

Newspapers Designated for Disclosing the Information:	Securities Times and Hong Kong Commercial Daily
Internet Web Site Designated by China Securities Regulatory	www.cninfo.com.cn

Commission for Publishing the annual report:	
Place of the Company's Annual Report Prepared for inquiry	Board Secretary Office

IV. Changes in Registration

Organization Code	91440300192189783K
Changes in principal business activities since listing (if any)	The 13th session of the Eighth Board of Directors and 2016 Annual General Meeting reviewed and approved the Proposal for Amendment of the Articles of Association in which "design service" was to be added in the Company's business scope. After the amendment, the Company's business scope would be: production and sales of various pointer type quartz watches and the driving units, components and parts, various timing instruments, machining and wholesale of K gold ornament watches; domestic commerce and supply and marketing of materials (excluding the goods subject to monopoly, exclusive control or monopolization); property management and property lease; design service; self-managed import and export.
Changes in the controlling shareholder over the past years (if any)	No change

V. Other Relevant Information

CPAs appointed

Name of the CPAs	Ruihua Certified Public Accountants (Special General Partnership)
Office address	9/F, Taiping Finance Tower, Futian District, Shenzhen
Names of the CPAs as the authorized signatories	Xing Xiangzong and Liu Xin

The sponsor performing persistent supervision duties engaged by the Company in the reporting period

Name of the Sponsor	Office Address	Representatives	Duration of persistent supervision
Huachuang Securities Co., Ltd.	Huachuang Building, 216 Zhonghua N. Road, Guiyang, Guizhou Province	Li Xiumin and Huang Junyi	January 15, 2016 to December 31, 2017

The financial advisor performing persistent supervision duties engaged by the Company in the reporting period

Inapplicable

VI. Summary of Accounting/Financial Data

Does the Company need to make retroactive adjustment or restatement of the accounting data of the previous years?

No

	2017	2016	Year-on-year increase/decrease	2015
Operation revenues in CNY	3,345,809,703.98	2,993,864,561.43	11.76%	3,162,196,212.90
Net profit attributable to the Company's shareholders, in CNY	140,216,258.28	110,662,681.59	26.71%	121,702,057.44
Net profit attributable to the Company's shareholders less the non-recurring items, in	123,918,527.75	97,200,540.64	27.49%	113,441,715.91

CNY				
Net cash flows arising from operating activities, in CNY	564,954,561.97	455,759,094.15	23.96%	396,236,992.41
Basic earning per share (CNY/share)	0.3196	0.2522	26.72%	0.3099
Diluted earning per share (CNY/share)	0.3196	0.2522	26.72%	0.3099
Return on equity, weighted average (%)	5.79%	4.74%	1.05%	7.24%
	End of 2017	End of 2016	Increase/decrease at the end of the year over the end of the previous year	End of 2015
Total assets, in CNY	3,579,789,692.90	4,004,897,562.72	-10.61%	4,246,670,045.02
Net assets attributable to the Company's shareholders (owner's equity attributable to the Company's shareholders, in CNY)	2,467,967,361.20	2,371,370,535.17	4.07%	2,299,215,650.21

VII. Difference in the Accounting Data based respectively on the Chinese Accounting Standards (CAS) and International Accounting Standards (IAS)

(I) Differences in the net profit disclosed in the financial report & the net assets attributable to the Company's shareholders respectively according to the IAS and the CAS.

Inapplicable

(II) Differences in the net profit disclosed in the financial report & the net assets attributable to the Company's shareholders according to both the IAS and the CAS

Inapplicable

VIII. Financial Data Summary based on Quarters

In CNY

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Operating revenue	817,002,183.65	782,538,960.70	876,113,517.26	870,155,042.37
Net profit attributable to the Company's shareholders	45,319,028.27	41,389,796.49	49,839,227.96	3,668,205.56
Net profit attributable to the Company's shareholders less the non-recurring profit and loss	45,377,622.54	40,560,834.40	49,457,070.83	-10,049,707.46
Net cash flows arising from operating activities	122,917,899.12	153,797,761.41	86,600,298.96	201,638,602.48

Does there exist significant difference in the foregoing financial data or their total sum from the relevant financial data as disclosed in the quarterly reports and/or semi-annual report.

No

IX. Non-recurring gain/loss items and amount involved

in CNY

Items	Amount in 2017	Amount in 2016	Amount in 2015	Note
Gain/loss from disposal of non-current assets, including the part offset from the provision for impairment of assets.	7,321,993.36	-660,129.92	34,435.32	Inapplicable
Government subsidy credited to the current gain and loss (except the government subsidies closely related with the Company's business and enjoyable according to the unified standard quota or fixed amount specified by the central government).	17,508,255.98	17,234,482.25	10,889,579.23	Inapplicable
Reversal of the provision for impairment of accounts receivable which have undergone impairment testing individually	1,903,056.74	0.00	0.00	Inapplicable
Operating income and expenses other than the aforesaid items	1,238,972.99	935,294.98	-17,790.06	Inapplicable
Less: Amount affected by the income tax	8,669,699.37	4,047,506.36	2,645,882.96	Inapplicable
Amount affected by minority equity (after tax)	3,004,849.17	0.00	0.00	Inapplicable
Total	16,297,730.53	13,462,140.95	8,260,341.53	--

For the Company's non-recurring gain/loss items as defined in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering their Securities to the Public – Non-recurring Gains and Losses and its non-recurring gain/loss items as illustrated in the Explanatory Announcement No. 1 on Information Disclosure for Companies Offering their Securities to the Public – Non-recurring Gains and Losses which have been defined as recurring gains and losses, it is necessary to explain the reason.

Inapplicable

Section 3 Business Summary

I. Principal Businesses in the Reporting Period

Does the Company need to comply with the requirements on information disclosure for special industries?

No

(1) Principal Businesses and Business Model

FIYTA has been concentrating itself in watch industry under the strategy of brand building and has formed a proprietary product brand cluster represented by FIYTA watch and watch retail network brand represented by HARMONY; has been continuously improving watch R & D, design and precision manufacture, enthusiastically carrying forward integration and upgrading of the key value chain, has preliminarily reached the vertical integration based brand development strategy

(2) Development Status of Watch Industry and the Company's Position in the Industry

In the reporting year, the revival of the global economy experienced frequent secret worry and China's domestic GDP growth rate turned to "medium-high speed" from the previous "high speed". Facing the complicated and uncertain macro-environment and market change, the Company kept "deep ploughing" in its principal business, fully excavated the market potential, actively coped with the market challenge, accelerated business transformation and management upgrading and achieved remarkable economic performance. In 2017, the Company set a new historical record in operation revenues. The Company achieved good growth in the business of its own proprietary product brands represented by FIYTA watches and watch retail channels represented by HARMONY: where revenues from the business of FIYTA watches had a year-on-year growth of 9.21% and that from the business of HARMONY had a year-on-year growth of 13.36%. After three decades' courageous advance, FIYTA has successfully become a leader of China's watch industry.

II. Significant Changes in the Prime Assets

1. Significant Changes in the Prime Assets

Inapplicable

2. Prime Assets Abroad

Inapplicable

III. Analysis on Core Competitiveness

Does the Company need to comply with the requirements on disclosure for special industries

No

FIYTA's core competitiveness mainly consists of the ability to build brand, ability to offer top quality services, ability of product innovation, ability of knowledge management and ability of management of strategic human resources. After three decades' continuous development, the Company has established a brand building management system based on

"4P+C" for brand construction, ensured constant healthy development of proprietary brands; through unceasing innovation and continuous accumulation, the Company has formed customer-oriented services and "three-tier marketing" service system as experienced and ensured the high quality services to be effectively implemented and constantly improved the customers' satisfaction; by continuously learning international outstanding brands, the Company has created a professional R & D and design team with international vision and powerful aesthetic judgment; the ability of product innovation has been continuously enhanced, the products have won international and domestic big prizes; the Company always implements the strategy of building "brand people" in the practice of the Company's strategy development, continuously energizes the team, has developed a "brand people" team choosing and following what is good, being created to beauty, pursuance for excellence, and constantly perfecting themselves, and better supported the continuous development of the brands. In order to satisfy the requirements on management and operation, the Company has attached importance on construction of the craftsmanship spirit. The Company has constructed the management innovation system with customers' demand as the original point and the knowledge management platform based on the entire personnel, decentralization and interaction so as to promote various management results and innovation and creativity to be fully shared and used for reference internally.

The Company is a national technological innovation demonstration enterprise, has established a national industrial design center and an enterprise technology center recognized by the state. All our manufacture enterprises are national hi-tech enterprises. In addition, the Company has participated in preparation or revision of a number of national and industrial standards. In the reporting year, the Company took lead in and participated in amendment of and completed seven national, industrial standards and technical specifications of Shenzhen Municipality. In the reporting year, the Company published three national standards prepared or amended with the Company playing the leading role. In 2017, the Company was recognized as a unit integrating and implementing the standards for informationization and industrialization by the Ministry of Industry and Information Technology

In addition to the continuous consolidation of the aforesaid core competitiveness, during the reporting period, the Company achieved great success in construction of the platform of science and technology and scientific and technological innovation. The Company was elected intellectual property demonstration enterprise of Guangdong Province and successfully certified for the implementation of the standards for intellectual property management system. In 2017, the Company was awarded 1 honorable mention of Chinese patent award, "Shenzhen Gift" of the Year 2017-2018, the silver award of "the 3rd China (Blue Light Cup•Zhangzhou) Horologe Design Competition, 2017 Designer Recommendation Award and Shenzhen Enterprise Innovation (China) Record. In the reporting year, the Company applied for 11 patents for invention, and 14 utility model patents and 34 design patents, accumulatively granted 2 patents for invention, 14 utility model patents and 26 design patents.

Section 4 Discussion and Analysis of the Management

I. General

In 2017, facing the external economic environment of gradual revival but full of uncertainty, the Company insisted on the idea of development and brand strategy, practiced the Company's value of "customer orientation, good faith, cooperation, learning and innovation and high speed" with performance improvement as its objective, continued to work hard on the principal business, unceasingly optimized the organization structure, improved the process system, actively carried forward business innovation, strived to realize elaborated operation, constantly enhanced output of individual shops; with customer study as the original point, initiatively seized the very good opportunity of consumption upgrading, carried out marketing and brand upgrading work of various forms and full of productivity and the brand value and market share had been elevated steadily; with creating a customer-oriented organization as the orientation, pressed close in depth to and understood customers' demands, spared no effort in creating value for customers, effectively established a new type of customer relations. In the reporting period, with joint effort of the Company's whole colleagues, the Company realized sales revenue in the whole amounting to CNY 3,345.8097 million, a year-on-year growth of 11.76%; realized net profit attributable to the shareholders of the Company amounting to CNY 140.2163 million, a year-on-year growth of 26.71%. The net cash flow created from the operation activities amounted to CNY 564.9546 million.

During the reporting period, the Company seized the opportunity of consumption upgrading in the business of FIYTA brand and other own proprietary brands, focused on the work of customer study and per unit yield raising, promoted resource integration and efficiency improvement, and achieved a preliminary result in multiple brand and entire channel strategy. With the joint effort of various links of research, design, production and sales of FIYTA watch, the Company kept improving the "4P+C" brand construction system, the operation efficiency got improved step by step, the customer satisfaction and brand reputation were constantly enhanced and the brand competitiveness were gradually manifested, and it was chosen as "a made-in-China product" by the Ministry of Commerce"; the Company achieved plentiful fruits in new product development; on the basis of continuous development and plentiful serial products, the Company launched new Young+ series and achieved a good market echo; the sales proportion of Star series continuously increased, differentiated competitiveness and brand imprinting got enhanced; the channel quality was improved continuously, and the average per unit yield was growing continuously, the total number of the domestic channels was 3,100; a good result was achieved in brand internationalization and FIYTA Brand has successfully entered 32 countries/regions, and the number of the overseas channels increased by more than 180, and the overseas sales income increased by a big margin; the e-commerce business developed steadily and realized a turnover amounting to CNY 94.42 million with year-on-year growth of 18%. Under the logistic system of three-stage network structure, FIYTA Brand products have covered the central warehousing centers, local warehousing centers of different cities, and shops. While the Company has not established any transportation logistic, it has realized butt joint with the information system of logistic enterprises. In addition, with continuous growth of sales orders, FIYTA Brand for the first time operated AI warehousing robot project. As a result, the order processing and delivery efficiency was improved by a double or more. Meanwhile, the Company's strategy for high-end brands, fashion brands, VERUS, JEEP, etc. and Beijing Watch development was actively carried forward. During the reporting period, FIYTA Watch business realized a turnover amounting to CNY 979.906 million with a year-on-year growth of 9.21%.

During the reporting period, Harmony World Watch Center closely centered on the work theme of "recasting the foundation, conducting deep ploughing operation, customer study and innovation and development", constantly improved its earning power, carried out the customer study work in depth, carried forward transformation and upgrading of the business models. Harmony World Watch Center kept deep ploughing and digging the potential according to the "Three

Tier Marketing" management system, conducted more effective retail operation, greatly improved the per unit yield, achieved a big profit growth; constantly optimized the stock structure, continuously reduced the inventory volume, greatly improved the stock turnover; conducted continual optimization of the existing channels, further enhanced the channel quality, optimized the famous brand watches by 186 channels, of which 17 channels were newly opened, 60 channels were closed and adjusted; kept carrying forward the business model transition from "famous brand watch retail service supplier" to "famous brand comprehensive service supplier", constructed "new retail" business model of online and offline integration by means of informatization technology, broadened the business development scene. During the reporting period, Harmony realized a turnover amounting to CNY 2,237.3583 million with a year-on-year growth of 13.36%; kept fast and steady growth in famous brand watch repairing services and e-commerce channels.

Changes in major financial items in 2017 are as follows:

Statement Items	2017	2016	Increase/decrease movement (%)	Notes to the movements
Balance sheet items				
Monetary capital	187,152,891.32	428,802,755.81	-56.35%	Mainly due to return of the bank loans and the raised capital being put into application during the reporting year.
Short term borrowings	525,990,510.00	1,098,438,070.00	-52.11%	Mainly due to return of partial bank loans with self-raised fund during the reporting year.
Payroll payable	71,564,367.14	45,254,585.69	58.14%	Mainly due to that with growth of profit in the reporting year, bonus payable to the sales persons increased, and the year-end bonus payable to employees increased also.
Minority shareholders' equity	5,515.78	3,577,654.56	-99.85%	Mainly due to decrease of the corresponding minority shareholders' equity resulted from decrease of assets as Station 68 Ltd. entered the process of cancellation liquidation during the reporting year.
Profit statement items				
Loss from impairment of assets	62,427,499.61	29,377,884.40	112.50%	Mainly due to increase of the provision for price falling of inventories during the reporting year.
Income from disposal of assets	7,321,993.36	-520,920.33	-1505.59%	Mainly due to Station 68 Ltd's disposal of overseas non-operation real estate.
Other income	17,508,255.98	0.00	100%	Mainly due to that based on the requirements on modification of the accounting standards in the reporting year, the operation based government subsidy was counted to "other income" instead of "non-operating income" as did previously. However, it is unnecessary to make retroactive adjustment of the comparative statement of the same period, and the government subsidy involved amounting to CNY 17,234,482.25.
Non-operating income	2,607,653.91	18,574,739.04	-85.96%	Mainly due to that according to the changed requirements of the accounting standards during the reporting year, the operation related government subsidy was counted to the item of "other

				income" instead of the item of "non-operating income" previously. However, it was unnecessary to recount and adjust the comparative statements of the same period and the government subsidy involved amounted to CNY 17,234,482.25.
Minority shareholders' gains/losses	2,400,100.92	-287,834.29	-933.85%	Mainly due to disposal of non-operating real estate in the reporting year as Station 68 Ltd. enter the process of cancellation liquidation in the reporting year.
Other comprehensive income, net after tax	-28,676.16	5,617,505.89	-100.51%	Mainly due to influence from fluctuation of the exchange rate.
Cash flow statement items				
Rebated taxes and dues received	886,252.20	6,421.29	13701.78%	Mainly due to increase of the export rebates during the reporting year.
Cash from return on investment obtained	0.00	383,750.00	-100.00%	Mainly due to the dividend from Shanghai Watch Industry Co., Ltd. for the same period of the previous year.
Net cash recovered from disposal of fixed assets, intangible assets and other long term asses	10,678,135.25	4,150,363.94	157.28%	Mainly due to disposal of overseas non-operating real estate by Station 68 Ltd. during the reporting year.
Cash received from the borrowings as obtained	575,282,350.00	1,405,213,268.91	-59.06%	Mainly due to decrease of the size of bank loans due to increase of cash flow-in for business activities during the reporting year.
Cash paid in connection with other fund-raising activities	3,376,589.16	992,669.19	240.15%	Mainly due to return of the capital invested by the shareholders as Station 68 Ltd. entered the process of cancellation liquidation during the reporting year.

II. Analysis of the Principal Business

1. General

Refer to the relevant details in "I. General" of "Discussion and Analysis of the Management".

2. Revenues and Costs

(1) Composition of Operation Revenues

In CNY

	2017		2016		Year-on-year increase/decrease
	Amount	Proportion in the operating revenues	Amount	Proportion in the operating revenues	
Total operating revenues	3,345,809,703.98	100%	2,993,864,561.43	100%	11.76%
Classified based on sectors					
Watches	3,217,264,256.67	96.16%	2,871,027,139.99	95.90%	12.06%
Lease	109,451,504.76	3.27%	99,036,108.21	3.30%	10.52%

Others	19,093,942.55	0.57%	23,801,313.23	0.80%	-19.78%
Classified based on products					
Famous brand watches	2,237,358,253.15	66.87%	1,973,725,639.76	65.94%	13.36%
Fiyta watch	979,906,003.52	29.29%	897,301,500.23	29.96%	9.21%
Lease	109,451,504.76	3.27%	99,036,108.21	3.30%	10.52%
Others	19,093,942.55	0.57%	23,801,313.23	0.80%	-19.78%
Classified based on regions					
South China	1,131,001,582.43	33.80%	996,436,356.08	33.28%	13.50%
Northwest China	543,837,252.49	16.25%	489,661,181.56	16.35%	11.06%
North China	511,436,952.26	15.29%	470,509,053.79	15.72%	8.70%
East China	483,210,740.06	14.44%	424,998,042.02	14.20%	13.70%
Northeast China	309,313,118.19	9.24%	275,092,433.66	9.19%	12.44%
Southwest China	367,010,058.55	10.97%	337,167,494.32	11.26%	8.85%

(2) Sector(s), Product(s) or Region(s) Taking over 10% of the Operating Revenue or Operating Profit

Does the Company need to comply with the requirements on information disclosure for special industries?

No

In CNY

	Operating revenue	Operating costs	Gross profit rate	Year-on-year increase/decrease of operating revenue over the previous year	Year-on-year increase/decrease of operating costs over the previous year	Year-on-year increase/decrease of gross profit rate over the previous year
Classified based on sectors						
Watches	3,217,264,256.67	1,965,169,699.03	38.92%	12.06%	11.95%	0.06%
Lease	109,451,504.76	17,785,254.56	83.75%	10.52%	31.31%	-2.57%
Others	19,093,942.55	3,697,637.98	80.63%	-19.78%	-4.85%	-3.04%
Classified based on products						
Famous brand watches	2,237,358,253.15	1,652,049,037.83	26.16%	13.36%	12.59%	0.50%
Fiyta	979,906,003.52	313,120,661.20	68.05%	9.21%	8.70%	0.15%
Lease	109,451,504.76	17,785,254.56	83.75%	10.52%	31.31%	-2.57%
Others	19,093,942.55	3,697,637.98	80.63%	-19.78%	-4.85%	-3.04%
Classified based on regions						
South China	1,131,001,582.43	573,523,268.60	49.29%	13.50%	13.56%	-0.02%
Northwest China	543,837,252.49	344,027,944.99	36.74%	11.06%	9.65%	0.82%
North China	511,436,952.26	335,026,858.97	34.49%	8.70%	10.38%	-1.00%
East China	483,210,740.06	293,552,413.42	39.25%	13.70%	13.63%	0.03%

Northeast China	309,313,118.19	200,465,533.04	35.19%	12.44%	16.05%	-2.02%
Southwest China	367,010,058.55	240,056,572.55	34.59%	8.85%	9.41%	-0.34%

While adjustment of the statistical caliber for the principal business data took place in the reporting period, the principal business data with the statistical caliber adjusted at the end of the reporting period.

Inapplicable

(3) Is the income from sales in kind greater than service revenue

Yes

Classified based on sectors	Items	Unit	2017	2016	Year-on-year increase/decrease
FIYTA watches	Sales volume	pcs	1,020,979	975,070	4.71%
	Output	pcs	1,055,054	872,116	20.98%
	Stock	pcs	931,255	897,180	3.80%

Causes of the change in the year-on-year data by over 30%

Inapplicable

(4) Implementation of Important Sale Contracts Concluded at the End of the Reporting Period

Inapplicable

(5) Composition of Operating Costs

Classified based on sectors and products

In CNY

Classified based on sectors	Items	2017		2016		Year-on-year increase/decrease
		Amount	Proportion in the operating costs	Amount	Proportion in the operating costs	
Watches	Merchandise procurement cost	1,652,049,037.82	83.16%	1,467,331,518.39	82.77%	12.59%
	Raw materials	274,742,242.00	13.83%	255,161,011.83	14.39%	7.67%
	Labor cost	26,922,224.76	1.36%	23,587,107.98	1.33%	14.14%
	Depreciation cost	2,021,219.55	0.10%	2,084,515.81	0.12%	-3.04%
	Utilities	1,652,226.24	0.08%	1,462,288.72	0.08%	12.99%
	Rental fee	807,588.81	0.04%	2,408,563.43	0.14%	-66.47%
	Others	6,975,159.84	0.35%	3,346,677.57	0.19%	108.42%
Lease	Depreciation cost	10,568,722.86	0.53%	9,144,044.91	0.52%	15.58%
	Labor cost	2,992,768.29	0.15%	1,540,446.00	0.09%	94.28%

	Others	4,223,763.41	0.21%	2,859,571.24	0.16%	47.71%
Others	Procurement cost	3,697,637.98	0.19%	3,885,972.13	0.22%	-4.85%

Classified based on products

In CNY

Classified based on products	Items	2017		2016		Year-on-year increase/decrease
		Amount	Proportion in the operating costs	Amount	Proportion in the operating costs	
Famous brand watches	Merchandise procurement cost	1,652,049,037.82	83.16%	1,467,331,518.39	82.77%	12.59%
FIYTA watches	Raw materials	274,742,242.00	13.83%	255,161,011.83	14.39%	7.67%
	Labor cost	26,922,224.76	1.36%	23,587,107.98	1.33%	14.14%
	Depreciation fee	2,021,219.55	0.10%	2,084,515.81	0.12%	-3.04%
	Utilities	1,652,226.24	0.08%	1,462,288.72	0.08%	12.99%
	Rental fee	807,588.81	0.04%	2,408,563.43	0.14%	-66.47%
	Others	6,975,159.84	0.35%	3,346,677.57	0.19%	108.42%
Lease	Depreciation fee	10,568,722.86	0.53%	9,144,044.91	0.52%	15.58%
	Labor cost	2,992,768.29	0.15%	1,540,446.00	0.09%	94.28%
	Others	4,223,763.41	0.21%	2,859,571.24	0.16%	47.71%
Others	Procurement cost	3,697,637.98	0.19%	3,885,972.13	0.22%	-4.85%

Note:

Inapplicable

(6) Is there any change in the consolidation scope in the reporting year

yes

Beijing Henglianda Horologe Co., Ltd., Harmony World Watch International Co., Ltd. and Beijing Cultural Communication Co., Ltd., three of Harmony's solely funded subsidiaries, have been cancelled, and were not brought into the consolidation scope of the Company at the end of the reporting year.

(7) Is there any significant change or adjustment related situation taken place in the Company's business, products or services in the reporting year

Inapplicable

(8) Major trade debtors and major suppliers

Information about the major trade debtors

Total sales to the top five customers, in CNY	543,973,630.14
Proportion of the total sales to the top five customers in the total sales of the	16.26%

year,	
Proportion of the sales volume to the top five customers in the total sales to the related parties in the year	2.31%

Information of the top 5 customers

No.	Customers	Sales (in CNY)	Proportion in the total sales of the year
1	China Resources (Shenzhen) Co., Ltd.	166,016,415.38	4.96%
2	VIP.COM	151,290,982.62	4.52%
3	Rainbow Department Store Co., Ltd.	77,301,661.83	2.31%
4	Pinghe Tong (China) Ltd.	75,205,747.97	2.25%
5	Yongan Department Store Co., Ltd.	74,158,822.34	2.22%
Total	--	543,973,630.14	16.26%

Other Information about the major customers

Of the top five customers, Rainbow Supermarket is one of the controlled subsidiaries of AVIC International Holding Corporation and is one of the Company's related legal persons.

Top 5 suppliers

Total amount of purchase from top five suppliers, in CNY	1,171,803,885.06
Proportion of the purchase amount from the top five suppliers in the Company's total purchase amount	66.16%
Proportion of purchase amount from the top 5 suppliers in the total purchase amount from the related parties in the year	0.00%

Information about the top 5 suppliers

No.	Suppliers	Purchase amount, in CNY	Proportion in the total purchases of the year (%)
1	SMH Swiss Watch Trading (Shanghai) Co., Ltd.	612,602,454.29	30.84%
2	Ningbo Shangheng Watches Co., Ltd.	292,592,366.59	14.73%
3	Rolex (Guangzhou) Ltd.,	115,523,901.01	5.82%
4	Lifeng Commerce Co., Ltd.	87,168,140.34	4.39%
5	Jiaxing Hengdieli Commerce & Trade Co., Ltd.	63,917,022.83	3.22%
Total	--	1,171,803,885.06	58.98%

Other information about the major suppliers

Inapplicable

3. Expenses

In CNY

	2017	2016	Year-on-year increase/decrease	Note to significant changes
Sales expenses	811,437,932.01	760,530,356.03	6.69%	Inapplicable

Administrative expenses	240,043,481.59	201,274,142.02	19.26%	Inapplicable
Financial expenses	49,186,742.91	68,887,564.91	-28.60%	Inapplicable

4. Investment in R & D

The Company has always attached importance on technology innovation work all the time, enhances its core competitiveness through innovation of the technology with own intellectual property, consolidate its leading position of self-innovation in China's clock and watch brands so as to realize its vision of becoming an international brand and improve its international competitiveness in the industry. In year 2017, the Company's total investment in R & D amounted to CNY 49,453,899.35, a 18.43% growth over the previous year, taking 2% of the net assets as audited in the most recent period and taking 1.48% of the operation revenue as audited in the most recent period. The growth of the R & D budget in 2017 was mainly for consolidating the Company's leading position in self-dependent innovation in China's watch brands. The Company increased investment in such key technology fields as space watches, driving units of mechanical watches, industrial design, intelligent watches, research on application of new materials, etc., greatly increased personnel, equipment, research budget, etc., and achieved a number of scientific research achievements. In 2017, the Company applied for 59 patents for invention and utility models, increased nearly by 50% over the previous year. By virtue of the accumulation in innovation mechanism, innovation ability, innovative talents and innovation achievements, etc., in addition to the existing titles of "National Certified Enterprise Technology Center", "National Industrial Design Center", "National Technology Innovation Demonstration Enterprise", the Company has been elected an Intellectual Property Demonstration Enterprise of Guangdong Province and has been successfully certified for implementing the standards for intellectual property management system.

Information of Investment in R & D

	2017	2016	Proportion of movements
Number of R & D staff (persons)	45	43	4.65%
Proportion of R & D staff in total employees	0.84%	0.81%	0.03%
Amount of investment in R & D, in CNY	49,453,899.35	41,757,819.70	18.43%
Proportion of investment in R & D in operating revenue	1.48%	1.39%	0.09%
Amount of capitalized investment in R & D (in CNY)	0.00	0.00	0.00%
Proportion of capitalized investment in R & D in the total investment in R & D	0.00%	0.00%	0.00%

Cause(s) of significant change of the total investment in R & D in the operating revenue

Inapplicable

Note to the cause of significant change in the capitalization rate of investment in R & D and note to the reasonability

Inapplicable

5. Cash flow

In CNY

Items	2017	2016	Year-on-year increase/decrease
Sub-total of cash flow received from operation activities	3,849,407,740.68	3,450,624,235.76	11.56%
Subtotal of cash flow paid for operating activities	3,284,453,178.71	2,994,865,141.61	9.67%
Net cash flow arising from operating activities	564,954,561.97	455,759,094.15	23.96%
Sub-total of cash flow-in received from investing activities	10,448,081.56	4,534,113.94	130.43%
Sub-total of cash flow paid for investment activities	136,914,522.99	189,744,095.04	-27.84%
Net cash flow arising from investment activities	-126,466,441.43	-185,209,981.10	-31.72%
Sub-total cash flow received from financing activities	575,282,350.00	1,405,213,268.91	-59.06%
Sub-total cash flow paid for financing activities	1,255,793,728.74	1,887,826,066.63	-33.48%
Net cash flow arising from financing activities	-680,511,378.74	-482,612,797.72	41.01%
Net increase in cash and cash equivalents	-242,279,864.49	-210,160,120.12	15.28%

Note to the major influence factors for the significant change in the relevant year-on-year data

Net cash flow-in arising from investment activities:

During the reporting period, growth of cash flow-in from investment activities by 130.43% on year-on-year basis was mainly due to income from disposal of the non-operating real estate of Station 68 Ltd.

Cash flow-in arising from financing activities:

During the reporting period, a drop of cash flow-in from financing activities by 59.06% was mainly due to decrease of bank loans during the reporting year.

Cause(s) of significant difference in the net cash flow arising from the operating activities and the net profit in the reporting year

Inapplicable

III. Analysis on Non-Principal Businesses

Inapplicable

IV. Assets and Liabilities

1. Significant Changes in Assets Composition

In CNY

	End of 2017		End of 2016		Proportion increased/decreased	Note to significant changes
	Amount	Proportion in total assets				
Monetary capital	187,152,891.32	5.23%	428,802,755.81	10.71%	-5.48%	Inapplicable
Accounts receivable	326,254,624.94	9.11%	306,671,021.69	7.66%	1.45%	Inapplicable
Inventories	1,820,526,676.26	50.86%	1,997,097,192.38	49.87%	0.99%	Inapplicable
Investment based real estate	305,493,987.77	8.53%	244,202,635.09	6.10%	2.43%	Inapplicable
Long term equity investment	43,879,518.09	1.23%	43,423,624.87	1.08%	0.15%	Inapplicable
Fixed assets	523,699,592.65	14.63%	611,204,169.03	15.26%	-0.63%	Inapplicable
Construction-in-process	10,947,300.53	0.31%		0.00%	0.31%	Inapplicable
Short term loan	525,990,510.00	14.69%	1,098,438,070.00	27.43%	-12.74%	Inapplicable
Long term loan	79,870,353.00	2.23%	115,301,048.00	2.88%	-0.65%	Inapplicable

2. Assets and liabilities measured based on fair value

Inapplicable

3. Restriction on rights in the assets ended the reporting period

A real estate owned by Switzerland based Montres Chouriet SA with net value amounting to CNY 15,524,849.62 元 was used as collateral for the overseas long term loan amounting to CNY 5,008,425.00.

V. Investment

1. General

Investment volume during the reporting period (in CNY)	Investment volume in the same period of previous year (in CNY)	Amount of variation
10,947,300.53	0.00	100.00%

2. Significant equity investment acquired in the reporting period

Inapplicable

3. Significant non-equity investment in process in the reporting period

In CNY

Project name	Way of investment	Is it a fixed asset investment	The industry in which the project is involved	Amount invested in the reporting period	Accumulative amount actually invested by the end of the reporting period	Source of fund	Project progress	Anticipated income	Income accumulatively realized by the end of the reporting period	Cause of failure in realizing the planned progress and anticipated income	Date of disclosure (if any)	Disclosure index (if any)
FIYTA Watch R&D and Manufacture Center construction project	Self-construction	Yes	Manufacture	10,947,300.53	10,947,300.53	Self-raised fund	100.00%	0.00	0.00	Inapplicable	March 10, 2017	http://www.cninfo.com.cn/
Total	--	--	--	10,947,300.53	10,947,300.53	--	--	0.00	0.00	--	--	--

Note: During the reporting period, the Company increased investment amounting to CNY 3,405.09 in the construction project of FIYTA Horologe R & D and Manufacture Center. The relevant transaction was reviewed and approved at the 13th Session of the Eighth Board of Directors. For the detail, refer to the Announcement on the Resolution of the 13th Session of the Eighth Board of Directors 2017-003. The investment actually increased during the reporting period amounted to CNY 10.9473 million.

4. Financial assets investment

(1) Portfolio investment

Inapplicable

(2) Investment in derivatives

Inapplicable

(1) General application of the raised capital

Year of raising	Way of raising	Total capital raised	Total amount of raised capital used in the reporting period	Total accumulative amount of raised capital used accumulated	Total raised capital whose application purpose has been changed in the reporting period	Total accumulative raised capital whose application purpose has been changed	Proportion of the total accumulative raised capital whose application purpose has been changed	Total raised capital not yet used	Application and status of the raised capital unused	Amount of the raised capital idled for more than 2 years
2015	Non-public issuing of A-shares	60,000	7,612.19	55,462.87	0	0	0.00%	3,116.23	Inapplicable	0
Total	--	60,000	7,612.19	55,462.87	0	0	0.00%	3,116.23	--	0

The Company held the 18th session of the Seventh Board of Directors and 2014 Annual General Meeting respectively on April 16, 2015 and June 17, 2015. The meetings reviewed and approved the Proposal on the Plan for Non-public Issuing of A-shares to the Specified Investors, etc., according to which the Company planned to issue in a non-public way A-shares to no more than 10 (with 10 inclusive) specified investors with the total raised capital not exceeding CNY 600 million, which would be applied for four projects, including the project of launching new FIYTA watches and supplement the working capital. The application for non-public issuing of A-shares was reviewed and approved by CSRC Securities Issuance Examination Committee (CSIEC) on October 30, 2015. On November 17, 2015, the Company received Official Reply to FIYTA Holdings Ltd. on Approval for Non-public Issuing (ZHENG JIAN XU KE [2015] No. 2588 which authorized the Company to issue no more than 46,911,649 new shares in non-public way. The actual number of A-shares actually issued in the non-public issuing activity was 45,977,011 shares and the raised capital amounted to CNY 599 million. After deduction of the underwriting fee, the raised capital amounted to RMB 585 million. After deduction of the issuing costs, the net raised capital amounting to CNY583 million was remitted to the bank account designated by the Company on December 18, 2015. Grant Thornton Certified Public Accountants (Special General Partnership) issued the Capital Verification Reports ZHI TONG YAN ZI (2015) No. 441ZC0653, ZHI TONG YAN ZI (2015) No. 441ZC0652 respectively for the raised capital. Up to now, the capital raised from non-public issuing of A-shares is going to be applied for the originally designated application purpose and there exists no such a case that the application purpose has been changed. The concerned follow-up commitments have been completed in implementation.

In CNY 10.000

Promised investment projects and investment with the over-raised capital	Has the project been changed (including partial change)	Total promised investment with raised capital	Total investment after adjustment (1)	Amount invested in the report period	Amount accumulatively invested up to the end of the report period (2)	Investment progress by the end of the report period (%) (3) = (2)/(1)	Date when the project has reached the predicted applicable status	Result realized in the reporting period	Has the predicted operation result been reached?	Has significant change taken place in the feasibility of the project?
Investment projects as promised										

[illegible]

project implementation and the cause	
Application of the raised capital not yet used and the whereabouts	Ended December 31, 2017, the raised fund not yet applied was all deposited in the special account of the Company.
Application of the raised capital and the existing problems not disclosed or other situation	Inapplicable

(3) Change of the Projects Invested with the Raised Capital

Inapplicable

VI. Sales of Significant Assets and Equity

1. Sales of Significant Assets

Inapplicable

2. Sales of Significant Equity

Inapplicable

VII. Analysis on Principal Subsidiaries and Mutual Shareholding Companies

Particulars about the principal subsidiaries and mutual shareholding companies which may affect the Company's net profit by over 10%.

In CNY

Company Names	Company type	Principal business	Registered capital	Total assets, in CNY	Net assets (CNY)	Turnover in CNY	Operating profit (in CNY)	Net profit (in CNY)
Shenzhen Harmony World Watches Center Co., Ltd.	Subsidiary	Wholesale, retail and repairing services of watches and components. Import & export (based on SHEN MAO JIN ZHUN ZI NO. [2001] No. 2204; sales of general merchandise, jewelry, diamond ornaments,	600,000,000	1,514,388,825.77	713,372,551.39	2,158,916,496.94	78,796,699.89	60,071,040.49

		leatherwares, pens, ties, tie clips, electronic products, communication equipment; domestic trading; property management; advertising business.						
FIYTA Sales Co., Ltd.	Subsidiary	Design, R & D and sales of watches, timing instruments, and spare and accessory parts; sales of jewelry and ornaments; import & export of watches and repairing services.	450,000,000	753,621,949.18	412,252,770.40	1,053,736,320.13	2,081,948.36	758,136.37
Shenzhen FIYTA Sophisticated Timepieces Manufacture Co., Ltd.	Subsidiary	R & D, design and sales of various watches and driving units, watchcases, watchbands, and other spare and accessory parts; sales of sophisticated timepieces and their spare and accessory parts; wholesale of K gold ornaments and watches, superhard materials (hard alloy, sophisticated ceramics) spare and accessory parts; and development of technology for the aforesaid products and supporting business;	10,000,000	254,658,532.92	146,900,215.29	505,682,315.49	139,017,586.65	119,104,502.12

		import & export. Production of various watches and driving units, watchcases, watchbands and other spare and accessory parts; production of sophisticated timepieces and their sophisticated spare and accessory parts; processing of K gold ornamental watches, superhard material (hard alloy, sophisticated ceramics) spare and accessory parts; and repairing of the aforesaid products.						
Shenzhen FIYTA Technology Development Co., Ltd.	Subsidiary	R&D, production sales of watches (excluding the products in the catalogue of measuring instruments under control according to the law); production & machining and sales of sophisticated parts and technology development; investment and initiation of industrial entities (application shall be submitted for a specific project); domestic commerce, materials supply and	10,000,000	69,703,376.40	59,301,921.84	57,589,966.82	104,720.87	586,856.80

		sales.						
FIYTA (Hong Kong) Limited	Subsidiary	Trading of watches and accessories and investment.	137,737,520	262,275,920.38	174,604,010.57	122,310,797.71	-23,426,911.94	-24,474,526.78
Shiyuehui Boutique (Shenzhen) Co., Ltd.	Subsidiary	General business activities: Design, R & D, sales of timing instruments and spare and accessory parts; brand planning, design, R&D, sales and wholesale of general merchandise, jewelry, ornaments and gifts (with the restricted items exclusive); brand planning; advertising business; import & export. production of timing instruments and spare and accessory parts; production of general merchandise, jewelry, ornaments, gifts.	5,000,000	23,811,807.07	-3,539,864.50	15,736,072.35	-7,253,666.09	-6,511,873.61
Liaoning Hengdarui Commerce & Trade Co., Ltd.	Subsidiary	Wholesale, retail and repairing services of watches and accessories; sales of electronic products, communication equipment and materials, instruments and meters, office equipment, general merchandise,	51,000,000	150,708,758.60	39,148,781.80	9,578,233.56	2,280,937.84	2,280,937.84

		jewelry, handicrafts, toys, metal materials; conference services; property management; property lease. (For the projects subject to approval according to the law, the business activities shall not be carried out before approval by the competent authority.)						
Harbin Harmony World Watch Distribution Co., Ltd.	Subsidiary	Wholesale and retail of watches and accessories, general merchandise, jewelry, leatherwares, stationery articles, costume; watch repairing; design, manufacture, agency, distribution of domestic advertising business.	500,000	52,897,952.76	3,565,980.60	53,905,339.82	1,316,874.23	820,001.41
Emile Chouriet (Shenzhen) Limited	Subsidiary	Wholesale, import & export of watches and accessories, jewelry, ornaments (excluding loose diamond and gold, palladium material) and the relevant supporting businesses (For the commodities not subject to	41,355,200	118,697,552.54	79,504,109.70	86,481,221.87	554,652.05	352,567.12

		administration of state-run trade, quota or license, it is necessary to make application according to the relevant regulations of the government); after-sale repairing services of watches.						
Shanghai Watch Industry Co., Ltd.	Mutual shareholding company	Production (outward processing) and sales of watches, watch driving units, watch parts, sophisticated instruments and accessories; goods import & export and technology import & export.	15,350,000	105,550,671.08	100,022,697.16	79,475,581.06	2,454,432.56	1,823,572.89

Subsidiaries acquired and disposed in the reporting period

Company Names	Ways of acquisition and disposal during the reporting period	Influence on the overall production and operation and performances
Liaoning Hengdarui Commerce & Trade Co., Ltd.	The Company acquired 100% equity in Liaoning Hengdarui Commerce & Trade Co., Ltd. held by Shenzhen Harmony World Watches Center Co., Ltd., one of the Company's solely funded subsidiaries.	The transaction is a business integration inside the Company, is favorable for giving play to the Company's internal coordinative effect and carrying forward the Company's overall development strategy. This transaction involves consolidation of enterprises under the common control and shall not result in any actual influence on the Company's consolidated statements.
Harbin Harmony World Watch Distribution Co., Ltd.	The Company acquired 75% equity in Harbin Harmony World Watch Distribution Co., Ltd. held by Shenzhen Harmony World Watches Center Co., one of the Company's solely funded subsidiaries. The Company now holds 100% equity.	The transaction is a business integration inside the Company, is favorable for giving play to the Company's internal coordinative effect and carrying forward the Company's overall development strategy. This transaction involves consolidation of enterprises under the common control and shall not result in any actual influence on the Company's consolidated statements.
Emile Chouriet (Shenzhen) Limited	The Company acquired 100% equity in Emile Chouriet (Shenzhen) Limited held by FIYTA (Hong Kong) Limited, one of the Company's solely funded subsidiaries	The transaction is a business integration inside the Company, is favorable for giving play to the Company's internal coordinative effect and carrying forward the

		Company's overall development strategy. This transaction involves consolidation of enterprises under the common control and shall not result in any actual influence on the Company's consolidated statements.
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Particulars about the principal holding and mutual shareholding companies

Inapplicable

VIII. Structuralized Entities Controlled by the Company

Inapplicable

IX. Development Prospect

(I) Development Trend of the Industry

In 2018, there exists a lot of uncertainty in the market environment. Under the general background of consumption upgrading, tended rational growth of luxury goods industry shall be a big probability event. Watch, as a special commodity integrated with artistry, aesthetic appreciation, emotion and culture, has always been an important representative of high-end fashion and quality consumption. We are keeping an optimistic judgment on the long term development of the brand watch market. The Company shall enjoys a broad development prospect no matter in development of own proprietary brands with FIYTA watches as principal or development of HARMONY world watch business with comprehensive services of wristwatches as the principal.

(II) Development Strategy

The Company's long term strategy: holding fast to business philosophy, taking the brand strategy as the guide, carry forward upgrading of the key value chain integration by means of the business model of "product + channel" so as to gradually form a vertical integration strategy with core speciality, keeping a foothold on the domestic market, continuously extending the international cooperation and promoting internationalized development. In 2018, the Company shall keep insisting on the brand development strategy, stick to innovative development to build FIYTA into a leading international watch brand management and retail enterprise.

(III) Summary of Operation Plan in 2018

In 2018, the Company shall focus on the following work centering on the annual subject terms of "brand elevation, quality and performance improvement and innovative development".

First of all, to reinforce and upgrade FIYTA brand identity, raise per unit shop yield by means online and offline product differentiation arrangement, enhance the channel control power and competitive position and realize effective profit growth by improving the product quality and accelerating product launching response speed.

Secondly, to dig deep the brand value, enrich and expand the differentiated brand groups, enlarge the influence in the objective customer groups and market share and realize sustainable performance growth.

Thirdly, HARMONY world watch business shall keep customer study in depth, reinforce basic operation, continuously

improve per unit shop yield, improve capital turnover efficiency, steadily carry forward channel and brand optimization in compliance with the market demand; further propel implementation of the strategy of "being a comprehensive service supplier of famous brand watches", and perfect the "new retail" business model characterized by online and offline integration.

Fourthly, constantly enhance construction of the professional platform capacity to serve the proprietary brand in a precise and effective way; constantly improve the core capability in respect of design, driving unit technology, high-end manufacture, etc.

Fifthly, to be actively involved in such fields as smart watches, etc. and explore new growth opportunities.

(IV) Capital Necessary for Future Development

According to the Company's business development plan and the financial budget planning in 2018, the Company plans to apply for financing credit line not exceeding CNY 900 million with the relevant bank(s) by means of credit, guarantee, loan from subsidiaries, collateral, etc. in order to satisfy the capital demand for investment and business operation and at the same time seize the development opportunity brought about from the change of the market in a timely way.

(V) Risks Possibly to be Confronted with

1. Under the trend of consumption upgrading, the growth of horologe industry tends to be steady. However, it should still face the uncertainty. To deal with the accelerated change of the preferences of the consumer groups and customers, the Company still need to enhance the core competitiveness and business transformation.
2. Under the background of consumption upgrading and 90's generation becoming the main force of consumption, high quality focused, personalized and young people oriented brands shall become the consumption trend, consumer groups and demands shall become diversified gradually. It is urgent for the Company to build and enhance the brand promotion ability.
3. Facing the market environment of highly changeable patterns of consumption and scenes, the Company needs to continuously adjust the business structure, optimize allocation of resources, construct online and offline retail, and spare no effort to develop new retail ways and channels and promote permeation and integration of the Internet technology and offline channels.
4. The Company is in process of continuously perfecting the internal cooperation mechanism and communication mechanism between various business segments and it is still necessary to adjust the organization structure applicable to the business development and improve the organization effect.

X. Statement of Such Activities as Reception of Survey, Communications, Interview, etc.

1. Registration Form of the Activities, such as Reception of Survey, Communications, Interviews, etc. in the Reporting Period

Reception time	Way of reception	Types of visitors received	Index of basic information of survey
February 15, 2017	Field survey	Institution	http://irm.cninfo.com.cn/ircs/ssgs/co

			companyIrmForSzse.do?stockcode=000026
March 15, 2017	Field survey	Institution	http://irm.cninfo.com.cn/ircs/ssgs/companyIrmForSzse.do?stockcode=000026
April 21, 2017	Field survey	Institution	http://irm.cninfo.com.cn/ircs/ssgs/companyIrmForSzse.do?stockcode=000026
October 25, 2017	Field survey	Institution	http://irm.cninfo.com.cn/ircs/ssgs/companyIrmForSzse.do?stockcode=000026
Number of reception		4	
Number of institutions received		43	
Number of persons received		57	
Number of other visitors received		0	
Is there any important information disclosed, revealed or leaked to the public?		No	

Section 5 Significant Events

I. Profit Distribution for Common Stock and Conversion of Capital Reserve into Share Capital

Preparation, Implementation or Adjustment of the Policy for Common Stock Profit Distribution, Especially the Policy for Cash Dividend Distribution

The Company's 2016 Annual Profit Distribution Plan was reviewed and approved at the 13th session of the Eighth Board of Directors held on March 8, 2017 and 2016 General Meeting held on May 31, 2017. It was resolved that with the total share capital of 438,744,881 shares as at December 31, 2016 as the base, the Company distributed to the whole shareholders cash dividend at CNY 1.00 for every 10 shares (with tax inclusive), 0 bonus share for every 10 shares; and converted no reserve into share capital. The implementation of the profit distribution plan was finished on June 26, 2017. For the detail, refer to the Announcement on Implementation of the Profit Distribution for Year 2015 (2017-027).

Special Note to Cash Dividend Distribution Policy	
Does it comply with the Articles of Association or the resolution of the General Meeting?	Yes
Are the profit distribution criteria and proportions definite and clear?	Yes
Are the relevant decision-making process and mechanism complete?	Yes
Do independent directors do their best in performing their duties and bring their duties into due play?	Yes
Do minority shareholders have opportunity to make full expression of their opinions and appeal? Have their lawful rights and interests been fully protected?	Yes
In case of adjustment or variation of the cash dividend distribution policy, do the conditions and procedures comply with the regulations and transparent?	Inapplicable

The profit distribution preplan or proposal and the preplan or proposal of conversion of the capital reserve into share capital in the past three years (with the reporting period inclusive):

According to the provisions concerning cash dividend distribution in the Articles of Association, the Company prepared specific cash dividend distribution plan after the Board of Directors and the Shareholders' General Meeting have reviewed strictly according to the requirements. In the past three years, the Company has well implemented the cash dividend distribution policy, fully asked for the independent directors' opinions, effectively ensured the minority shareholders' benefit and made timely and accurate disclosure in its annual report and the relevant media,

Profit Distribution Plan in 2015: With the total share capital of 438,744,881 shares as at January 15, 2016 as the base, the Company is going to distribute to the whole shareholders cash dividend at CNY 1.00 for every 10 shares (with tax inclusive), 0 bonus share for every 10 shares; converted no reserve into share capital.

Profit Distribution Plan in 2016: With the total share capital of 438,744,881 shares as at December 31, 2016 as the base, the Company is going to distribute to the whole shareholders cash dividend at CNY 1.00 for every 10 shares (with tax inclusive), 0 bonus share for every 10 shares; converted no reserve into share capital.

Profit Distribution Plan in 2017: With the total share capital of 438,744,881 shares as at December 31, 2017 as the base, the Company is going to distribute to the whole shareholders cash dividend at CNY 2.00 for every 10 shares (with tax inclusive), 0 bonus share for every 10 shares; convert no reserve into share capital.

The accumulative amount of cash dividend distributed in the past three years took 141.31% of the annual average net profit in the past three years, which complies with the rules and regulations.

Statement of cash dividends distributed in the past three years (with the reporting period inclusive)

In CNY

Year of Dividend Distribution	Amount of Cash Dividend (including tax)	Net profit attributable to the Company's shareholders in the consolidated statements of the year of dividend distribution	Ratio of the net profit attributable to the Company's shareholders taken in the consolidated statements	Amount of cash dividend distributed in other way(s)	Proportion of the cash dividend distributed in other way(s)
2017	87,748,976.20	140,216,258.28	62.58%	0.00	0.00%
2016	43,874,488.10	110,662,681.59	39.65%	0.00	0.00%
2015	43,874,488.10	121,702,057.44	36.05%	0.00	0.00%

In the reporting period, both the Company's profit and the parent company's profit available for shareholders of common stock were positive but no common stock cash dividend distribution proposal has been put forward.

Inapplicable

II. Preplan for Profit Distribution and Conversion of Capital Reserve into Share Capital in the Reporting Period

Bonus shares distributed at the rate of ____ (share) for every 10 shares	0
Dividend distributed at the rate of CNY____ for every 10 shares (with tax inclusive)	2.00
Number of shares converted for every 10 shares (shares)	0
Share capital base for the dividend distribution preplan (shares)	438,744,881
Total cash dividend distributed (with tax inclusive)	87,748,976.20
Profit available for distribution (CNY)	625,656,338.99
Proportion of the cash dividend in the total profit available for distribution (%)	100.00%
Cash Dividend Distribution for the Reporting Year	
Others	
Detailed information for profit distribution or conversion of capital reserve into share capital preplan	
The Company's profit distribution plan for 2017 was reviewed and approved at the 24 th session of the Eighth Board of Directors held on March 8, 2018 and is going to be submitted to 2017 Annual General Meeting for review. According to the plan, the Company is going to distribute cash dividend at the rate of CNY 2.00 for every 10 shares (with tax inclusive) and 0 bonus share to the whole shareholders with the total share capital as at December 31, 2017 totaling 438,744,881 shares as the base; and no public reserve is going to be converted into share capital. The profit distribution plan is subject to review and approval of the General Meeting before implementation.	

III. Implementation of Commitments

1. Commitments finished in implementation by the Company, shareholders, actual controller, acquirer, directors, supervisors, senior executives or other related parties in the reporting period and commitments unfinished in implementation at the end of the reporting period

Commitments	Promiser	Commitment type	Description	Commitment time	Commitment deadline	Implementation status
Commitment for Equity Separation Reform						
Commitments in the acquisition report or the written report on change of equity						
Commitment made at the time of asset reorganization						
Commitment made at IPO or re-financing	Caitong Fund Management Co., Ltd.; MANULIFE TEDA Fund Management Co, Ltd.; Xizang Investment Co., Ltd.; Golden Eagle Asset Management Co.,Ltd ;Sws Mu Fund Management Co., Ltd. Caitong Fund Management Co., Ltd.; MANULIFE TEDA Fund Management Co, Ltd.; Xizang Investment Co., Ltd.; Golden Eagle Asset Management Co., Ltd.; Sws Mu Fund Management Co., Ltd	Commitment on restricted sales of shares	The expected subscribers of the said non-public issuing including Caitong Fund Management Co., Ltd.; MANULIFE TEDA Fund Management Co, Ltd.; Xizang Investment Co., Ltd.; Golden Eagle Asset Management Co.,Ltd ; Sws Mu Fund Management Co., Ltd. committed that the shares subscribed from the said non-public issuing must not be transferred within 12 months commencing from the listing of the shares.	January 15, 2016	1 year	Completed in implementation
Equity incentive commitment						
Other commitments to the minority shareholders	Huang Yongfeng, Chen Libin, Lu	Commitment on restricted	The said directors and senior executives	December 16, 2017	6 months	in process of implementation

	Bingqiang, Lu Wanjuan, Liu Xiaoming, Pan Bo, Li Ming and Chen Zhuo	sales of shares	increased holding of the Company's shares and committed that within six months of the increase they shall not reduce the holding size initiatively, shall not be engaged in any inside trading, trading the shares during sensitive period or short swing trading			
Have the commitments been implemented in a timely way	Yes					
If the commitment has not been implemented at the end of the reporting period, it is necessary to explain the specific reason of failure in implementation and the future work plan.	Inapplicable					

2. There existed profit anticipation for the Company's assets or projects while the reporting period was still within the duration of the profit anticipation. The Company made explanation on whether the assets or projects reached the anticipated profit and the cause

Inapplicable

IV. Non-operational Occupancy of the Company's Capital by the Controlling Shareholder and its Related Parties

Inapplicable

V. Explanation of the Board of Directors, the Supervisory Committee and Independent Directors (if any) on the "Qualified Auditor's Report" issued by the CPAs in the Reporting Period

Inapplicable

VI. Explanation on the Changes in the Accounting Policy, Accounting Estimate, and Accounting Method in Comparison with the Financial Report of the Previous Year

Inapplicable

VII. Explanation on Serious Accounting Errors Occurred in the Reporting Period Necessary to be Restated Retrospectively

Inapplicable

VIII. Explanation on the Changes in the Scope of the Consolidated Statements in Comparison with the Financial Report of the Previous Year.

Reviewed and approved at the 15th Session of the Eighth Board of Directors, Beijing Henglianda Horologe Co., Ltd., Harmony World Watch International Co., Ltd. and Beijing Cultural Communication Co., Ltd., three of Harmony's solely funded subsidiaries, had been cancelled, and were not brought into the consolidation scope of the Company at the end of the reporting year.

IX. Engagement/Disengagement of CPAs

CPAs currently engaged

Name of the domestic CPAs	Ruihua Certified Public Accountants (Special General Partnership)
Remuneration to the domestic CPAs (in CNY10,000)	100
Successive years of the domestic CPAs offering auditing services	2
Name of the certified public accountants from the domestic CPAs	Xing Xiangzong and Liu Xin

Has the CPAs been changed for the reporting period?

No

Employment of CPAs, financial consultant or sponsor for auditing the internal control

The 22nd Session of the Eighth Board of Directors held on October 30, 2017 and 2017 4th Extraordinary General Meeting held on November 17, 2017 reviewed and approved the Proposal for Renewing Ruihua Certified Public Accountants (Special General Partnership) as the Company's Auditor for Year 2017, decided to renew Ruihua Certified Public Accountants (Special General Partnership) as the Company's external and internal control auditor for year 2017 for a term of one year. During the reporting period, the Company paid the audit fee amounting to CNY 700,000.00 to Ruihua Certified Public Accountants (Special General Partnership) for auditing the financial report and CNY 300,000.00 for auditing the internal control.

X. Listing Suspension or Delisting Possibly to be Confronted with after Disclosure of the Annual Report

Inapplicable

XI. Matters concerning Bankruptcy Reorganization

Inapplicable

XII. Significant Lawsuits and Arbitrations

Inapplicable

XIII. Penalty and Rectification

Inapplicable

XIV. Integrity of the Company and its Controlling Shareholder and Actual Controller

Inapplicable

XV. Implementation of the Company's Equity Incentive Plan, Employee Stock Ownership Plan or other Employee Incentive Measures

Inapplicable

XVI. Significant Related Transactions

1. Related Transactions Related with Day-to-Day Operations

Related Parties	Relationship	Type of related parties	Description of Related Transactions	Principle of pricing of the related transactions	Price of related transactions	Amount of the related transaction (in CNY 10,000)	Proportion in the amount of the similar transactions (%)	Transaction quota as approved (in CNY10,000)	Has the approved quota been exceeded?	Way of settlement for the related transaction	Market price	Disclosure date	Disclosure index
Rainbow Ltd.	Common controller	Income from principal business	Sales of goods	Market price	Inapplicable	7,730.17	2.31%	9,000	No	Bank account transfer	Inapplicable	March 10, 2017	www.cninfo.com.cn
Shenzhen Grand Skylight Hotel Management Co., Ltd.	Common controller	Income from principal business	Sales of goods	Market price	Inapplicable	0.68	0.00%	500	No	Bank account transfer	Inapplicable	March 10, 2017	www.cninfo.com.cn
Ganzhou CATIC Jiufang Commerce Co., Ltd.	Common controller	Income from principal business	Sales of goods	Market price	Inapplicable	176.34	0.05%	0	No	Bank account transfer	Inapplicable	March 10, 2017	www.cninfo.com.cn
Shennan Circuit Co., Ltd.	Common controller	Income from principal business	Sales of goods	Market price	Inapplicable	381.01	10.92%	1,500	No	Bank account transfer	Inapplicable	March 10, 2017	www.cninfo.com.cn
AVIC Property	Common controller	Income from principal business	Property lease	Market price	Inapplicable	668.04	6.10%	1,800	No	Bank account transfer	Inapplicable	March 10, 2017	www.cninfo.com.cn

Xi'an Tianyue Hotel Co., Ltd.	Common controller	Income from principal business	Property lease	Market price	Inapplicable	419.05	3.83%	0	No	Bank account transference	Inapplicable	March 10, 2017	www.cninfo.com.cn
AVIC Real Estate	Common controller	Income from principal business	Property lease	Market price	Inapplicable	171.94	1.57%	0	No	Bank account transference	Inapplicable	March 10, 2017	www.cninfo.com.cn
Shenzhen CATIC City Investment Co., Ltd.	Common controller	Income from principal business	Property lease	Market price	Inapplicable	115.45	1.05%	0	No	Bank account transference	Inapplicable	March 10, 2017	www.cninfo.com.cn
CATIC Securities Co., Ltd.	Common controller	Income from principal business	Property lease	Market price	Inapplicable	118.27	1.08%	130	No	Bank account transference	Inapplicable	March 10, 2017	www.cninfo.com.cn
Shenzhen CATIC City Property Industry Development Co., Ltd.	Common controller	Income from principal business	Property lease	Market price	Inapplicable	70.21	0.64%	0	No	Bank account transference	Inapplicable	March 10, 2017	www.cninfo.com.cn
Rainbow Ltd.	Common controller	Income from principal business	Property lease	Market price	Inapplicable	53.27	0.49%	0	No	Bank account transference	Inapplicable	March 10, 2017	www.cninfo.com.cn
Shenzhen CATIC City Huacheng Property Industry Development Co., Ltd.	Common controller	Income from principal business	Property lease	Market price	Inapplicable	40.41	0.37%	0	No	Bank account transference	Inapplicable	March 10, 2017	www.cninfo.com.cn
Shenzhen CATIC Jiufang Assets Management Co., Ltd.	Common controller	Income from principal business	Property lease	Market price	Inapplicable	39.29	0.36%	0	No	Bank account transference	Inapplicable	March 10, 2017	www.cninfo.com.cn
CATIC Public Security Service Co.	Common controller	Income from principal	Property lease	Market price	Inapplicable	61.9	0.57%	0	No	Bank account transference	Inapplicable	March 10, 2017	www.cninfo.com.cn

		business								e			
Shenzhen CATIC Guanlan Real Estate Development Co., Ltd.	Common controller	Income from principal business	Property lease	Market price	Inapplicabl e	9.8	0.09%	0	No	Bank account transferenc e	Inapplicabl e	March 10, 2017	www.cninf o.com.cn
AVIC Property Assets Management Co.	Common controller	Income from principal business	Property lease	Market price	Inapplicabl e	13.23	0.12%	0	No	Bank account transferenc e	Inapplicabl e	March 10, 2017	www.cninf o.com.cn
Shenzhen CATIC City Development Co., Ltd.	Common controller	Income from principal business	Property lease	Market price	Inapplicabl e	2.71	0.02%	0	No	Bank account transferenc e	Inapplicabl e	March 10, 2017	www.cninf o.com.cn
AVIC Property CBD Branch	Common controller	Income from principal business	Property lease	Market price	Inapplicabl e	8.12	0.07%	0	No	Bank account transferenc e	Inapplicabl e	March 10, 2017	www.cninf o.com.cn
Ganzhou CATIC Jiufang Commerce Co., Ltd.	Common controller	Selling expenses	Property lease	Market price	Inapplicabl e	105.39	1.48%	300	No	Bank account transferenc e	Inapplicabl e	March 10, 2017	www.cninf o.com.cn
Shenzhen CATIC Changtai Investment Development Co., Ltd.	Common controller	Selling expenses	Property lease	Market price	Inapplicabl e	24.43	0.34%	0	No	Bank account transferenc e	Inapplicabl e	March 10, 2017	www.cninf o.com.cn
CATIC City Property (Kunshan) Co., Ltd.	Common controller	Selling expenses	Property lease	Market price	Inapplicabl e	21.16	0.30%	0	No	Bank account transferenc e	Inapplicabl e	March 10, 2017	www.cninf o.com.cn
Jiujiang Jiufang Commerce Management Co.	Common controller	Selling expenses	Property lease	Market price	Inapplicabl e	33.4	0.47%	0	No	Bank account transferenc e	Inapplicabl e	March 10, 2017	www.cninf o.com.cn
AVIC	Common	Administr ation	Property manageme	Market	Inapplicabl	824.39	100.00%	800	Yes	Bank account	Inapplicabl	March 10,	www.cninf

[illegible]

2. Related transactions concerning acquisition and sales of assets or equity

Inapplicable

3. Related transactions concerning joint investment in foreign countries

Inapplicable

4. Current Associated Rights of Credit and Liabilities

Does there exist any non-operating current associated rights of credit and liabilities.

No

5. Other Significant Related Transactions

The 18th Session of the Eighth Board of Directors held on August 11, 2017 and 2017 2nd Extraordinary General Meeting held on August 31, 2017 reviewed and approved the Proposal for Concluding the Financial Service Agreement with AVIC Finance Co., Ltd. and decided to terminate the original agreement with AVIC Finance Co., Ltd. and signed a new Financial Service Agreement. For the Detail, refer to the Announcement on Resolution of the 18th Session of the Eighth Board of Directors 2017-033, the Announcement on the Financial Service Agreement with AVIC Finance Co., Ltd. a Related Transaction, 2017-036 and the Announcement on Resolution of 2017 2nd Extraordinary General Meeting, 2017-040.

The 23rd Session of the Eighth Board of Directors held on December 28, 2017 and 2018 1st Extraordinary General Meeting held on January 16, 2018 reviewed and approved the Proposal for Concluding the Predicted Framework Contract as a Regular Related Transaction from 2018 to 2020 with Rainbow Department Store Co., Ltd. The Company and its controlled subsidiaries decided to renew the Framework Contract as a Regular Related Transaction from 2018 to 2020 with Rainbow Department Store Co., Ltd. For the detail, refer to the Announcement on the Resolutions of the 23rd Session of the Eighth Board of Directors 2017-054 and the Announcement on Concluding the Predicted Framework Contract as a Regular Related Transaction from 2018 to 2020 with Rainbow Department Store Co., Ltd. 2017-056 and the Announcement on Resolution of 2018 1st Extraordinary General Meeting 2018-002.

Inquiry on the website for disclosing the provisional report concerning significant related transactions

Description of the provisional announcement	Date of disclosure	Disclosure website
Announcement on the Resolution of the 18th Session of the Eighth Board of Directors, 2017-033	August 15, 2017	www.cninfo.com.cn
Announcement on the Financial Service Agreement with AVIC Finance Co., Ltd. a Related Transaction, 2017-036	August 15, 2017	www.cninfo.com.cn
Announcement on Resolution of 2017 2nd Extraordinary General Meeting, 2017-040	September 1, 2017	www.cninfo.com.cn
Announcement on the Resolutions of the 23rd Session of the Eighth Board of Directors 2017-054	December 29, 2017	www.cninfo.com.cn
Announcement on Concluding the Predicted Framework Contract as a Regular Related Transaction from 2018 to 2020	December 29, 2017	www.cninfo.com.cn

with Rainbow Department Store Co., Ltd. 2017-056		
Announcement on Resolution of 2018 1st Extraordinary General Meeting 2018-002	January 17, 2018	www.cninfo.com.cn

XVII. Important Contracts and Implementation

1. Custody, Contacting and Leases

(1) Custody

Inapplicable

(2) Contracting

Inapplicable

(3) Leases

Inapplicable

2. Significant Guarantees

(1) Guarantees

In CNY 10,000

Outward guarantees Offered by the Company and its Subsidiaries (excluding guarantee to the subsidiaries)								
Names of Guarantees	Date of the announcement on the guarantee line	Guarantee line	Date of occurrence (date of agreement execution)	Actual amount of guarantee	Type of guarantee	Guarantee period	Implementation status	Guarantee to related party?
Inapplicable								
Total amount of outward guarantee approved in the report period (A1)				0	Total amount of outward guarantee actually incurred in the report period (A2)			0
Total amount of outward guarantee already approved at the end of the report period (A3)				0	Total ending balance of outward guarantee at the end of the report period (A4)			0
Guarantees between the Company and its Subsidiaries								
Names of Guarantees	Date of the announcement on the guarantee line	Guarantee line	Date of occurrence (date of agreement execution)	Actual amount of guarantee	Type of guarantee	Guarantee period	Implementation status	Guarantee to related party?

FIYTA (Hong Kong) Limited	March 10, 2017	6,683.64	August 30, 2017	919.5	Guarantee with joint responsibility	One year	No	No
FIYTA (Hong Kong) Limited	March 10, 2017	12,538.65	June 27, 2017	4,179.55	Guarantee with joint responsibility	One year	No	No
Shenzhen Harmony World Watches Center Co., Ltd.	March 10, 2017	8,000	December 30, 2017	7,500	Guarantee with joint responsibility	One year	No	No
Shenzhen Harmony World Watches Center Co., Ltd.	March 10, 2017	30,000	June 29, 2017	500	Guarantee with joint responsibility	One year	No	No
Total guarantee quota to the subsidiaries approved in the reporting period (B1)		57,222.29		Total amount of guarantee to the subsidiaries actually incurred in the reporting period (B2)		13,099.05		
Total guarantee quota to the subsidiaries approved at the end of the reporting period (B3)		57,222.29		Total balance of actual guarantee to the subsidiaries at the end of the reporting period (B4)		13,099.05		
Guarantees between Subsidiaries								
Names of Guarantees	Date of the announcement on the guarantee line	Guarantee line	Date of occurrence (date of agreement execution)	Actual amount of guarantee	Type of guarantee	Guarantee period	Implementation status	Guarantee to related party?
Inapplicable								
Total guarantee quota to the subsidiaries approved in the reporting period (C1)		0		Total amount of guarantee to the subsidiaries actually incurred in the reporting period (C2)		0		
Total guarantee quota to the subsidiaries approved at the end of the reporting period (C3)		0		Total balance of actual guarantee to the subsidiaries at the end of the reporting period (C4)		0		
The Company's total guarantee (i.e. total of the first three main items)								
Total guarantee quota approved in the reporting period (A1+B1+C1)		57,222.29		Total amount of guarantee actually incurred in the reporting period (A2+B2+C2)		13,099.05		
Total guarantee quota already approved at the end of the reporting period (A3+B3+C3)		57,222.29		Total balance of the actual guarantee at the end of the reporting period (A4+B4+C4)		13,099.05		
Proportion of the actual guarantees in the Company's net assets (namely A4+B4 + C4)				5.31%				
Including								
Amount of guarantees offered to the shareholders, actual controller and its related parties (D)				0				
Amount of guarantee for liabilities directly or indirectly offered to the guarantees with the asset-liability ratio exceeding 70% (E)				0				

Guarantee with total amount exceeding 50% of the net assets (F)	0
Total amount of the aforesaid three guarantees (D+E+F)	0
For the guarantee not yet due, guarantee responsibility incurred in the reporting period or description of the possible related discharge duty (if any)	Inapplicable
Note to the outward guarantee against the established procedures (if any)	Inapplicable

Description of the guarantee with complex method

Inapplicable

(2) Outward guarantee against regulations

3. Entrusting other Person to Manage the Cash Assets

(1) Finance Management on Commission

Inapplicable

(2) Entrusted Loan

Inapplicable

4. Other Major Contracts

Inapplicable

XVIII Social Responsibilities

1. Implementation of social responsibilities

"The Social Responsibility Report " was published on www.cninfo.com.cn on March 10, 2018.

2. Implementation of the social responsibility of precise poverty relief

During the reporting period, the Company did not carry out any precise poverty relief for time being and there was no follow-up precise poverty relief plan available.

3. Environmental Protection

Does the Company or any of its subsidiaries belong to a key pollutant discharging unit as announced to the public by the environmental protection authority?

No

XIX. Notes to Other Significant Events

1. About Non-public Issuing of A-shares

The Company held the 18th session of the Seventh Board of Directors and 2014 Annual General Meeting respectively on April 16, 2015 and June 17, 2015. The meetings respectively reviewed and approved the Plan for Non-public Issuing of A-shares to the Specified Investors.

The Application for the non-public issuing of A-shares was approved the Issuance Examination Commission by CSRC on October 30, 2015 and the Company received the Official Reply of CSRC on Non-public Issuing of A-shares by Fiyta Holdings Ltd. (ZHENG JIAN XU KE [2015] No. 2588) according to which the Company was approved to issue no more than 46,911,649 new shares to the designated investors. The Company actually issued 45,977,011 new shares. By January 16, 2017, the restriction on sales of the aforesaid shares was terminated.

2. Amendment of the Articles of Association

The 13th Session of the Eighth Board of Directors held on March 8, 2017 and 2016 Annual General Meeting held on May 31, 2017 reviewed and approved the Proposal on Amendment of the Articles of Association. For the detail, refer to the Announcement on the Resolution of the 13th Session of the Eighth Board of Directors No. 2017-003, the Announcement on the Resolution of 2016 Annual General Meeting No. 2017-019 and the Proposal on Amendment of the Articles of Association disclosed on the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn.

The 16th Session of the Eighth Board of Directors held on June 2, 2017 and 2017 1st Extraordinary General Meeting held on June 30, 2017 reviewed and approved the Proposal on Amendment of the Articles of Association. For the detail, refer to the Announcement on the Resolution of the 16th Session of the Eighth Board of Directors No. 2017-020, the Announcement on the Resolution of 2017 1st Extraordinary General Meeting No. 2017-029 and the Proposal on Amendment of the Articles of Association disclosed on the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn.

3. Change of Directors, Supervisors and Senior Executives

The 13th Session of the Eighth Board of Directors held on March 8, 2017 reviewed and approved the Proposal on Change of the Chairman of the Board and the Proposal on Change of the General Manager and Mr. Xu Dongsheng, one of the Company directors, was appointed as the Chairman of the Board, Mr. Chen Libin was recommended to take the office of the General Manager of the Company. For the detail, refer to the Announcement on the Resolution of the 13th Session of the Eighth Board of Directors No. 2017-003 disclosed on the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn.

The 15th Session of the Eighth Board of Directors held on May 8, 2017 and 2016 Annual General Meeting held on May 31, 2017 reviewed and approved the Proposal on Nominating Mr. Chen Libin as director candidate, For the detail, refer to the Announcement on the Resolution of the 15th Session of the Eighth Board of Directors No. 2017-008 and the Resolution of 2017 1st Extraordinary General Meeting No. 2017-019 disclosed on the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn.

The 11th Session of the Eighth Supervisory Committee held on March 10, 2017 and 2016 Annual General Meeting held on May 31, 2017 reviewed and approved the Proposal on Change of the Supervisor of the Company according to which Mr.

Wang Baoying was elected supervisor of the Company. For the detail, refer to the Announcement on the Resolution of the 11th Session of the Eighth Supervisory Committee No. 2017-015 and the Resolution of 2016 Annual General Meeting No. 2017-019 disclosed on the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn.

In August, 2017, Mr. Xu Dongsheng submitted resignation of director, Chairman of the Board and chairman of the strategic committee of the Eighth Board of Directors of the Company due to job change. After the resignation, Mr. Xu would no longer hold any post in the Company. For the detail, refer to the Announcement on Resignation of the Chairman of the Board No. 2017-032 as disclosed on the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn.

The 17th Session of the Eighth Board of Directors held on August 8, 2017 and 2017 2nd Extraordinary General Meeting held on August 31, 2017 reviewed and approved the Proposal for Nominating Mr. Huang Yongfeng as Director Candidate and Mr. Huang Yongfeng was elected director of the Eighth Board of Directors. For the detail, refer to the Announcement of the Resolution of the 17th Session of the Eighth Board of Directors 2017-031 and Announcement on Resolution of 2017 2nd Extraordinary General Meeting, 2017-040 disclosed on the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn.

The 19th Session of the Eighth Board of Directors held on September 4, 2017 and 2017 3rd Extraordinary General Meeting held on September 4, 2017 reviewed and approved the Proposal for Nominating Mr. Xiao Zhanglin as Director Candidate and the Proposal for Nominating Mr. Wang Bo as Director Candidate, and Mr. Xiao Zhanglin and Mr. Wang Bo were elected directors of the Eighth Board of Directors. For the detail, refer to the Announcement of the Resolution of the 19th Session of the Eighth Board of Directors 2017-041 and the Announcement of the Resolution of 2017 3rd Extraordinary General Meeting 2017-045 disclosed on the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn.

The 20th Session of the Eighth Board of Directors held on September 8, 2017 reviewed and approved the Resolution on Election of the Chairman of the Board of the Company. Mr. Huang Yongfeng was elected Chairman of the Eighth Board of Directors. For the detail, refer to the Announcement of the Resolution of the 20th Session of the Eighth Board of Directors 2017-044.

4. Preparation of the Program for Return to Shareholders

The 16th Session of the Eighth Board of Directors held on June 2, 2017 reviewed and approved the Program for Return to Shareholders. For the detail, refer Announcement on the Resolution of the 16th Session of the Eighth Board of Directors No. 2017-020 and the Program for Return to Shareholders as disclosed on the Securities Times, Hong Kong Commercial Daily and www.cninfo.com.cn.

5. Special Work of Carrying out the "Blue Sky Action" for Protection of Investors

With a view to implementing the relevant provisions specified in the Circular of China Securities Regulatory Commission Shenzhen Office on Continuously Carrying out in a Deep-going Way the 'Blue Sky Action', Special Work of Protecting Investors, further enhancing protection of investors, establish and improve the management mechanism of return to investors so as to help investors in setting up the idea of rational investment and long term investment, improving their risk awareness and self-protection ability, promoting maximization of the shareholders' value. The Company concluded the Proposal for Continuously Carrying out in a Deep-going Way the 'Blue Sky Action 2017', Special Work of Protecting Investors in July 2017 and worked out the Final Report on the Proposal for Continuously Carrying out in a Deep-going

Way the 'Blue Sky Action 2017', and shall strictly implement the said proposal and steadily promote the work of protecting investors in future.

XX. Significant Events of the Company's Subsidiaries

Inapplicable

Section 6 Change of Shares and Particulars about Shareholders

I. Change of Shares

1. Change of Shares

In shares

	Before the change		Increase / Decrease (+/-)					After the change	
	Quantity	Proportion (%)	New issuing	Bonus shares	Shares converted from reserve	Others	Sub-total	Quantity	Proportion (%)
I. Restricted shares	46,026,744	10.49%				-45,646,231	-45,646,231	380,513	0.09%
1. Shares held by the state	0	0.00%				0	0	0	0.00%
2. State corporate shares	0	0.00%				0	0	0	0.00%
3. Other domestic shares	46,026,744	10.49%				-45,646,231	-45,646,231	380,513	0.09%
Including: Domestic corporate shares	45,977,011	10.48%				-45,977,011	-45,977,011	0	0.00%
Shares held by domestic natural persons	49,733	0.01%				330,780	330,780	380,513	0.09%
4. Foreign invested shares	0	0.00%				0	0	0	0.00%
Including: Foreign corporate shares	0	0.00%				0	0	0	0.00%
Shares held by foreign natural persons	0	0.00%				0	0	0	0.00%
II. Unrestricted shares	392,718,137	89.51%				45,646,231	45,646,231	438,364,368	99.91%
1. CNY ordinary shares	311,070,137	70.90%				45,646,231	45,646,231	356,716,368	81.30%
2. Foreign invested shares listed in Mainland China	81,648,000	18.61%				0	0	81,648,000	18.61%
3. Foreign invested shares listed abroad	0	0.00%				0	0	0	0.00%
4. Others	0	0.00%				0	0	0	0.00%
III. Total shares	438,744,881	100.00%				0	0	438,744,881	100.00%

Causes of Change of Shares

In 2015, the Company issued 45,977,011 shares by non-public issuing which got listed with Shenzhen Stock Exchange on January 15, 2016. The new shares were not allowed for trading or assignment within 12 months commencing from the first day of listing. On January 16, 2017, the restriction on sales of the shares involved in the said non-public issuing was released. Thus, the number of newly increased negotiable shares was 45,977,011 shares, of which 441,040 shares were additionally held by directors and senior executives on December 14 and 15, 2017 and 75% of them were locked shares and the number of the newly increased restricted shares was 330,780 shares. Ended the day of disclosing this report, the sum of the Company's shares was 438,744,881 shares, of which 380,513 shares were restricted shares and 438,364,368

shares were unrestricted shares.

Approval of Change of the Shares

The Company held the 18th session of the Seventh Board of Directors and 2014 Annual General Meeting respectively on April 16, 2015 and June 17, 2015. The meetings reviewed and approved the proposal on non-public issuing of A-shares to the designated investors.

The application for non-public issuing of A-shares was approved by CSRC Securities Issuance Examination Committee on October 30, 2015; on November 17, 2015, the Company received Official Reply to FIYTA Holdings Ltd. on Approval for Non-public Issuing (ZHENG JIAN XU KE [2015] No. 2588 on November 17, 2015, according to which the Company was approved to issue new shares with size not exceeding 46,911,649 shares. The Company actually issued 45,977,011 new shares. As at January 16, 2017, the restriction on sales over the non-publically issued shares was released.

Transfer in Change of Shares

Inapplicable

Influence of the change of the shares upon such financial indicators as the basic EPS and diluted EPS, net asset value per share attributable to the common stockholders in the past year and the latest period

Inapplicable

Other information the Company considers necessary or required by the securities regulatory authority to be disclosed

Inapplicable

2. Change of Restricted Shares

In shares

Shareholders	Number of restricted shares at the beginning of the reporting period	Number of shares released from trading restrictions	Number of restricted shares increased in the reporting period	Number of restricted shares at the end of the reporting period	Causes of restriction	Date of releasing of trading restriction
Golden Eagle Asset Management Co., Ltd	4,674,329	4,674,329	0	0	Raised capital from non-public issuing of A-shares	January 16, 2017
Caitong Fund Management Co., Ltd.	12,590,027	12,590,027	0	0	Raised capital from non-public issuing of A-shares	January 16, 2017
Sws Mu Fund Management Co., Ltd.	8,429,118	8,429,118	0	0	Raised capital from non-public issuing of A-shares	January 16, 2017
Xizang Investment Co., Ltd.	4,976,551	4,976,551	0	0	Raised capital from non-public issuing of A-shares	January 16, 2017

MANULIFE TEDA Fund Management Co, Ltd.	15,306,986	15,306,986	0	0	Raised capital from non-public issuing of A-shares	January 16, 2017
Huang Yongfeng	0	0	60,000	60,000	Restricted shares for senior executives	holding totally 80,000 shares, 75% of which totaling 60,000 shares were restricted shares
Chen Libin	0	0	60,000	60,000	Restricted shares for senior executives	holding totally 80,000 shares, 75% of which totaling 60,000 shares were restricted shares
Lu Bingqiang	49,733	0	22,500	72,233	Restricted shares for senior executives	holding totally 96,311 shares, 75% of which totaling 72,233 shares were restricted shares
Lu Wanjun	0	0	37,500	37,500	Restricted shares for senior executives	holding totally 50,000 shares, 75% of which totaling 37,500 shares were restricted shares
Liu Xiaoming	0	0	37,500	37,500	Restricted shares for senior executives	holding totally 50,000 shares, 75% of which totaling 37,500 shares were restricted shares
Pan Bo	0	0	37,500	37,500	Restricted shares for senior executives	holding totally 50,000 shares, 75% of which totaling 37,500 shares were restricted shares
Li Ming	0	0	37,530	37,530	Restricted shares for senior executives	holding totally 50,040 shares, 75% of which totaling 37,530 shares were restricted shares
Chen Zhuo	0	0	38,250	38,250	Restricted shares for senior executives	holding totally 51,000 shares, 75% of which totaling 38,250 shares were restricted shares
Total	46,026,744	45,977,011	330,780	380,513	--	--

II. Issuing and Listing

1. Issuing of securities (with preferred stock exclusive) in the reporting period

Inapplicable

2. Note to changes of the company's total shares and the structure of shareholders as well as the structure of assets and liabilities

Inapplicable

3. Existing Employee Shares

Inapplicable

III. Shareholders and Actual Controlling Shareholder

1. Number of Shareholders and Share Held by them

In shares

Total common shareholders in the reporting period	35,156	Total common shareholders at the end of the month before the date of disclosing the annual report	33,796	Total preference shareholders with the voting power recovered at the end of the reporting period (if any) (Refer to Note 8)	0	Total preference shareholders with the voting power not recovered at the end of the month before the day of disclosing the annual report (if any) (Refer to Note 8)	0	
Shares held by the shareholders holding over 5% shares or the top ten shareholders								
Shareholder names	Shares held by the top ten shareholders	Shares held by the top ten shareholders (%)	Quantity at the end of the reporting period	Increase/dec rease in the reporting period	Number of the restricted shares held	Number of the non-restricted shares held	Pledging or freezing	
							Status of the shares	Quantity
CATIC Shenzhen Holdings Limited	State-owned corporate	37.15%	162,977,327	0	0	162,977,327		
Chongqing International Trust Co., Ltd. - RONGXINTONG Series Unitrust No.10	Domestic non-state-owned corporate	2.15%	9,421,680	918,900	0	9,421,680		
#Yang Zugui	Domestic natural person	2.09%	9,163,469	1,909,400	0	9,163,469		
Chongqing International Trust Co., Ltd. - YUXIN Trust No.2	Domestic non-state-owned corporate	2.07%	9,103,318	0	0	9,103,318		
MANULIFE TEDA Fund — Minsheng Bank — MANULIFE TEDA Value Growth Oriented	Domestic non-state-owned corporate	1.15%	5,043,559	0	0	5,043,559		

Additional Issue No. 351 Assets Management Program								
Xizang Investment Co., Ltd.	State-owned corporate	1.13%	4,976,551	0	0	4,976,551		
Guangdong Junye Investment Co., Ltd.	Domestic non-state-owned corporate	1.12%	4,924,710	1,577,500	0	4,924,710		
Golden Eagle Fund- Minsheng Bank-Golden Eagle Wenshi Junye Flexible Disposition No. 3 Assets Management Program	Domestic non-state-owned corporate	0.77%	3,369,329	-1,305,000	0	3,369,329		
Shenzhen Heli Fengyuan Commerce & Trade Co., Ltd.	Domestic non-state-owned corporate	0.75%	3,300,000	-14,781	0	3,300,000		
Shenzhen Qianye Huirong Investment Co., Ltd.	Domestic non-state-owned corporate	0.68%	3,000,000	-76,400	0	3,000,000		
About the fact that a strategic investor or ordinary corporate became one of the top ten shareholders due to placement of new shares (if any) (Refer to Note 3)	Of the top 10 shareholders, MANULIFE TEDA Fund - Minsheng Bank — MANULIFE TEDA Value Growth Oriented Additional Issue No. 351 Assets Management Program, Xizang Investment Co., Ltd. 及 Golden Eagle Fund- Minsheng Bank-Golden Eagle Wenshi Junye Flexible Disposition No. 3 Assets Management Program are all the shareholders that have participated in the Company's non-public issuing; the new shares subscribed by them got listed with Shenzhen Stock Exchange on January 15, 2016; of them, the restricted shares were not allowed to be listed for trading or assigned within 12 months commencing from the first day of listing. The aforesaid restriction on sales has been released since January 16, 2017.							
Explanation on associated relationship or consistent action of the above shareholders	Of the top 10 shareholders, both Chongqing International Trust Co., Ltd. - RONGXINTONG Series Unitrust No.10 and Chongqing International Trust Co., Ltd. - YUXIN Trust No.2 are subordinate to Chongqing International Trust Co., Ltd. and both are holding totally 18,524,998 shares in the Company, taking 4.22% of the Company's total shares.							
Shareholding of top 10 shareholders of unrestricted shares								
Shareholder's Name	Quantity of unrestricted shares held at the end of the reporting period					Share type		
						Share type	Quantity	
CATIC Shenzhen Holdings Limited	162,977,327					A-shares	162,977,327	
Chongqing International Trust Co., Ltd. - RONGXINTONG Series Unitrust No.10	9,421,680					A-shares	9,421,680	
#Yang Zugui	9,163,469					A-shares	9,163,469	
Chongqing International Trust Co., Ltd. - YUXIN Trust No.2	9,103,318					A-shares	9,103,318	
MANULIFE TEDA Fund — Minsheng Bank —	5,043,559					A-shares	5,043,559	

MANULIFE TEDA Value Growth Oriented Additional Issue No. 351 Assets Management Program			
Xizang Investment Co., Ltd.	4,976,551	A-shares	4,976,551
Guangdong Junye Investment Co., Ltd.	4,924,710	A-shares	4,924,710
Golden Eagle Fund- Minsheng Bank-Golden Eagle Wenshi Junye Flexible Disposition No. 3 Assets Management Program	3,369,329	A-shares	3,369,329
Shenzhen Heli Fengyuan Commerce & Trade Co., Ltd.	3,300,000	A-shares	3,300,000
Shenzhen Qianye Huirong Investment Co., Ltd.	3,000,000	A-shares	3,000,000
Explanation to the associated relationship or consistent action among the top 10 shareholders of non-restricted negotiable shares and that between the top 10 shareholders of non-restricted negotiable shares and top 10 shareholders.	Of the top 10 shareholders, both Chongqing International Trust Co., Ltd. - RONGXINTONG Series Unitrust No.10 and Chongqing International Trust Co., Ltd. - YUXIN Trust No.2 are subordinate to Chongqing International Trust Co., Ltd. and both are holding totally 18,524,998 shares in the Company, taking 4.22% of the Company's total shares.		
Note to the top 10 shareholders involved in margin financing & securities lending (if any) (Refer to Note 4)	Inapplicable		

Did the top ten common shareholders or top ten shareholders of unrestricted common shares conduct contractual repurchase during the reporting period?

No

2. Controlling Shareholder

Nature of the controlling shareholder: State-owned holding directly under the central government

Type of the controlling shareholder: corporate

Name of the Controlling Shareholder	Legal Representative /Leader	Date of incorporation	Organization code	Principal business activities
CATIC Shenzhen Holdings Limited	Liu Hongde	June 20, 1997	91440300279351229A	Investing and initiating entities (separate application is to be submitted for a specific project); domestic commerce, supply and sales of goods and materials (excluding the goods for exclusive sale, under special control and monopolized goods); import and export (excluding the goods forbidden by law, administrative rules and regulations, decision of the State Council; the restrictive goods is not allowed for operation until permit is granted).

Equity in other domestic and foreign listed companies held by the controlling shareholder by means of control and mutual shareholding in the reporting period.	CATIC Shenzhen Holdings Limited is holding 37.15% equity in FIYTA Holdings Ltd. (FIYTAA 000026 and FIYTA B 200026) , 22.35% equity in CATIC Real Estate Co., Ltd. (CATIC Real Estate 000043), 20.81% equity in Tianma Micro-electronics Co., Ltd. (SHEN TIANMAA 000050) and 73.87% equity in AVIC International Maritime Holdings Limited (a Singapore listed company, O2I).
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Change of the controlling shareholder in the reporting period

Inapplicable

3. Actual Controller

Nature of the actual controller: State-owned assets regulatory agency directly under the central government

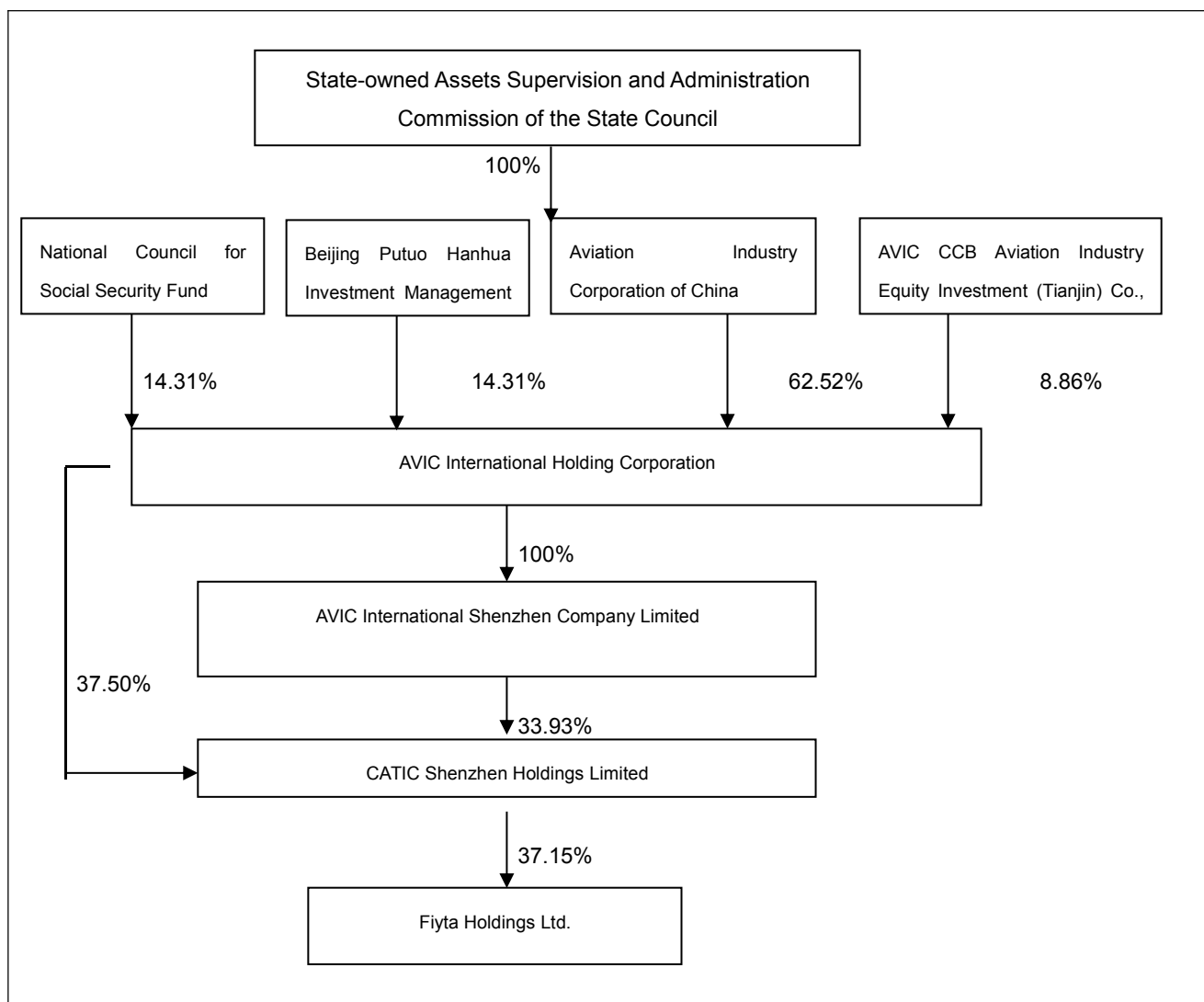
Type of the actual controller: corporate

Name of the Actual Controller	Legal Representative /Leader	Date of incorporation	Organization code	Principal business activities
AVIC International Holding Corporation	Liu Hongde	April 12, 1983	911100001000009992	International aviation, trading and logistic, retail and high-end consumption goods, real estate and hotel, electronics and hi-tech, resource development, etc.
Equity in other domestic and foreign listed companies held by the actual controller by means of control and mutual shareholding in the reporting period	AVIC International Holdings Limited is holding 37.50% equity in CATIC Shenzhen Holdings Limited (HK.0161) and 8.17% equity in Tianma Micro-electronics Co., Ltd. (SHEN TIANMAA 000050).			

Change of the actual controller in the reporting period

Inapplicable

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



The actual controller controls the Company by means of trust or managing the assets in other ways:

Inapplicable

4. Other Corporate Shareholder Holding over 10% of the Company's Shares

Inapplicable

5. Shareholding Reduction Restriction on the Controlling Shareholder, the Actual Controller, the Reorganizing Party and other Committing Party

Inapplicable

Section 7 About the Preferred Shares

Inapplicable

Section 8 Directors, Supervisors, Officers and Employees

I. Change in Shares Held by Directors, Supervisors and Senior Executives

Names	Positions	Office Status	Gender	Age	Starting date of tenure	Expiry date of tenure	Number of shares acquired at end of the reporting period(share s)	Volume of shares acquired during the reporting period(share s)	Volume of shares sold during the reporting period(share s)	Other increase/decrease (shares)	Number of shares held at end of the reporting period (shares)
Huang Yongfeng	Chairman	In office	Male	44	September 8, 2017	August 31, 2018	0	80,000	0	0	80,000
Wang Mingchuan	Director	In office	Male	52	August 31, 2015	August 31, 2018	0	0	0	0	0
Fu Debin	Director	In office	Male	41	December 9, 2016	August 31, 2018	0	0	0	0	0
Xiao Zhanglin	Director	In office	Male	42	September 20, 2017	August 31, 2018	0	0	0	0	0
Wang Bo	Director	In office	Male	39	September 20, 2017	August 31, 2018	0	0	0	0	0
Chen Libin	Managing Director	In office	Male	54	May 31, 2017	August 31, 2018	0	80,000	0	0	80,000
Zhang Hongguang	Independent Director	In office	Male	62	August 31, 2015	August 31, 2018	0	0	0	0	0
Zhang Shunwen	Independent Director	In office	Male	52	August 31, 2015	August 31, 2018	0	0	0	0	0
Wang Yan	Independent Director	In office	Male	61	August 31, 2015	August 31, 2018	0	0	0	0	0
Wang Baoying	Chairman of the Supervisory Committee	In office	Male	54	May 31, 2017	August 31, 2018	0	0	0	0	0
Sheng Qing	监事	In office	Female	42	May 14, 2016	August 31, 2018	0	0	0	0	0
Wang Jingqi	监事	In office	Male	38	October 14, 2016	August 31, 2018	0	0	0	0	0
Lu Bingqiang	Deputy General Manager	In office	Male	57	September 28, 2015	August 31, 2018	66,311	30,000	0	0	96,311

Lu Wanjun	Deputy General Manager、Secretary of the Board	In office	Male	51	September 28, 2015	August 31, 2018	0	50,000	0	0	50,000
Liu Xiaoming	Deputy General Manager	In office	Male	47	October 17, 2016	August 31, 2018	0	50,000	0	0	50,000
Pan Bo	Deputy General Manager	In office	Male	42	October 17, 2016	August 31, 2018	0	50,000	0	0	50,000
Li Ming	Deputy General Manager	In office	Male	45	October 17, 2016	August 31, 2018	0	50,040	0	0	50,040
Chen Zhuo	Chief Accountant	In office	Male	42	October 14, 2016	August 31, 2018	0	51,000	0	0	51,000
Diao Weicheng	Chairman	Retired	Male	54	September 28, 2015	March 8, 2017	0	0	0	0	0
Xu Dongsheng	Chairman	Retired	Male	52	March 8, 2017	August 8, 2017	0	0	0	0	0
Zhong Sijun	Director	Retired	Male	42	August 31, 2015	August 28, 2017	0	0	0	0	0
Cao Zhen	Director	Retired	Female	47	August 31, 2015	August 28, 2017	0	0	0	0	0
Sui Yong	Chairman of the Supervisory Committee	Retired	Male	60	August 31, 2015	May 5, 2017	0	0	0	0	0
Total	--	--	--	--	--	--	66,311	441,040	0	0	507,351

II. Change of Directors, Supervisors and/or Senior Executives

Names	Office Taken	Type	Date	Causes
Huang Yongfeng	Director	Appointment & removal	August 31, 2017	Elected director of the Eighth Board of Directors at the 17th Session of the Eighth Board of Directors and 2017 2nd Extraordinary General Meeting.
Huang Yongfeng	Chairman	Appointment & removal	September 8, 2017	Elected Chairman of the Eighth Board of Directors at the 20th Session of the Eighth Board of Directors.
Xiao Zhanglin	Director	Appointment & removal	September 20, 2017	Elected Director of the Eighth Board of Directors at the 19th Session of the Eighth Board of Directors and 2017 3rd Extraordinary General Meeting.
Wang Bo	Director	Appointment &	September 20, 2017	Elected Director of the Eighth Board of Directors at the 19th Session of the

		removal		Eighth Board of Directors and 2017 3rd Extraordinary General Meeting.
Chen Libin	Director	Appointment & removal	May 31, 2017	Elected Director of the Eighth Board of Directors at the 15th Session of the Eighth Board of Directors and 2016 Annual General Meeting.
Chen Libin	General Manager	Appointment & removal	March 8, 2017	Elected General Manager of the Company at the 13th Session of the Eighth Board of Directors
Wang Baoying	Supervisor	Appointment & removal	May 31, 2017	Elected Supervisor of the Eighth Supervisory Committee at the 8th Session of the Eighth Supervisory Committee and 2016 Annual General Meeting.
Wang Baoying	Chairman of the Supervisory Committee	Appointment & removal	August 28, 2017	Elected the Chairman of the Eighth Supervisory Committee at the 13th session of the Eighth Supervisory Committee
Diao Weicheng	Chairman	Retired	March 8, 2017	Resigned Director and Chairman of the Eighth Board of Directors and the Chairman of the Strategy Committee due to job change. Mr. Diao no longer takes any office in the Company after his resignation.
Xu Dongsheng	Chairman	Retired	August 8, 2017	Resigned Director and Chairman of the Eighth Board of Directors and the Chairman of the Strategy Committee due to job change.
Zhong Sijun	Director	Retired	August 28, 2017	Resigned Director of the Eighth Board of Directors and a member of the Strategy Committee and a member of the Auditing Committee due to job change
Cao Zhen	Director	Retired	August 28, 2017	Resigned Director of the Eighth Board of Directors and a member of the Strategy Committee and a member of the Nomination, Remuneration and Assessment Committee due to job change
Sui Yong	Chairman of the Supervisory Committee	Retired	May 5, 2017	Resigned Supervisor and the Chairman of the Supervisory Committee of the Company due to job change.
Chen Libin	Deputy General Manager	Dismissal	March 8, 2017	Resigned Deputy General Manager of the Company due to job transfer.

III. Profile of Senior Executives

Professional Background, CV and Major Duties of Directors, Supervisors and Senior Executives in Office

Mr. Huang Yongfeng, born in May, 1974, senior engineer, master of management engineering of Beijing University of Aeronautics & Astronautics, and EMBA of China Europe International Business School. He is now the Secretary of the CPC Committee and Chairman of the Board of the Company. Mr. Huang used to be the chairman and general manager of AVIC INTL Zhuhai Co., Ltd., assistant to the general manager of AVIC International Holding Corporation, deputy general manager, assistant to the general manager, manager of the enterprise strategy and management department of AVIC International Shenzhen Co., Ltd., the secretary of the board of CATIC Shenzhen Holdings Limited, Director of the Sixth and Seventh Board of Directors of the Company, director of AVIC Real Estate Co., Ltd., director of Rainbow Department Store Co., Ltd., director of Tianma Microelectronics Co., Ltd. and chairman of Shenzhen Zhongshi Mechanical Equipment Co., Ltd.

Mr. Wang Mingchuan, born in December 1966, senior accountant, master of management engineering of Tongji University. Mr. Wang is a director of the Company, Deputy GM and Chief accountant of AVIC International Shenzhen Co., Ltd., director of Tianma Microelectronics Co., Ltd., director of AVIC Real Estate Co., Ltd. and director of Rainbow Department

Store Co., Ltd. and a director of Shennan Circuit Co., Ltd. He used to be a financial supervisor of the financial division of Chengdu Engine Company, manager of the financial department of Shenzhen Shenrong Engineering Plastic Company, manager of the comprehensive management department and chief financial officer of Shenzhen CATIC Trading Co., Ltd., manager of the financial and audit department, manager of the financial department and vice chief accountant of AVIC International Shenzhen Co., Ltd. and vice chief accountant of AVIC International Holding Corporation.

Mr. Fu Debin, born in February 1977, master of engineering and doctor of engineering of Beijing University of Aeronautics & Astronautics. He is a director in office of the Company and the head of H.R. department of AVIC International Holding Corporation, a director of Tianma Microelectronics Co., Ltd. and a director of Shennan Circuit Co., Ltd. He used to be the head of the administration and management department and deputy head of the management department of AVIC International Holding Corporation, deputy director of the party policy office and deputy secretary of the general Party branch of Power School of Beijing University of Aeronautics & Astronautics.

Mr. Xiao Zhanglin, born in January 1976, senior engineer, MBA of Shanghai Jiaotong University. He is a director in office of the Company, head of the planning and operation department of AVIC International Shenzhen Co., Ltd., a director of AVIC Real Estate Co., Ltd, a director of Tianma Microelectronics Co., Ltd., a director of Rainbow Department Store Co., Ltd., a director of Shenzhen Aero Fasteners MFG Co., Ltd., a director of AVIC INTL Shenzhen Trading Co., Ltd. Mr. Xiao used to be the chief of the retail and high-end consumer goods office, deputy section chief of the strategy development department of AVIC International Holding Corporation and AVIC INTL Shenzhen Trading Co., Ltd. and the assistant to the section chief of the enterprise strategy and management department of AVIC International Shenzhen Co., Ltd.

Mr. Wang Bo, born in July, 1979, MBA of Renmin University of China. He is a director in office of the Company, section chief of the HR department of AVIC International Shenzhen Co., Ltd., a director of Shennan Circuits Co., Ltd, a director of Shenzhen Aero Fasteners MFG Co., Ltd., a director of Shenzhen Grand Skylight Hotel Management Company Limited and a director of AVIC INTL Shenzhen Trading Co., Ltd. Mr. Wang used to be deputy section chief of the HR department of AVIC International Holding Corporation, a director of AVIC INTL Guangzhou Co., Ltd., and a director of AVIC INTL Zhuhai Co., Ltd.

Mr. Chen Libin, born in June 1964, master of economics of the Party School of Guangdong Provincial CPC Committee and EMBA of Sun Yat-Sen University. He is a director in office, Vice Secretary of the CPC Committee and the GM of the Company. Mr. Chen used to be the deputy General Manager and Secretary of the Board of the Company, deputy section chief and section chief of the Party's affairs of the Party-masses Work Department and senior commissioner, deputy manager and manager of the enterprise culture department of CATIC Shenzhen.

Mr. Zhang Hongguang, born in March 1956, senior engineer, bachelor of light industry machinery of Dalian Polytechnic University. He is now an independent director of the Company, vice president of China Timepieces Association. He used to be the GM of Shenzhen Qixin Construction Group, manager of Shenzhen Xinghua Co., Ltd. and deputy chief of the education department of the Ministry of Light Industry.

Mr. Zhang Shunwen, born in May, 1966, senior accountant, a Chinese CPA, and master of Zhongnan University of Economics and Law. He is now an independent director of the Company, a partner of Lixin Certified Public Accountants (special general partnership), an expert member of the Third Assessment Committee of Guangdong Senior Accountants, vice president of Shenzhen Service Trade Association, practicing tutor of College of Economics of Shenzhen University,

independent director of Henan Zhongyuan Air Cylinder Parts Co., Ltd., Shenzhen Special Economic Zone Real Estate&Properties (Group).Co.,Ltd. and Shenzhen Mingdiao Decoration Co., Ltd. and Shenzhen HTI Group Co., Ltd. He used to be a vice president of Shenzhen Association of CPAs and a member of CPPCC of Shenzhen Municipality.

Mr. Wang Yan, born in February 1957, senior economist, master of business administration of State University of New York. He is now an independent director of the Company, professor of Intellectual Property Academy of South China University of Technology, deputy director of South China Training Base of the State Intellectual Property Bureau, independent director of Shenzhen Maxonic Automation Control Co., Ltd. He used to be a deputy director of the Intellectual Property Bureau of Shenzhen Municipality, associate professor of the management school of Southwest University of Political Science and Law, senior executive of First State China Fund Management Co., Ltd., chief economist of the domestic listing company of China Merchants Group (China Merchants Harbor Service), and the assistant to the director of the Management Department of the State Intellectual Property Bureau.

Mr. Wang Baoying, born in July, 1964, senior engineer at research fellow level, bachelor of Beijing University of Aeronautics & Astronautics, EMBA of China Europe International Business School. He is the Chairman of the Supervisory Committee, managing director of AVIC International Shenzhen Co., Ltd., the chairman of the supervisory committee of Tianma Microelectronics Co., Ltd., the chairman of the supervisory committee of Rainbow Department Store Co., Ltd. and the chairman of the supervisory committee of Shennan Circuit Co., Ltd. He used to be a director of the Company, section-chief of AVIC Tianjin Aviation Electro-mechanical Co., Ltd., deputy GM of Shenzhen Rainbow Department Store Co., Ltd., first deputy GM of Shenzhen Nam Kwong (Group) Company Limited, manager of the enterprise strategy and management department and assistant of the GM of CATIC Shenzhen, executive director of CATIC Shenzhen Holdings Limited, managing director of Shenzhen AVIC Resources Co., Ltd., managing director of AVIC New Energy Development Co., Ltd. and managing director of AVIC International Holding Corporation.

Ms. Sheng Qing, born in April, 1976, accountant, senior HR administrator, master of organization and HR management of the University of Hong Kong, bachelor of international accounting specialization of Jiangxi University of Finance and Economics. She is a supervisor in office of the Company, manager of the supervision and audit department of the Company. She used to be senior business manager of the audit department and manager of HR department of the Company.

Mr. Wang Jingqi, born in October, 1980, master of Tianjin University. Mr. Wang is a supervisor in office of the Company, assistant to the GM of FIYTA Sales Co., Ltd. He used to be a deputy manager of the HR Department of the Company, the assistant to the GM and manager of the basic support department of FIYTA Technology Development Co., Ltd.

Mr. Lu Bingqiang, born in December 1961, senior economist, bechalar of Guangzhou Jinan University. Mr. Lu is deputy GM of the Company and Managing Director of FIYTA (Hong Kong) Limited. He used to be the assistant to the GM and director of the Company, and GM and chairman of Shenzhen Harmony World Watches Center, the president secretary of AVIC International Shenzhen Co., Ltd.

Mr. Lu Wanjun, born in February, 1967, accountant, EMBA of Sino-European International Management Institute. Mr. Lu is now a deputy GM and the Secretary of the Board of the Company. He used to be the assistant to the GM of the Company, executive deputy GM and deputy GM, the assistant to the GM and concurrently the manager of the financial department of Shenzhen Harmony World Watches Center Co., Ltd.

Mr. Liu Xiaoming, born in 1971, engineer, economist, bachelor of mechanical engineering of Beijing University of Aeronautics & Astronautics, and EMBA of China Europe International Business School. He is a deputy GM of the Company, the managing director of Shenzhen Harmony World Watches Center Co., Ltd. He used to be the assistant to the GM of the Company and the assistant to a deputy GM and the GM of Shenzhen Harmony World Watches Center Co., Ltd.

Mr. Pan Bo, born in March, 1976, bachelor of electromechanical engineering of Beijing University of Aeronautics & Astronautics, and EMBA of China Europe International Business School. He is now a deputy GM of the Company, the GM of FIYTA Brand, the managing director of FIYTA Sales Co., Ltd. Mr. Pan used to be the assistant to the GM of the Company, executive deputy GM, deputy GM, the assistant to the GM, manager of the sales department, manager of the logistic department, manager of the after-sale department, etc. of FIYTA Sales Co., Ltd.

Mr. Li Ming, born in September, 1973, bachelor of marketing of Zhongnan University of Economics and Law and EMBA of China Europe International Business School. He is a deputy GM of the Company. Mr. Li used to be the assistant to the GM and chief HR officer of the Company, a deputy GM, the assistant to the GM and manger of the HR department of Shenzhen Harmony World Watches Center Co., Ltd.; chief HR officer and the GM of the marketing center of China Netcom Shenzhen; manager of big customer market planning of China Telecom Shenzhen.

Mr. Chen Zhuo, born in September 1976, accountant, MBA of Wuhan University, EMBA of China Europe International Business School. He is the chief accountant of the Company. Mr. Chen used to be a supervisor, the assistant to the GM, manager of the strategy and information department, deputy manager of the strategy and information department and securities affairs representative of the Company, deputy GM and manager of the financial information department of FIYTA Sales Co., Ltd.

Office taking in shareholder companies

Names of the persons in office	Names of the Shareholders	Titles engaged in the shareholders	Starting date of office term	Expiry date of office term	Does he/she receive remuneration or allowance from the shareholder?
Wang Mingchuan	AVIC International Holding Corporation	Deputy Chief Accountant	November 3, 2010		Yes
Wang Mingchuan	AVIC International Shenzhen Co., Ltd.	Chief Accountant	January 23, 2017		Yes
Fu Debin	AVIC International Holding Corporation	Head of the HR Dept.	July 1, 2016		Yes
Xiao Zhanglin	AVIC International Shenzhen Co., Ltd.	Head of the Planning and Operation Dept.	August 22, 2017		Yes
Wang Bo	AVIC International Shenzhen Co., Ltd.	Head of the HR Dept.	April 25, 2017		Yes
Wang Baoying	AVIC International Shenzhen Co., Ltd.	Specialized	April 11, 2017		Yes

		director			
Explanation to the office taking in shareholder companies	Inapplicable				

Offices Taken in Other Organizations

Names of the persons in office	Names of Other Organizations	Titles engaged in the other organizations	Starting date of office term	Expiry date of office term	Does he/she receive remuneration or allowance from other organization?
Zhang Hongguang	China Timepieces Association	Vice chairman	January 1, 2010		Yes
Zhang Shunwen	Lixin Certified Public Accountants (Special Ordinary Partnership)	Partner	January 1, 2011		Yes
Wang Yan	Intellectual Property Academy of South China University of Technology	Full-time professor	August 1, 2010		Yes
Explanation to the office taking in other organizations	Inapplicable				

Punishment imposed by the securities regulatory authority on the directors, supervisors and senior executives both in office and having left their posts in the reporting period.

Inapplicable

IV. Remuneration to Directors, Supervisors and Senior Executives

1. Decision-making procedures of the remuneration to directors, supervisors and senior executives: Remuneration to directors and supervisors was reviewed and approved by the Company's General Meeting and remuneration to senior executives was reviewed and approved by the Board of Directors.

2. Basis for determining the remuneration to directors, supervisors and senior executives:

(1) Basis for Determining Remuneration to Directors: Remuneration to the directors appointed by the controlling shareholder is determined and distributed by the controlling shareholder. Allowance to independent directors is subject to the proposal prepared by the Board of Directors and reviewed and approved by the General Meeting and disclosed in the Company's annual report. Except the aforesaid allowance, independent directors received no extra and undisclosed benefit from the Company, the Company's principal shareholders or other organization or personnel with stakeholding.

(2) Basis for Determining Remuneration to Supervisors: Remuneration to the supervisors appointed by the controlling shareholder is determined and distributed by the controlling shareholder. Remuneration to the staff representative supervisor is determined by the Company based on the specific job he/she is engaged in.

(3) Basis for Determining Remuneration to senior executives: The Company practiced annual salary system for remuneration to senior executives. The annual salary system consists of basic annual salary and performance annual

salary. The composition of the scheme of annual salary to senior executives is based on the operation result of the Company and reference to the average salary level of the industry. The Company constantly improves the Measures for Administration of the Remuneration to Senior Executives, insists on the principle of distribution on the basis of work with consideration of power, responsibilities and benefit with the principal orientation of "being market based", "being full amount based" and "being broadband based".

3. Actual payment of the remuneration to directors, supervisors and senior executives:

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

Remuneration to directors, supervisors and senior executives in the reporting period

In CNY10,000

Names	Positions	Gender	Age	Office Status	Total remuneration received from the Company	Remuneration actually received at the end of the reporting period
Huang Yongfeng	Chairman	Male	44	In office	41.68	No
Wang Mingchuan	Director	Male	52	In office	0	Yes
Fu Debin	Director	Male	41	In office	0	Yes
Xiao Zhanglin	Director	Male	42	In office	0	Yes
Wang Bo	Director	Male	39	In office	0	Yes
Chen Libin	Managing Director	Male	54	In office	144.45	No
Zhang Hongguang	Independent Director	Male	62	In office	9	No
Zhang Shunwen	Independent Director	Male	52	In office	9	No
Wang Yan	Independent Director	Male	61	In office	9	No
Wang Baoying	Chairman of the Supervisory Committee	Male	54	In office	0	No
Sheng Qing	Supervisor	Female	42	In office	94.76	No
Wang Jingqi	Supervisor	Male	38	In office	72.11	No
Lu Bingqiang	Deputy General Manager	Male	57	In office	139.38	No
Lu Wanjun	Deputy General Manager、Secretary of the Board	Male	51	In office	138.72	No
Liu Xiaoming	Deputy General Manager	Male	47	In office	154.68	No

Pan Bo	Deputy General Manager	Male	42	In office	152.04	No
Li Ming	Deputy General Manager	Male	45	In office	138.56	No
Chen Zhuo	Chief Accountant	Male	42	In office	140.94	No
Diao Weicheng	Chairman	Male	55	Retired	0	Yes
Xu Dongsheng	Chairman	Male	52	Retired	112.17	No
Zhong Sijun	Director	Male	42	Retired	0	Yes
Cao Zhen	Director	Female	47	Retired	0	Yes
Sui Yong	Chairman of the Supervisory Committee	Male	60	Retired	0	Yes
Total	--	--	--	--	1356.49	--

Incentive equity to directors, supervisors or/and senior executives in the reporting period

Inapplicable

V. Employees

1. Number, Job Composition and Education Background of Employees

Number of employees working for the parent company	116
Number of employees working for the major subsidiaries	5,246
Total employees on active duty	5,362
Total employees receiving remuneration in the reporting period	5,362
Number of the retired employees for whom the parent company and the major subsidiaries need to share the pension	0
Job Composition	
Job Composition Categories	Number of persons involved in the job composition
Production	281
Sales	4,007
Technical	432
Financial	134
Administrative	508
Total	5,362
Education background	
Education levels	Number of persons
Master's degree or higher	59
Undergraduate	947

Junior college	1,358
Below junior college	2,998
Total	5,362

2. Remuneration Policy for Staff

The Company's remuneration policy is based on strategy, market, performances and job value. The Company has established a remuneration and benefit system with external competitiveness and internal fairness according to the Company's strategic target, ensuring the attractiveness to high quality talents of the industry, retaining the core and key talents of the Company, activating the human resource, mobilizing staff's enthusiasm and improving the Company's core competitiveness.

3. Training Program

The Company is concentrated on watch industry, insists on the principle of guiding various businesses with the brand strategy, takes a broad view of the world and has established its vision of "moulding an international brand and becoming a globalized enterprise". While speeding up development, the Company firmly believes that "to build brand is to integrate the brand work and life style", the core speciality of the organization and staff and the qualification of the staff as brand personnel are the key elements determining the future development. For the purpose of creating the core competitiveness based on "brand building", meeting the strategy challenge, promoting realization of the long and short term plan, the Company determined the talent standard and qualification model based on the brand strategy by means of strategy analysis, internal and external environment analysis, talent supply analysis and employees' ability gap analysis, kept building a training system integrated with talent development model, improved comprehensive, multi-level, targeted and comprehensive accomplishment bearing, promoted overall and quick growth of employees and senior officers and enhanced the Company's core competitiveness.

4. Labor Outsourcing

Inapplicable

Section 9 Corporate Governance

I. General

In year 2017, the Company kept improving the Company's corporate governance structure strictly according to the PRC Company Law, the PRC Securities Law and the regulations of China Securities Regulatory Commission concerning governance of listed companies, and tried to enhance construction of modern enterprise system, upgraded the level of regulatory operation of the Company. As a result, there was no discrepancy between the situation of the Company's corporate governance and the regulatory documents of China Securities Regulatory Commission concerning governance of listed companies.

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

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

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

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

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

Does there exist any difference in compliance with the corporate governance, the PRC Company Law and the relevant provisions of CSRC.

No

II. Independence in Business, Personnel, Assets, Organization, Finance, etc. from the Controlling Shareholders

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

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

Personnel: The Company is completely independent in organization and has sound systems in labor, personnel and salaries management. Except Mr. Lai Weixuan, the Chairman, Mr. Wang Mingchuan, Mr. Huang Yongfeng, Mr. Wu Xiaohua and Madam Wang Xiaohua, the four directors, and Mr. Sui Yong, the chairman of the Supervisory Committee, none of other senior executives takes any concurrent office in the shareholders and none of the financial staff works concurrently for any related parties.

Assets: The assets of the Company and its controlling shareholder are highly distinct. The Company enjoys the corporate ownership over its assets and the assets are completely independent from its controlling shareholder. In addition, the Company enjoys sole ownership of such trademarks as FIYTA, HARMONY, etc.

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

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

III. Horizontal Competitions

Inapplicable

IV. Annual General Meeting and Extraordinary General Meetings in the Reporting Period

1. General Meetings in the Reporting Period

Sessions	Meeting Types	Proportion of investors in total participants	Meeting date	Disclosure date	Disclosure index
2016 Annual General Meeting	Annual General Meeting	38.18%	May 31, 2017	June 1, 2017	http://www.cninfo.com.cn/
2017 1st Extraordinary General Meeting	Extraordinary General Meeting	37.86%	June 30, 2017	July 1, 2017	http://www.cninfo.com.cn/
2017 2nd Extraordinary General Meeting	Extraordinary General Meeting	38.67%	August 31, 2017	September 1, 2017	http://www.cninfo.com.cn/
2017 3rd Extraordinary General Meeting	Extraordinary General Meeting	37.85%	September 20, 2017	September 21, 2017	http://www.cninfo.com.cn/
2017 4th Extraordinary General Meeting	Extraordinary General Meeting	38.00%	November 17, 2017	November 18, 2017	http://www.cninfo.com.cn/

2. Request by the Preference Shareholders with the Vote Recovered for an Extraordinary General Meeting

Inapplicable

V. Duty Performance of Independent Directors in the Reporting Period

1. Attendance for Board Meetings and General Meetings

Inapplicable

Independent Directors' Attendance for Board Meetings						
Independent directors	Number of Board meetings necessary to be attended in the reporting period	Number of Spot Attendances	Number of Meetings Attended by Communication	Number of attendances by representative	Number of Absence	Failure to personally attend board meetings successively twice (Yes/No)
Zhang Hongguang	11	2	9	0	0	No
Zhang Shunwen	11	2	9	0	0	No
Wang Yan	11	2	9	0	0	No
Number of general meetings attended by independent directors as non-voting delegates		5				

Notes to Failure to Personally Attend Board Meetings Successively Twice

Inapplicable

2. Objection of independent directors on some relevant issues

Inapplicable

3. Other Note to Duty Performance of Independent Directors

Inapplicable

VI Duty Performance of Special Committees under the Board of Directors in the Reporting Period

Summary Report on Performances of the Strategy Committee of the Board of Directors

During the reporting period, the Strategy Committee performed its duties strictly according to the law and regulations, the Articles of Association and the Rules for Implementation of the Strategy Committee of the Board of Directors, continued to do research work on the strategic planning for the Company's long term development and supervised the Company in implementation of various strategies. The Strategy Committee held its first meeting of year 2016 on March 8, 2017. The meeting reviewed and approved the Work Report of the Board of Directors in Year 2016 and the Profit Distribution for Year 2016, the matter concerning increase of investment in the project of constructing FIYTA Horologe R & D and Manufacture Center; the second meeting of the Strategy Committee for year 2017 was held on May 31, 2017. The meeting reviewed and approved the plan for return to shareholders and amendment of the Articles of Association.

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

In accordance with the Rules on the Content and Format of Information Disclosure of Companies that Publicly Offer Securities No. 2 (Contents and Format of Annual Reports) (Revision 2017) promulgated by China Securities Regulatory Commission, the Basic Regulations on Enterprise Internal Control, Memorandum of Mainboard Information Disclosure No. 1 – Relevant Information to be Disclosed in the Regular Report promulgated by Shenzhen Stock Exchange and the Company's Enforcement Regulations of the Special Committees of the Board of Directors, the Audit Committee of the Board of Directors carried out comprehensive examination of the Company's financial report and internal control audit work for year 2017. The following is the summary of the performances of the Audit Committee and the work of Ruihua Certified Public Accountants (Special General Partnership) (hereinafter referred to as the "CPAs"):

1. Collecting General Information of the Company in the Reporting Period and Reviewing the Financial Statements Prepared by the Company and Progress of Internal Control Implementation

On January 16, 2018, the Audit Committee heard the management's overall report on the production and operation and progress of significant events during the reporting period and reviewed 2017 Financial and Accounting Statements prepared by the Company and heard the progress of implementation of the Company's internal control. In its opinion, the data in the financial and accounting statements prepared by the Company basically reflected the financial position and operation results of the Company as ended at December 31, 2017, and approved to carry out the audit work for the year 2015 with the financial statements as the base. The internal control implementation work carried out by the Company has been duly carried forward according to the Company Law, the Securities Law, Basic Standards for Enterprise Internal Control and other relevant laws and regulations. It has basically reflected the Company's internal control construction work ended December 31, 2017 and approved to prepare the Self-Assessment Report on the Internal Control on this basis and carry out the internal control audit work in 2017.

2. Decision on Overall Audit Plan

Before the CPAs started auditing, the audit committee, after consultation with the CPAs, decided the time schedule of the audit work in 2017.

3. Supervision of the Audit Work

On January 19, 2018, the CPAs formally started the audit work. During the auditing, the Audit Committee frequently urged the CPAs to complete the audit work according to the time schedule of audit so as to ensure timely disclosure of the

Company's annual report and relevant documents.

4. Preliminary Auditor's Opinions after Reviewing the Financial and Accounting Statements

On February 28, 2018, the CPAs issued a preliminary auditor's opinions on the financial and accounting statements and internal control assessment, and the Audit Committee once again reviewed the Company's financial and accounting statements and internal control assessment report as preliminarily audited by the CPAs. In the opinion of the Audit Committee, these financial statements truly, accurately and completely reflected the financial position and operation result of the Company ended December 31, 2017 and approved 2017 Annual Report and Summary prepared on the basis of these statements. The said internal control assessment report has truly, accurately and entirely reflected the Company's achievement in internal control construction ended December 31, 2017 and approved to complete the internal control assessment report and internal control audit report based on said report. Meanwhile, the audit committee demanded the CPAs to complete the audit work according to the plan as soon as possible so as to ensure the Company to disclose 2017 Annual Report as scheduled.

5. Summary Work after the Formal Report

On March 8, 2018, the CPAs completed the auditing procedures as scheduled and issued a standard unqualified auditor's report and other relevant documents to the Audit Committee. The Audit Committee held 2018 1st Session of the Audit Committee on the very day and concluded a resolution and submitted it to the Board of Directors for review; and at the same time submitted the Summary Report on the Performances of the Audit Committee and the Audit Work of the Certified Public Accountants in 2017. In the opinion of the Audit Committee, Ruihua Certified Public Accountants (Special General Partnership), the domestic and international auditor engaged by the Company faithfully performed the duties in process of offering audit performances according to the professional principle of independence, objectiveness and fairness and did a good job in auditing 2017 Annual Accounting Statements and the internal control auditing.

6. CPAs' Performance of Basic Principle of the Professional Ethics

(1) Independence

None of the staff from the CPAs worked for the Company; the CPAs received neither cash nor economic interest in any other form from the Company other than the statutory audit fee. There existed neither direct or indirect mutual investment between the CPAs and the Company nor close operation relationship; there existed no self-assessment on the Company's audit work and there existed no related relation between the member of the auditing team and the Company's decision makers; the CPAs and the auditing staff kept independence both in form and substance in the auditing work and complied with the requirement on keeping independence as specified in the basic principle of the professional ethics.

(2) Professional Competence

All the members of the auditing team possessed the professional knowledge and relevant professional qualification certificates necessary for the auditing work, were competent for the auditing work and at the same time maintained necessary attention and professional cautiousness.

Summary Report on Performance of the Committee of Nomination, Remuneration and Assessment of the Board of Directors

In the reporting period, the Committee of Nomination, Remuneration and Assessment of the Board of Directors performed

its functions strictly according to the law and regulations, the Articles of Association and the Rules for Implementation of the Committees of Nomination, Remuneration and Assessment of the Board of Directors. 2017 1st session of the Committees of Nomination, Remuneration and Assessment held on March 8, 2017 reviewed and approved the proposals on emoluments to the senior executives for year 2016, change of the Chairman of the Board, change of the General Manager, adjustment of members of the special committees under the Board of Directors; 2017 2nd session of the Committee of Nomination, Remuneration and Assessment held on May 8, 2018 reviewed and approved the proposal on nominating Chen Libin as Director Candidate; 2017 3rd session of the Committee of Nomination, Remuneration and Assessment held on August 8, 2017 reviewed and approved the proposal on nominating Mr. Huang Yongfeng as Director Candidate; 2017 4th session of the Committee of Nomination, Remuneration and Assessment held on September 4, 2017 reviewed and approved the proposal on nominating Mr. Wang Bo as Director Candidate and nominating Mr. Xiao Zhanglin as Director Candidate; 2017 5th session of the Committees of Nomination, Remuneration and Assessment held on September 8, 2017 reviewed and approved the new election of the Chairman of the Board and adjustment of members of various special committees under Board of Directors; 2017 6th session of the Committees of Nomination, Remuneration and Assessment held on October 18, 2017 reviewed and approved the adjustment of members of various special committees under Board of Directors.

VII. Work Summary of the Supervisory Committee

Did the Supervisory Committee find any risk existing in performing the supervision activities in the reporting period

No

VIII. Assessment and Incentive Mechanism for Senior Executives

In order to give full play to and mobilize the senior executives' working enthusiasm and creativity and better improve the Company's operation capacity and economic benefit and ensure realization of the Company's strategic target, based on establishment of the incentive and binding mechanism matched to the modern enterprise mechanism and relying on the BSC strategic management tool, the Company's strategy is decomposed layer upon layer to various departments and posts so as to determine the senior executives' performance indicators and action plan, and make strategy review and assessment regularly on quarterly basis and decide the total remuneration and renewal of employment according to the assessment result and completion of the performance targets.

The annual salary assessment for the GM was carried out according to the assessment methods worked out by the shareholder. The assessment basis is mainly based on a series of indicators systems prepared based on the balance scorecard, in which the performance indicators of the surplus revenue rate were the main indicators. The assessment for other senior executives was conducted based on the indicators in the balance scorecard prepared at year beginning and the work report and assessment were carried out at year end.

IX. Internal Control

1. No particular case found which involved material defects in the internal control during the reporting period

No

2. Self-assessment Report of the Internal Control

Date of disclosing the full text of the internal control assessment report	March 10, 2018	
Index of disclosure of the full text of the internal control assessment report	www.cninfo.com.cn	
Proportion of the total assets of the organizations involved in the assessment in the total assets of the Company's consolidated financial statements	99.00%	
Proportion of the operation revenue of the entitled involved in the assessment in the total operation revenue of the Company's consolidated financial statements	99.00%	
Criteria for affirming the defects		
Categories	Financial Report	Non-financial Report
Qualitative criteria	(1) The defect involving fraud of the directors, supervisors and senior executives; (2) correction of the financial statements already published; (3) The CPA found that there existed serious misstatement in the financial statements of the reporting period while the internal control failed to find the misstatement in process of operation; (4) The Company's auditing committee and supervision and audit department conducted ineffective supervision of the internal control.	(1) seriously violating the PRC laws, administrative regulations and normative documents; (2) "decision on major issues, important officer appointment and/or removal and arrangement of important projects as well as application of big sum of fund have not undergone collective decision-making procedures; (3) serious running off of officers and technicians of the key positions; (4) there is no system control available for the Company's production and operation practice or the system no longer works; (5) the internal control for information disclosure no longer works, having caused the Company censured publicly by the regulatory authority; (6) the results of the internal control assessments, especially the material defects or important defects have not been rectified.
Quantitative criterion	(1) Material defects : Misstatement≥ 5% of the pre-tax profit ; (2)Important defects : 1% of profit before tax ≤ Misstatement < 5% of profit before tax; (3)Common defects: Misstatement<1% of profit before tax.	(1)Material defects: 5% of misstatement ≥Profit before tax; (2)Important defects: 1% of profit before tax ≤Misstatement < 5% of profit before tax ; (3) Common defects : Misstatement< 1% if Profit before tax.
Number of material defects in the financial statements (pcs)	0	
Number of material defects in the non-financial statements (pcs)	0	
Number of important defects in the financial report (pcs)	0	
Number of important defects in the non-financial report (pcs)	0	

X. Internal Control Audit Report

Deliberation Opinions in the Internal Control Audit Report	
In our opinion, FIYTA Holdings Limited maintained effective internal control on the financial report in all material aspect according to the Basic Regulations for Enterprise Internal Control and the relevant provisions ended December 31, 2017.	
Disclosure of the internal control audit report	Disclosed
Date of disclosing the full text of the internal control audit report	March 10, 2018
Index of disclosing the full text of the internal control audit report	www.cninfo.com.cn
Type of the opinions in the internal control audit report	Standard unqualified auditor's report
Are there any material defects in the non-financial report	No

Has the CPAs issued a qualified auditor's report of internal control.

No

Does the internal control audit report issued by the CPAs agree with the self-assessment report of the Board of Directors

Yes

Section 10 Bond Related Information

Were there any bonds which have been publically issued and listed with the stock exchange but have not yet been due or have not been entirely cashed despite that they have been due by the day when this Annual Report is approved for issuing?

No

Section 11 Financial Report



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AUDITORS' REPORT

Ruihua Shen Zi [2018] No.48460008

To the shareholders of FIYTA Holdings Ltd.:

I. Opinion

We have audited the financial statements of FIYTA Holdings Ltd. ("FIYTA Ltd." or the "Company"), which comprise the consolidated and the company's balance sheet as at 31 December 2017, the consolidated and the company's income statement, the consolidated and the company's cash flow statement for the year then ended and consolidated and the company's statement of changes in shareholders' equity, and notes to the financial statements.

In our opinion, the financial statements give a fair presentation of the consolidated and the company's financial position of FIYTA Ltd. as at 31 December 2017, and of its consolidated and the company's financial performance and its consolidated and the company's cash flows for the year then ended in all material aspects in accordance with Accounting Standards for Business Enterprises.

II. Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the FIYTA Ltd. in accordance with the Code of Ethics for Chinese Certified Public Accountants, and we have fulfilled our other ethical responsibilities in professional ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in

(forming our opinion thereon, and we do not provide a separate opinion on these matters. Key audit matters that need to communicate in our audit report are identified as follows:

1. Provision for inventory

(1) Description

As described in Note VI. 6 Inventory, the carrying value and provision of inventory were RMB1,918,030,167.95 and RMB97,503,491.69 respectively as at 31 December 2017. The management of FIYTA Ltd measures inventory at lower of cost and net realizable value (NRV) at balance sheet date. Where the cost of an inventory exceeds its NRV, the difference is recognized as provision. The accrual of inventory provision has significant impact to the financial statement, as a result, we identified inventory provision as a key audit matter.

(2) How our audit addressed the key audit matter

- (i) Understanding, assessing and testing the design and operating effectiveness of internal controls relating to procedures of making inventory provision;
- (ii) Understanding and evaluating the appropriateness of the Company's inventory provision policy;
- (iii) Conducting inventory observation procedure and observing the quantity and condition of inventory;
- (iv) Obtaining the aging report of inventory and checking and examining the sufficiency of provision accrual for inventories with long aging.
- (v) Obtaining schedule of inventory provision calculation and reviewing whether the provision was made according to relating accounting policies. Reviewing whether key assumptions relating to inventory provision accrual made by the management was reasonable and re-calculating the provision.
- (vi) Examining current year changes of inventory provision made in prior year and analyzing reasonableness of the change.
- (vii) Checking the sufficiency and appropriateness of presentation and disclosure of information relating to inventory provision.

2. Revenue recognition

(1) Description

The Company's revenue mainly comes from sales of FIYTA brand watches and distribution of branded watches. FIYTA brand watches and branded watches are mainly sold through shops in department store except for minor direct sale and consignment sale. Refer to Note IV. 23 for accounting policies relating to revenue recognition.

As described in Note VI. 34 Operating revenue and operating cost, the Company's revenue from sales of watches was RMB3,217,264,256.67 in year 2017. Operating revenue represents major line item in income statement and is main source of profit. Accuracy and completeness of revenue recognition have significant impact to the

(Company's profit, as a result, we identified revenue recognition as a key audit matter.

(2) How our audit addressed the key audit matter

- (i) Understanding, assessing and testing the design and operating effectiveness of internal controls relating to revenue recognition;
- (ii) Evaluating whether the condition, method and timing of revenue recognition is in conformance with principle of Accounting Standards for Business Enterprises;
- (iii) Selecting samples from current year's transaction record, agreeing supporting documents such as sales voucher/purchase order, receipt, goods dispatch note, delivery note, invoice and list of consignment sales to evaluate accuracy of revenue recognition;
- (iv) In connection with audit of accounts receivable, selecting major customers and confirming corresponding sales in current year to evaluate the completeness of revenue recognition;
- (v) Conducting cut-off test to sales transactions before and after the balance sheet date to evaluate whether revenue was recorded in appropriate accounting period;
- (vi) Checking the sufficiency and appropriateness of presentation and disclosure of information relating to revenue recognition.

IV. Other Information

The management of FIYTA Ltd are responsible for the other information. The other information comprises all of the information included in the Company's 2017 annual report other than the financial statements and our auditors' report thereon.

Our opinion expressed on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

V. Responsibilities of the Management and those Charged with Governance for the Financial Statements

The management of the FIYTA Ltd (the "Management") is responsible for the preparation of the financial statements that give a fair view in accordance with Accounting Standards for Business Enterprises and design, implementing and maintaining necessary internal controls to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Management is responsible for assessing the

(Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Management either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Those who charged with governance is responsible for overseeing the Company's financial reporting process.

VI. Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with China Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with China Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
4. Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required, according to China Standards on Auditing, to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

-
5. (Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
 6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within FIYTA Ltd to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

(Ruihua Certified Public
Accountants
(Special General Partnership)
Beijing, China

Chinese CPA:Xing Xiangzong
(Engagement Partner)

Chinese CPA:Liu Xin

08 March, 2018

Consolidated Balance Sheet

as at 31 December 2017

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	31 Dec 2017	31 Dec 2016
Current assets			
Cash and bank balances	VI. 1	187,152,891.32	428,802,755.81
Fair value through profit or loss financial		-	-
Derivative financial assets		-	-
Notes receivable	VI. 2	9,693,883.68	7,662,556.28
Accounts receivable	VI. 3	326,254,624.94	306,671,021.69
Prepayments	VI. 4	24,663,314.53	33,709,656.73
Interest receivable		-	-
Dividends receivable		-	-
Other receivables	VI. 5	34,990,539.09	33,393,017.28
Inventories	VI. 6	1,820,526,676.26	1,997,097,192.38
Assets held for sale		-	-
Non-current assets due within one year		-	-
Other current assets	VI. 7	24,616,815.21	20,344,532.09
Total current assets		2,427,898,745.03	2,827,680,732.26
Non-current assets:			
Available-for-sale financial assets	VI. 8	85,000.00	85,000.00
Held-to-maturity investments		-	-
Long-term receivables		-	-
Long-term equity investments	VI. 9	43,879,518.09	43,423,624.87
Investment properties	VI. 10	305,493,987.77	244,202,635.09
Fixed assets	VI. 11	523,699,592.65	611,204,169.03
Construction-in-progress	VI. 12	10,947,300.53	-
Intangible assets	VI. 13	44,223,280.21	38,751,903.42
Development expenditures		-	-
Goodwill		-	-
Long-term deferred expenses	VI. 14	109,409,785.49	133,688,403.88
Deferred tax assets	VI. 15	105,905,944.80	95,179,575.26
Other non-current assets	VI. 16	8,246,538.33	10,681,518.91
Total non-current assets		1,151,890,947.87	1,177,216,830.46
Total assets		3,579,789,692.90	4,004,897,562.72

Consolidated Balance Sheet (continued)

as at 31 December 2017

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	31 Dec 2017	31 Dec 2016
Current liabilities			
Short-term loans	VI. 17	525,990,510.00	1,098,438,070.0
Fair value through profit or loss financial liabilities		-	-
Derivative finance liabilities		-	-
Notes payable		-	-
Accounts payable	VI. 18	263,256,495.65	215,422,089.74
Advances from customer	VI. 19	15,141,587.79	13,902,703.90
Employee benefits payable	VI. 20	71,564,367.14	45,254,585.69
Taxes payable	VI. 21	55,857,236.59	50,945,289.31
Interest payable	VI. 22	1,464,729.11	2,475,969.65
Dividends payable			
Other payables	VI. 23	57,767,536.64	53,733,080.99
Held for sale liabilities			
Non-current liabilities due within one year	VI. 24	35,000,000.00	26,117,387.52
Other current liabilities	VI. 25		2,379,148.19
Total current liabilities		1,026,042,462.92	1,508,668,324.99
Non-current liabilities:			
Long-term loan	VI. 26	79,870,353.00	115,301,048.00
Estimated liabilities			
Deferred income	VI. 28	5,904,000.00	5,980,000.00
Deferred tax liabilities			
Other non-current liabilities			
Total non-current liabilities		85,774,353.00	121,281,048.00
Total liabilities		1,111,816,815.92	1,629,949,372.99
Shareholders' equity:			
Share capital	VI. 29	438,744,881.00	438,744,881.00
Other equity instruments			
Incl: preferential share			
Perpetual debt			
Capital reserve	VI. 30	1,062,455,644.22	1,062,455,644.22
Less: treasury stock			
Other comprehensive income	VI. 31	-11,523,442.39	-11,778,498.24
Special reserves			
Surplus reserve	VI. 32	206,805,713.35	193,961,700.45
General risk reserve			
Undistributed profit	VI. 33	771,484,565.02	687,986,807.74
Total shareholders' equity attributable to shareholders of the parent company		2,467,967,361.20	2,371,370,535.17
Minority shareholders' interests		5,515.78	3,577,654.56
Total shareholders' equity		2,467,972,876.98	2,374,948,189.73
Total liabilities and shareholders' equity		3,579,789,692.90	4,004,897,562.72

Legal Representative: Huang Yongfeng
department: Tian Hui

Principal in charge of accounting: Chen Zhuo

Head of accounting

Consolidated Income Statement

for the Year Ended 31 December 2017

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	2017	2016
I. Total Revenue		3,345,809,703.98	2,993,864,561.43
Incl. Operating income	VI.	3,345,809,703.98	2,993,864,561.43
II. Total Cost		3,182,619,506.27	2,866,928,721.59
Incl. Operating cost	VI.	1,986,652,591.57	1,772,811,718.01
Tax and surcharges	VI.	32,871,258.58	34,047,056.22
Selling and distribution expenses	VI.	811,437,932.01	760,530,356.03
Administrative expenses	VI.	240,043,481.59	201,274,142.02
Financial expenses	VI.	49,186,742.91	68,887,564.91
Asset impairment loss	VI.	62,427,499.61	29,377,884.40
Plus: gain (loss) from changes in fair value		-	-
Investment gain	VI.	455,893.22	446,593.23
Incl. gain from investment in associates and jointly controlled		455,893.22	585,802.82
gain (loss) from asset disposal	VI.	7,321,993.36	(520,920.33)
other gains	VI.	17,508,255.98	-
III. Operating profit (loss)		188,476,340.27	126,861,512.74
Plus: Non-operating income	VI.	2,607,653.91	18,574,739.04
Incl. gain from damaged or scrap of non-current assets		-	-
Less: Non-operating expenses	VI.	1,368,680.92	404,961.81
Incl. loss from damaged or scrap of non-current assets		-	-
IV. Profit before income tax		189,715,313.26	145,031,289.97
Less: Income tax	VI.	47,098,954.06	34,656,442.67
V. Net profit		142,616,359.20	110,374,847.30
(I) Categorized by going concern			
1. Net profit from continuing operations		142,616,359.20	110,374,847.30
2. Net profit from discontinued operations		-	-
(II) Categorized by ownership			
1. Profit (loss) attributable to minority shareholders		2,400,100.92	(287,834.29)
2. Net profit attributable to shareholders of the parent company		140,216,258.28	110,662,681.59
VI. After-tax other comprehensive income	VI.	(28,676.16)	5,617,505.89
After-tax other comprehensive income attributable to shareholders of parent company		255,055.85	5,366,691.47
(I) Other comprehensive income that cannot be re-classified into profit or loss in future		-	-
1. Net liability or net asset changes due to re-measurement of defined contribution plan		-	-
2. Portion enjoyed in the investee's comprehensive income which cannot be reclassified to profit or loss under equity		-	-
(II) Comprehensive income that can be reclassified in profit or	VI.	255,055.85	5,366,691.47
1. Portion enjoyed in the investee's comprehensive income which can be		-	-
2. Profit or loss from changes of fair value of available-for-sale		-	-
3. Profit or loss from reclassification from held-to-maturity to available-for-sale financial assets		-	-
4. Profit or loss of effective part of a cash flow hedge		-	-
5. Exchange translation difference of financial statement denominated in foreign	VI. 24	255,055.85	5,366,691.47
6. Others		-	-
After-tax other comprehensive income attributable to minority	VI.	(283,732.01)	250,814.42
VII. Total other comprehensive income		142,587,683.04	115,992,353.19
Total comprehensive income attributable to shareholders of the parent company		140,471,314.13	116,029,373.06
Total comprehensive income attributable to minority		2,116,368.91	(37,019.87)
VIII. Earnings per share			
(I) Basic EPS		0.3196	0.2522
(II) Diluted EPS		0.3196	0.2522

Legal Representative: Huang Yongfeng
accounting department: Tian Hui

Principal in charge of accounting: Chen Zhuo

Head of

Consolidated Cash Flow Statement

for the Year Ended 31 December 2017

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Notes	2017	2016
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of		3,799,342.84	3,399,049,587.48
Cash received from refund of taxes		886,252.20	6,421.29
Cash received from other operating activities	VI. 47	49,178,644	51,568,226.99
Subtotal of cash inflows from operating		3,849,407.74	3,450,624,235.76
Cash paid for purchasing goods and services		2,070,318.09	1,875,799,503.14
Cash paid to and for employees		516,928,806.69	493,983,490.08
Cash paid for taxes and surcharges		285,279,057.38	279,007,317.31
Cash paid for other operating activities	VI. 47	411,927,217.02	346,074,831.08
Subtotal of cash outflows in operating activities		3,284,453,178.71	2,994,865,141.61
Net cash flows from operating activities		564,954,561.97	455,759,094.15
II. Cash flows from investing activities			
Cash received from disposal of investments		-	-
Cash received from returns on investments		-	383,750.00
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		10,678,135.25	4,150,363.94
Cash received from disposal of subsidiaries and other		(230,053.69)	-
Net cash received from other investing activities		-	-
Subtotal of cash inflows from investing		10,448,081.56	4,534,113.94
Cash paid to acquire fixed assets, intangible assets and other long-term		136,914,522.99	189,744,095.04
Cash paid to acquire investments		-	-
Net cash paid to acquire subsidiaries and other business		-	-
Cash paid for other investing activities		-	-
Subtotal of cash outflows in investing		136,914,522.99	189,744,095.04
Net cash flows from investing activities		(126,466,441.43)	(185,209,981.10)
III. Cash flows from financing activities:			
Cash received from capital contributions		-	-
Including: Cash received from capital contributions by minority		-	-
Cash received from loans		575,282,350.00	1,405,213,268.91
Cash received from issuing of bonds		-	-
Cash received from other financing activities		-	-
Sub-total of cash inflows from financing		575,282,350.00	1,405,213,268.91
Cash repayments of borrowings		1,167,061,934.80	1,765,309,978.60
Cash payments for dividends and profits distribution and interests		85,355,204.78	121,523,418.84
Including: Cash payments for dividends or profit to minority shareholders		-	-
Cash payments to other financing activities	VI. 47	3,376,589.16	992,669.19
Sub-total of cash outflows in financing		1,255,793,728.74	1,887,826,066.63
Net cash flows from financing activities		(680,511,378.74)	(482,612,797.72)
IV. Effect of foreign exchange rate changes on cash and cash		(256,606.29)	1,903,564.55
V. Net increase in cash and cash equivalents	VI. 4	(242,279,864.49)	(210,160,120.12)
Plus: cash and cash equivalents at the beginning of year		427,227,755.81	637,387,875.93
VI. Cash and cash equivalents at the end of year	VI. 48	184,947,891.32	427,227,755.81

Legal Representative: Huang Yongfeng

Principal in charge of accounting: Chen Zhuo
department: Tian Hui

Head of accounting

Consolidated Statement of Changes in Shareholders' Equity (continued)

for the Year Ended 31 December 2017

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB
Yuan

Item	2017									
	Total shareholders' equity attributable to shareholders of the parent company								Minority interest	Total shareholders' equity
	Share capital	Capital reserve	Less: treasury stocks	Other comprehensive income	Special reserve	Surplus Reserve	General risk reserve	Undistributed profit		
I. Balance at the end of prior year	438,744,881.00	1,062,455,644.22	-	(11,778,498.24)	-	193,961,700.45	-	687,986,807.74	3,577,654.56	2,374,948,189.73
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Correction of prior period errors	-	-	-	-	-	-	-	-	-	-
Consolidation under common control	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of current year	438,744,881.00	1,062,455,644.22	-	(11,778,498.24)	-	193,961,700.45	-	687,986,807.74	3,577,654.56	2,374,948,189.73
III. Changes in equity for the year ("-" for decrease)	-	-	-	255,055.85	-	12,844,012.90	-	83,497,757.28	(3,572,138.78)	93,024,687.25
(I) Total comprehensive income for the year	-	-	-	255,055.85	-	-	-	140,216,258.28	2,116,368.91	142,587,683.04
(II) Shareholders' contributions and withdraw of capital	-	-	-	-	-	-	-	-	(5,688,507.69)	(5,688,507.69)
1. Common shares contribution by the shareholders	-	-	-	-	-	-	-	-	-	-
2. Other equity holders' contribution	-	-	-	-	-	-	-	-	-	-
3. Increase in shareholders' equity resulted from share-based payments	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	(5,688,507.69)	(5,688,507.69)
(III) Appropriation of profits	-	-	-	-	-	12,844,012.90	-	(56,718,501.00)	-	(43,874,488.10)
1. Make surplus reserves	-	-	-	-	-	12,844,012.90	-	(12,844,012.90)	-	-
2. Make general risk reserve	-	-	-	-	-	-	-	-	-	-
3. Distributions to shareholders	-	-	-	-	-	-	-	(43,874,488.10)	-	(43,874,488.10)

								10))
4. Others	-	-	-	-	-	-	-	-	-	-
(IV) Transfer within equity	-	-	-	-	-	-	-	-	-	-
1. Capitalization of capital reserves	-	-	-	-	-	-	-	-	-	-
2. Capitalization of surplus reserves	-	-	-	-	-	-	-	-	-	-
3. Offsetting losses using surplus reserves	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-
(V) Special Reserve	-	-	-	-	-	-	-	-	-	-
1. Accrued for the year	-	-	-	-	-	-	-	-	-	-
2. Use for the year	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-	-
IV. Balance at the end of current year	438,744,881.00	1,062,455,644.22	-	(11,523,442.39)	-	206,805,713.35	-	771,484,565.02	5,515.78	2,467,972,876.98

Legal Representative:Huang Yongfeng Principal in charge of accounting:Chen Zhuo Head of accounting department:Tian Hui

Consolidated Statement of Changes in Shareholders' Equity (continued)

for the Year Ended 31 December 2017

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB
Yuan

Item	2016									
	Total shareholders' equity attributable to shareholders of the parent company								Minority shareholders' interest	Total shareholders' equity
	Share capital	Capital reserve	Less: treasury stocks	Other comprehensive income	Special reserve	Surplus Reserve	General risk reserve	Undistributed profit		
I. Balance at the end of prior year	438,744,881.00	1,062,455,644.22	-	(17,145,189.71)	-	179,743,077.15	-	635,417,237.55	3,614,674.43	2,302,830,324.64
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-
Correction of prior period errors	-	-	-	-	-	-	-	-	-	-
Consolidation under common control	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of current year	438,744,881.00	1,062,455,644.22	-	(17,145,189.71)	-	179,743,077.15	-	635,417,237.55	3,614,674.43	2,302,830,324.64
III. Changes in equity for the year ("-" for decrease)	-	-	-	5,366,691.47	-	14,218,623.30	-	52,569,570.19	(37,019.87)	72,117,865.09
(I) Total comprehensive income for the year	-	-	-	5,366,691.47	-	-	-	110,662,681.59	(37,019.87)	115,992,353.19
(II) Shareholders' contributions and withdraw of capital	-	-	-	-	-	-	-	-	-	-
1. Common shares contribution by the shareholders	-	-	-	-	-	-	-	-	-	-
2. Other equity holders' contribution	-	-	-	-	-	-	-	-	-	-
3. Increase in shareholders' equity resulted from share-based payments	-	-	-	-	-	-	-	-	-	-
3. Others	-	-	-	-	-	-	-	-	-	-
(II) Appropriation of profits	-	-	-	-	-	14,218,623.30	-	(58,093,111.40)	-	(43,874,488.10)
1. Make surplus reserves	-	-	-	-	-	14,218,623.30	-	(14,218,623.30)	-	-
2. Make general risk reserve	-	-	-	-	-	-	-	-	-	-
3. Distributions to shareholders	-	-	-	-	-	-	-	(43,874,488.10)	-	(43,874,488.10)
4. Others	-	-	-	-	-	-	-	-	-	-
(IV) Transfer within equity	-	-	-	-	-	-	-	-	-	-
1. Capitalization of capital reserves	-	-	-	-	-	-	-	-	-	-
2. Capitalization of surplus reserves	-	-	-	-	-	-	-	-	-	-
3. Offsetting losses using surplus reserves	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-
(V) Special Reserve	-	-	-	-	-	-	-	-	-	-
1. Accrued for the year	-	-	-	-	-	-	-	-	-	-
2. Used for the year	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-	-
IV. Balance at the end of current year	438,744,881.00	1,062,455,644.22	-	(11,778,498.24)	-	193,961,700.45	-	687,986,807.74	3,577,654.56	2,374,948,189.73

Legal Representative: Huang Yongfeng Principal in charge of accounting: Chen Zhuo Head of accounting department: Tian Hui

Balance Sheet

as at 31 December 2017

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	31 Dec 2017	31 Dec 2016
Current assets			
Cash and bank balances		131,163,944.43	270,947,926.47
Fair value through profit or loss financial asset		-	-
Derivative financial assets		-	-
Notes receivable		-	-
Accounts receivable	XV. 1	6,832,006.11	255,995.64
Prepayments		-	-
Interest receivable		-	-
Dividends receivable		-	-
Other receivables	XV. 2	831,952,437.86	1,191,947,054.57
Inventories		-	-
Assets held for sale		-	-
Non-current assets due within one year		-	-
Other current assets		9,089,170.12	5,805,712.39
Total current assets		979,037,558.52	1,468,956,689.07
Non-current assets:			
Available-for-sale financial assets		85,000.00	85,000.00
Held-to-maturity investments		-	-
Long-term receivables		-	-
Long-term equity investment	XV. 3	1,375,128,109.02	1,256,593,344.87
Investment property		270,241,724.52	207,804,447.15
Fixed assets		340,765,873.45	414,581,425.11
Construction-in-progress		10,947,300.53	-
Construction materials		-	-
Disposal of fixed assets		-	-
Productive biological assets		-	-
Oil and gas assets		-	-
Intangible assets		36,932,963.95	32,438,001.77
Development expenditures		-	-
Goodwill		-	-
Long-term deferred expenses		4,418,287.94	5,721,622.60
Deferred tax assets		1,499,126.32	1,502,555.54
Other non-current assets		2,687,910.84	10,681,518.91
Total non-current assets		2,042,706,296.57	1,929,407,915.95
Total assets		3,021,743,855.09	3,398,364,605.02

Balance Sheet (continued)

as at 31 December 2017

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	31 Dec 2017	31 Dec 2016
Current liabilities:			
Short-term loans		470,000,000.00	908,000,000.00
Fair value through profit or loss financial liabilities		-	-
Derivative financial liabilities		-	-
Notes payable		-	-
Accounts payable		60,520,874.66	77,826,174.63
Advances from customer		4,212,930.07	2,767,858.84
Employee benefits payable		9,291,422.00	8,020,288.56
Taxes payable		1,038,481.26	2,883,511.63
Interest payable		929,155.39	1,312,644.11
Dividends payable		-	-
Other payables		20,666,945.05	18,959,721.51
Held-for-sale liabilities		-	-
Non-current liabilities due within one year		35,000,000.00	8,000,000.00
Other current liabilities		-	-
Total current liabilities		601,659,808.43	1,027,770,199.28
Non-current liabilities:			
Long-term loan		74,861,928.00	109,861,928.00
Estimated liabilities		-	-
Deferred income		5,904,000.00	5,980,000.00
Deferred tax liabilities		-	-
Other non-current liabilities		-	-
Total non-current liabilities		80,765,928.00	115,841,928.00
Total liabilities		682,425,736.43	1,143,612,127.28
Shareholders' equity			
Share capital		438,744,881.00	438,744,881.00
Other equity instrument		-	-
Incl: preferential share		-	-
Perpetual debt		-	-
Capital reserve		1,068,111,185.32	1,068,111,185.32
Less: treasury stocks		-	-
Other comprehensive income		-	-
Special reserves		-	-
Surplus reserve		206,805,713.35	193,961,700.45
General risk reserve		-	-
Undistributed profit		625,656,338.99	553,934,710.97
Total shareholders' equity		2,339,318,118.66	2,254,752,477.74
Total liabilities and shareholders' equity		3,021,743,855.09	3,398,364,605.02

Legal Representative: Huang Yongfeng

Principal in charge of accounting: Chen Zhuo
department: Tian Hui

Head of accounting

Income Statement

for the Year Ended 31 December 2017

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	Note	2017	2016
I. Operating revenue	XV. 4	117,746,387.79	98,387,059.04
Less: operating cost	XV. 4	17,785,254.56	13,573,121.98
Tax and surcharges		4,244,709.29	5,612,327.76
Selling and distribution expenses		5,024,222.36	-
Administrative expenses		80,955,927.37	62,135,280.94
Financial expenses		11,051,564.46	14,080,570.16
Impairment loss		62,283.14	2,669.72
Plus: gain on changes of fair value		-	-
Investment income	XV. 5	117,455,893.22	135,930,463.18
Incl. income from investment in associates and jointly controlled enterprises		455,893.22	585,802.82
Gain (loss) from disposal asset		(54,661.87)	(60,571.59)
Others		11,482,400.00	-
II. Operating profit		127,506,057.96	138,852,980.07
Plus: Non-operating income		231,994.49	3,480,145.59
Incl. gains from disposal of non-current assets		-	-
Less: Non-operating expenses		320,029.00	300,000.00
Incl. losses from disposal of non-current assets		-	-
III. Profit before income tax		127,418,023.45	142,033,125.66
Less: Income tax		(1,022,105.57)	(153,107.31)
IV. Net profit		128,440,129.02	142,186,232.97
1. Net profit from continuing operations		128,440,129.02	142,186,232.97
2. Net profit from discontinued operations		-	-
V. Other comprehensive income		-	-
1. Other comprehensive income that cannot be re-classified into		-	-
(1) Net liability or net asset changes due to re-measurement of		-	-
(2) Portion enjoyed in the investee's comprehensive income		-	-
2. Comprehensive income that can be reclassified in profit or		-	-
(1) Portion enjoyed in the investee's comprehensive income		-	-
which can be reclassified to profit or loss under		-	-
(2) Profit or loss from changes of fair value of available for sale financial asset		-	-
(3) Profit or loss from reclassification from held-to-maturity to available for sale		-	-
(4) Profit or loss of effective part of a cash flow hedge		-	-
5. Exchange translation difference of financial statement		-	-
(6) Others		-	-
VI. Total comprehensive income		128,440,129.02	142,186,232.97

Legal Representative: Huang Yongfeng

Principal in charge of accounting: Chen Zhuo
department: Tian Hui

Head of accounting

Cash Flow Statement

for the Year Ended 31 December 2017

Prepared by: FIYTA Holdings Ltd.
Yuan

Monetary Unit: RMB

Item	Note	2017	2016
I. Cash flows from operating activities:			
Cash received from sales of goods and rendering of services		118,206,419.70	101,146,875.41
Cash received from refund of taxes		-	-
Cash received from other operating activities		938,657,962.92	1,771,270,749.83
Subtotal of cash inflows from operating		1,056,864,382.62	1,872,417,625.24
Cash paid for purchasing goods and services		-	34,000.00
Cash paid to and for employees		52,908,089.08	54,565,535.75
Cash paid for taxes and surcharges		13,645,601.66	8,610,117.24
Cash paid for other operating activities		560,857,112.69	1,396,061,933.91
Subtotal of cash outflows in operating activities		627,410,803.43	1,459,271,586.90
Net cash flows from operating activities		429,453,579.19	413,146,038.34
II. Cash flows from investing activities			
Cash received from returns on investments		-	-
Cash received from returns on investments		117,000,000.00	135,728,410.36
Net cash received from disposal of fixed assets, intangible assets and		30,112.00	5,600.00
Cash received from disposal of subsidiaries and other		-	-
Net cash received from other investing activities		-	-
Subtotal of cash inflows from investing activities		117,030,112.00	135,734,010.36
Cash paid to acquire fixed assets, intangible assets and other long-term		47,230,065.02	97,544,258.42
Cash paid to acquire investments		-	442,270,000.00
Net cash paid to acquire subsidiaries and other business		114,299,236.67	-
Cash paid for other investing activities		-	-
Subtotal of cash outflows in investing activities		161,529,301.69	539,814,258.42
Net cash flows from investing activities		(44,499,189.69)	(404,080,248.06)
III. Cash flows from financing activities:			
Cash received from capital contributions		-	-
Cash received from loans		540,000,000.00	1,211,500,000.00
Cash received from bonds		-	-
Cash received from other financing activities		-	-
Sub-total of cash inflows from financing		540,000,000.00	1,211,500,000.00
Cash repayments of borrowings		986,000,000.00	1,354,000,000.00
Cash payments for interest expenses and distribution of dividends or profits		79,277,672.20	108,495,019.43
Cash payments to other financing activities		-	992,669.19
Sub-total of cash outflows in financing activities		1,065,277,672.20	1,463,487,688.62
Net cash flows from financing activities		(525,277,672.20)	(251,987,688.62)
IV. Effect of foreign exchange rate changes on cash and cash		(90,699.34)	-
V. Net increase in cash and cash equivalents		(140,413,982.04)	(242,921,898.34)
Plus: cash and cash equivalents at the beginning of year		269,372,926.47	512,294,824.81
VI. Cash and cash equivalents at the end of year		128,958,944.43	269,372,926.47

Legal Representative: Huang Yongfeng

Principal in charge of accounting: Chen Zhuo
department: Tian Hui

Head of accounting

Statement of Changes in Shareholders' Equity

for the Year Ended 31 December 2017

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	2017											
	Share capital	Other equity instruments			Capital reserve	Less: treasury stocks	Other comprehensive	Special reserve	Surplus Reserve	General risk reserve	Undistributed profit	Total shareholders' equity
		Preferential shares	Perpetual debt	Others								
I. Balance at the end of prior year	438,744,881.00	-	-	-	1,068,111,185.32	-	-	-	193,961,700.45	-	553,934,710.97	2,254,752,477.74
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Correction of prior period errors	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of current year	438,744,881.00	-	-	-	1,068,111,185.32	-	-	-	193,961,700.45	-	553,934,710.97	2,254,752,477.74
III. Changes in equity for the year ("-" for decrease)	-	-	-	-	-	-	-	-	12,844,012.90	-	71,721,628.02	84,565,640.92
(I) Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	128,440,129.02	128,440,129.02
(II) Shareholders' contributions and withdraw of	-	-	-	-	-	-	-	-	-	-	-	-
1. Common shares contribution by the shareholders	-	-	-	-	-	-	-	-	-	-	-	-
2. Other equity holders' contribution	-	-	-	-	-	-	-	-	-	-	-	-
3. Increase in shareholders' equity resulted from share-based	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(III) Appropriation of profits	-	-	-	-	-	-	-	-	12,844,012.90	-	(56,718,501.00)	(43,874,488.10)
1. Make surplus reserves	-	-	-	-	-	-	-	-	12,844,012.90	-	(12,844,012.90)	-
2. Make general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-
3. Distributions to shareholders	-	-	-	-	-	-	-	-	-	-	(43,874,488.10)	(43,874,488.10)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Transfer within equity	-	-	-	-	-	-	-	-	-	-	-	-
1. Capitalization of capital reserves	-	-	-	-	-	-	-	-	-	-	-	-
2. Capitalization of surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-
3. Offsetting losses using surplus	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special Reserve	-	-	-	-	-	-	-	-	-	-	-	-
1. Accrued for the year	-	-	-	-	-	-	-	-	-	-	-	-
2. Used for the year	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at the end of current year	438,744,881.00	-	-	-	1,068,111,185.32	-	-	-	206,805,713.35	-	625,656,338.99	2,339,318,118.66

Legal Representative: Huang Yongfeng

Principal in charge of accounting: Chen Zhuo

Head of accounting department: Tian Hui

Statement of Changes in Shareholders' Equity (continued)

for the Year Ended 31 December 2017

Prepared by: FIYTA Holdings Ltd.

Monetary Unit: RMB Yuan

Item	2016											
	Share capital	Other equity instruments			Capital reserve	Less: treasury stocks	Other comprehensive income	Special reserve	Surplus Reserve	General risk reserve	Undistributed profit	Total shareholders' equity
I. Balance at the end of prior year	438,744,881.00	-	-	-	1,068,111,185.32	-	-	-	179,743,077.15	-	469,841,589.40	2,156,440,732.87
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-	-	-	-
Correction of prior period errors	-	-	-	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-	-	-	-
II. Balance at the beginning of current year	438,744,881.00	-	-	-	1,068,111,185.32	-	-	-	179,743,077.15	-	469,841,589.40	2,156,440,732.87
III. Changes in equity for the year ("-" for decrease)	-	-	-	-	-	-	-	-	14,218,623.30	-	84,093,121.57	98,311,744.87
(I) Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	-	142,186,232.97	142,186,232.97
(II) Shareholders' contributions and withdraw of	-	-	-	-	-	-	-	-	-	-	-	-
1. Common shares contribution by the shareholders	-	-	-	-	-	-	-	-	-	-	-	-
2. Other equity holders' contribution	-	-	-	-	-	-	-	-	-	-	-	-
3. Increase in shareholders' equity resulted from share-based payments	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(III) Appropriation of profits	-	-	-	-	-	-	-	-	14,218,623.30	-	(58,093,111.40)	(43,874,488.10)
1. Make surplus reserves	-	-	-	-	-	-	-	-	14,218,623.30	-	(14,218,623.30)	-
2. Make general risk reserve	-	-	-	-	-	-	-	-	-	-	-	-
3. Distributions to shareholders	-	-	-	-	-	-	-	-	-	-	(43,874,488.10)	(43,874,488.10)
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(IV) Transfer within equity	-	-	-	-	-	-	-	-	-	-	-	-
1. Capitalization of capital reserves	-	-	-	-	-	-	-	-	-	-	-	-
2. Capitalization of surplus reserves	-	-	-	-	-	-	-	-	-	-	-	-
3. Offsetting losses using surplus	-	-	-	-	-	-	-	-	-	-	-	-
4. Others	-	-	-	-	-	-	-	-	-	-	-	-
(V) Special Reserve	-	-	-	-	-	-	-	-	-	-	-	-
1. Accrued for the year	-	-	-	-	-	-	-	-	-	-	-	-
2. Used for the year	-	-	-	-	-	-	-	-	-	-	-	-
(VI) Others	-	-	-	-	-	-	-	-	-	-	-	-
IV. Balance at the end of current	438,744,881.00	-	-	-	1,068,111,185.32	-	-	-	193,961,700.45	-	553,934,710.97	2,254,752,477.74

Legal Representative: Huang Yongfeng

Principal in charge of accounting: Chen Zhuo

Head of accounting department: Tian Hui

FIYTA Holdings Ltd.
Notes to the Financial Statements
for the Year Ended 31 December 2017

(Expressed in RMB Yuan unless otherwise indicated)

I. Company status

FIYTA Holdings Ltd. (the “Company”) was founded, under the approval of Shen Fu Ban Fu (1992) 1259 issued by the General Office of Shenzhen Municipal Government, through the restructuring of former Shenzhen FIYTA Time Industrial Company by the promoter of China National Aero-Technology Import and Export Shenzhen Industry & Trade Center (name changed to “China National Aero-Technology Shenzhen Co., Ltd” lately) on 25 December 1992, and the name changed to “Shenzhen FIYTA Holdings Limited”. The headquarters is located at FIYTA Hi-Tech Building, Gao Xin Nan Yi Dao, Nanshan District, Shenzhen, Guangdong Province.

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

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

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

On 26 October 2007, the Company implemented split-share reform. Under the premise of maintaining the Company’s total of 249,317,999 shares unchanged, the Company’s shareholders of non-tradable shares paid 3.1 shares per 10 tradable shares to all the tradable share shareholders registered on option registration date designated by the split-share reform program. At that point, after the reform, the shares held by China National Aviation Group reduced to 44.69% from 52.24%.

On 29 February 2008, due to expanding the scope of business, the Company’s corporate business license was altered from Shen Si Zi No. 4403011001583 to No. 440301103196089 with the approval of

Shenzhen Municipal Administration for Industry and Commerce.

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

On 3 March 2011, the company name changed to FIYTA Holdings Limited with the approval of Shenzhen Municipal Administration for Industry and Commerce.

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

On 11 November 2015, with the approval of China Securities Regulatory Commission (CSRC) “Reply of non-public offering of stocks of Shenzhen FIYTA Holdings Limited” (ZhengJianXuKe[2015]2588) and the approval of State-owned Assets Supervision and Administration Commission of the State Council (SASAC) “Reply of non-public offering of stocks of Shenzhen FIYTA Holdings Limited” (SASAC(2015)415), the Company was approved to issue not more than 46,911,649 ordinary shares (A shares) through non-public offering. After the completion of the non-public offering of stocks on 22 December 2015, the Company’s registered capital was increased to RMB438,744,881.00 and the equity capital of the Company held by China National Aviation Group reduced to 37.15%.

As at 31 December 2017, the Company has accumulatively issued 438,744,881 shares in total (refer to Notes VI. 29 “Share capital” for detail).

Corporate governance institutions that were established by the Company include General Meeting of Shareholders, Board of Directors, Board of Supervisors, Strategy Committee, Audit Committee, and Nomination, Remuneration and Evaluation Committee. The Company’s functional departments include Administration, Party Affairs, Supervision and Audit, Finance, Human Resources, Strategy and Development, Data and Information, Innovative Design Center, R&D Department and Property Management departments.

The financial statements have been approved and authorised for issue by the Board of Directors of the Company on 8 March 2018.

There are 12 subsidiaries that are included in the Company’s scope of consolidation for year 2017, see Note VIII “Equity in other entities” for detail. Comparing with prior year, the status of changes in scope of

consolidation is: zero addition and three decrease. See Note VII “Changes in scope of consolidation” for detail.

The business scope of the Company and its subsidiaries mainly includes: producing and selling of analogue quartz watches and its movements, components, various timing devices, processing and wholesaling karat gold jewellery watches (production sites are to be declared separately); domestic commercial and material supply and distributing business (excluding goods under exclusive operational rights, special control and exclusive sales); property management and leasing. Import and export business of self-design and construction; import and export business (according to Shen Mao Guan Deng Zheng Zi No.2007-072).The legal representative of the Company is Huang Yongfeng.

II. Basis of preparation

The financial statements of the Company have been prepared based on going concern assumption and based on actual transactions and events occurred. It is prepared in accordance with the requirements of “Accounting Standards for Business Enterprises - Basic Standard” (promulgated under Decree No. 33 of the Ministry of Finance and revised under Decree No. 76 of the Ministry of Finance) and 42 Specific Standards issued and revised by the Ministry of Finance on and after 15 February 2006, and application guidance, illustrations to the standards and related pronouncements (collectively known as “Accounting Standards for Business Enterprises” or “CAS”). These financial statements also comply with the disclosure requirements of “Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports” (revised in 2014) issued by China Securities Regulatory Commission (CSRC).

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

III. Statement of compliance

The financial statements of the Company have been prepared in accordance with the requirements of Accounting Standards for Business Enterprises. These financial statements present truly and completely the financial position as at 31 December 2017, the results of operations and the cash flows for the year then ended of the Company. In addition, the financial statements of the Company comply with, in all material respects, the disclosure requirements for financial statements and notes to the financial statements under “Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports” as revised by CSRC in 2014.

IV. Significant accounting policies and estimates

The Company and each subsidiaries determines specific accounting policies and estimates for revenue recognition, depreciation of fixed asset, amortization of intangible assets and R&D expenses according to the characteristics of their production and operation and based on CAS. Refer to Notes IV. 23 “Revenue”, Note IV 15 “Fixed Asset”, Note IV 18 (1) “Intangible Asset” and Note IV 18 (2) “R&D Expenses” for detail. For explanation of significant accounting judgement and estimate made by the management, refer to Note IV 29 “Significant accounting judgement and estimate” for detail.

1. Accounting period

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

2. Operating cycle

Normal operating cycle refer to the period start from purchasing asset for manufacturing until realization of cash or cash equivalent. The operating cycle of the Company is 12 months, which is the basis for distinguishing liquidity of assets and liabilities.

3. Recording currency

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

Except for the Swiss-based subsidiary Montres Chouriet SA (the “Swiss Company”) , which is a subsidiary of FIYTA (Hong Kong) Limited (FIYTA Hong Kong), uses Swiss Franc as the recording currency according to the main economic environment where the Swiss Company operated, all other subsidiaries outside the mainland China, including HARMONY World Watches International Limited (World Watches International), a subsidiary of Shenzhen HARMONY World Watches Center Co., Ltd (HARMONY Company), FIYTA Hong Kong and its subsidiary Station 68 Limited (Station 68) use Hong Kong Dollar (HKD) as the recording currency and translate to Renminbi when preparing financial statements.

The currency used in preparing the Company’s financial statements is Renminbi.

4. Accounting treatment for business combinations involving entities under common control and not under common control

Business combination refers to transactions or events that combine two or more separate enterprises and form one reporting entity. Business combinations are classified into business combinations involving

enterprises under common control and business combinations involving enterprises not under common control.

(1) Business combination involving entities under common control

If the enterprises involved in a combination are subject to control of the same party or parties both before and after the combination, and that control is not temporary in nature, it is business combination under common control. The party who obtains control over other participating enterprises on the combination date is the combining party, and the other participating enterprises are combined parties in a business combination under common control. Combination date means the date on which the combining party actually obtains control over the combined parties.

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

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

(2) Business combinations involving entities not under common control

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

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

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

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

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

For business combination involving entities not under common control that achieved in stages that involves multiple transactions, judgement of whether a transaction belongs to "a basket transaction" requires to be carried out in accordance with the "Notice of the Ministry of Finance on Circulating the Fifth Interpretation to Accounting Standards for Business Enterprise" (Cai Kuai (2012) No. 19) and criteria of "a basket transaction" stated in clause 51 of "Accounting Standards for Business Enterprise No. 33 – Financial Statements Consolidation" (see Note IV 5 (2) for detail). If it is "a basket transaction", the accounting treatment shall be referred to descriptions in above paragraphs and Note IV 13 "Long-term equity investment". If it isn't "a basket transaction", the accounting treatment shall be differentiated for individual and consolidated financial statements.

In the individual financial statements, the initial investment cost is the sum of the carrying amount of equity investment of the acquiree held prior to the acquisition date and the additional investment cost at the acquisition date. When disposing an equity held prior the acquisition date that involving other

comprehensive income, the other comprehensive income shall be accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities (i.e. except for the portion resulted from changes in re-measuring the acquiree's net liability or net asset of a defined benefit plan according to equity method accounting, the rest shall be recorded in current period investment gain).

In the consolidated financial statements, the cost of equity investment of the acquiree held prior to the acquisition date is re-measured at the fair value on the acquisition date, the difference between the fair value and carrying value is recognized as investment gain for the current period.

For an equity held prior the acquisition date that involving other comprehensive income, the other comprehensive income shall be accounted for on the same basis as would have been required if the investee had directly disposed of the related assets or liabilities (i.e. except for the portion resulted from changes in re-measuring the acquiree's net liability or net asset of a defined benefit plan according to equity method accounting, the rest shall be recorded in current period investment gain).

5. Method of preparing consolidated financial statements

(1) Principles in determining the scope of the consolidation

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

The Company will re-evaluate the scope of consolidation once related facts and situation changes, which in turn results in changes to key factors that define control.

(2) Method of preparing consolidated financial statements

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

under common control, the business performance and cash flows from the beginning of the period to the combination date are properly included in the consolidated income statement and consolidated cash flow statement, and the opening and comparative figures of the consolidated financial statements are adjusted at the same time.

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

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

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

If the Company losses control over a subsidiary due to partial disposal of equity investment or other reasons, the remaining equity is measured at fair value on the date when the control lost. The difference between the sum of consideration received for disposal of equity interest and the fair value of remaining equity interest less the net assets attributable to the Company calculated continuously since the purchase date based on shareholding percentage before disposal are recognized in investment gain in the period when the control lost. Other comprehensive income related to equity investment in the subsidiary is transferred to investment gain at the time control lost. The remaining equity interests are measured subsequently according to "CAS No. 2 – Long-term Equity Investment" or "CAS No. 22 – Recognition and measurement of Financial Instrument". See Note IV. 9 "Financial instrument" or Note IV. 13 "Long-term equity investment" for details.

If the Company losses control over a subsidiary step by step through multiple disposal transactions, judgment of whether these transactions belong to "a basket transaction". It's typically considered to account the multiple transaction as "a basket transaction" if the terms, conditions or economic effects of each of the transactions meet one or more criteria list below:

- a. The transactions are entered into at the same time or in contemplation of each other;
- b. The transactions together can achieve a complete commercial effect;

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- c. The occurrence of one transaction is dependent on the occurrence of at least one other transaction;
 - d. One transaction is not economically justified, but it is economically justified when considered together with other transactions.

If the transactions do not belong to a basket transaction, each transactions shall be accounted for as a disposal transaction that does not resulted in loss of control (refer to Note IV. 13 (2) ④ for detail) and applicable principle of loss of control over a subsidiary because of partial disposal of equity investment or other reason (refer to previous paragraph). However, the difference between each consideration received for disposal and portion of net asset related to the disposal shall be accounted as other comprehensive income in consolidated financial statement and charged to profit or loss at the time control losses and in the period of loss of control.

6. Categorizing of joint arrangement and accounting treatment for joint operation

A joint arrangement is an arrangement of which two or more parties have joint control. The Company classifies joint arrangements into joint operations and joint ventures. A joint operation is a joint arrangement whereby the joint operators have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the joint ventures have rights to the net assets of the arrangement.

The Company adopts equity method to joint venture investment and accounted for in accordance with accounting policies stated in Note IV 13 (2) ② “Long-term investment accounted for using equity method”.

As a party in a joint operation, the Company recognize the followings: asset held independently; liability undertaken independently; the Company’s share of asset held commonly and liability undertaken commonly; revenue from selling output of the joint operation that enjoyed by the Company; revenue from selling output of the joint operation based on the Company’s share; expenses incurred independently by the Company and common expenses incurred and shall be borne by the Company according to its shares.

When the Company, as a party in a joint operation, invest or sell asset (the asset does not constitute business) to the joint operation or purchase asset from the joint operation, the Company only recognize the portion of profit or loss that attribute to other parties in the joint operation arises from the transaction before the asset is sold to third party. If the asset impaired according to “CAS No. 8 – Asset impairment”, the Company recognize the loss in full if the asset is invested or sold to the joint operation by the Company, or only recognize the portion attributable to the Company should be recognized if the asset is purchased by the Company from the joint operation.

7. Determination of cash and cash equivalents

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

8. Foreign currency transactions and financial statements translation

(1) Translation of foreign currency transactions

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

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

At the balance sheet date, monetary items denominated in foreign currencies are translated using the spot rate at the balance sheet date. Translation differences arising from the translation are recognized in current profit or loss except for capitalized exchange difference attributable to assets purchased or constructed, which can be capitalized, using foreign currency specified loan and amortized cost of available for sale monetary items denominated in foreign currency. The exchange difference arose from the two scenario mentioned above shall be treated under the principal of capitalizing of borrowing cost and charged to other comprehensive income respectively.

In preparing of the consolidated financial statements involving overseas operations, if there is any foreign-currency monetary item constituting substantially net investment in overseas operation, the exchange difference arising from exchange rate variation is recognized in other comprehensive income and will be charged to profit or loss at the period the investment is disposed.

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

(3) Translation of financial statements prepared in foreign currencies

In preparing of the consolidated financial statements involving overseas operations, if there is any foreign-currency monetary item constituting substantially net investment in overseas operation, the

exchange difference arising from exchange rate variation is recognized as “translation difference” under owners’ equity in balance sheet. In case of disposal of overseas operation, it is charged to the profit and loss of the period.

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

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

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

All foreign exchange translation difference of an overseas investment recorded under equity and attributable to the shareholders of the parent company shall be charged to current period profit or loss when the Company loses control over this overseas investment due to disposal of all equity owned or partial disposal or other reasons.

If the equity holding in an overseas investment decreased but still maintain control due to partial disposal or other reasons, foreign exchange translation difference related to the part disposed shall be included as minority shareholders’ interest and should not be charged to current period profit or loss. If the partial disposal is for overseas associate or joint ventured enterprise, foreign exchange difference related to the overseas operation shall be charged to profit or loss when the disposal occurred based on the percentage disposed.

9. Financial instruments

A financial asset or financial liability is recognized when the Company becomes one party of financial instrument contracts. Financial asset and financial liability are initially recognized at fair value.

Transaction expenses for fair value through profit or loss financial asset and liability shall be charged to the profit or loss directly. Transaction expenses for financial asset and liability other than that shall be included in the initial recognition amount.

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

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

(2) Classification, recognition and measurement of financial assets

Financial assets which are traded in conventional manner are recognized or derecognized on the transaction date. On initial recognition, financial assets are classified into fair value through profit or loss financial assets, held-to-maturity financial assets, loans and receivables, and available-for-sale financial assets.

① Fair value through profit or loss financial asset

Fair value through profit or loss financial asset includes financial asset held for trade and designated upon initial recognition as at fair value through profit or loss.

Financial asset meet one of the following criteria is categorized as financial asset held for trade: A. the purpose of acquiring the financial asset is for selling in short-term; B. belongs to identifiable financial instrument portfolio that is centralized managed and objective evidence proofed that the Company manages the portfolio in a manner to make profit in short-term; C. belongs to derivative instrument except for derivative instruments that are designated as effective hedging tools, financial guarantee contract or connected with equity instrument investment that do not have quotation in an active market and that the fair value cannot be measured reliably and the settlement of derivative instrument must involve delivery of this equity instrument.

Financial asset can be recognized initially as designated fair value through profit or loss financial asset if one of the following conditions is met: A. the designation can eliminate or reduce significantly the situation of inconsistency in recognition or measurement of profit or loss caused by different measurement basis; B. the official documents of the Company's risk management or investment

strategy state that the financial asset portfolio or portfolio combines financial asset and financial liability that contains the financial asset are managed, evaluated and reported to key management based on fair value.

Fair value through profit or loss financial asset is measured consequently using fair value. Profit or loss arose from changes in fair value and dividend and interest income related to the asset are recorded in current period profit or loss.

② Held-to-maturity investment

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Company has the positive intention and ability to hold to maturity.

Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method; gains and losses arising from de-recognition, impairment or amortization is recognized in profit or loss for the current period.

Effective interest rate method refers to the method that calculates amortized cost and interest income or expenses for each period based on actual interest rate of a financial asset or financial liability (or a group of financial asset or financial liability). Effective interest rate is the rate that used to discount future cash flows of a financial asset or financial liability in its holding period or a shorter time applicable to its current book value.

When calculating effective interest, the Company estimates future cash flows (do not consider future credit loss) based on all contractual terms of the financial asset or financial liability, and taking into consideration of expenses, transaction fee and discount or premium, which consist part of the actual interest rate, that are paid to or received from different parties of the financial asset or financial liability contract.

③ Loan and receivables

Loan and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's assets fall under this category include notes receivable, accounts receivable, interest receivable, dividends receivable and other receivables etc...

Loan and receivables are subsequently measured at amortized cost using the effective interest method; gains and losses arising from de-recognition, impairment or amortization is recognized in profit or loss for the current period.

④ Available-for-sale financial asset (AFS financial asset)

AFS financial assets are those non-derivative financial assets that are designated as available for sale and those financial assets in addition to those above mentioned.

The cost of AFS debt instrument investment at period end is determined according to amortized cost, i.e.

the initial recognized amount minus principal repaid plus or minus the accumulated amortization of difference between initial recognized amount and amount at the maturity date, and minus impairment loss incurred. The cost of AFS equity instrument at period end is the initial cost when it is acquired.

AFS financial assets are subsequently measured at fair value. Gain and losses arising from changes in fair value of AFS financial assets (other than impairment losses and foreign exchange gains and losses resulted from foreign currency monetary assets which are recognized in profit or loss for the current period) are recognized as other comprehensive income, until the financial assets are derecognized, are transferred to profit or loss for the current period. Equity instrument investment with no quoted price in active markets and with not reliably measured fair value, and derivative financial assets for the equity instrument and settled by paying the equity instrument are subsequently measured at cost.

Interest income and dividends related to the AFS financial assets are recognized as investment gain for the current period.

(3) Impairment of financial assets

The Company assesses the carrying amount of financial assets at each balance sheet date other than those at fair value through profit or loss, if there is objective evidence that financial assets are impaired, the Company determines the amount of impairment loss.

The Company conducts impairment test on individually significant financial assets separately. Financial assets that are not individually significant in amount are tested for impairment separately or grouped into different asset portfolios based on similarity and correlation of the credit risk characteristics. Financial assets that are not impaired after standalone impairment tests will be tested again by including it in a portfolio of financial assets with similar credit risk characteristics. Financial assets that have been impaired in standalone test will not be tested again by including it in a portfolio of financial assets with similar credit risk characteristics.

① Impairment to held-to-maturity, loan and receivables

The carrying amount of financial assets that are measured at cost or amortized cost shall be reduced to the present value of estimated future cash flows. The amount reduced shall be recognized as impairment loss and charged to current period profit or loss. If there is objective evidence shows that the value of the financial asset recovered after impairment loss was recognized, and the recovery is connected with matters happened after the recognition of impairment loss, the loss recognized previously could be reversed. The carrying amount after the reversal shall not exceed the amortized cost at the reversal date as if there is no impairment before.

② Available-for-sale financial assets

It indicated that impairment incurred to the AFS financial asset if the fair value decrease is judged as

severe and not temporary by considering all relevant factors.

If AFS financial assets are impaired, accumulated losses due to decreases in fair value previously recognized directly in other comprehensive income are reversed and charged to profit or loss for the current period. The reversed accumulated losses are the asset's initial acquisition costs after deducting amounts recovered and amortized, current fair value and impairment losses previously recognized in profit or loss.

If, in a subsequent period, the fair value of financial assets increases and the increase can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment losses can be reversed. The reversal of impairment losses of AFS equity instruments are to be included in other comprehensive income and the AFS debt instrument impairments are to be reversed through current period profit or loss.

The impairment for derivative financial asset that do not have quotation in an active market and that the fair value cannot be measured reliably and the settlement of derivative instrument must involve delivery of this equity instrument are not allowed to be reversed.

(4) Condition of recognition and measurement of transfer of financial assets

Financial asset is derecognized if one of the following conditions is satisfied: ① the contractual rights of receiving cash flows from the financial asset is terminated; ② financial asset has been transferred, and substantially all risks and reward associated with the ownership of the financial asset have been transferred to transferee; ③ the financial asset has been transferred. The enterprise neither transfers nor retains substantially all the risks and rewards associated with the ownership of the financial asset, but it has not retained control over the financial asset.

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

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

If a part of the transferred financial asset qualifies for de-recognition, the carrying amount of the transferred financial asset in its entirety shall be allocated between the part that is derecognized and the remaining portion proportionately based on the relative fair value of each part. The difference between the carrying amount allocated to the part derecognized and the sum of the consideration received for the

part derecognized and any cumulative gain or loss attributable to it that had been recognized in other comprehensive income is recognized in current profit or loss.

For financial asset sold with recourse or endorsed, it needs to assure that almost all risk and rewards associated with the financial asset have been transferred. If almost all risk and rewards associated with the financial asset have been transferred to the recipient, the financial asset shall be de-recognized. If the Company retains almost all risk and rewards associated with the financial asset, it shall not be de-recognized. If the Company neither transfers nor retains almost all risk and rewards associated with the financial asset, judgment of whether the Company retains control over the asset needs to be carried out and it shall be accounted for based on principals stated in above paragraphs.

(5) Classification and measurement of financial liabilities

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

① Fair value through profit or loss financial liability

The condition of categorizing fair value through profit or loss financial liability and designated as fair value through profit or loss financial liability is the same as fair value through profit or loss financial asset and designated fair value through profit or loss asset.

Fair value through profit or loss financial liability is measured subsequently using fair value and gain or losses resulted from changes in fair value and dividend or interest payment related to the financial liability shall be charged to current period profit or loss.

② Other financial liability

Derivative financial liabilities, which connected with equity instrument without quotation in an active market and that the fair value cannot be measured reliably and the settlement of such financial liabilities require delivery of the equity instrument, are measured subsequently at cost. Other financial liabilities are measured at amortized cost using effective interest rate method. Gain or losses arising from derecognizing or amortization are charged to current profit or loss.

③ Financial guarantee contract

Financial guarantee contracts that are not belong to financial liabilities designated as fair value and record changes in profit or loss are initially recognized at fair value, and initially recognized at the determined amount in accordance with the "CAS No. 13 - Contingencies" and the higher of the initial balance after deducting the accumulated amortization according to the "CAS No. 14 - Income".

(6) De-recognition of financial liability

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

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

(7) Derivative instrument and embedded derivative instrument

Derivative financial instruments of the Company are initially measured at the fair value of the date a derivative contract entered into and subsequently measured at their fair value. Gain or losses arising from changes in fair value of derivative instrument that designated hedging instrument and highly effective are charged to profit or loss based on hedging accounting. Any gains or losses arising from changes in fair value which do not meet the requirements of hedge accounting are directly recognized to profit or loss for the current period.

For hybrid instrument with embedded derivative, where financial assets or liabilities not designated as fair value through profit or loss, the economic features and risks of the embedded derivative are not closely related to that of the host contract, and a similar instrument with the same terms as the embedded derivative would meet the definition of a derivative, then embedded derivative is separated from hybrid instrument and accounted for as a derivative. If embedded derivative is unable to measure separately either at acquisition or subsequently at balance sheet date, hybrid instrument as a whole is designated as financial assets or liabilities at fair value through profit or loss.

(8) Offsetting of financial assets and financial liabilities

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

(9) Equity Instrument

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

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

10. Accounts receivable

Receivables include accounts receivable and other receivables.

(1) Recognition principle for bad debts provision

The Company examines, at the balance sheet date, the carrying amounts of receivables and impairment provision is recognized if following objective evidences that indicating impairment to receivables occurs:

① severe financial difficulties of the debtor; ② a breach of contract by the debtor (such as a default or breach of contract in interest or principle repayments); ③ it is probable that the debtor will be bankrupted or conduct other financial reorganization; and ④ other objective evidences indicating there is an impairment of the receivables.

(2) Method of recognizing bad debt provision

① Determination and providing bad debt provision for receivables which are individually significant in amount and provided for bad debt individually

The Company identifies single accounts receivable item that above RMB800,000.00 (inclusive) and single other receivable item that above RMB500,000.00 (inclusive) as receivables that individually significant in amount.

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

② Determination of receivables that recognize bad debt provision under credit risk portfolio and bad debt provision recognition.

A. Basis of determining portfolio with similar credit risk characteristics

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

Basis of portfolio determination

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

B. Recognizing bad debt provision based on credit risk portfolio

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

Method of recognizing bad debt provision for different portfolios

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

a. Recognizing bad debt provision based on aging analysis method within the portfolio

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

b. Recognizing bad debt provision using other method within the portfolio

Name of portfolio	Percentage of provision recognized for accounts receivable (%)	Percentage of provision recognized for other receivables (%)
Portfolio of specific accounts	No bad debt provision is recognized as the risk of impairment does not exist according to its credit risk characteristics	

Based on historical experience, the Group's receivables from petty cash advanced to employees, from subsidiaries of the Company and sales revenue between the last settlement date of the same department store and the balance sheet date are with high recoverability and low possibility of incurring

bad debt, as a result, no bad debt provisions are provided for such receivables.

③ Receivables that are insignificant in amount individually but recognize bad debt provision individually

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

(3) Reversal of bad debt provision

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

Accounts receivable transferred by the Company to financial institutions without recourse, the difference between transaction amount minus the carrying amount of receivable and related transaction taxes and fees is charged to current period profit or loss.

11. Inventory

(1) Classification of inventory

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

(2) Costing method of acquiring and delivering of inventory

The inventory is valued using actual cost when it is acquired. The cost of inventory includes cost of purchase, manufacturing cost and other costs. Costing methods used for inventory usage and shipment include: weighted average costing (except for branded watches), specific identification method (for stored goods of branded watches).

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

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

determined using the estimated selling price less estimated selling expenses and related taxes if the business is in the ordinary course of operation; (b) the NRV of materials that need to be processed are determined using estimated selling price of finished goods which is manufactured from the material less estimated cost of completion, estimated selling expenses and related taxes if the business is in the ordinary course of operation.

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

Impairment provisions for branded watches are recognized by specific item.

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

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

(4) The inventory system is perpetual inventory system

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

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

12. Asset held for sale and disposal group

If the Company mainly recovers a non-current asset or disposal group by disposal (including non-monetary transaction with commercial substance, the same below) rather than continuously usage. The asset is then classified as assets held for sale. The following conditions are to be met at the same time: A non-current asset or disposal group can be immediately sold under current conditions based on the practice of selling such assets or disposal group in a similar transaction; the Company has already decided on the sales plan and has been confirmed the purchase commitment; the sale is expected to be completed within one year. Among them, the disposal group refers to a group of assets that are disposed of by the sale or other means together in a transaction, and the liabilities directly related to these assets transferred in the transaction. The disposal group belongs to the asset group or the asset group combination in accordance with "CAS No. 8 –Asset impairment" to share the goodwill acquired in the business combination, the disposal group shall include the goodwill allocated to the disposal group.

When the Company initially measures or re-measures the non-current assets held for sale and the disposal group on the balance sheet date, if the book value is higher than the net amount after the fair value minus the selling expenses, then the book value is reduced to the net amount after deducting the selling expenses from the fair value shall be recognized as the asset impairment loss and recorded in

the current profits and losses, and at the same time, provision shall be made for the impairment of assets held for sale. For the disposal group, the recognized impairment loss on assets is offset against the carrying amount of the goodwill in the disposal group, and then reduced in proportion to the applicable "CAS No. 42 - Non-current Assets Held for Sale , Disposal Group and Discontinued Operations" ("Held-for-Sale Standard") measurement requirements of the non-current assets of the book value. On the subsequent balance sheet date, if the fair value minus the selling expenses increases, the amount previously written-down should be restored and the applicable sale-for-sale criterion should be applied after classification as held-for-sale category reversal of the amount of the asset impairment loss recognized in the measurement of non-current assets shall be recorded into the profits and losses of the current period; and according to the book value of the non-current assets held by the disposal group other than goodwill, the carrying amount of the goodwill that has been offset against and the non-current assets subject to the measurement of the held for sale criteria cannot be reversed .

Non-current assets held for sale or disposal of non-current assets in the disposal group are not subject to depreciation or amortization. The interest on liabilities held in the disposal group for sale and other expenses are continuously recognized.

Non-current assets or disposal group no longer meet the classified conditions for holding the sale category, the Company will no longer be classified as held for sale or remove non-current assets from held-for-sale disposal group, and shall be measured at the lower of the following: (1) The carrying amount before classification as held for sale is adjusted according to the depreciation, amortization or impairment that should be recognized if it is not classified as held for sale; (2) recoverable amount.

13. Long-term equity investment

Long-term equity investment refers to equity investments where the Company has control, joint control or significant influence over, an investee. Equity investment where the Company cannot control, joint control or exercise significant influence over the investee, shall be accounted for as AFS financial asset or Fair value through profit or loss financial asset, of which the accounting policies are stated in Note IV 9 "Financial instrument".

Joint control means jointly control of a certain business activity according to the agreement of contract. It exists only when the agreement on important accounting and business policies that needs to be reached between investors who share the control rights. Significant influence means participation in decision making to a company's finance and business policies, but could not control or jointly control with other parties to the policy making.

(1) Determination of investment cost

For a long-term equity investment acquired through a business combination involving entities under common control, the investment cost of the long-term equity investment is the attributable share of the

carrying amount of the shareholders' equity of the acquiree at the date of combination. The difference between the initial cost of the long-term equity investment and the payment in cash, non-cash assets transferred as well as the book value of the debts borne by the acquirer shall offset against the capital reserve. If the capital reserve is insufficient to deduct, retained earnings shall be adjusted. If the consideration is paid by issuing equity securities, it shall, on the date of acquisition, regard the share of the book value of the shareholder's equity of the acquiree on the consolidated financial statement of the ultimate control party as the initial cost of the long-term equity investment. The total face value of the stocks issued shall be regarded as the capital stock, while the difference between the initial cost of the long-term equity investment and total face value of the shares issued shall offset against the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. The equities of the combined party which respectively acquired through multiple transaction under the same control that ultimately form into the combination of the enterprises under the common control, should be disposed according whether belongs to a basket transaction. If it belongs to a basket transaction, each transaction shall be accounted for by the Company as a transaction of acquiring the control right. If not belongs to package deal, it shall, on the date of merger, regard the enjoyed share of the book value of the shareholder's equity of the merged enterprise on the consolidated financial statement of the ultimate control party as the initial cost of the long-term equity investment, and as for the difference between the initial investment cost of the long-term equity investment and sum of the book value of the long-term equity investment before the combination and the book value of the consideration of the new payment that further required on the combination date, should adjust the capital reserve. If the capital reserve is insufficient to dilute, the retained earnings shall be adjusted. The equity investment held before the combination date which adopted the equity method for accounting, or the other comprehensive income confirmed for the available-for-sale financial assets, should not have any accounting disposal for the moment.

For the long-term investment required acquired from the business combination involving entities not under common control, the initial investment cost regarded as long-term equity investment on the purchasing date according to the combination cost, the combination costs shall be the sum of the fair values of the assets paid, the liabilities incurred or assumed and the equity securities issued by the Company. The equity of the acquirees which respectively acquired through multiple transactions that ultimately form into the combination of the entities under common control, should be disposed according whether belongs to a basket transaction. If it belongs to a basket transaction, each transaction would be accounted for by the Company as a transaction of acquiring the control right. If it does not belong to a basket transaction, the sum of the book value of the original held equity investment of the acquirees and the newly added investment cost should be regarded as the initial investment cost of the long-term

equity investment that changed to be accounted by cost method. If the original held equity is calculated by cost method, the other relevant comprehensive income would not have any accounting disposal for the moment. If the original held equity investment is the financial assets available for sale, its difference between the fair value and the book value as well as the accumulative changes of the fair value that include in the other comprehensive income, should transfer into the current gains and losses.

Agent fees incurred by the acquirer for the business combination such as audit, legal service, and valuation and consultation fees, and other related administration expenses are charged to current profit or loss at the time such expenses incurred.

Equity investments that other than the kind originated from business combinations are measured at cost initially. The investment cost differs based on ways of acquiring the long-term equity investment. It can be determined based on cash consideration actually paid by the Company, fair value of equity securities issued by the Company, value stimulated in investment contract or agreement reached, fair value or carrying amount of assets that is exchanged in a non-monetary asset transfer transaction, or the fair value of the long-term equity investment itself. Expenses that directly related to the acquisition of the long-term equity investment, taxes and other necessary expenditure are included in the investment cost. Cost for long-term equity investment that has significant influences over the investees because of addition of the investment or execute joint control, shall be accounted for based on the sum of the fair value of the equity investment original held according to “CAS No.22 – Recognition and Measurement of Financial Instrument” and the newly added investment cost.

(2) Subsequent measurement and recognition of gain or losses

Equity method is used for measurement of long-term equity investment if there is common control (except joint operation) with or significant influence over the invested entity. Cost method is used for measurement of long-term equity investment if there is control over the invested entity.

① Long-term equity investments that are measured using cost method

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

② Long-term equity investments that are measured using equity method

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

When measured by adopting equity method, respectively recognize investment income and other comprehensive income according to the net gains and losses as well as the portion of other comprehensive income which should be enjoyed or be shared, and at the same time adjust the book value of the long-term equity investment; corresponding reduce the book value of the long-term equity investment according to profits which be declared to distribute by the investees or the portion of the calculation of cash dividends which should be enjoyed; for the other changes except for the net gains and losses, other comprehensive income and the owners' equity except for the profits distribution of the investees, should adjust the book value of the long-term equity investment as well as include in the capital reserve. The investing enterprise shall, on the ground of the fair value of all identifiable assets of the invested entity when it obtains the investment, recognize the attributable share of the net profits and losses of the invested entity after it adjusts the net profits of the invested entity. If the accounting policies adopted by the investees is not accord with that of the Company, should be adjusted according to the accounting policies of the Company and the financial statement of the investees during the accounting period and according which to recognize the investment income as well as other comprehensive income. For the transaction happened between the Company and associated enterprises as well as joint ventures, if the assets launched or sold not form into business, the portion of the unrealized gains and losses of the internal transaction, which belongs to the Group according to the calculation of the enjoyed proportion, should recognize the investment gains and losses on the basis. But the losses of the unrealized internal transaction happened between the Company and the investees which belongs to the impairment losses of the transferred assets, should not be neutralized. The assets launched by the Company to the associated enterprises or the joint ventures if could form into business, the long-term equity investment without control right which acquired by the investors, should regard the fair value of the launched business as the initial investment cost the newly added long-term equity investment, and for the difference between the initial investment cost and the book value of the launched business, should be included into the current gains and losses with full amount. The assets sold by the Company to the associated enterprises or the joint ventures if could form into business, the difference between the acquired consideration and the book value of the business should be included in the current gains and losses with full amount. The assets purchased by the Company to the associated enterprises or the joint ventures if could form into business, should be accounting disposed according to the CAS - No. 20 – “Business Combination”, and should be recognized gains or losses related to the transaction with full amount.

The Company shall recognize the net losses of the invested enterprise until the book value of the long-term equity investment and other long-term rights and interests which substantially form the net investment made to the invested entity are reduced to zero. However, if the Company has the obligation

to undertake extra losses, it shall be recognized as the estimated liabilities in accordance with the estimated duties and then recorded into investment losses at current period. If the invested entity realizes any net profits later, the Company shall, after the amount of its attributable share of profits offsets against its attributable share of the un-recognized losses, resume recognizing its attributable share of profits.

③ Purchasing minority equity

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

④ Disposal of long-term equity investment

In consolidated financial statements, the parent company can dispose part of the long-term equity investment to a subsidiary given that the parent does not lose control over the subsidiary. The difference between consideration received for the disposal and the part of net assets disposed attributable to the parent is recognized in owners' equity. If the parent company loses control over a subsidiary because of long-term equity investment disposal, the accounting treatment shall refer to accounting policies stated in Note IV. 5 (2) – “Preparing consolidated financial statements”.

For long-term equity investment disposal other than situations mentioned above, the difference of carrying amount of disposed equity and the consideration actually received is charged to current profit or loss.

For the long-term equity investment measured by adopting equity method, if the remained equity after disposal still adopts the equity method for measurement, the other comprehensive income originally recorded into owners' equity should adopt the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees according to the corresponding proportion. The owners' equity recognized owing to the changes of the other owners' equity except for the net gains and losses, other comprehensive income and the profits distribution of the investees, should be transferred into the current gains and losses according to the proportion.

For the long-term equity investment which adopts the cost method of measurement, if the remained equity still adopt the cost method, the other comprehensive income recognized owing to adopting the equity method for measurement or the recognition and measurement standards of financial instrument before acquiring the control of the investees, should adopt the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees and should be carried forward into the current gains and losses according to the proportion; the changes of the other owners' equity except for the net gains and losses, other comprehensive income and the profits distribution among the net assets

of the investees which recognized by adopting the equity method for measurement, should be carried forward into the current gains and losses according to the proportion.

If the Company lost control over the investee by disposing part of the equity investment and the remained equity after disposal could execute joint control or significant influences over the investees, it should change to measure by equity method when preparing the individual financial statement and should adjust the measurement of the remained equity to equity method as adopted since the time acquired. If the remaining equity after disposal could not execute joint control or significant influences on the investees, it should change the accounting disposal according to the relevant regulations of the recognition and measurement standards of financial instrument, and its difference between the fair value and book value on the date lose the control right should be included in the current gains and losses. For the other comprehensive income recognized by adopting equity method for measurement or the recognition and measurement standards of financial instrument before the Company acquired the control of the investees, should execute the accounting disposal by adopting the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees when lose the control of them, while the changes of the other owners' equity except for the net gains and losses, other comprehensive income and the profits distribution among the net assets of the investees which recognized by adopting the equity method for measurement, should be carried forward into the current gains and losses according to the proportion. Of which, for the disposed remained equity which adopted the equity method for measurement, the other comprehensive income and the other owners' equity should be carried forward according to the proportion; for the disposed remained equity which changed to execute the accounting disposal according to the recognition and measurement standards of financial instrument, the other comprehensive income and the other owners' equity should be charged to profit or loss in full.

For those the Company lost the control of the investees by disposing part of the equity investment, the disposed remained equity should change to calculate according to the recognition and measurement standards of financial instrument, and difference between the fair value and book value on the date lose the control right should be included in the current gains and losses. For the other comprehensive income recognized from the original equity investment by adopting the equity method, should execute the accounting disposal by adopting the same basis of the accounting disposal of the relevant assets or liabilities directly disposed by the investees when terminate the equity method for measurement, while for the owners' equity recognized owing to the changes of the other owner's equity except for the net gains and losses, other comprehensive income and the profits distribution of the investees, should be transferred into the current investment income with full amount when terminate adopting the equity method.

The Company respectively disposes the equity investment of the subsidiaries through multiple transactions until lose the control right, if the above transactions belongs to the package deal, should execute the accounting disposal by regarding each transaction as a deal of disposing the equity investment of the subsidiaries until lose the control right, while the difference between each expenses of the disposal and the book value of the long-term equity investment in accord with the disposed equity before losing the control right, should firstly be recognized as other comprehensive income then be transferred into the current gains and losses of losing the control right along until the time when lose it.

14. Investment property

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

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

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

Please refer to Note IV. 20 “Impairment of Long-term assets” for details of impairment test and impairment provision recognition for investment property.

If the usage of a property changed from self-use to investment or vice versa, the carrying amount before change shall be used as initial recognition amount after the change.

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

The investment property is derecognized when it is disposed or ceased usage permanently and it is estimated that no benefit can be obtained from the disposal. Disposal income arising from selling, transfer, disposing and damaging the investment property, less its carrying amount and taxes related to the disposal, is recognized in profit or loss.

15. Fixed asset

(1) Recognition principles

Fixed assets refer to tangible assets that are held for the purpose of goods production, providing services, lease, or for administrative purposes with useful life of more than one accounting year. Fixed asset is recognized only when the economic benefit associated with the fixed asset is probable to flow into the Company and the cost can be measured reliably. Fixed asset is recognized initially at cost by considering estimated disposal expenses.

(2) Depreciation method

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

Categories	Method of depreciation	Estimated useful lives (year)	Estimated net residual value ratios (%)	Annual depreciation rates (%)
Plants and buildings	straight-line	20-35	5.00	2.70-4.80
Machinery equipment	straight-line	10	5.00-10.00	9.00-9.50
Electronics devices	straight-line	5	5.00	19.00
Transportation vehicles	straight-line	5	5.00	19.00
Other equipment	straight-line	5	5.00	19.00

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

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

For impairment test and impairment provision recognition for fixed asset, please refer to Note IV. 20 "Impairment of Long-term asset".

(4) Recognition basis and pricing method of financing leased fixed assets

A financing lease is a lease that transfers all the risks and rewards incidental to the ownership of the asset in substance and the ownership may or may not eventually be transferred. The depreciation accrued method of the fixed assets rented out under financing leases using a same policy as its own fixed assets. If it is reasonably certain that the ownership of the leased asset can be acquired when the lease term expires, depreciation is accrued over the useful life of the leased asset. If it cannot reasonably determine that the ownership of the leased asset can be acquired when the lease term expires, the depreciation will be accrued in the shorter of lease term and the useful life of leased asset.

(5) Others

Subsequent expenditure in relation to fixed asset is recognized in the cost of the fixed asset and derecognizing the carrying amount of the part replaced if it is probable that the economic benefit related to the fixed asset will flow in the entity and the cost can be measured reliably. Subsequent expenditures other than this are charged to current profit or loss.

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

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

16. Construction in progress

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

For impairment test and impairment provision recognition for construction in progress, please refer to Note IV. 20 "Impairment of Long-term asset".

17. Borrowing cost

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

The interest expenses actually incurred current-period special borrowing less unused borrowing funds in bank interest earned or investment income on the temporary investment of those funds, the above mentioned amount shall be capitalized. The weighted average asset disbursement of general borrowing multiplies the capitalization rate to determine the amount of capitalization based on the accumulative asset disbursements of special loans. The capitalization rate is the weighted average interest rate of the general borrowing.

During the capitalization period, exchange differences on foreign currency borrowings are all capitalized; Exchange differences on foreign currency borrowings are generally included into current profit or loss.

The assets which have qualified condition of capitalization is the assets necessarily take a substantial period of time after the acquisition, construction or production activities in order to achieve their intended use or sale of fixed assets, investment property, inventories and other assets.

If the process of acquiring, constructing or producing of the assets that are capable for capitalization is interrupted abnormally and the interruption lasts more than three months, the capitalization of borrowing costs shall be suspended until the acquisition, construction or production resumes.

18. Intangible assets

(1) Intangible assets

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

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

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

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

Method of amortization for intangible asset with finite useful life is as follows:

Category	Useful life (year)	Method of amortization
Land use right	50	straight-line
Software	5	straight-line
Brand use right	5-10	straight-line

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

and the asset will be amortized in accordance to the amortization policies applicable for an intangible asset with finite useful life.

(2) Research and development expenditure

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

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

Expenditure on the development phase is capitalized and recognized as intangible asset only when all of the following conditions are satisfied. Expenditures on the development phase, failing to meet the below conditions, are recognized in profit or loss in the period it is incurred:

- ① The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- ② The intention to complete the intangible asset and use or sell it;
- ③ The intangible asset will generate economic benefits. Among other things, the Company can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset;
- ④ The availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and
- ⑤ The expenditure attributable to the intangible asset during its development phase can be measured reliably.

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

If the Company's R&D projects fulfil above criteria and filed for approval after technology and economic feasibility study, the projects will be in development phase.

Capitalized development expenditure are shown as Development expenditure and will be transferred into Intangible asset at the date it reaches the estimated useful condition.

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

For impairment test and impairment provision recognition for intangible asset, please refer to Note IV. 20 "Impairment of Long-term asset".

19. Long-term deferred expenses

Long-term deferred expenses refer to expenditures which are incurred but shall be expensed over the beneficiary period of more than one year. The Company's long-term deferred expenses mainly include counter fabrication and decoration expenses. Long-term deferred expenses shall be amortized on straight-line basis over its beneficiary period.

20. Impairment of Long-term assets

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

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

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

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

21. Employee remuneration

Employee remuneration include short-term employee remuneration, post-employment benefits and

termination benefits.

Short-term remuneration mainly includes employee salary, bonus, allowance, employee welfare, maternity insurance, work injury insurance, housing fund, labor union fee, employee education fund and non-monetary welfare etc... The Company recognize short-term remuneration as liabilities through profit or loss or related cost of assets for the financial year in which the employees render the related services. Non-monetary welfare is measured at fair value.

Post-employment benefit mainly include basic endowment insurance, unemployment insurance and annuity etc... Post-employment benefit plan includes defined contribution plans. Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into an escrow fund and the amount shall be charged to cost of related asset or current period profit or loss.

When the Company terminates the employment relationship with employees before the employment contracts expire or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision shall be recognized at the date earlier of the Company cannot unilaterally withdraw from the termination plan or the redundancy offer and the Company determined the reconstruction cost related with the payment of termination benefit. Termination benefit shall be recognized as employee remuneration payable and charged to the profit or loss for the current accounting period. If the termination benefit cannot be paid within 12 month after the balance sheet date, it shall be treated as long-term employee remuneration.

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

If other long-term employee welfare provided by the Company meets the criteria of defined contribution plan, it shall be accounted for according to defined contribution plan, otherwise, defined benefit plan accounting treatment is applicable.

22. Provisions

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

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

that related to the contingencies into consideration.

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

23. Revenue

(1) General principal

① Revenue from sale of goods

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

② Revenue from rendering of service

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

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

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

③ Revenue from rendering usage rights

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

④ Interest income

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

(2) Detailed method of revenue recognition

The watches sold by the Company includes two types, one is the self-manufactured FIYTA watch, the sales of which is managed by branch offices and provincial-level sale sections by regions set up by Sales Company, a subsidiary of the Company. The other is brand watches, the sales of which are controlled by HARMONY Company, a subsidiary of the Company, and the Company act as agent. Regarding to sales modes, a portion of the sales of self-manufactured FIYTA watches is sold through direct sales to customer and consignment sales while most of the self-manufactured FIYTA watches and brand watches are sold under two sales modes, namely exclusive shop and shop-in-shop. Detailed method of revenue recognition as follows:

① Direct sales to the customer

Under direct sales to the customer mode, the Company delivers products to customers and recognizes sales income after customer inspection and acceptance.

② Exclusive shop

Under exclusive shop mode, the Company delivers products to customers and recognizes sales income after customer inspection, acceptance and pay.

③ Shop-in-shop

Under shop-in-shop mode, the Company delivers products to customers, sales staff issues notes to retail customers and recognizes sales revenue after customer inspection and acceptance and the department store collects the payment from the customer.

④ Consignment sales

Under consignment sales mode, the Company receives the detail of the sales list from distributors and recognizes revenue while issuing invoice to distributors.

24. Government grants

Government grants are monetary assets or non-monetary assets obtained by the Company from the government free of charge. It does not include capital contributions from the government as an owner. Government grants are classified into government grants related to assets and government grants related to income. The Company defines the government grants obtained for the acquisition or other formation of long-term assets as the government grants related to the assets; the remaining government grants are defined as the government grants related to income. If the government documents do not clearly define the object of subsidy, the subsidy shall be divided into the government grant related to income and the government grant related to assets in the following ways: (1) If the government document specifies the specific project for which the subsidy is targeted, the budget of the project will be

divided into the relative proportion of the expenditure amount of the assets and the expenses included in the expenses, and the division ratio shall be reviewed on each balance sheet date and changed when necessary; (2) If the government documents use only for general statement, and not specify a specific project, it will be as income-related government grants. If a government grant is in form of monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of non-monetary asset, is measured at fair value. If the fair value cannot be measured reliably, it is measured at a nominal amount and recognize directly in the current profit or loss.

The Company usually confirms and measures government grants according to the actual amount received. However, when there is conclusive evidence that can meet the financial support policies and regulations related to the conditions expected to be able to receive financial support funds for the end of the year, it will measure according to the actual amount received. The government grants measured according to the receivable amount shall meet the following conditions at the same time: (1) The amount of the grants receivable has been authorized by the government department to issue the documents or can be reasonably measured according to the relevant provisions of the formally promulgated financial capital management measures; (2) It is based on the financial support items formally promulgated by the local finance department and proactively disclosed in accordance with the provisions of the "Regulations Governing the Disclosure of Government Information" and the fiscal fund management measures, and the management measures should be generalized (any eligible enterprises can apply), rather than specifically for a specific company; (3) the relevant grant approval has been clearly committed to the deadline for disbursement, and the disbursement of funds has corresponding budget as a guarantee, so that it can reasonably ensure that it can be received within the prescribed time limit; (4) Other relevant conditions (if any) that should be satisfied according to the Company and the specific circumstances of the grants.

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

Government grants including assets-related parts and income-related parts at the same time should be treated separately. If it is difficult to distinguish them, they will be classified as income-related government grants completely.

The government grants related to the daily activities of the Company are included in other gain or offset the related costs according to the essence of the economic business. The government grants that are

not related to the daily activities are included in the non-operating income and expenses.

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

25. Deferred tax asset / deferred tax liability

(1) Current period corporate income tax

At the balance sheet date, current income tax liabilities (or assets) for the current period and prior periods shall be measured at the amount expected to be paid (refunded) according to the requirement of taxation laws. The taxable income used to calculate current period income tax expenses is calculated by making corresponding adjustments to current period profit before tax in accordance with relevant taxation regulations.

(2) Deferred tax asset and deferred tax liability

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

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

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

profits will not be available in the future, against which the temporary difference can be utilized. Except for exceptions mentioned above, the Company recognizes deductible temporary difference as deferred tax asset to the extent of the future taxable profit which is probably achieved by the Company.

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

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

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

(3) Corporate income tax

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

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

(4) Offsetting of income tax

When legal right to netting settlement is owned, net settlement or intent to acquire the assets and settle the liabilities happen simultaneously, the Group had net current tax assets against current tax liabilities are netting presentation after offset.

When the legal right to offset current tax assets against current tax liabilities is owned and the deferred tax assets and deferred tax liabilities relate to the same taxation authority on the same taxable income levied by or related to different taxable entities, but within the reverse period of significant amounts of deferred tax assets and liabilities in each future period, and the tax payer's intention to offset current tax assets and liabilities or both to obtain assets or repay debts, the deferred income tax and deferred tax assets and liabilities of the Group to netting presentation after offset.

26. Leasing

A finance lease is a lease that transfers substantially all the risks and rewards associated with the

ownership of an asset. Title of the asset may or may not eventually be transferred. An operating lease is a lease other than a finance lease.

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

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

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

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

(3) Accounting treatment for the Company as lessee under finance leases

On the lease beginning date, the Company shall record the lower one of the fair value of the leased asset and the present value of the minimum lease payments on the lease beginning date as the entering value in an account, recognize the amount of the minimum lease payments as the entering value in an account of long-term account payable, and treat the balance between the recorded amount of the leased asset and the long-term account payable as unrecognized financing charges. Besides, the initial direct costs directly attributable to the leased item incurred during the process of lease negotiating and signing the leasing agreement shall be recorded in the asset value of the current period. The balance through deducting unrecognized financing charges from the minimum lease payments shall be respectively stated in long-term liabilities and long-term liabilities due within 1 year.

Unrecognized financing charges shall be adopted by the effective interest rate method in the lease term, so as to calculate and recognize current financing charges. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

(4) Accounting treatment for the Company as lessor under finance leases

On the beginning date of the lease term, the Company shall recognize the sum of the minimum lease receipts on the lease beginning date and the initial direct costs as the entering value in an account of the financing lease values receivable, and record the unguaranteed residual value at the same time. The balance between the sum of the minimum lease receipts, the initial direct costs and the unguaranteed residual value and the sum of their present values shall be recognized as unrealized financing income. The balance through deducting unrealized financing incomes from the finance lease accounts receivable

shall be respectively stated in long-term claims and long-term claims due within 1 year.

Unrecognized financing incomes shall be adopted by the effective interest rate method in the lease term, so as to calculate and recognize current financing revenues. The contingent rents shall be recorded into the profits and losses of the current period in which they actually arise.

27. Other main accounting policies and estimates

Discontinued operation

Discontinued operation refer to the components that can be separated and disposed of or classified as held for sale separately by one of the following conditions: ① The component represents an independent main business or a separate main operation area; ② This component is part of a related plan to be disposed of by an independent major business or a separate major operating area; ③ This component is a subsidiary acquired exclusively for resale.

Refer to Note IV.12 "Description of Assets Held-for-Sale and Disposal Group" for details of accounting treatment of discontinued operations.

28. Changes in main accounting policies and estimates

(1) Change of accounting policies

① Changes in accounting policies due to the implementation of new CAS

On April 28, 2017, the Ministry of Finance released "CAS No. 42 - Non-current Assets Held-for-Sale, Disposal Group and Discontinued Operations" with Cai Kuai [2017] No. 13 and implemented it on May 28, 2017. On May 10, 2017, the Ministry of Finance released "CAS No. 16 - Government Grants (2017 Amendment)" with Cai Kuai [2017] No. 15, and implemented it on June 12, 2017. The Company started to implement the above two accounting standards in accordance with the time required by the Ministry of Finance.

The "CAS NO.42 - Non-current Assets Held for Sale, Disposal Group and Discontinued Operations" standard regulates the classification, measurement and presentation of non-current assets held for sale or disposal group and the presentation of the discontinued operations.

Before the implementation of "CAS No. 16 - Government Grants (Revised in 2017)", the government grants obtained will be included in non-operating income; government grants related to assets are recognized as deferred income, the average amortization is included in the profits and losses within the useful life of the asset of the current period. After the implementation of "CAS No. 16 - Government Grants (Revised in 2017)", government grants related to daily activities incurred after January 1, 2017 are included in other gain; grants other than those relating to daily activities, recorded in non-operating income and expenditure.

② Other changes of accounting policies

There was no any other change of accounting policies of the Company in the reporting period.

(2) Change of accounting estimates

There was no any change of accounting estimate of the Company in the reporting period.

29. Significant accounting judgments and estimates

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

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

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

(1) Bad debt provision recognition

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

(2) Provision for impairment of inventories

According to the accounting policies of inventories, it is measured at lower of cost and the net realizable value (NRV). For inventory cost that is higher than its NRV and obsolete and slow moving inventory, impairment provision shall be accrued. Evaluating the impairment of inventories needed the management level gain the valid evidence and take full consideration of the purpose of inventories, influence of events after balance sheet date and other factors, and then made relevant judgments and

estimates. The actual amount and the difference of previous estimate would affect the book value of inventories and the accrual and reversal of provision.

(3) The impairment of available-for-sale financial assets

Whether an available-for-sale financial asset is impaired relies largely on the judgment and assumption of the management, so as to decide whether recognized the impairment losses in the income statement. During the process of making the judgment and assumption, the Company needed to appraise the balance of the cost of the investment exceeding its fair value and the continuous period, the financial status and business forecast in a short period, including the industrial situation, technical reform, credit level, default rate and risk of counterparty.

(4) Impairment provision for long-term asset

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

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

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

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

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

(5) Depreciation and amortization

Taking the residual value into consideration, an investment property, fixed asset and intangible asset are

depreciated or amortized on a straight-line basis over its useful life. The Company reviews the useful life periodically to determine the amount of depreciation or amortization which shall be recognized in each accounting period. The useful life is determined according to historical experience of similar assets and technological renovation estimated. The amount of depreciation or amortization shall be adjusted in future accounting periods if there are material changes in estimates made before.

(6) Deferred income tax asset

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

(7) Corporate income tax

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

(8) After-sale quality warranty

The Company estimates and accrue related provision on its after-sale quality warranty commitment to customers with respect to the goods sold, estimated onerous contract and penalty for delay in delivery based on contract terms, current knowledge and historical experience. In case that the contingent event becomes a current obligation and performance of the current obligation may be very likely to cause economic benefit flow out of the Company, the Company recognizes provision based on the best estimates for fulfilling the related current obligation. Recognition and measurement of contingent liability is largely depend on the management's judgment. In the course of making judgement, the Company need to evaluate factors of risk, uncertainty and time value of money related to the contingent event.

The Company will make provision for after sale quality commitment for product sold, maintenance and re-fabrication of product sold. When accruing the provision, it needs to consider the recent maintenance data which may not be likely to reflect the future maintenance situations. Any increase or reduction of the provision may possibly affect the profit or loss in future years.

V. Taxation

1. Main taxes and tax rates

Tax	Tax rate
Value-added tax (Note (1))	Output tax is calculated at 5%、6%、11%、17% of taxable income and VAT is paid after offset the output tax with input tax allowed at current period
Consumption tax	Consumption tax is applicable for imported or manufactured luxury watches with unit price above 10,000 (inclusive).
Urban maintenance and construction tax	5%、7% on the turnover tax actually paid
Property tax (Note (2))	1.2% on the basis of 70% of the original cost of the property and 12% for rental income.
Corporate income tax	See Note (3) for detail.

Note (1): Value-added tax

In accordance with the relevant provisions of the Notice of the Ministry of Finance and the State Administration of Taxation on the Pilot Scheme of the Pilot Business Tax Reform on VAT (Cai Shui [2016] No. 36), 1) The rental income from the Company and its subsidiary, Liaoning Hengdarui Trading Co., Ltd. ("Hengdarui Company") has been levied value-added tax since May 1, 2016. Among them, the leased real property acquired before April 30, 2016 is levied according to the simple collection method and the tax rate is 5% ; The Company leased its FIYTA watch building which was accepted for converting to fixed asset at the end of 2016 and calculated the output tax at the rate of 11%; 2) The income of Harmony Company, a subsidiary of the Company, engaged in the promotion service business, with the advertising promotion income changed from 1 May 2014 to the collection of value-added tax with a tax rate of 6%. The service promotion revenue was as of May 1, 2016 From day to VAT, the tax rate is 6%; 3) The income from property management service business of Hengda Rui, a subsidiary of the Company, was changed to VAT on May 1, 2016 at a tax rate of 11%.

Other taxable income arising from the Company is calculated on the basis of the applicable tax rate.

Note (2): Property Tax

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

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

Note (3): Corporate income tax

Name of entity subject to corporate income tax	Applicable tax rate
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Name of entity subject to corporate income tax	Applicable tax rate
The Company (Note ①②)	25.00%
Shenzhen HARMONY World Watch Center Co., Ltd. (HARMONY Company) (Note ①)	25.00%
Shenzhen FIYTA Precision Timer Manufacturing Co., Ltd. (Manufacturing Company) (Note ②③)	15.00%
FIYTA Hong Kong (Note ④)	16.50%
Station 68 (Note ④)	16.50%
Nature Art Limited (Note ④)	16.50%
World Watches International (Note ④)	16.50%
Shenzhen FIYTA Technology Development Co., Ltd (Technology Company) (Note ②③)	15.00%
TEMPORAL (Shenzhen) Co., Ltd. (TEMPORAL Company) (Note ⑤)	25.00%
Beijing Henglianda Watch Center Co., Ltd (Henglianda Company) (Note ⑤)	25.00%
Harbin Harmony World Watches Distribution Co., Ltd. (Harbin Company) (Note ⑤)	25.00%
Shenzhen Harmony Culture Communication Co., Ltd (Culture Company) (Note ⑦)	10.00%
Emile Choureit Timing (Shenzhen) Ltd. (Emile Choureit Shenzhen Company) (Note ⑤)	25.00%
FIYTA Sales Co., Ltd (Sales Company) (Note ①⑤)	25.00%
Liaoning Hengdarui Commercial & Trade Co., Ltd (Hengdarui Company) (Note ⑤)	25.00%
Swiss Company (Note ⑥)	30.00%

Note ① :According to the regulations stated in Guo Shui Fa (2008) No. 28, “Interim Administration Method for Levy of Corporate Income Tax to Enterprise that Operates Cross-regionally”, the head office of the Company and its branch offices, the head office of HARMONY Company and its branch offices, and the head office of Sales Company and its branch offices adopt tax submission method of “unified calculation, managing by classes, pre-paid in its registered place, settlement in total, and adjustment by finance authorities” starting from 1 January 2008. Branch offices mentioned above share 50% of the

enterprise income tax and prepay locally; and 50% will be prepaid by the head offices mentioned above.

Note ② : According to “Notice of Ministry of Finance, State Administration of Taxation and Ministry of Science and Technology on Perfection of Pre-tax Super Deduction of Enterprise Research and Development Expense Policy”, Cai Shui (2015) No. 119, research and development expenses, which are charged to profit or loss instead of being capitalized as intangible assets, that incurred by the Company, the Manufacture Company and Technology Company for developing new technology, new product and new technique can be deducted by 50% extra on top of actual expensed charged in profit or loss.

Note ③: The company enjoyed for “Reduction and Exemption in Corporate Income Tax Rate for High and New Technology Enterprises that Require Key Support from the State”.

Note ④ : These companies are registered in Hong Kong and the income tax rate of Hong Kong applicable is 16.50% this year.

Note ⑤ : According to the People's Republic of China Enterprise Income Tax Law, the income tax rate is 25% for residential enterprises since 1 January 2008.

Note ⑥ : The tax rate of 30% is applicable for Swiss Company as it registered in Switzerland.

Note ⑦ : According to Cai Shui (2015) No. 99 “Notice of Ministry of Finance and State Administration of Taxation on Further Expanding Applicable Scope of Preferential Corporate Income Tax Policy to Small and Low-profit Enterprises”, only 50% of the income of Culture Company is included in taxable income calculation and the corporate income tax is paid at 20% on taxable income.

2. Preferential treatment and corresponding approval

(1) According to Cai Shui (2015) No. 99 “Notice of Ministry of Finance and State Administration of Taxation on Further Expanding Applicable Scope of Preferential Corporate Income Tax Policy to Small and Low-profit Enterprises”, only 50% of the income of Culture Company is included in taxable income calculation and the corporate income tax is paid at 20% on taxable income.

(2) According to clause 2 in Shen Dishui Fa (2003) No. 676 “Notice of Forwarding State Administration of Taxation on Policies Related to Property Tax and Urban Land Usage Tax”, for newly constructed or purchased property by tax payer, property tax is exempted for 3 years from the next month it is constructed or purchased. The property tax for FIYTA Watch Building owned by the Company located in Shenzhen Guangming New District is exempted for 3 years from the next month when construction is completed.

VI. Notes to main items of the consolidated financial statements

Unless otherwise indicated, the beginning of the year for items (including notes for the Company's financial statements) list below refers to 31 December 2016 and the end of the year refers to 31

December 2017. Prior year refers to year 2016 and current year refers to year 2017.

1. Cash and bank balances

Item	31 Dec 2017	31 Dec 2016
Cash on hand	414,210.14	478,898.11
Bank deposit	184,528,160.32	426,743,336.84
Other monetary funds	2,210,520.86	1,580,520.86
Total	187,152,891.32	428,802,755.81
Incl: deposit outside Mainland China	7,880,620.64	18,354,710.70

Note: Amount of RMB1,575,000.00 (RMB1,575,000.00 as at 31 Dec 2016) in other monetary funds is the security deposit with Bank for issuing of irrevocable letter of guarantee; amount of RMB630,000.00 was judicial freeze due to the legal proceedings, with the freezing date from 30 October, 2017 to 29 October, 2018.

2. Notes receivable

(1) Notes receivable classification

Item	31 Dec 2017	31 Dec 2016
Banker's acceptance bill	2,398,579.72	854,616.60
Commercial acceptance bill	7,295,303.96	6,807,939.68
Total	9,693,883.68	7,662,556.28

(2) There is no pledge of notes receivable at the end of the period.

(3) There is no endorsed or discounted notes receivable that is not yet due at the end of the period.

(4) There is no notes receivable transferred to receivables due to issuer's default at the end of the period.

3. Accounts receivable

(1) Accounts receivables presented by types

Types	31 Dec 2017				
	Carrying amount		Bad debt provision		Book Value
	Amount	Percentage (%)	Amount	Percentage (%)	
Receivables that are individually significant in amount and provided for bad debt separately	6,985,493.80	2.04	6,985,493.80	100.00	-
Receivables provided for bad	334,903,968.85	97.93	8,649,343.91	2.58	326,254,624.94

Types	31 Dec 2017				
	Carrying amount		Bad debt provision		Book Value
	Amount	Percentage (%)	Amount	Percentage (%)	
debt by portfolio					
Incl. Aging portfolio	160,056,201.19	46.80	8,649,343.91	5.40	151,406,857.28
Portfolio of specific accounts	174,847,767.66	51.13	-	-	174,847,767.66
Receivables that are individually insignificant in amount but provided for bad debt separately	97,147.84	0.03	97,147.84	100.00	-
Total	341,986,610.49	100.00	15,731,985.55	4.60	326,254,624.94

(Continued)

Types	31 Dec 2016				
	Carrying amount		Bad debt provision		Book Value
	Amount	Percentage (%)	Book Value	Percentage (%)	
Receivables that are individually significant in amount and provided for bad debt separately	8,962,179.22	2.77	8,962,179.22	100.00	-
Receivables provided for bad debt by portfolio	314,212,795.04	97.04	7,541,773.35	2.40	306,671,021.69
Incl. Aging portfolio	135,021,670.03	41.70	7,541,773.35	5.59	127,479,896.68
Portfolio of specific accounts	179,191,125.01	55.34	-	-	179,191,125.01
Receivables that are individually insignificant in amount but provided for bad debt separately	604,140.59	0.19	604,140.59	100.00	-
Total	323,779,114.85	100.00	17,108,093.16	5.28	306,671,021.69

① Year-end balance of receivables that are individually significant in amount and provided for bad debt separately

Accounts	31 Dec 2017			
	Accounts receivable	Bad debt provision	Percentage %	Reason

Ginwa Xi'an Qujiang Shopping Center Co., Ltd.	1,702,371.94	1,702,371.94	100.00	Chances of recovering is remote
Ginwa Xi'an Shopping Co., Ltd.	5,283,121.86	5,283,121.86	100.00	
Total	6,985,493.80	6,985,493.80	—	—

② Amongst portfolio, accounts receivable that are provided for bad debt based on aging analysis

Aging	31 Dec 2017		
	Accounts receivable	Bad debt provision	Percentage %
Within 1 year	157,123,331.74	7,856,166.59	5.00
1-2 years	1,403,912.75	140,391.28	10.00
2-3 years	558,461.57	167,538.47	30.00
Over 3 years	970,495.13	485,247.57	50.00
Total	160,056,201.19	8,649,343.91	5.40

③ Among the portfolio, accounts receivable that are provided for bad debt using other method

Name of portfolio	31 Dec 2017		
	Carrying amount	Bad debt provision	Accrual Percentage (%)
Portfolio of specific accounts	174,847,767.66	-	-

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

(2) Status of bad debt accrual, recovery or reversed in current year

In 2017, bad debt accrual is RMB6,466,256.09. The amount of recovery or reversal of bad debt provision is RMB1,971,138.12 this year.

Incl. the amount of significant recovery or reversal of bad debt provision this year

Name of accounts	The amount of recovery or reversal	Recovery method
Ginwa Urumqi Shopping Center Co., Ltd.	1,502,142.54	Bank deposit

(3) Status of accounts receivable that was written-off during the year

Item	Written-off amount
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Actual amount written-off	5,871,225.58
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Including: significant written-off of accounts receivable

Company name	Nature of accounts receivable	Amount written-off	Reasons	Procedure	Whether due to related party transaction
Taiyuan Guidu Department Store	Trade receivable	3,152,376.79	Unable to recover	Board Resolution	No
Ginwa Xinjiang Time Squire Shopping Center Co., Ltd	Trade receivable	2,605,287.95	Unable to recover	Board Resolution	No
Total		5,757,664.74			

(4) Top 5 receivable accounts

The amount of top 5 receivables based on year-end receivable balance is RMB21,535,360.60, accounts for 6.30% of total receivables as at 31 Dec 2017. Corresponding bad debt provision is RMB1,076,768.05.

4. Prepayments

(1) Prepayments presented by aging

Account aging	31 Dec 2017		31 Dec 2016	
	Amount	Percentage (%)	Amount	Percentage (%)
Within 1 year	20,284,829.30	82.25	24,129,365.63	71.58
1-2 years	2,034,407.41	8.25	2,634,183.83	7.81
2-3 years	2,344,077.82	9.50	62,500.00	0.19
Over 3 years	-	-	6,883,607.27	20.42
Total	24,663,314.53	100.00	33,709,656.73	100.00

(2) Top 5 prepayment accounts

The amount of top 5 prepayment accounts based on year-end balance is RMB19,333,613.90, accounts for 78.39% of total prepayments as at 31 Dec 2017.

5. Other receivables

(1) Other receivables presented by types

Types	31 Dec 2017		
	Carrying amount	Bad debt provision	Book value

	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that individually significant in amount and provided for bad debt separately	6,847,372.68	15.23	6,847,372.68	100.00	-
Other receivables provided for bad debt by portfolio	38,090,257.88	84.73	3,099,718.79	8.14	34,990,539.09
Incl. Aging portfolio	33,690,435.20	74.94	3,099,718.79	9.20	30,590,716.41
Portfolio of specific accounts	4,399,822.68	9.79	-	-	4,399,822.68
Other receivables that individually insignificant in amount but provided for bad debt separately	20,000.00	0.04	20,000.00	100.00	-
Total	44,957,630.56	100.00	9,967,091.47	22.17	34,990,539.09

(Continued)

Types	31 Dec 2016				
	Carrying amount		Bad debt provision		Book value
	Amount	Percentage (%)	Amount	Percentage (%)	
Other receivables that individually significant in amount and provided for bad debt separately	1,519,703.69	4.10	1,519,703.69	100.00	-
Other receivables provided for bad debt by portfolio	35,437,104.25	95.58	2,044,086.97	5.77	33,393,017.28
Incl. Aging portfolio	30,746,355.63	82.93	2,044,086.97	6.65	28,702,268.66
Portfolio of specific accounts	4,690,748.62	12.65	-	-	4,690,748.62
Other receivables that individually insignificant in amount but provided for bad debt separately	120,000.00	0.32	120,000.00	100.00	-
Total	37,076,807.94	100.00	3,683,790.66	9.94	33,393,017.28

① Year-end balance of other receivables that are individually significant in amount and provided for bad

debt separately

Accounts	31 Dec 2017			
	Other receivable	Bad debt provision	Percentage %	Reasons
China Resources (Chong Qing) Industrial Co., Ltd.	800,000.00	800,000.00	100.00	Chances of recovery is remote
Beat Blattman Marketing	3,883,733.08	3,883,733.08	100.00	Business faces bankruptcy, the possibility of recovery is
Liberty Time Center GmbH	2,163,639.60	2,163,639.60	100.00	Business faces bankruptcy, the possibility of recovery is
Total	6,847,372.68	6,847,372.68	—	—

② among the portfolio, other receivables that are provided for bad debt based on aging analysis

Aging	31 Dec 2017		
	Other receivable	Bad debt provision	Percentage %
Within 1 year	22,668,712.64	1,133,435.64	5.00
1-2 years	6,701,168.22	670,116.82	10.00
2-3 years	4,320,554.34	1,296,166.33	30.00
Over 3 years	-	-	-
Total	33,690,435.20	3,099,718.79	9.20

③ among the portfolio, other receivables that are provided for bad debt using other methods

Name of portfolio	31 Dec 2017		
	Other receivable	Bad debt provision	Percentage (%)
Portfolio of specific accounts	4,399,822.68	-	-

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

(2) Status of bad debt accrual, recovery or reversed in current year

In 2017, bad debt accrual is RMB7,262,007.52. The amount of recovery or reversal of bad debt provision is RMB15,053.02 this year.

(3) Status of other receivable that was written-off during the year

Item	Amount written-off
Other receivables actually written-off	963,653.69

Incl. status of other significant receivable that was written-off

Name of accounts	The kind of accounts receivable	Amount written-off	Reasons	Procedure	Whether due to the association transaction
Taiyuan Guidu Department Store	Store deposit	719,703.69	Unable to recover	Board Resolution	No

(4) Other receivables presented by nature

Nature	31 Dec 2017	31 Dec 2016
Down payment and deposit	30,200,936.65	27,042,008.03
Product promotion expenses	3,387,360.70	4,351,561.26
Petty cash	4,399,822.68	4,690,748.62
Trade receivables	6,047,372.68	-
others	922,137.85	992,490.03
Total	44,957,630.56	37,076,807.94

(5) Top 5 other receivable accounts

Name of accounts	Nature	Amount	Aging	Percentage of total other receivables (%)	Balance of provision
Beat Blattman Marketing	Trade receivables	3,883,733.08	Over 3 years	8.64	3,883,733.08
Liberty Time Center GmbH	Trade receivables	2,163,639.60	Over 3 years	4.81	2,163,639.60
China Resources (Shenzhen) Co., Ltd	Payables for project	2,913,594.00	Within 1 year	6.48	145,679.70
Shenzhen Yitian Holiday World Property Development Co., Ltd	Deposit	1,090,523.00	Within 1 year	2.43	54,526.15
China Resources	Deposit	800,000.00	1-2 years	1.78	800,000.00

Name of accounts	Nature	Amount	Aging	Percentage of total other receivables (%)	Balance of provision
(Chongqing) Industry Co., Ltd					
Total	—	10,851,489.68	—	24.14	7,047,578.53

6. Inventory

(1) Inventory classification

Item	31 Dec 2017		
	Carrying amount	Provision	Book value
Raw material	192,872,336.46	26,899,506.29	165,972,830.17
Work-in-progress	16,744,428.79	-	16,744,428.79
Goods in stock	1,708,413,402.70	70,603,985.40	1,637,809,417.30
Total	1,918,030,167.95	97,503,491.69	1,820,526,676.26

(Continued)

Item	31 Dec 2016		
	Carrying amount	Provision	Book value
Raw material	179,751,190.75	6,162,480.01	173,588,710.74
Work-in-progress	15,344,697.28	-	15,344,697.28
Goods in stock	1,849,702,719.52	41,538,935.16	1,808,163,784.36
Total	2,044,798,607.55	47,701,415.17	1,997,097,192.38

(2) Provision

Item	31 Dec 2016	Increase		Decrease		31 Dec 2017
		Accrual	Others	Reversed	Others	
Raw materials	6,162,480.01	21,815,491.43	-	1,078,465.15	-	26,899,506.29
Goods in stock	41,538,935.16	29,065,050.24	-	-	-	70,603,985.40
Total	47,701,415.17	50,880,541.67	-	1,078,465.15	-	97,503,491.69

(3) Reasons for accruing inventory impairment provision and the reason for reversal of provision or written-off this year.

Item	Basis for recognizing provision	Reason for reversal of provision this year	Reasons for written-off
Raw materials	NRV is lower than cost	NRV is higher than cost	—
Goods in stock	NRV is lower than cost	NRV is higher than cost	—

7. Other current assets

Item	31 Dec 2017	31 Dec 2016
Housing rental	5,229,782.50	3,088,189.21
Deductible input tax of VAT	18,745,349.24	15,379,195.44
CIT prepaid	314,917.39	1,400,591.12
Others	326,766.08	476,556.32
Total	24,616,815.21	20,344,532.09

8. AFS financial assets

(1) Status of AFS financial assets

Item	31 Dec 2017			31 Dec 2016		
	Carrying amount	Impairment provision	Book value	Carrying amount	Impairment provision	Book value
AFS equity instrument	385,000.00	300,000.00	85,000.00	385,000.00	300,000.00	85,000.00
Incl: measured at cost	385,000.00	300,000.00	85,000.00	385,000.00	300,000.00	85,000.00
Total	385,000.00	300,000.00	85,000.00	385,000.00	300,000.00	85,000.00

(2) AFS financial assets measured at cost

Investee	Carrying amount				Provision				% of equity held in investee	Cash dividend
	31 Dec 2016	increase	decrease	31 Dec 2017	31 Dec 2016	increase	decrease	31 Dec 2017		
Shenzhen Zhonghang Culture Co. Ltd	300,000.00	-	-	300,000.00	300,000.00	-	-	300,000.00	15.00	-
Xi'an Tangcheng Limited	85,000.00	-	-	85,000.00	-	-	-	-	0.10	-
Total	385,000.00	-	-	385,000.00	300,000.00	-	-	300,000.00	—	-

(3) Movements of impairment provision for AFS financial asset

Types of AFS financial asset	AFS equity instrument	Total
Balance of impairment provision at the beginning of the year	300,000.00	300,000.00
Accrual in 2017	-	-
Incl: transferred from other comprehensive income	-	-
Decrease in 2017	-	-
Incl: reversed due to fair value increases	-	-
Balance of impairment provision at the end of the year	300,000.00	300,000.00

9. Long-term equity investment

Investee	31 Dec 2016	Changes during 2017				
		Addition	Withdraw	Investment gain recognized under equity method	adjustment of other comprehensive income	Changes of other equity item
I. Associated company						
Shanghai Watch Co., Ltd. (Shanghai Watch)	43,423,624.87	-	-	455,893.22	-	-

(Continued)

Investee	Changes during 2017			31 Dec 2017	Balance of impairment provision as at 31 Dec 2017
	Cash dividend declared or profit distribution	Impairment provision accrued	Others		
I. Associated company					
Shanghai Watch Co., Ltd. (Shanghai Watch)	-	-	-	43,879,518.09	-

10. Investment property

(1) Details of investment property measured at cost

Item	Property and buildings
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Item	Property and buildings
I. Total original cost	
1. Balance at the beginning of the year	378,528,070.44
2. Increased during 2017	70,625,430.72
(1) purchased	-
(2) Transferred from fixed asset	70,625,430.72
(3) increased due to business combination	-
3. Decreased during 2017	-
(1) Disposal	-
(2) Other decrease	-
4. Balance at the end of the year	449,153,501.16
II. Total accumulated depreciation	
1. Balance at the beginning of the year	134,325,435.35
2. Increased during 2017	9,334,078.04
(1) Accrual or amortization	9,334,078.04
(2) Transferred from fixed asset	-
3. Decreased during 2017	-
(1) Disposal	-
(2) Other decrease	-
4. Balance at the end of the year	143,659,513.39
III. Total impairment provision	
1. Balance at the beginning of the year	-
2. Increased during 2017	-
(1) Accrual	-
3. Decreased during 2017	-
(1) Disposal	-
(2) Other decrease	-
4. Balance at the end of the year	-

Item	Property and buildings
IV. Total book value	
1. Book value at the end of the year	305,493,987.77
2. Book value at the beginning of the year	244,202,635.09

(2) Refer to Note VI. 11(2) for details of the amount and reasons of the investment property without the certificate for property right.

(3) Changes of purpose of property

In January 2017, the Company lease out a property previously used itself. The property is transferred from fixed asset to investment property and accounted for using cost method. The book value of it was RMB70,625,430.72 at the time changed.

11. Fixed asset

(1) Detail of fixed asset

Item	Property and buildings	Machinery	Transportation vehicles	Electronic devices	Other equipment	Total
I. Total book value						
1. Balance as at 31 Dec 2016	622,444,195.94	66,000,156.39	17,131,588.93	37,906,737.72	55,201,052.94	798,683,731.92
2. Additions	33,456.00	10,513,051.70	226,012.24	7,573,821.46	2,639,408.28	20,985,749.68
(1) Purchasing	33,456.00	10,513,051.70	226,012.24	7,573,821.46	2,639,408.28	20,985,749.68
(2) Transfer from construction in progress	-	-	-	-	-	-
(3) Increase due to business combination	-	-	-	-	-	-
3. Decrease	74,274,586.95	154,012.18	1,784,883.45	2,311,756.36	1,073,021.67	79,598,260.61
(1) Disposal or retire	3,649,156.23	154,012.18	1,784,883.45	2,311,756.36	1,073,021.67	8,972,829.89
(2) transferred into investment property	70,625,430.72	-	-	-	-	70,625,430.72
4. Balance as at 31 Dec 2017	548,203,064.99	76,359,195.91	15,572,717.72	43,168,802.82	56,767,439.55	740,071,220.99
II. Accumulated						

Item	Property and buildings	Machinery	Transportation vehicles	Electronic devices	Other equipment	Total
depreciation						
1.Balance as at 31 Dec 2016	76,742,549.42	29,971,182.19	13,470,063.57	23,432,067.04	43,863,700.67	187,479,562.89
2. Increase	18,837,633.56	6,219,008.90	1,006,873.61	4,169,316.61	3,444,628.53	33,677,461.21
(1)Accrual	18,837,633.56	6,219,008.90	1,006,873.61	4,169,316.61	3,444,628.53	33,677,461.21
3. Decrease	624,778.71	83,495.33	1,671,822.15	1,640,752.75	764,546.82	4,785,395.76
(1)Disposal or retire	624,778.71	83,495.33	1,671,822.15	1,640,752.75	764,546.82	4,785,395.76
4.Balance as at 31 Dec 2017	94,955,404.27	36,106,695.76	12,805,115.03	25,960,630.90	46,543,782.38	216,371,628.34
III. Provision for impairment						
1.Balance as at 31 Dec 2016	-	-	-	-	-	-
2. Additions	-	-	-	-	-	-
(1)Accrual	-	-	-	-	-	-
3. Decrease	-	-	-	-	-	-
(1)Disposal or retire	-	-	-	-	-	-
4.Balance as at 31 Dec 2017	-	-	-	-	-	-
IV. Total book value						
Balance at the end of the year	453,247,660.72	40,252,500.15	2,767,602.69	17,208,171.92	10,223,657.17	523,699,592.65
Balance at the beginning of the year	545,701,646.52	36,028,974.20	3,661,525.36	14,474,670.68	11,337,352.27	611,204,169.03

(2) Fixed assets that do not have certificate for property right

Item	Book value	Reason for not having certificate for property rights
Clock & Watch base in Guangming New	288,743,352.00	Under application process

Item	Book value	Reason for not having certificate for property rights
District		
Office rooms for Harbin Branch	287,345.82	Defective in property right

12. Construction in progress

(1) Details of construction in progress

Item	31 Dec 2017			31 Dec 2016		
	Carrying amount	Impairment provision	Book value	Carrying amount	Impairment provision	Book value
Clock & Watch base in Guangming New District auxiliary projects	10,947,300.53	-	10,947,300.53	-	-	-

(2) Changes for material construction-in-progress projects

Project name	Budget	31 Dec 2016	Increase	Transferred to fixed asset in current year	Other decrease	31 Dec 2017
Clock & Watch base in Guangming New District auxiliary projects	34,050,900.00	-	10,947,300.53	-	-	10,947,300.53

(Continued)

Project name	Percentage of investment to budget (%)	Progress (%)	Total capitalized interest	Incl. capitalized in current year	Rate of capitalization in current year (%)	Source of funding
Clock & Watch base in Guangming New District auxiliary projects	32.15	32.15	-	-	-	Self-raised

13. Intangible assets

(1) Details of intangible assets

Item	Land-use right	Software system	Right to use trademarks	Total
I. Total original cost				
Balance as at 31 Dec 2016	34,854,239.40	10,979,897.53	9,547,313.86	55,381,450.79
2. Additions	-	8,924,839.04	-	8,924,839.04
(1) purchase	-	8,924,839.04	-	8,924,839.04
(2) Internal R&D	-	-	-	-
(3) increased due to business combination	-	-	-	-
3. Decreases	-	-	-	-
(1) disposal	-	-	-	-
Balance as at 31 Dec 2017	34,854,239.40	19,904,736.57	9,547,313.86	64,306,289.83
II. total accumulated amortization				
1. Balance as at 31 Dec 2016	9,155,436.95	4,240,698.21	3,233,412.21	16,629,547.37
2. Additions	731,727.29	2,710,414.93	11,320.03	3,453,462.25
(1) accrual	731,727.29	2,710,414.93	11,320.03	3,453,462.25
3. Decreases	-	-	-	-
(1) disposal	-	-	-	-
4. Balance as at 31 December 2017	9,887,164.24	6,951,113.14	3,244,732.24	20,083,009.62
III. total impairment provision				
1. Balance as at 31 Dec 2016	-	-	-	-
2. Additions	-	-	-	-
(1) accrual	-	-	-	-
3. Decreases	-	-	-	-
(1) disposal	-	-	-	-
4. Balance as at 31 December 2017	-	-	-	-
IV. Total book value				
1. Balance at the end of the year	24,967,075.16	12,953,623.43	6,302,581.62	44,223,280.21
2. Balance at the beginning of the year	25,698,802.45	6,739,199.32	6,313,901.65	38,751,903.42

14. Long-term deferred expenses

Item	31 Dec 2016	Increase	Amortization	Other decrease	31 Dec 2017
Counter fabrication expenses	62,548,707.89	44,627,742.63	57,842,034.96	-	49,334,415.56
Renovation expenses	62,351,629.31	21,983,463.06	25,943,039.26	-	58,392,053.11
Fee for representation	8,115,378.72	-	8,115,378.72	-	-
Others	672,687.96	1,642,693.48	632,064.62	-	1,683,316.82
Total	133,688,403.88	68,253,899.17	92,532,517.56	-	109,409,785.49

15. Deferred income tax assets/Deferred income tax liabilities

(1) Detail of deferred income tax before offsetting

Item	31 Dec 2017		31 Dec 2016	
	Deductible temporary differences	Deferred income tax asset	Deductible temporary differences	Deferred income tax asset
Asset impairment provision	93,805,178.33	22,891,430.26	68,493,298.99	16,426,482.25
Unrealized profit for related party transaction	309,982,920.90	76,608,130.54	310,726,076.51	76,489,979.97
Deferred income	5,904,000.00	1,476,000.00	5,980,000.00	1,495,000.00
Deductible loss	27,342,976.03	4,930,384.00	3,253,698.63	768,113.04
Total	437,035,075.26	105,905,944.80	388,453,074.13	95,179,575.26

(2) Details of unrecognized deferred income tax asset

Item	31 Dec 2017	31 Dec 2016
Impairment of assets	29,691,944.68	300,000.00
Deductible loss	41,326,518.50	22,867,656.64
Total	71,018,463.18	23,167,656.64

Note: Deductible losses of Swiss Company, which are subsidiaries of the Company, is not recognized as deferred income tax asset as it's uncertain that the companies can get sufficient taxable income in future.

Hong Kong Company, a subsidiary of the Company, does not need to recognize the deferred income tax assets for impairment provision according to the local tax policy.

16. Other non-current asset

Item	31 Dec 2017	31 Dec 2016
Prepayment for equipment purchase	8,246,538.33	9,432,329.88
Prepayment for software purchase	-	1,249,189.03
Total	8,246,538.33	10,681,518.91

17. Short-term loan

(1) Short-term loan classification

Item	31 Dec 2017	31 Dec 2016
Guaranteed loan	120,990,510.00	260,438,070.00
Credit Loan	405,000,000.00	838,000,000.00
Total	525,990,510.00	1,098,438,070.00

(2) There are no overdue short-term loans.

(3) Refer to Note XI. 5 (3) for detail of guarantee between related parties.

18. Accounts payable

(1) Presentation of accounts payable

Item	31 Dec 2017	31 Dec 2016
Trade payables	197,139,603.70	129,889,611.01
Payables for material purchased	5,596,017.29	7,706,304.10
Payables for project	60,520,874.66	77,826,174.63
Total	263,256,495.65	215,422,089.74

19. Advances from customer

(1) Presentation of advances received

Item	31 Dec 2017	31 Dec 2016
Advances for trade	10,928,657.72	10,691,615.06
Rental received	4,212,930.07	3,211,088.84
Total	15,141,587.79	13,902,703.90

20. Employee remuneration payable

(1) Presentation of employee remuneration payable

Item	31 Dec 2016	Increase	Decrease	31 Dec 2017
I. Short-term remuneration	45,026,789.38	500,486,365.75	478,367,573.81	67,145,581.32

Item	31 Dec 2016	Increase	Decrease	31 Dec 2017
II. Post-employment welfare-defined contribution plans	227,796.31	41,495,023.62	37,304,034.11	4,418,785.82
III. Dismissal welfare	-	1,257,198.77	1,257,198.77	-
IV. Other welfare within one year	-	-	-	-
Total	45,254,585.69	543,238,588.14	516,928,806.69	71,564,367.14

(2)Short-term employee benefits

Item	31 Dec 2016	Increase	Decrease	31 Dec 2017
1. Wages, bonuses and allowances	44,751,046.97	452,648,944.94	430,687,862.71	66,712,129.20
2. Employee Welfare	-	8,960,401.88	8,960,401.88	-
3. Social insurance	-	16,865,084.56	16,865,084.56	-
Incl.: (1) medical insurance	-	14,820,586.95	14,820,586.95	-
(2) work-related injury insurance	-	949,010.26	949,010.26	-
(3) maternity insurance	-	1,095,487.35	1,095,487.35	-
4. Housing fund	-	16,209,188.48	16,209,188.48	-
5. Expenditure for labor union and employee training	275,742.41	5,802,745.89	5,645,036.18	433,452.12
6. Other short-term benefits	-	-	-	-
Total	45,026,789.38	500,486,365.75	478,367,573.81	67,145,581.32

(3) Defined contribution plans

Item	31 Dec 2016	Increase	Decrease	31 Dec 2017
1. endowment insurance	894.51	35,851,720.75	35,851,570.37	1,044.89
2. unemployment insurance	-	1,182,205.75	1,182,205.75	-
3. Enterprise annuity payment	226,901.80	4,461,097.12	270,257.99	4,417,740.93
Total	227,796.31	41,495,023.62	37,304,034.11	4,418,785.82

21. Taxes payable

Item	31 Dec 2017	31 Dec 2016
Value added tax	28,234,436.08	41,019,759.02

Item	31 Dec 2017	31 Dec 2016
Corporate income tax	24,051,749.74	6,184,718.37
Property tax	640,117.90	894,213.22
City maintenance & construction tax	948,001.89	880,194.85
Individual income tax	779,154.31	726,368.87
Educational surcharges	677,393.80	591,797.48
Stamp duty	401,599.97	239,875.22
Embankment protection fee	2,178.98	3,941.39
Others	122,603.92	404,420.89
Total	55,857,236.59	50,945,289.31

22. Interest payable

Item	31 Dec 2017	31 Dec 2016
Interest payable for long-term loan	152,151.14	174,676.15
Interest payable for short-term loan	1,312,577.97	2,301,293.50
Total	1,464,729.11	2,475,969.65

23. Other payables

(1) Other payables presented by nature

Item	31 Dec 2017	31 Dec 2016
Security deposit	23,026,920.95	20,066,595.17
Shop activity fund	15,096,271.16	16,725,720.47
Personal accounts payable	4,911,856.36	2,474,103.56
Decoration expenses	3,175,612.64	2,395,059.63
Down payment	1,132,084.26	1,660,730.93
Others	10,424,791.27	10,410,871.23
Total	57,767,536.64	53,733,080.99

(2) Significant other payables with aging over 1 year:

Item	Balance as at 31 Dec 2017	Reasons for unpaid or unsettled
Shenzhen Tencent Computer System Co., Ltd.	4,693,429.16	within lease term

24. Non-current liabilities that fall due within one year

Item	31 Dec 2017	31 Dec 2016
Long-term loans due within 1 year (Note VI. 26)	35,000,000.00	26,117,387.52

25. Other current liabilities

Item	31 Dec 2017	31 Dec 2016
Accrued expenses	-	2,379,148.19

26. Long-term loan

Item	31 Dec 2017	31 Dec 2016
Pledge loans	5,008,425.00	5,666,307.52
Guaranteed loan	109,861,928.00	135,752,128.00
Less: Long-term loan due within one year (Note VI. 24)	35,000,000.00	26,117,387.52
Total	79,870,353.00	115,301,048.00

Note:

(1) There is no overdue long-term loans.

(2) See Note VI.49 for type and amount of pledged assets.

(3) Refer to Note XI.5 (3) for guarantee between related parties.

(4) The interest rate for long-term loan is between 3.00%-4.53%.

Government grant**1. The status of the government grants initially confirmed in this year**

Item	Amount	Asset related		Income related				Whether received
		Deferred income	Reduce the book value of assets	Deferred income	Other income	Non-operating income	Reduce costs	
2017 Provincial Specialized Fund for Industrial and Information Technology (Note (1))	1,300,000.00	-	-	1,300,000.00	-	-	-	Yes
2017 Special subsidy for developing self-dependent innovation provided by Nanshan District	124,000.00	-	-	124,000.00	-	-	-	Yes

Item	Amount	Asset related		Income related				Whether received
		Deferred income	Reduce the book value of assets	Deferred income	Other income	Non-operating income	Reduce costs	
Social Security Board subsidy	233,529.98	-	-	-	233,529.98	-	-	Yes
The 18th Chinese Design Excellence Award patent bonus	100,000.00	-	-	-	100,000.00	-	-	Yes
2016 Shenzhen Standard Special Funding (Note (2))	651,000.00	-	-	-	651,000.00	-	-	Yes
2017 Shenzhen Second Batch Award winning Special Funds for Industrial Design	100,000.00	-	-	-	100,000.00	-	-	Yes
Nanshan District Independent Innovation Industry Development Fund-funded projects (Note (3))	250,000.00	-	-	-	250,000.00	-	-	Yes
2017 Enterprise Technology Innovation Demonstration Project (Note (4))	6,890,000.00	-	-	-	6,890,000.00	-	-	Yes
2017 Industrial Upgrade Special Funding Industry Enhancement Special Application and Innovation Award (Note (5))	1,860,000.00	-	-	-	1,860,000.00	-	-	Yes
2017 9th Shenzhen Staff Technology Innovation Games and Shenzhen Skills Competition	120,000.00	-	-	-	120,000.00	-	-	Yes
2017 Shenzhen E-commerce Development Funding Scheme (Note (6))	684,900.00	-	-	-	684,900.00	-	-	Yes
2016 Corporate Research and Development Grant (Note (7))	894,000.00	-	-	-	894,000.00	-	-	Yes

Item	Amount	Asset related		Income related				Whether received
		Deferred income	Reduce the book value of assets	Deferred income	Other income	Non-operating income	Reduce costs	
2016 To Build Shenzhen Standard Funding Schemes Plan(Note (8))	499,350.00	-	-	-	499,350.00			Yes
2017 Shenzhen private and SME development special funds	159,940.00	-	-	-	159,940.00	-	-	Yes
Shenzhen small and micro enterprises pioneering and innovative base for urban demonstration special funds	198,240.00	-	-	-	198,240.00	-	-	Yes
Shenzhen Financial Industry Transformation and Innovation Award Funding (Note (9))	320,000.00	-	-	-	320,000.00	-	-	Yes
2017 Shenzhen Special Fund for Industrial Transformation and Upgrading Industry Enhancement Special Application and Innovation Awards (Note (10))	1,900,000.00	-	-	-	1,900,000.00	-	-	Yes
2017 Shenzhen Special Fund for E-commerce Development Funding (Note (6))	617,000.00	-	-	-	617,000.00	-	-	Yes
2017 Nanshan Independent Innovation Industry Development Special Fund Support Project	83,700.00	-	-	-	83,700.00	-	-	Yes
Swiss Basel World Watch Fair booth fee government grants	200,000.00	-	-	-	200,000.00	-	-	Yes
2015 Shenzhen loan interest subsidy conversion program	60,000.00	-	-	-	60,000.00	-	-	Yes
2016 Enhance international operation capability support fund	144,096.00	-	-	-	144,096.00	-	-	Yes

Item	Amount	Asset related		Income related				Whether received
		Deferred income	Reduce the book value of assets	Deferred income	Other income	Non-operating income	Reduce costs	
Technology innovation coupons	7,800.00	-	-	-	7,800.00	-	-	Yes
Nanshan District independent innovation industry development special funds	7,500.00	-	-	-	7,500.00	-	-	Yes
2017 Shenzhen 1th batch of computer software copyright registration funded projects	900.00	-	-	-	900.00	-	-	Yes
Nanshan District, Shenzhen Economic Promotion Bureau export credit support	2,300.00	-	-	-	2,300.00	-	-	Yes
2017 work information submission subsidy	1,000.00	-	-	-	1,000.00	-	-	Yes
Shenzhen Intellectual Property special funds	3,000.00	-	-	-	3,000.00	-	-	Yes
SME support funds	20,000.00	-	-	-	20,000.00	-	-	Yes
Total	—	-	-	1,424,000.00	16,008,255.98	-	-	—

Note (1): According to the Notice of Guangdong Provincial Economic and Information Technology Commission on Doing a Good Job of Applying for Provincial Special Projects in Production and Service Industry in 2017 (the Circular of the Ministry of Economic Affairs and Information Technology of Guangdong Province and Guangdong Provincial Department of Finance) Guangdong Letter of Manufacture [2016] No. 53) obtained provincial 2017 special funds for industrial and informatization.

Note (2): According to "Shenzhen Market and Quality Supervision and Management Committee's Notice on Issuing 2016 Shenzhen Specialized Funding Plan for Shenzhen Standard" (Shenzhen Quality [2017] 141 No. 2016) Shenzhen Special Fund for Shenzhen Standardization.

Note (3): According to the self-innovation of Nanshan District issued by Nanshan District People's Government Office in Nanshan District for the Measures for the Administration of Special Funds for the

Development of Independent Innovation Industries in Nanshan District (for Trial Implementation) (Shennan Government Regulation [2017] No.2) Industrial Development special project funds.

Note (4): According to the Shenzhen Economic and Trade Information Agency for Technology Innovation issued "Municipal Economic and Trade Commission on the 2017 enterprise technological innovation demonstration project to be funded by the formula notice" (Shenzhen Economic and Trade Information Technology [2017] 178) made of the 2017 corporate technology innovation demonstration project special funds.

Note (5): According to "Guiding Opinions on Accelerating Industrial Transformation and Upgrading" (Shenfu [2011] No. 165) issued by the Shenzhen Municipal People's Government, "Notice on Printing and Distributing Supporting Policies on Industrial Transformation and Upgrading in Shenzhen" (Shenfu [2012]No. 90 of Shenzhen Municipality), Measures for the Administration of Special Funds for Industrial Transformation and Upgrading in Shenzhen (Shencaigui [2016] No. 9) and other documents, and achieved special application and innovation rewards for the special industries with funds upgrading and upgrading in 2017,

Note (6): According to "Shenzhen Economic, Trade and Information Commission E-commerce Development Special" (Shenzhen Economic Information Production [2017] 235) and the relevant rules and regulations, the Shenzhen Economic, Trade and Information Commission examined and adopted in 2017, on September 26, 2017, the Company received 2017 e-commerce development funds from Shenzhen Municipal Commission of Economy, Trade and Information.

Note (7): The third batch of corporate research and development grants obtained according to the "Several Measures on Promoting Scientific and Technological Innovation" (Shenfa [2016] No. 7) issued by Shenzhen Municipal Party Committee and Municipal Government.

Note (8): The Company received standardization subsidy for 2016 according to the provisions of "Measures for the Administration of Shenzhen Special Funds for Shenzhen" and "Procedures for Subsidizing Shenzhen Special Funds for Construction of Shenzhen".

Note (9): In accordance with the relevant provisions of "Measures for the Administration of Special Funds for Industrial Transformation and Upgrading in Shenzhen" issued by Shenzhen Economic and Trade Information Committee, special grants for upgrading the special funds for 2017 Manufacturing in China 2025 were obtained.

Note (10): According to the Municipal Economic and Trade Commission, the Municipal Finance Commission issued the "2017 annual industrial transformation and upgrading of special funds to promote industrial applications and innovative special incentives (first batch)" (Shenzhen economic and trade budget information (2017) No. 209), Notice on Enterprise Internationalization Promotion and Funding for Major Projects in Industry, and the industrial transformation subsidy obtained.

2.The status of government grants recorded in current profit and loss

Item	Related to assets/income	Other income	Non-operating income	Offsetting costs
Social Security Board subsidy	Income related	233,529.98	-	-
The 18th Chinese Design Excellence Award patent bonus	Income related	100,000.00	-	-
2016 Shenzhen Standard Special Funding	Income related	651,000.00	-	-
2017 Shenzhen second-batch award-winning special funds for industrial design	Income related	100,000.00	-	-
Nanshan District Independent Innovation Industry Development Fund-funded projects	Income related	250,000.00	-	-
2017 Enterprise Technology Innovation Demonstration Project	Income related	6,890,000.00	-	-
2017 Industrial Upgrade Special Funding Industry Enhancement Special Application and Innovation Award	Income related	1,860,000.00	-	-
2017 9th Shenzhen Staff Technology Innovation Games and Shenzhen Skills Competition	Income related	120,000.00	-	-
2017 Shenzhen Special Fund for E-commerce Development Funding	Asset related	1,500,000.00	-	-
2017 Shenzhen Special Fund for E-commerce Development Funding	Income related	684,900.00	-	-
2016 Corporate Research and Development Grant	Income related	894,000.00	-	-
2017 Shenzhen private and SME development special funds	Income related	159,940.00	-	-
Shenzhen small and micro enterprises pioneering and innovative base for urban demonstration special funds	Income related	198,240.00	-	-
Shenzhen Financial Industry Transformation	Income related	320,000.00	-	-

Item	Related to assets/income	Other income	Non-operating income	Offsetting costs
and Innovation Award Funding				
2017 Shenzhen Special Fund for Industrial Transformation and Upgrading Industry Enhancement Special Application and Innovation Awards	Income related	1,900,000.00	-	-
2017 Shenzhen e-commerce development special fund project funding	Income related	617,000.00	-	-
2017 Nanshan Independent Innovation Industry Development Special Fund Support Project	Income related	83,700.00	-	-
Swiss Basel World Watch Fair booth fee government grants	Income related	200,000.00	-	-
2015 Shenzhen loan interest subsidy conversion program	Income related	60,000.00	-	-
2016 Enhance international operation capability support fund	Income related	144,096.00	-	-
Technology innovation coupons	Income related	7,800.00	-	-
2016 To Build Shenzhen Standard Funding Schemes Plan	Income related	499,350.00	-	-
Special subsidy for developing self-dependent innovation provided by Nanshan District	Income related	7,500.00	-	-
2017 Shenzhen 1th batch of computer software copyright registration funded projects	Income related	900.00	-	-
Nanshan District, Shenzhen Economic Promotion Bureau export credit support	Income related	2,300.00	-	-
2017 work information submission subsidy	Income related	1,000.00	-	-
Shenzhen Intellectual Property special funds	Income related	3,000.00	-	-
SME support funds	Income related	20,000.00	-	-
Total	—	17,508,255.98	-	-

27. Deferred income

Item	31 Dec 2016	Increase	Decrease	31 Dec 2017	Forming reasons
Government grant	5,980,000.00	1,424,000.00	1,500,000.00	5,904,000.00	Income to be recognized in later periods

Incl: items involving government grant

Subsidized project	31 Dec 2016	Increase	Decrease				31 Dec 2017	Related to assets/ income
			recognized in Non-operating Income	recognized in other gain	Offsetting costs	Other Changes		
Special fund for Shenzhen industrial design industry development (Note(1))	3,500,000.00	-	-	1,500,000.00	-	-	2,000,000.00	Asset related
Funding project for construction of National Enterprise Technology Center(Note(2))	2,000,000.00	-	-	-	-	-	2,000,000.00	Asset related
Researching project for key technique of standard timing system of DF101(Note (3))	480,000.00	-	-	-	-	-	480,000.00	Income related
2017 Nanshan District, independent innovation industry development special funds	-	124,000.00	-	-	-	-	124,000.00	Income related
2017 Provincial Specialized Fund for Industrial and Information Technology (Note (4))	-	1,300,000.00	-	-	-	-	1,300,000.00	Income related
Total	5,980,000.00	1,424,000.00	-	1,500,000.00	-	-	5,904,000.00	—

Note (1): Special fund for Shenzhen industrial design industry development was obtained according to the Shen Jingmao Xinxu Jishu Zi (2013) No. 227 - Operating Specification for Affirmation and Fund Plan of Shenzhen Industrial Design Center (Trial) which is jointly issued by Economy, Trade and Information Commission of Shenzhen Municipality and Finance Commission of Shenzhen Municipality.

Note (2): Funding project for construction of Shenzhen Enterprise Technology Center was obtained according to the Notice for the 1st Supportive Project in 2015 of Funding Project for Construction of Shenzhen Enterprise Technology Center which was issued by Shenzhen Development and Reform Commission (Shen Jing Mao Xin Xi Yu[2015] No. 129).

Note (3): Special fund for university-industry cooperation in 2013 was obtained according to Yue Ke Gong Shi [2014] No. 13 – Publicity about Projects which would be Supported by Special Fund of Comprehensive Strategic Cooperation between Province and College and Special Fund of Province-Ministry University-Industry Cooperation in 2013, issued by Guangdong Science and Technology Department.

Note (4): Refer to Note VI.27.1.(1)

28. Share capital

Item	31 Dec 2016	Additions or reduction (+, -)					31 Dec 2017
		Issuance of new share	Bonus shares	Capitalization of capital reserves	Others	Subtotal	
Total shares	438,744,881	-	-	-	-	-	438,744,881

29. Capital reserve

Item	31 Dec 2016	Increase	Decrease	31 Dec 2017
Share premium	1,047,963,195.57	-	-	1,047,963,195.57
Other capital reserves	14,492,448.65	-	-	14,492,448.65
Total	1,062,455,644.22	-	-	1,062,455,644.22

30. Other comprehensive income

Item	31 Dec 2016	Movement	31 Dec 2017
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		Amount incurred before income tax in current period	Less: recorded in other comprehensive income in prior period and transferred to profit or loss in current period	Less : Income tax expenses	Attribute to parent company after tax	Attribute to minority shareholders after tax	
I. Other comprehensive income items which will not be reclassified subsequently to profit or loss	-	-	-	-	-	-	-
II. Other comprehensive income items which will be reclassified subsequently to profit or loss	(11,778,498.24)	(28,676.16)	-	-	255,055.85	(283,732.01)	(11,523,442.39)
Incl. translation difference of foreign currency financial statements	(11,778,498.24)	(28,676.16)	-	-	255,055.85	(283,732.01)	(11,523,442.39)
Total other comprehensive income	(11,778,498.24)	(28,676.16)	-	-	255,055.85	(283,732.01)	(11,523,442.39)

31. Surplus reserve

Item	31 Dec 2016	Increase	Decrease	31 Dec 2017
Statutory surplus reserve	131,976,806.45	12,844,012.90	-	144,820,819.35
Discretionary surplus reserve	61,984,894.00	-	-	61,984,894.00
Total	193,961,700.45	12,844,012.90	-	206,805,713.35

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

The Company can draw discretionary surplus reserve after drawing statutory surplus reserve. If approved, discretionary surplus reserve can be used to make up for losses in previous years or increase share capital.

32. Undistributed profit

Item	2017	2016
Undistributed profit at the end of prior year before adjustments	687,986,807.74	635,417,237.55
Adjustments to undistributed profit at the beginning of year	-	-
Undistributed profit at the beginning of year after adjustment	687,986,807.74	635,417,237.55
Plus: Net profit attributable to the owner of the parent company for the year	140,216,258.28	110,662,681.59
Less: statutory surplus reserve drawn	12,844,012.90	14,218,623.30
Dividends payable to ordinary shares	43,874,488.10	43,874,488.10
Undistributed profit at the end of year	771,484,565.02	687,986,807.74

Note: information on distribution of dividend

Pursuant to the "Resolution of Equity Distribution for Year 2016" approved at the 2016 Annual General Meeting held on 31 May 2016, the Company distributed to all shareholders cash dividend of RMB1.00 (tax inclusive) for every 10 shares held based on total shares of 438,744,881 as at 31 December 2016. Total cash dividend distributed was RMB43,874,488.10.

33. Operating revenue and operating cost

Item	2017		2016	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Revenue from main business	3,326,715,761.43	1,982,954,953.59	2,970,063,248.20	1,768,925,745.88
Revenue from other business	19,093,942.55	3,697,637.98	23,801,313.23	3,885,972.13
Total	3,345,809,703.98	1,986,652,591.57	2,993,864,561.43	1,772,811,718.01

(1) Revenue from main business presented by industry

Item	2017		2016	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Watches	3,217,264,256.67	1,965,169,699.03	2,871,027,139.99	1,755,381,683.73
Property leasing	109,451,504.76	17,785,254.56	99,036,108.21	13,544,062.15
Total	3,326,715,761.43	1,982,954,953.59	2,970,063,248.20	1,768,925,745.88

(2) Revenue from main business presented by product

Item	2017		2016	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Branded watches	2,237,358,253.15	1,652,049,037.83	1,973,725,639.76	1,467,331,518.39
FIYTA watch	979,906,003.52	313,120,661.20	897,301,500.23	288,050,165.34
Property leasing	109,451,504.76	17,785,254.56	99,036,108.21	13,544,062.15
Total	3,326,715,761.43	1,982,954,953.59	2,970,063,248.20	1,768,925,745.88

(3) Revenue from main business presented by region

Item	2017		2016	
	Operating revenue	Operating cost	Operating revenue	Operating cost
Southern China	1,111,907,639.88	569,825,630.62	972,635,042.85	501,166,754.87
Northwest China	543,837,252.49	344,027,944.99	489,661,181.56	313,757,695.26
Northern China	511,436,952.26	335,026,858.97	470,509,053.79	303,527,675.35
Eastern China	483,210,740.06	293,552,413.42	424,998,042.02	258,333,324.92
Northeast China	309,313,118.19	200,465,533.04	275,092,433.66	172,735,780.16
Southwest China	367,010,058.55	240,056,572.55	337,167,494.32	219,404,515.32
Total	3,326,715,761.43	1,982,954,953.59	2,970,063,248.20	1,768,925,745.88

35. Tax and surcharges

Item	2017	2016
Urban maintenance and construction tax	14,218,262.08	14,331,544.59
Educational surcharge	6,122,809.94	6,164,701.57
Local educational surcharge	4,099,162.87	3,995,655.71

Item	2017	2016
Property tax	4,057,806.73	3,549,967.35
Business tax	-	2,121,487.67
Stamp duty	2,322,319.03	1,693,557.27
Land use tax	461,094.63	376,717.97
Consumption tax	68,144.07	104,504.27
Tax for usage of vehicle and ship	8,085.00	6,880.00
Others	1,513,574.23	1,702,039.82
Total	32,871,258.58	34,047,056.22

Note: The criteria of business taxes and surcharges accrued and paid refer to Note V. Taxation

36. Selling and distribution expenses

Item	2017	2016
Salary	282,332,694.94	259,810,602.50
Market promotion expense	131,674,515.49	100,031,268.23
Amortization of long-term deferred expense	77,182,205.41	97,209,529.89
Rental	68,236,070.49	63,307,076.99
Department store expense	61,575,265.89	56,958,278.01
Worker's insurance expenses	40,320,843.22	37,852,584.71
Advertising expense	31,348,053.91	34,834,870.71
Depreciation	13,157,449.05	13,173,164.73
Packing expense	13,166,738.72	12,855,655.45
Utilities	9,939,044.34	12,773,584.17
Others	82,505,050.55	71,723,740.64
Total	811,437,932.01	760,530,356.03

37. Administrative expenses

Item	2017	2016
Salary	116,005,739.67	99,141,867.32
R & D expenses	49,453,899.35	41,757,819.70

Item	2017	2016
Worker's insurance expenses	13,262,398.74	10,082,904.32
Depreciation	13,450,960.31	8,929,957.04
Travel expense	5,917,863.79	5,709,780.05
Office expenses	4,896,447.32	3,735,209.01
Housing fund	4,134,079.62	3,550,020.93
Amortization of long-term deferred expense	3,930,800.69	3,267,454.60
Agents fee	2,632,061.65	3,037,733.23
Employee welfare	2,645,453.19	2,816,468.55
Others	23,713,777.26	19,244,927.27
Total	240,043,481.59	201,274,142.02

38. Finance expenses

Item	2017	2016
Interest expense	41,825,035.34	64,906,633.47
Less: Interest capitalization	-	3,565,443.23
Less: Interest income	2,915,602.99	3,371,147.87
Exchange gain or losses	1,082,289.43	(261,437.55)
Bank charges and others	9,195,021.13	11,178,960.09
Total	49,186,742.91	68,887,564.91

39. Impairment losses

Item	2017	2016
Bad debt loss	11,818,649.06	10,188,287.61
Inventory impairment loss	50,608,850.55	19,189,596.79
Total	62,427,499.61	29,377,884.40

40. Investment gain

Item	2017	2016
Investment gain from the long-term equity investment measured by equity method	455,893.22	585,802.82

Item	2017	2016
Investment gain from disposal of long-term equity investment	-	(139,209.59)
Total	455,893.22	446,593.23

41. Gain on disposal of assets

Item	2017	2016	Amount included in current year's non-recurring profit or loss
Total gain on disposal of the non-current assets	7,672,962.75	5,779.00	7,672,962.75
Total loss on disposal of the non-current assets	(350,969.39)	(526,699.33)	(350,969.39)
Total	7,321,993.36	(520,920.33)	7,321,993.36

42. Other gain

Item	2017	2016	Amount included in current year's non-recurring profit or loss
Government grant	17,508,255.98	-	17,508,255.98

For details of government grants, refer to Note VI. 27.

43. Non-operating income

Item	2017	2016	Amount included in current year's non-recurring profit or loss
Total gain on damage and retirement of non-current assets	-	-	-
Government grant (see details below)	-	17,234,482.25	-
Clearing of payables that cannot be paid	2,256,661.00	503,383.76	2,256,661.00
Others	350,992.91	836,873.03	350,992.91
Total	2,607,653.91	18,574,739.04	2,607,653.91

Details of government grants that are included in current period are as follows:

Projects under subsidy	2017	2016	Related to assets/income
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Projects under subsidy	2017	2016	Related to assets/income
Special Fund for Industrial Transferring and Upgrading ①	-	10,550,000.00	Related to Income
Special fund of 2016 e-commerce development provided by Shenzhen Economy & Trade and Information System Steering Committee ②	-	2,240,400.00	Related to Income
Special subsidy for developing self-dependent innovation provided by Nanshan District ③	-	1,231,000.00	Related to Income
2016 Shenzhen subsidy for enterprise R&D ④	-	1,051,000.00	Related to Income
Award for 17th National Patent Award ⑤	-	600,000.00	Related to Income
2016 subsidy fund for Shenzhen industrial design and innovation results transferred into application ⑥	-	510,000.00	Related to Income
Government Subsidiaries for Basel Watch Fair ⑦	-	551,039.25	Related to Income
Co-subsidy from Guangdong Province for 17th National Patent Award ⑧	-	250,000.00	Related to Income
Supporting subsidy for promoting international competitive strength for 2015 ⑨	-	140,043.00	Related to Income
Award for first Ordos international innovative design competition	-	50,000.00	Related to Income
Subsidiaries for 1 Standardized Research Projects of Shenzhen Baoan Bureau of Finance	-	50,000.00	Related to Income
Subsidiaries for Patent in 2016 of Shenzhen Market Supervisory Authority	-	10,000.00	Related to Income
Subsidiaries for Commerce Circulation of Shenzhen Economy and Trade Commission	-	1,000.00	Related to Income
Total	-	17,234,482.25	—

Note:

①: Special Fund for Industrial Transferring and Upgrading was obtained according to Shen Cai Gui (2014) No. 21 “Interim Administration Method for Shenzhen Special Fund for Industrial Transferring and Upgrading”, Shen Jingmao Xinxi Yusuan Zi [2016] No.212 “Notice of Shenzhen Economy, Trade and Information Commission on Publicity to Proposed Subsidy Projects Of 2016 China Manufacturing 2025 Special Fund to Promote Advantage Industry”, Shen Jingmao Xinxi Yusuan Zi [2016] No.249 “Notice of

Shenzhen Economy, Trade and Information Commission on Issuing Plan to Award Brand in Advantage Industry with 2016 Industrial Transferring and Upgrading Subsidy”, and “Publicity List of Shenzhen Economy, Trade and Information Commission on Subsidy Projects of 2016 Merging of Industrialization and Information”.

② : It is special subsidy received from Shenzhen Economy, Trade and Information Commission according to Shen Fu Ban (2007) No. 68 “Shenzhen Municipality Method of Administration of Developing E-commerce” and Shen Jingmao Yusuan Zi (2016) No. 112 “Notice of Shenzhen Economy, Trade and Information Commission on Publicity of First Batch of Projects under 2016 Special Fund for Service Industry Development”, Shen Jingmao Xinxi Yusuan Zi (2016) No. 126 “Notice of Shenzhen Economy, Trade and Information Commission on Publicity of Subsidy of 2016 E-commerce Development Special Fund for E-commerce Logistic System Construction Project”, and Shen Jingmao Xinxi Yusuan Zi (2016) No. 274 “Notice of Shenzhen Economy, Trade and Information Commission on Publicity of 2016 Enterprise Competitive Power Promotion – Plan of Award to E-commerce Examples”.

③: It is special subsidy received in accordance with “Method of Administration of Nanshan Independent Innovation Industrial Development Fund” and related operation guidelines

④ : It is 2016 enterprise R&D subsidy received from Shenzhen Science and Technology Innovation Committee according to Shen Fu (2004) No. 205 “Administration Method of Shenzhen Municipality Science and Technology R&D Fund” and “Publicity of First Batch of Enterprises Enjoyed 2016 Enterprise R&D Subsidy”

⑤ : It is received according to “Decision of Awarding the 17th China Patent Award” (Guo Zhi Fa Guan Zi (2015) No. 67) issued by State Intellectual Property Office

⑥ : It is received according to Shen Cai ke (2013) No.169 “Pilot Administration Method of Shenzhen Municipality Industry Development of Industrial Design” and Shen Jingmao Xinxi Yusuan Zi (2016) No. 237 “Notice of Shenzhen Science and Technology Innovation Committee on 2016 Subsidy Fund for Shenzhen Industrial Design and Innovation Results Transferred into Application”

⑦: It is government subsidy fund for Basel Watch Fair for 2015 obtained from Shenzhen Association of Timepieces.

⑧: It is co-subsidy for the 17th Patent Award received from Guangdong Province according to Yue Fu Ling No. 202“Guangdong Provincial Patent Award Method”

⑨ : It is obtained according to Shen Jingmao Xinxi Yusuan Zi [2015] No.180 “Details of Supporting Improving the Ability of International Trading of which the amount of import or export is below USD65,000,000.00” and Shen Jingmao Xinxi Yusuan Zi[2016] No.68 “Notice of Notice of Shenzhen Economy, Trade and Information Commission on Publicity of the Special Fund for the 8th to 10th Batch of 2015 Promoting International Business Strength”, and Shen Jingmao Xinxi Yusuan Zi[2016] No.96

“Notice of Notice of Shenzhen Economy, Trade and Information Commission on Publicity of the Special Fund for the 11th to 12th Batch of 2015 Promoting International Business Strength”.

44. Non-operating expenses

Item	2017	2016	Amount included in non-recurring profit or loss in current year
External donation	399,250.00	300,000.00	399,250.00
Others	969,430.92	104,961.81	969,430.92
Total	1,368,680.92	404,961.81	1,368,680.92

45. Income tax expenses

(1) Details of income taxes expenses

Item	2017	2016
Current income tax	57,825,323.60	23,934,294.77
Deferred income tax	(10,726,369.54)	10,722,147.90
Total	47,098,954.06	34,656,442.67

(2) Reconciliation between income tax expenses and accounting profits is as follows:

Item	2017
Profit before tax	189,715,313.26
Income tax expenses calculated at legal (or applicable) tax rate	47,428,828.32
Impact of different tax rate in certain subsidiaries	(4,603,717.63)
Adjustment for income tax in prior year	1,148,406.56
Income not subject to tax	(1,230,402.43)
Expenses not deductible for tax purposes	2,814,701.45
Taxation influence by using unrecognized deductible loss and deductible temporary difference of prior periods	(570,447.36)
Taxation influence of unrecognized deductible loss and deductible temporary difference	6,010,454.36
Effect of tax rate change on carrying amount of opening deferred income tax asset	-
Super deduction of R&D expenses	(3,898,869.21)
Income tax expenses	47,098,954.06

46. Other comprehensive income

Details of other comprehensive income refer to Note VI. 31.

47. Notes to cash flow statement

(1) Cash received from other operating activities

Item	2017	2016
Government grant	17,432,255.98	19,234,482.25
Product promotion fee	7,256,201.41	14,523,999.82
Security deposit	9,327,099.78	4,986,127.60
Interest income	2,915,602.99	3,371,147.87
Petty cash	4,615,494.88	3,145,832.73
Others	7,631,989.59	6,306,636.72
Total	49,178,644.63	51,568,226.99

(2) Cash paid for other operating activities

Item	2017	2016
Marketing promotion fee	116,083,360.98	89,496,418.02
Rental	80,557,649.30	52,433,881.38
Departmental store expenses	40,296,610.32	36,836,635.88
Advertising fee	32,028,348.16	34,754,870.71
Travel expenses	15,287,674.97	15,886,202.66
R & D expenses	22,883,770.79	17,310,721.96
Office expenses	10,087,223.06	10,718,987.61
Transportation expenses	10,445,774.44	9,182,675.27
Exhibition expenses	10,686,979.91	8,092,580.22
Posting and telecommunication expenses	4,942,120.45	6,320,786.58
Business entertainment	5,909,392.82	6,248,672.51
Packing expenses	1,010,445.61	5,218,194.15
Utilities	6,465,479.63	5,096,450.47
Petty cash	4,405,955.94	4,110,308.75
Intermediary agents expense	3,602,250.55	3,612,765.87
Conference expenses	3,477,562.92	2,731,897.48
Insurance expense	2,720,711.50	2,722,194.96
Security deposit	2,803,293.12	2,497,794.19

Item	2017	2016
Vehicle expenses	2,110,291.06	2,462,877.78
Consultation expenses	382,775.12	1,874,553.54
Others	35,739,546.37	28,465,361.09
Total	411,927,217.02	346,074,831.08

(3) Cash paid to other investment activities

Item	2017	2016
Financing expenses for placing of stock	-	992,669.19
Return investment to minority shareholder	3,376,589.16	-
Total	3,376,589.16	992,669.19

48. Supplement to cash flow statement

(1) Supplement to Cash Flow Statement

Supplement	2017	2016
1. Reconciliation of net profit to cash flow from operating activities:		
Net profit	142,616,359.20	110,374,847.30
Add: Impairment for assets	62,427,499.61	29,377,884.40
Depreciation of fixed asset and investment property	43,011,539.25	36,573,787.99
Amortization of intangible assets	3,453,462.25	1,699,311.44
Amortization of long-term deferred expenses	92,532,517.56	106,609,093.71
Loss (gain) on disposal of fixed assets, intangible assets, and other long-term assets	(7,321,993.36)	520,920.33
Loss (gain) on retirement of fixed assets	-	-
Loss (gain) on changes of fair value	-	-
Financial expenses (income)	41,825,035.34	61,341,190.24
Investment loss (gain)	(455,893.22)	(446,593.23)
Decrease in deferred tax assets (increase)	(10,726,369.54)	10,722,147.90
Increase in deferred tax liabilities (decrease)	-	-
Decrease in inventories (increase)	126,768,439.60	76,404,230.12
Decrease in operating receivables (increase)	(19,073,303.46)	4,954,173.34

Supplement	2017	2016
Increase in operating payables (decrease)	89,897,268.74	17,628,100.61
Others	-	-
Net cash flows from operating activities	564,954,561.97	455,759,094.15
2. Significant investment or financing activities not involving cash:		
Debts converted to capital	-	-
Convertible debts mature within one year	-	-
Fixed assets acquired under finance leases	-	-
3. Net increase / (decrease) in cash and cash equivalents:		
Cash at end of year	184,947,891.32	427,227,755.81
Less: cash at beginning of year	427,227,755.81	637,387,875.93
Plus: cash equivalents at end of year	-	-
Less: cash equivalents at beginning of year	-	-
Net increase in cash and cash equivalents	(242,279,864.49)	(210,160,120.12)

(2) Cash and cash equivalents

Item	31 Dec 2017	31 Dec 2016
I. Cash	184,947,891.32	427,227,755.81
Incl. Cash on hand	414,210.14	478,898.11
Bank deposit available for immediate payment	184,528,160.32	426,743,336.84
Other monetary funds available for immediate payment	5,520.86	5,520.86
II. Cash equivalents	-	-
Incl. Bond investment due in three months	-	-
III. Cash and cash equivalents at the end of year	184,947,891.32	427,227,755.81
Incl: restricted cash and cash equivalents for the Company	-	-

Note: Restricted cash and cash equivalents for the Company are not included in cash and cash equivalents amounts.

49. Assets of restricted ownership or use rights

Item	Amount as of 31 Dec 2017	Restriction reason
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Item	Amount as of 31 Dec 2017	Restriction reason
Currency funds	2,205,000.00	Security deposit of RMB1,575,000.00, judicial frozen fund of RMB 630,000.00.
Fixed assets	15,524,849.62	Guarantee
Total	17,729,849.62	—

50. Monetary item denominated in foreign currency

(1) Monetary item denominated in foreign currency

Item	Balance denominated in foreign currency as at 31 Dec 2017	Exchange rate	Balance translated in RMB as at 31 Dec 2017
Currency fund			
Incl.: USD	265,850.31	6.5342	1,737,119.10
HKD	5,577,456.28	0.83591	4,662,251.48
CHF	390,028.04	6.6779	2,604,568.25
EUR	12,737.32	7.8023	99,380.39
Accounts receivable			
Incl.: USD	595,452.22	6.5342	3,890,803.90
HKD	6,662,991.40	0.83591	5,569,661.14
GBP	15,566.13	8.7792	136,658.17
CHF	239,082.81	6.6779	1,596,571.10
Prepayments			
Incl.: USD	74,381.75	6.5342	486,025.23
HKD	6,195,186.12	0.83591	5,178,618.03
CHF	1,079,362.92	6.6779	7,207,877.64
Other receivable			
Incl: HKD	290,843.50	0.83591	243,118.99
CHF	905,580.00	6.6779	6,047,372.68
Accounts payable			
Incl: HKD	1,294,391.43	0.83591	1,081,994.74
CHF	37,198.58	6.6779	248,408.40
Advances from customer			
Incl: HKD	216,858.76	0.83591	181,274.41
EUR	490.50	7.8023	3,827.03
Other payable			

Item	Balance denominated in foreign currency as at 31 Dec 2017	Exchange rate	Balance translated in RMB as at 31 Dec 2017
Incl: HKD	489,691.77	0.83591	409,338.25
CHF	57,630.75	6.6779	384,852.39
Short-term loan			
Incl: HKD	61,000,000.00	0.83591	50,990,510.00
Long-term bank loan			
Incl: CHF	750,000.00	6.6779	5,008,425.00

(2) Overseas operational entity

For main business location and recording currency of important overseas operational entity, refer to Note IV. 3.

VII. Changes of consolidation scope

1. Reasons for changes of consolidation scope

Shenzhen Harmony Culture Communication Co., Ltd was de-registered on 18 Oct, 2017 with “Notice of Approval for De-registration” obtained from Market Supervision Commission of Shenzhen, as a result, it is excluded from the scope of consolidation at the year-end.

Beijing Henglianda Watch Center Co., Ltd was de-registered on 19 Dec, 2017 with “Notice of Approval for De-registration” obtained from Beijing Industrial and Commerce Administration Dongcheng Branch, as a result, it is excluded from the scope of consolidation as at the year-end.

According to the equity trust agreement signed by and between Station 68, a subsidiary of FIYTA Hong Kong, and the trustee of Nature Art Limited on 10 December 2009, Station 68, as the trustor, owns shares, stock rights and related rights of Nature Art Limited, and both parties agree that trustee may transfer its right anytime according to the instructions of trustor. Therefore, Station 68 owns the control right of Nature Art Limited and include them into its scope of consolidation. According to the board resolution, asset disposal agreement and trust termination agreement signed on 12 October, 2017, Station 68 agrees to terminate the trust agreement with Nature Art and withdraw 10,000 HKD which is no less than book value of net asset audited on 30 September 2017. According to these agreements, Station 68 loses the control over Nature Art Limited when signing the termination agreement and

withdrawing the amount. As a result, it is excluded from the scope of consolidation at the year-end.

VIII. Equity in other entities

1. Equity in subsidiaries

(1) Structure of enterprise group

Name of subsidiary	Main business location	Place of registration	Nature of business	Shareholding ratio%		Ways acquired
				Direct	Indirect	
HARMONY Company	Shenzhen	Shenzhen	Commerce	100.00	-	Establishment or investment
Manufacturing Company	Shenzhen	Shenzhen	Manufacture	90.00	10.00	Establishment or investment
FIYTA Hong Kong	Hong Kong	Hong Kong	Commerce	100.00	-	Establishment or investment
Station 68	Hong Kong	Hong Kong	Commerce	-	60.00	Establishment or investment
Harbin Company (note ①)	Harbin	Harbin	Commerce	100.00	-	Establishment or investment
Technology Company	Shenzhen	Shenzhen	Manufacture	100.00	-	Establishment or investment
TEMPORAL Company	Shenzhen	Shenzhen	Commerce	100.00	-	Establishment or investment
Emile Choureit Shenzhen Company (note ①)	Shenzhen	Shenzhen	Commerce	100.00	-	Establishment or investment
World Watches International	Hong Kong	Hong Kong	Commerce	-	100.00	Establishment or investment
Sales Company	Shenzhen	Shenzhen	Commerce	100.00	-	Establishment or investment
Hengdarui Company (note ①)	Shenyang	Shenyang	Commerce	100.00	-	Business combination under common

Name of subsidiary	Main business location	Place of registration	Nature of business	Shareholding ratio%		Ways acquired
				Direct	Indirect	
						control
Swiss Company	Switzerland	Switzerland	Commerce	-	100.00	Business combination not under common control

Note : ① The Company purchased 75% share of Harbin Company and 100% share of Hengdarui Company from HARMONY Company, a subsidiary of the Company, and purchased 100% share of Emile Choureit Shenzhen Company from FIYTA Hong Kong, a subsidiary of the Company. The consideration for the acquisitions are based on net asset audited on 31 December 2016.

2. Equity in joint arrangement or associates

(1) Significant joint venture or associates

Name	Principal place of business	Registration place	Business nature	Shareholding ratio (%)		Accounting treatment for joint ventures or associates
				Direct	Indirect	
Shanghai Watch	Shanghai	Shanghai	Manufacture	25.00	-	Equity method

(2) Principal financial information of significant associate company:

Item	Balance as of 31 Dec 2017 or 2017	Balance as of 31 Dec 2016 or 2016
Current assets	88,035,307.16	85,987,663.95
Non-current assets	17,515,363.92	19,468,754.45
Total assets	105,550,671.08	105,456,418.40
Current liabilities	5,527,973.92	7,546,723.24
Non-current liabilities	-	-
Total liabilities	5,527,973.92	7,546,723.24
Minority shareholders' interests	-	-
Owners' equity attributable to parent company	100,022,697.16	97,909,695.16

Item	Balance as of 31 Dec 2017 or 2017	Balance as of 31 Dec 2016 or 2016
Share of net assets calculated as shareholding percentage	25,005,674.29	24,477,423.79
Adjustment matters		
- goodwill	-	-
- Unrealized profit or losses from internal transaction	-	-
- Others	-	-
Book value of investment to associates	43,879,518.09	43,423,624.87
Operating revenue	79,475,581.06	86,054,541.55
Net profit	1,823,572.89	2,343,211.28
Other comprehensive income	-	-
Total comprehensive income	1,823,572.89	2,343,211.28
Dividends received from associated company during the year	-	383,750.00

IX. Risk related to financial instruments

Main financial instruments of the Company include monetary fund, account receivable, notes receivable, other receivables, available-for-sale financial assets, account payable, interest payable, other payables, short-term loan, non-current liabilities in one year and long-term loan. Details of financial instruments refer to related items in Note VI. Risks related to those financial instruments and risk management policies adopted to reduce those risks are described as below. The Company management layer manages and supervises the risk exposure to ensure risks are controlled within limited range.

The Company adopts sensitivity analysis technique to analyse the reasonability of risk variables, impact of possible change on current profit and loss or shareholder's equity. Since risk variables barely change in isolation, and correlation between variables have significant impact on the final amount affected by one variable, the following content is based on the assumption that each variable changes in isolation.

1. Risk management goals and policies

The goal of risk management is to keep proper balance between risk and profit, to reduce negative influence of financial risk to financial performance of the Company to the minimum and maximize the benefit of shareholders and other equity investors. Based on the goal, the fundamental risk management policies of the Company are to identify and analyse risks the Company faces, set proper acceptable risk level to manage risk, supervise various risk reliably and timely and control risk within limited range.

(1) Market Risk

(i) Exchange rate risk

Exchange rate risk refers to the risk of loss caused by exchange rate change. The main exchange rate risk the company undertakes is relevant to Hong Kong dollar and Swiss Franc. Except several subsidiaries which purchase and sell with Hong Kong dollar and Swiss Franc, other major business transactions are settled in RMB. On 31 December, 2017, except balance of following assets and liabilities shown in the table are in Hong Kong dollar, Swiss Franc and US dollar, balance of other assets and liabilities of the company are in RMB. The exchange rate risk due to these assets and liabilities with balance in foreign currency could have impact on the financial performance of the Company.

Item	Balance as of 31Dec 2017	Balance as of 31 Dec 2016
Cash and bank balance	9,103,319.22	26,417,187.66
Accounts receivable	11,193,694.31	6,020,219.81
Prepayment	12,872,520.90	-
Other receivables	6,290,491.67	296,332.38
Accounts payable	1,330,403.14	14,648,727.74
Advances from customer	185,101.44	-
Other payables	794,190.64	2,563,587.28
Short-term loans	50,990,510.00	140,438,070.00
Long-term loans	5,008,425.00	23,556,507.52

Foreign exchange rate risk sensitivity analysis:

Foreign exchange rate risk sensitivity analysis assumption: all the hedges of the net investment in an overseas operation and cash flow hedging are highly effective. Under this assumption, controlling other variables, the pre-tax impact on current profit and shareholders' equity due to reasonable change of exchange rate, are shown as following.

Item	Fluctuation in exchange rate	2017	2016
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		Impact on profit	Impact on shareholders' equity	Impact on profit	Impact on shareholders' equity
Cash and bank balance	Appreciate against RMB by 5%	455,165.96	455,165.96	1,320,859.38	1,320,859.38
	Depreciate against RMB by 5%	(455,165.96)	(455,165.96)	(1,320,859.38)	(1,320,859.38)
Accounts receivable	Appreciate against RMB by 5%	559,684.72	559,684.72	301,010.99	301,010.99
	Depreciate against RMB by 5%	(559,684.72)	(559,684.72)	(301,010.99)	(301,010.99)
Prepayments	Appreciate against RMB by 5%	643,626.05	643,626.05	-	-
	Depreciate against RMB by 5%	(643,626.05)	(643,626.05)	-	-
Other receivables	Appreciate against RMB by 5%	314,524.58	314,524.58	14,816.62	14,816.62
	Depreciate against RMB by 5%	(314,524.58)	(314,524.58)	(14,816.62)	(14,816.62)
Accounts payable	Appreciate against RMB by 5%	(66,520.16)	(66,520.16)	(732,436.39)	(732,436.39)
	Depreciate against RMB by 5%	66,520.16	66,520.16	732,436.39	732,436.39
Advances from customer	Appreciate against RMB by 5%	(9,255.07)	(9,255.07)	-	-
	Depreciate against RMB by 5%	9,255.07	9,255.07	-	-
Other payables	Appreciate against RMB by 5%	(39,709.53)	(39,709.53)	(128,179.36)	(128,179.36)
	Depreciate against RMB by 5%	39,709.53	39,709.53	128,179.36	128,179.36
Short-term loans	Appreciate against RMB by 5%	(2,549,525.50)	(2,549,525.50)	(7,021,903.50)	(7,021,903.50)
	Depreciate against RMB by 5%	2,549,525.50	2,549,525.50	7,021,903.50	7,021,903.50
Long-term loans	Appreciate against RMB by 5%	(250,421.25)	(250,421.25)	(1,177,825.38)	(1,177,825.38)
	Depreciate against RMB by 5%	250,421.25	250,421.25	1,177,825.38	1,177,825.38

Interest risk-risk of change in cash flow

The risk of change in cash flow in the Company due to the change of interest rate is mainly relevant to floating interest rate bank loans (refer to Notes VI 17, VI.26). The strategy of the Company is to maintain the floating rate of these loans.

Interest rate sensitivity analysis:

Interest rate sensitivity analysis is based on following assumption:

- The income and expense of financial instruments with variable interest rate is influenced by change of market interest rate

-
- For fixed interest rate financial instruments measured by fair value, change of market interest rate only influences the interest income and expense
 - For derivative financial instruments, designated as hedging instruments, change of market interest rate influence the fair value and interest rate hedging is estimated to be highly effective
 - The change in fair value of derivative financial instruments and other financial assets and liabilities is calculated with market interest rate on balance sheet date under discount cash flow method

On the basis of above assumptions, controlling other variables, the pre-tax impact on current profit and shareholders' equity due to reasonable change of interest rate is as follows:

On 31 December 2017, if the borrowing rate calculated with floating interest rate increases of decreases by 50 basis points, and other factors remain unchanged, the net profit and shareholders' equity is estimated to decrease or increase by around RMB326,300 yuan (RMB1,441,600 yuan on 31 December 2016)

Other price risk.

Available-for-sale financial assets held by the company are measured at cost on balance sheet date, so there is no price risk to be disclosed

(2) Credit risk

The biggest credit risk exposure which possibly leads to financial loss of the company on 31 December 2017 is default of contract obligation of transaction counterparty, which may lead to the loss on financial assets of the Company. Specifically, it includes the book value of financial assets recognized in consolidated balance sheet and the Company does not set any guarantees to any other credit risks that the Company may bear.

To reduce credit risk, based on the financial status of debtor, external rating, guarantee possibility, credit record gained from the third party and other factors such as current market status, the Company evaluates credit qualification of debtor and set corresponding debt limit and credit period. The Company will regularly supervise credit record of debtor. For debtor with bad credit record, the Company will ensure the whole credit risk of the Company within controllable range in the forms of written reminder letter, reducing credit period and cancelling credit period. Additionally, the Company examines the collection of receivables on every balance sheet date to ensure sufficient provision for bad debts. Hence, the management of the Company suppose that the credit risk undertaken by the Company has been reduced significantly.

The working capital of the Company is deposited in bank with high credit rating, so the credit risk of

working capital is low.

For amount of accounts receivable, the amount of top 5 accounts receivable accounts for 6.30% of total accounts receivable of the Company (2016: 7.32%). In other receivables, the amount of top 5 accounts receivable accounts for 24.14% of total other receivable of the Company (2016: 22.06%).

(3) Liquidity risk

In managing liquidity risk, the Company keeps the cash and cash equivalents that the Company deems sufficient and controls them to meet operating needs, reduce influence of cash liquidity fluctuation. The Company management monitors the use of bank loans and ensures to comply with borrowing agreement.

The Company finances working capital through capital and bank and other borrowings incurred in business operation. As at 31 December 2017, bank borrowing facility that the Company has not yet used is about RMB2,723,970,000 (31 December 2016: RMB1,742,300,000).

Maturity analysis of financial assets, financial liabilities and off-balance-sheet guarantee items by undiscounted remaining contract cash flow are as follows: (Unit: in RMB ten thousands):

Item	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Financial assets:					
Cash and bank balance	18,715.29	-	-	-	18,715.29
Notes receivable	969.39	-	-	-	969.39
Accounts receivable	33,490.40	-	-	-	33,490.40
Other receivables	3,809.03	-	-	-	3,809.03
Total financial assets	56,984.11	-	-	-	56,984.11
Financial liabilities:					
Short-term loans	52,599.05	-	-	-	52,599.05
Accounts payable	26,325.65	-	-	-	26,325.65
Interests payable	146.47	-	-	-	146.47
Other payables	5,776.75	-	-	-	5,776.75
Non-current liabilities due in one year	3,500.00	-	-	-	3,500.00
Long-term loan	-	3,500.00	3,500.00	987.04	7,987.04
Financial guarantee	42,599.05	-	-	-	42,599.05

Item	Within 1 year	1 to 2 years	2 to 3 years	Over 3 years	Total
Total of financial liability and contingent liability	130,946.97	3,500.00	3,500.00	987.04	138,934.01

X. Fair value

1. Financial assets and liabilities measured at fair value

On 31 December 2017, the Company did not have assets and liabilities measured at fair value.

2. Financial assets and liabilities not measured at fair value

The Company's financial assets and financial liabilities measured at amortized cost mainly include: cash and bank balances, notes receivable, accounts receivable, other receivables, short-term loans, accounts payable, other payables, and long-term payables, etc...

The difference between the book value and fair value of financial assets and liabilities that are not measured at fair value is small.

XI. Related party relationship and transactions

1. Details of the parent company of the Company

Name	Registration place	Type of business	Registered capital	Shareholding ratio of parent company to the Company %	Ratio of vote right of parent company to the Company%
China National Aviation Group	Shenzhen	Investment in industries, domestic trade, material supply and distribution	1,166,161,996	37.15	37.15

CATIC Shenzhen Company holds 33.93% shareholding of China National Aviation Group. CATIC Shenzhen Company is a wholly owned subsidiary of China Aero Space International Holdings Limited (CASI), and China Aviation Industry Corporation (AVIC) directly holds 62.52% of the equity of CASI. Therefore, the ultimate controlling party of the Company is AVIC.

2. Subsidiaries

Details of subsidiaries refer to Note VIII.1 "Equity in subsidiaries".

3. Joint venture and association

Details of joint ventures and associates refer to Note VIII.2 "Equity in joint arrangement or associates".

4. Other related parties

Name	Relationship with the Company
Shenzhen CATIC Property Management Limited (CATIC Property Management)	Controlled by the same party
Shenzhen CATIC Building Equipment Co., Ltd. (CATIC Building Company)	Controlled by the same party
Rainbow Department Store Co., Ltd. (Rainbow Department Store)	Controlled by the same party
Shennan Circuits Co., Ltd. (Shennan Circuits)	Controlled by the same party
AVIC Real Estate Holding Company Limited(AVIC Real Estate Company)	Controlled by the same party
AVIC Securities Co., Ltd. (AVIC Securities Company)	Controlled by the same party
Xi'an Skytel Hotel Co., Ltd. (Skytel Hotel)	Controlled by the same party
Shenzhen AVIC Nanguang Elevator Co., Ltd. (AVIC Nanguang Company)	Controlled by the same party
Shenzhen CATIC City Real Estate Development Co., Ltd. (CATIC City Real Estate Company)	Controlled by the same party
Shenzhen CATIC City Development Co., Ltd. (CATIC City Development Company)	Controlled by the same party
CATIC Guanlan Property Development Co., Ltd. (CATIC Guanlan Property)	Controlled by the same party
CATIC Changtai Investment Development Co., Ltd. (CATIC Changtai Company)	Controlled by the same party
Shenzhen CATIC Jiufang Asset Management Limited (CATIC Jiufang Asset Mgmt Company)	Controlled by the same party
Shenzhen CATIC City Investment Co., Ltd (CATIC City Investment)	Controlled by the same party
Chengdu CATIC Property Development Co., Ltd (Chengdu CATIC Property Company)	Controlled by the same party
AVIC Electronic Measuring Instrument Company (AVIC Electronic Measuring Company)	Controlled by the same party
Shenzhen CATIC Theme Real-estate Co., Ltd (CATIC Theme Company)	Controlled by the same party
AVIC Training Center	Controlled by the same party
Ganzhou CATIC 9 Square Trading Co, Ltd(Ganzhou 9 Square Company)	Controlled by the same party
CATIC City Estate (Kunshan) Co, Ltd (Kunshan Company)	Controlled by the same party
Shenzhen CATIC Huacheng Real Estate Development Co, Ltd (CATIC Huacheng Company)	Controlled by the same party
Shenzhen CATIC Curtain Co, Ltd (CATIC Curtain Company)	Controlled by the same party
AVIC Finance Co., Ltd. (AVIC Finance Company)	Controlled by the same party
Shenzhen AVIC Security Service Co., Ltd (AVIC Security Service))	Controlled by the same party
Shenzhen AVIC Property Asset Management Co., Ltd.(AVIC Property Asset Management)	Controlled by the same party
Jiujiang 9 Square Business Management Co., Ltd (Jiujiang Business Management)	Controlled by the same party
Shenzhen CATIC Grand Skylight Hotel Co., Ltd (Grand Skylight Hotel)	Controlled by the same party
Shenzhen CATIC Property Management Limited Fiyta science and Technology Building Management Office (CATIC Property Management)	Controlled by the same party
Shenzhen CATIC Property Management Limited Central Branch Office (CATIC Property Central Branch Office)	Controlled by the same party
Shenzhen CATIC City Parking Management Co, Ltd (CATIC City Parking Management Company)	Controlled by the same party
Shenzhen CATIC Grand Skylight Hotel Co., Ltd (Grand Skylight Hotel)	Controlled by the same party
Shenzhen CATIC Technical Testing Institute (CATIC Technical Testing Institute)	Controlled by the same party
Huang Yongfeng	Key management member
Wang Mingchuan	Key management member
Fu Debin	Key management member

Xiao Zhanglin	Key management member
Wang Bo	Key management member
Chen Libin	Key management member
Zhang Hongguang	Key management member
Zhang Shunwen	Key management member
Wang Yan	Key management member
Wang Baoying	Key management member
Sheng Qing	Key management member
Wang Jingqi	Key management member
Lu Bingqiang	Key management member
Lu Wanjun	Key management member
Liu Xiaoming	Key management member
Pan Bo	Key management member
Li Ming	Key management member
Chen Zhuo	Key management member
Xu Dongsheng	Key management member
Zhong Sijun	Key management member
Cao Zhen	Key management member
Sui Yong	Key management member

5. Transactions with related parties

(1) Details of related party purchase and sales

① Purchasing goods and receiving services

Related party	Type of transaction	2017	2016
CATIC Property Management	Property management	8,243,916.72	5,275,437.71
Rainbow Department Store	Department store expenses	5,868,872.26	4,708,288.04
CATIC Building co., Ltd.	Engineering	-	1,842,225.92
CATIC Technical Development co., Ltd.	Engineering	-	169,811.32
CATIC Nanguang co., Ltd.	Engineering	-	156,086.60
AVIC Training Center	Training	-	129,432.54
AVIC Technical Testing Institute	Testing	3,207.55	-
Shennan Circuits Company	Material purchase	4,273.50	-

② Selling products and providing services

Related party	Type of transaction	2017	2016
Rainbow Department Store	Product sales and services	77,301,661.83	72,415,842.70
AVIC	Product sales	-	266,944.55
Grand Skylight Hotel Management Company	Product sales	6,837.60	-
Ganzhou 9 Square Company	Product and service	1,763,367.26	-
Shennan Circuits	Material sales	3,810,125.07	5,021,182.68

(2) Lease

① The Company as a lessor

Lessee	Type of leased assets	Recognized rental income in current year	Recognized rental income in prior year
CATIC Property Management	Property	6,680,448.32	6,813,776.40
Skytel Hotel	Property	4,190,476.18	4,395,238.09
AVIC Real Estate Company	Property	1,719,424.99	1,603,091.94
CATIC City Investment	Property	1,154,505.27	1,461,596.16
AVIC Securities Company	Property	1,182,657.15	1,152,634.31
CATIC City Real Estate Company	Property	702,125.82	586,541.62
Rainbow Department Store	Property	532,715.48	501,285.16
CATIC Huacheng Company	Property	404,075.33	442,067.62
CATIC Jiufang Asset Mgmt Company	Property	392,865.14	369,408.00
AVIC Security Service	Property	618,958.25	180,133.64
CATIC Guanlan Property	Property	98,012.11	94,857.51
AVIC Property Asset Management	Property	132,279.06	84,507.18
CATIC City Development Company	Property	27,131.52	23,714.37
CATIC Property Management Limited Central Branch Office	Property	81,154.75	-

② The Company as a lessee

Lessor	Type of leased assets	Rental expenses charged in current year	Rental expenses charged in prior year
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Ganzhou 9 Square Company	Property	1,053,882.06	1,042,003.04
CATIC Changtai Company	Property	244,255.29	311,667.98
Jiujiang CATIC Estate Company	Property	-	287,408.00
Kunshan Company	Property	211,572.02	192,515.80
Jiujiang Business Management	Property	334,028.93	17,004.85
Chengdu CATIC Property Company	Property	-	400.00

(3) Guarantees provided

① The Company as a guarantor

Guarantee	Amount	Effective date	Expiring date	Guarantee obligation expired (Yes/No)
FIYTA Hong Kong	9,195,010.00	2017/8/30	2018/2/28	No
FIYTA Hong Kong	41,795,500.00	2017/6/27	2018/8/14	No
HARMONY Company	5,000,000.00	2017/6/29	2018/6/28	No
HARMONY Company	75,000,000.00	2017/12/30	2018/12/29	No

② The Company as a guaranteed party

Guarantor	Amount	Effective date	Expiring date	Guarantee obligation expired (Yes/No)
China National Aviation Group	5,361,928.00	2014/9/5	2020/6/24	No
China National Aviation Group	10,000,000.00	2015/1/8	2020/6/24	No
China National Aviation Group	2,138,072.00	2015/1/26	2020/6/24	No
China National Aviation Group	17,500,000.00	2015/1/26	2020/12/24	No
China National Aviation Group	361,928.00	2015/1/26	2021/6/24	No
China National Aviation Group	6,000,000.00	2015/5/27	2021/6/24	No
China National Aviation Group	10,000,000.00	2015/10/28	2021/6/24	No
China National Aviation Group	1,138,072.00	2015/12/1	2021/6/24	No
China National Aviation Group	5,861,928.00	2015/12/1	2021/12/24	No
China National Aviation Group	10,000,000.00	2016/1/18	2021/12/24	No

Guarantor	Amount	Effective date	Expiring date	Guarantee obligation expired (Yes/No)
China National Aviation Group	1,638,072.00	2016/1/26	2021/12/24	No
China National Aviation Group	13,361,928.00	2016/1/26	2022/6/24	No
China National Aviation Group	2,000,000.00	2016/4/20	2022/6/24	No
China National Aviation Group	2,138,072.00	2016/5/5	2022/6/24	No
China National Aviation Group	5,361,928.00	2016/5/5	2022/12/24	No
China National Aviation Group	12,138,072.00	2016/5/19	2022/12/24	No
China National Aviation Group	4,861,928.00	2016/5/19	2023/6/24	No
HARMONY Company	50,000,000.00	2017/9/12	2018/9/11	No
HARMONY Company	15,000,000.00	2017/7/3	2018/7/3	No

(4) Remuneration for key management members

Item	2017	2016
Remuneration for key management members	13,564,900.00	15,558,400.00

(5) Other related transactions

The year-end balance of the Company's cash was RMB85,003,527.05, which was deposited with AVIC Finance Company. Interests received from the deposit were RMB130,299.20.

6. Receivables from and payables to related parties

(1) Receivables

Item	31 Dec 2017		31 Dec 2016	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt Provision
Accounts receivable				
Rainbow Department Store	1,782,356.36	89,117.82	9,332,325.17	466,616.26
Shennan Circuits	786,443.94	39,322.20	555,224.70	27,761.24
Ganzhou 9 Square Company	115,742.00	5,787.10	-	-
Total	2,684,542.30	134,227.12	9,887,549.87	494,377.50
Notes receivable				

Item	31 Dec 2017		31 Dec 2016	
	Carrying amount	Bad debt provision	Carrying amount	Bad debt Provision
Shennan Circuits	2,398,579.72	-	854,616.60	-
Other receivable				
Rainbow Department Store	832,774.30	41,638.72	687,471.00	34,373.55
CATIC Property Management	100.00	5.00	-	-
Ganzhou 9 Square Company	122,665.60	6,133.28	122,665.60	6,133.28
CATIC Changtai Company	-	-	50,000.00	2,500.00
Jiujiang CATIC Estate Company	50,000.00	2,500.00	50,000.00	2,500.00
Kunshan Company	35,000.00	1,750.00	42,120.00	2,106.00
Grand Skylight Hotel	32,000.00	1,600.00	32,000.00	1,600.00
AVIC Training Center	150,000.00	7,500.00	-	-
CATIC Building Company	126,598.73	6,329.94	-	-
Total	1,349,138.63	67,456.94	984,256.60	49,212.83

(2) Payables

Item	31 Dec 2017	31 Dec 2016
Advances from customer		
AVIC Real Estate Company	148,915.46	133,848.00
CATIC Guanlan Property	8,315.43	7,920.00
CATIC Jiufang Asset Mgmt Company	33,331.01	-
AVIC Securities Company	101,428.57	-
CATIC City Development Company	-	1,980.00
Total	291,990.47	143,748.00
Other payables		
CATIC Property Management	472,032.00	1,993,817.45
AVIC Real Estate Company	442,407.92	424,800.00
CATIC City Investment Company	309,732.00	244,068.00

Item	31 Dec 2017	31 Dec 2016
AVIC Securities Company	213,000.00	187,440.00
CATIC Building Company	89,289.47	103,424.92
CATIC City Real Estate Company	99,052.32	97,912.32
CATIC Huacheng Company	73,819.68	73,819.68
CATIC Jiufang Asset Mgmt Company	66,666.60	66,666.60
Rainbow Department Store	60,000.00	60,000.00
CATIC City Development Company	5,100.00	3,960.00
CATIC Changtai Company	4,064.81	-
Total	1,835,164.80	3,255,908.97

XII. Commitments and contingencies

1. Significant commitments

(1) Operating lease commitment

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

Item	31 Dec 2017	31 Dec 2016
Minimum lease payment for irrevocable operating lease:		
The 1 st year after the balance sheet date	29,799,099.00	32,454,718.47
The 2 nd year after the balance sheet date	14,570,632.00	14,752,206.79
The 3 rd year after the balance sheet date	7,533,388.00	3,856,133.62
Years in arrears	1,121,206.00	3,353,900.00
Total	53,024,325.00	54,416,958.88

(2) Other commitments

As at 31 December, 2017 the Company has no commitment that shall be disclosed

2. Contingencies

(1) Contingent liabilities and financial influence formed by providing liability guarantee to other units

Refer to Note XI. 5 (3) for details of external guarantees entered by companies in the scope of consolidation, and guarantee between parent company and subsidiaries.

(2) Other contingent liabilities and its financial influence

As at 31 December 2017, there is no other contingency that shall be disclosed by the Company.

XIII. Post balance sheet date events

1. Profit distribution after balance sheet date

The resolution of 2017 profit distribution proposal has been passed on the 24th Board Meeting of the 8th Board of Directors on 8 March 2018. It proposed to distribute cash dividend of RMB2.00 (tax inclusive) for every 10 shares held by shareholders based on the total 438,744,881 shares as at 31 December 2017. Cash dividend that proposed to be distributed amounts to RMB87,748,976.20, no bonus shares and no capitalization of reserves. The proposal is subject to approval from Annual General Shareholders' Meeting.

2. Other significant non-adjusting events after balance sheet date

(1) Pursuant to the resolution passed on the 24th Board Meeting of the 8th Board of Directors on 8 March 2018, the Company plans to apply credit facility of no more than RMB 900,000,000.00 from banks in form of guaranteed loan and mortgage loan in 2018. The proposal of credit facility application is subject to approval from Annual General Shareholders' Meeting.

(2) Pursuant to the resolution passed on the 24th Board Meeting of the 8th Board of Directors on 8 March 2018, the Company plans to provide guarantee to the Company's wholly-owned subsidiaries for their application of credit facility of no more than RMB600,000,000.00 in 2018. This credit facility is included in the total credit facility of RMB900,000,000.00 to be applied in 2018 mentioned above. The proposal of credit facility application is subject to approval from Annual General Shareholders' Meeting.

XIV. Other significant events

1. Deregistration of subsidiary

Culture Company de-registered on 18 Oct 2017. Henglianda Company de-registered on 19 Dec 2017.

Station 68 Company is going through the deregistration procedure and has not finished until 31 December 2017.

World Watches International is going through the deregistration procedure and has not finished until 31 December 2017.

2. Others

The proposal about acquiring wholly-owned sub-subsidiary Montres Chouriet SA has been passed in the 16th Board Meeting of the eighth Board of Directors on 2 June 2017. The Company is going to acquire 100% share of Swiss Company, owned by the subsidiary of the Company, FIYTA Hong Kong. The consideration of CHF12 million was made on the basis of audited net asset as at 31 December 2016.

The acquisition has not been finalized as of 31 December 2017.

XV. Notes to the Company's financial statements

1. Accounts Receivable

(1) Accounts receivable by categories:

Category	31 Dec 2017				
	Carrying amount		Provision		Book value
	Amount	Percentage%	Amount	Percentage%	
Receivables that are individually significant in amount and provided for bad debt separately	-	-	-	-	-
Receivables provided for bad debt by portfolio	6,871,446.35	100.00	39,440.24	0.57	6,832,006.11
Incl: Portfolio of aging	788,804.75	11.48	39,440.24	5.00	749,364.51
Portfolio of specific accounts	6,082,641.60	88.52	-	-	6,082,641.60
Receivables that are individually insignificant in amount but provided for bad debt separately	-	-	-	-	-
Total	6,871,446.35	100.00	39,440.24	0.57	6,832,006.11

(Continued)

Category	31 Dec 2016				
	Carrying amount		Provision		Book value
	Amount	Percentage%	Amount	Provision rate %	
Receivables that are individually significant in amount and provided for bad debt separately	-	-	-	-	-
Receivables provided for bad debt by portfolio	269,469.10	100.00	13,473.46	5.00	255,995.64

Category	31 Dec 2016				
	Carrying amount		Provision		Book value
	Amount	Percentage%	Amount	Provision rate %	
Incl: Portfolio of aging	269,469.10	100.00	13,473.46	5.00	255,995.64
Portfolio of specific accounts	-	-	-	-	-
Receivables that are individually insignificant in amount but provided for bad debt separately	-	-	-	-	-
Total	269,469.10	100.00	13,473.46	5.00	255,995.64

① Accounts receivable that are provided for bad debt based on aging analysis in aging portfolio:

Aging	31 Dec 2017		
	Amount	Provision	Provision Rate %
Within 1 year	788,804.75	39,440.24	5.00

(2) Bad debt provisions accrued, received or reversed in the current period

The amount of Bad debt provision accrued in current year is RMB25,966.78. There is no received or reversal of bad debt provision in current year

(3) Top 5 accounts receivable as at the year end

The amount of top 5 receivables based on year-end receivable balance is RMB788,804.75 accounts for 11.48% of total receivables as at 31 Dec 2017. Corresponding bad debt provision is RMB39,440.24.

2. Other receivable

(1) Other receivables disclosed by categories:

Category	31 Dec 2017				
	Carrying amount		Provision		Carrying amount
	Amount	Percentage %	Amount	Provision rate %	
Other receivables that are individually significant in amount and provided for bad debt separately	-	-	-	-	-
Other receivables provided for bad debt	832,005,502.89	100.00	53,065.03	0.01	831,952,437.86

by portfolio					
Incl: Portfolio of aging	727,550.50	0.09	53,065.03	7.29	674,485.47
Portfolio of specific accounts	831,277,952.39	99.91	-	-	831,277,952.39
Receivables that are individually insignificant in amount but provided for bad debt separately	-	-	-	-	-
Total	832,005,502.89	100.00	53,065.03	0.01	831,952,437.86

(Continued)

Category	31 Dec 2016				
	Carrying amount		Provision		Carrying amount
	Amount	Percentage %	Amount	Provision rate %	
Other receivables that are individually significant in amount and provided for bad debt separately	-	-	-	-	-
Other receivables provided for bad debt by portfolio	1,191,963,803.24	100.00	16,748.67	0.00	1,191,947,054.57
Incl: Portfolio of aging	167,486.73	0.01	16,748.67	10.00	150,738.06
Portfolio of specific accounts	1,191,796,316.51	99.99	-	-	1,191,796,316.51
Receivables that are individually insignificant in amount but provided for bad debt separately	-	-	-	-	-
Total	1,191,963,803.24	100.00	16,748.67	0.00	1,191,947,054.57

① Other receivables that are provided for bad debt based on aging analysis:

Aging	31 Dec 2017		
	Other receivable	Provision	Provision rate%
Within 1 year	660,800.50	33,040.03	5.00
1-2 years	-	-	-
2-3 years	66,750.00	20,025.00	30.00
Over 3 years	-	-	-

Aging	31 Dec 2017		
	Other receivable	Provision	Provision rate%
Total	727,550.50	53,065.03	7.29

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

(2) Bad debt provision accrued, received or reversed in the current period

The amount of Bad debt provision accrued is RMB36,316.36 in current year. There is no received or reversed of bad debt provision in current year.

(3) Other receivables presented by nature

Item	31 Dec 2017	31 Dec 2016
Related party balances within consolidated scope	831,217,702.17	1,191,058,623.23
Petty cash	60,250.22	737,693.28
Security deposit	352,131.00	40,050.00
Others	375,419.50	127,436.73
Total	832,005,502.89	1,191,963,803.24

(4) Top 5 other receivable accounts as at the year end

Company name	Nature	Balance	Aging	Percentage in total closing balance of other receivables (%)	Provision for bad and doubtful debts
TEMPORAL Company	Transaction	26,049,062.11	Within 1 year	3.13	-
FIYTA Sales Company	Transaction	112,384,237.76	Within 1 year	13.51	-
HARMONY World Watches International Limited	Transaction	559,473,902.30	Within 1 year	67.24	-
Liaoning Hengdarui Commercial & Trade Co., Ltd	Transaction	109,310,500.00	Within 1 year	13.14	-
Emile Choureit Timing (Shenzhen) Ltd.	Transaction	24,000,000.00	Within 1 year	2.88	-

Company name	Nature	Balance	Aging	Percentage in total closing balance of other receivables (%)	Provision for bad and doubtful debts
Total	—	831,217,702.17	—	99.90	-

3. Long-term equity investments

(1) Types of long-term equity investment

Item	31 Dec 2017			31 Dec 2016		
	Carrying amount	Provision	Book value	Carrying amount	Provision	Book value
Investment in subsidiaries	1,331,248,590.93	-	1,331,248,590.93	1,213,169,720.00	-	1,213,169,720.00
Investment to associated and joint venture companies	43,879,518.09	-	43,879,518.09	43,423,624.87	-	43,423,624.87
Total	1,375,128,109.02	-	1,375,128,109.02	1,256,593,344.87	-	1,256,593,344.87

(2) Investment in subsidiaries

Invested units	31 Dec 2016	Increase	Decrease	31 Dec 2017	Provision accrued in 2017	Balance of provision as at 31 Dec 2017
HARMONY Company	601,307,200.00	-	-	601,307,200.00	-	-
Harbin Company	125,000.00	2,059,484.39	-	2,184,484.39	-	-
Manufacturing Company	9,000,000.00	-	-	9,000,000.00	-	-
Technology Company	10,000,000.00	-	-	10,000,000.00	-	-
FIYTA Hong Kong	137,737,520.00	-	-	137,737,520.00	-	-
TEMPORAL Company	5,000,000.00	-	-	5,000,000.00	-	-
FIYTA Sales Company	450,000,000.00	-	-	450,000,000.00	-	-
Hengdarui Company	-	36,867,843.96	-	36,867,843.96	-	-
Emile Choureit Shenzhen Company	-	79,151,542.58	-	79,151,542.58	-	-

Invested units	31 Dec 2016	Increase	Decrease	31 Dec 2017	Provision accrued in 2017	Balance of provision as at 31 Dec 2017
Total	1,213,169,720.00	118,078,870.93	-	1,331,248,590.93	-	-

(3) Investment to associates and joint venture companies

Invested units	31 Dec 2016	Movements in 2017				
		Addition	Withdraw	Investment income/loss recognized under the equity method	Adjustment of other comprehensive income	Changes of other equity
Associates						
Shanghai Watch	43,423,624.87	-	-	455,893.22	-	-

(Continued)

Invested units	Movements in 2017			31 Dec 2017	Balance of provision at 31 Dec 2017
	Cash dividend or profit announced to be issued	Provision for impairment	Other		
Associates					
Shanghai Watch	-	-	-	43,879,518.09	-

4. Operating revenue and operating cost

Item	2017		2016	
	Revenue	Cost	Revenue	Cost
Main businesses	117,673,738.22	17,785,254.56	98,387,059.04	13,573,121.98
Other businesses	72,649.57	-	-	-
Total	117,746,387.79	17,785,254.56	98,387,059.04	13,573,121.98

5. Investment income

Item	2017	2016
Investment income from long-term equity investment measured by cost method	117,000,000.00	135,344,660.36

Item	2017	2016
Investment income from long-term equity investment measured by equity method	455,893.22	585,802.82
Total	117,455,893.22	135,930,463.18

XVI. Supplementary information

1. Details of non-recurring gain or loss for the year

Item	Amount	Note
Disposal gain or loss of non-current assets	7,321,993.36	
Overridden approval, or without official approval document, or incidental tax return or exemption	-	
Government grants included in current profit or loss (except for the fixed or quantitative government grants, enjoyed in a consecutive way, which closely related to the enterprise businesses and according to certain state policies and or on a nation-wide unified standard)	17,508,255.98	
Charges for the possessions of funds collected from non-monetary enterprises	-	
Investment cost of subsidiaries, joint venture and cooperative enterprises less than the profit incurred in identifiable net asset fair value of invested unit when investment	-	
Profit and loss of non-monetary assets exchange	-	
Profit and loss from entrusting others to invest or manage assets	-	
Asset impairment provision accrued due to force majeure such as natural disasters	-	
Profit and loss of debt restructuring	-	
Enterprise restructuring expenses, such as expenses for arranging employees, integrating cost	-	
Profit and loss over fair value part accrued in transactions of unreasonable transaction price	-	
Current net profit and loss of subsidiaries from business combination under common control from the opening period to combination date	-	
Profit and loss incurred contingent matters unrelated to normal operating business	-	

Item	Amount	Note
Except for effective hedging business related to normal operating business, profit and loss of fair value incurred in financial assets and financial liabilities measured at fair value through current profit and loss	-	
Impairment provision reversal of accounts receivable under separate impairment test	1,903,056.74	
Profit and loss obtained in external entrusting loans	-	
Profit and loss incurred in fair value change of investment property subsequently measured in fair value mode	-	
Influence on current profit and loss caused by one-off adjustment according to requirements of laws and regulations about taxation and accounting	-	
Income from trustee fee obtained by trusting operation	-	
Other non-operating income and expenses other than the above items	1,238,972.99	
Profit and loss items pursuant to the definition of non-recurring profit and loss	-	
Subtotal	27,972,279.07	
Less: effect of income tax of non-recurring profit or loss	8,669,699.37	
Less: effect of non-recurring profit or losses attributable to minority shareholders (after tax)	3,004,849.17	
Total	16,297,730.53	

Note: “+” refer to gain or income and “-” means loss or expense.

The Company recognize non-recurring gain or loss according to “Interpretation Announcement to Information Disclosure of Companies with Shares Offered Publicly No. 1 – Non-recurring gain or loss” (CSRC (2008) No. 43).

2. Return on Equity (ROE) and Earnings per share (EPS)

Profit of the reporting period	Weighted average ROE %	EPS	
		Basic EPS	Diluted EPS
Net profit attributable to ordinary shareholders of the Company	5.79	0.3196	0.3196
Net profit attributable to ordinary shareholders of the Company after deducting non-recurring profit or loss	5.12	0.2824	0.2824

Chapter 12 Documents Available for Inspection

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

**Board of Directors of
FIYTA HOLDINGS LTD.**

March 10, 2018