

# FIYTA Precision Technology Co., Ltd.

## 2020 Annual Report, Summary

### I. Important Notice

This summary of the Annual Report is quoted out of the full text of the Annual Report. Investors desirous to understand entirely the Company's operation results, financial position and future development planning are advised to carefully read the full text of the Annual Report which is published in the medium designated by CSRC.

All the directors attended the board meeting for reviewing the Annual Report.

Indication of qualified audit opinion

Inapplicable

The profit distribution preplan or the preplan for conversion of the reserve into capital for the reporting period reviewed by the Board of Directors

Is there any public reserve converted into capital stock

No

The profit (of ordinary shares) distribution preplan reviewed and approved by the Board of Directors is summarized as follows: with the total capital stock as at the date of record as the base, the Company would distribute cash dividend at the rate of CNY 4 for every 10 shares (with tax inclusive), bonus share at the rate of 0 share for every 10 shares (with tax inclusive) to the whole shareholders and capitalize no reserve.

Profit Distribution Preplan for Preferred Shares during the Reporting Period Approved by the Resolution of the Board of Directors

Inapplicable

### II. Company Profile

#### 1. Company Information

Abbreviation of the stock:	FIYTA and FIYTA B	Stock Code	000026 and 200026
Stock Exchange Listed with	Shenzhen Stock Exchange		
Liaison Persons and Communication Information	Secretary of the Board	Securities Affairs Representative	
Names	Chen Zhuo	Xiong Yaojia	
Office Address	20th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen	18th Floor, FIYTA Technology Building, Gaoxin S. Road One, Nanshan District, Shenzhen	
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#### 2. Summary of the Principal Business or Leading Products during the Reporting Period

##### (1) Principal Business and Operation Model

With the establishment and development originated from aviation precision manufacturing and material technology, the Company is mainly carrying out the activities of watch brand management and luxurious watch retails. From the perspective

of technical characteristics, the Company is engaged in precision technology industry.

Over the past three decades or more, relying on the advantages in precision manufacturing technology, material technology and talents of the aviation industry, the Company has been continuously devoting itself to the building of professional watch-making capability and brand operation, has successfully built the "FIYTA" brand and established the brand a leading position in the domestic industry by virtue of the advantages in technology and quality, and has cultivated brands of different styles such as "Emile Chouriet", "JONAS&VERUS", "Beijing" and "JEEP" to meet the needs of market segments.

In 1997, in order to grasp the opportunities in the domestic famous watch market and accelerate the breakthrough of its own brand, the Company developed the retail business of famous watches. As one of the first explorers of brand watch retail chain business, the Company has been focusing on strengthening the construction of both brand and channel resources, refining operations, and has established stable cooperation with international outstanding famous watch brands and domestic high-end channels, which is contributing to the company's revenue and profit while providing a source of growth, it has also established a stable base for the growth and development of its own brands.

Under the general background of industrial upgrading and intelligent manufacturing, the Company relies on high-end precision manufacturing technology and industrial accumulation, based on the development principle of "technology being homologous, the industry being same-rooted and value being co-directional", and extends the development of precision technology business and smart wearable business. At present, these two businesses have begun to take shape.

## **(2) Development Status of the Industry and the Company's Position Therein**

Watches bear both characteristics of precision technology and fashion: high-end watch-making is supported by precision technology, material technology and craftsmanship as the core. In addition, it is necessary to meet consumers' demands for brands, aesthetics and artistic and cultural connotation. The global watch industry has developed for more than two hundred years, and it has a long history. Technological innovation and design creativity have always pushed the brand forward.

Globally, the high-end luxury watch market is mainly occupied by the Swiss watch brands. Middle-end and fashion watches mainly consist of European and American brands, Japanese brands and domestic brands. In recent years, smart watches are developing rapidly, and have won the favor of tech-savvy, sports-savvy and fashion-savvy citizens.

Today, the increase in national disposable income, the people's yearning for a better life, and the demand for high-quality life are driving consumption upgrading; in addition, with the effective advancement of tariff reduction, China's domestic watch consumer market is ushering in a new development opportunity and the Company keeps optimistic about the market development potential. In the past year 2020, affected by COVID-19, the global watch industry experienced a severe test of growth pressure. With China's effective control over the pandemic, the rapid growth of luxury goods consumption, and the rise of duty-free shopping on Hainan offshore island, China outshone all the other countries in the world in performance of the high-end luxury watch retail industry. According to the data disclosed by the Federation of the Swiss Watch Industry FH, the export volume of Swiss watches in 2020 dropped by 21.8% year-on-year, but the export to mainland China began to increase commencing from June, 2020 with a year-on-year growth by 20%. This was the first time for mainland China to be the world's largest market of Swiss watches. These data are the best evidence of the strong consumption power of Chinese consumers.

The company has focused on the watch industry. After years of hard work, it has grown into the flagship enterprise of Chinese watches, and has been ranked first in China's watch industry for many consecutive years. The Brand "FIYTA" is one of China's most well-known watch brands that have grown up under the market economy after China's reform and opening-up. The Company has adhered to the original intention of "Big Country Brand", relying on precision manufacturing technology, brand perception and deep cultivation of channels to promote continuous brand breakthroughs, and its sales scale ranks among the top in the industry. In 2017, the Brand was selected as the unique watch brand in the country in the "Made-in-China" Brand Plan by the Ministry of Commerce; "FIYTA won the "China Grand Awards for Industry" in 2018, and was honorably put on the "70 Top Brands for the 70th Anniversary of the Founding of New China" List in 2019, and honorably won the "People's Ingenuity Brand Award 2019". 2020, the Company honorably won the title of "the 40 Brand Makers in the Past 40 Years of Shenzhen"; Sun Lei, the Company's chief designer, won the title of "40 Persons of Innovation and Entrepreneurship and Model Worker." After more than two decades' development, Harmony World Watches has been operating brand watch retail business in more than 60 cities across the country and has nearly 200 chain stores. It has established abundant brand and channel resources and good operating ability, and its market share ranks domestically forefront in the watch retail industry.

### 3. Summary of Accounting/Financial Data

#### (1) Summary of Accounting/Financial Data in the Past Three Years

Does the Company need to make retroactive adjustment or restatement of the accounting data of the previous years  
No

In CNY

	2020	2019	Increase/decrease in the reporting year over the previous year	2018
Turnover	4,243,439,952.59	3,704,210,734.90	14.56%	3,400,450,599.90
Net profit attributable to the Company's shareholders	294,115,156.04	215,909,014.15	36.22%	183,835,095.29
Net profit less the non-recurring profit/loss attributable to the Company's shareholders	269,095,012.41	199,678,661.09	34.76%	162,758,061.00
Net cash flows arising from operating activities	378,210,505.87	444,820,768.61	-14.97%	331,627,789.62
Basic earning per share (CNY/share)	0.6764	0.4943	36.84%	0.4190
Diluted earning per share (CNY/share)	0.6764	0.4943	36.84%	0.4190
Return on equity, weighted average (%)	10.78%	8.21%	2.57%	7.30%
	End of 2020	End of 2019	Increase/decrease of the end of the reporting year over the end of the previous year	End of 2018
Total assets	4,018,712,700.18	3,760,923,285.37	6.85%	3,599,691,650.26
Net profit attributable to the Company's shareholders	2,799,948,388.09	2,654,533,766.99	5.48%	2,570,134,782.90

#### (2) Major Accounting Data Based on Quarters

In CNY

	The first quarter	The second quarter	The third quarter	The fourth quarter
Turnover	588,361,057.06	993,473,657.97	1,362,598,720.97	1,299,006,516.59
Net profit attributable to the Company's shareholders	-12,974,795.53	90,713,701.83	137,048,377.83	79,327,871.91
Net profit less the non-recurring profit/loss attributable to the Company's shareholders	-13,738,773.72	82,408,251.17	129,723,577.01	70,701,957.95
Net cash flows arising from operating activities	-106,747,751.88	210,392,987.15	112,503,592.52	162,061,678.08

Are the above financial indicators or their totals significantly different from the financial indicators disclosed by the Company in the quarterly and semi-annual reports?

No

### 4. Capital Stock and Shareholders

#### (1) Number of the common shareholders and preferred shareholders whose voting rights are restored and shareholding by the top 10 shareholders

In shares

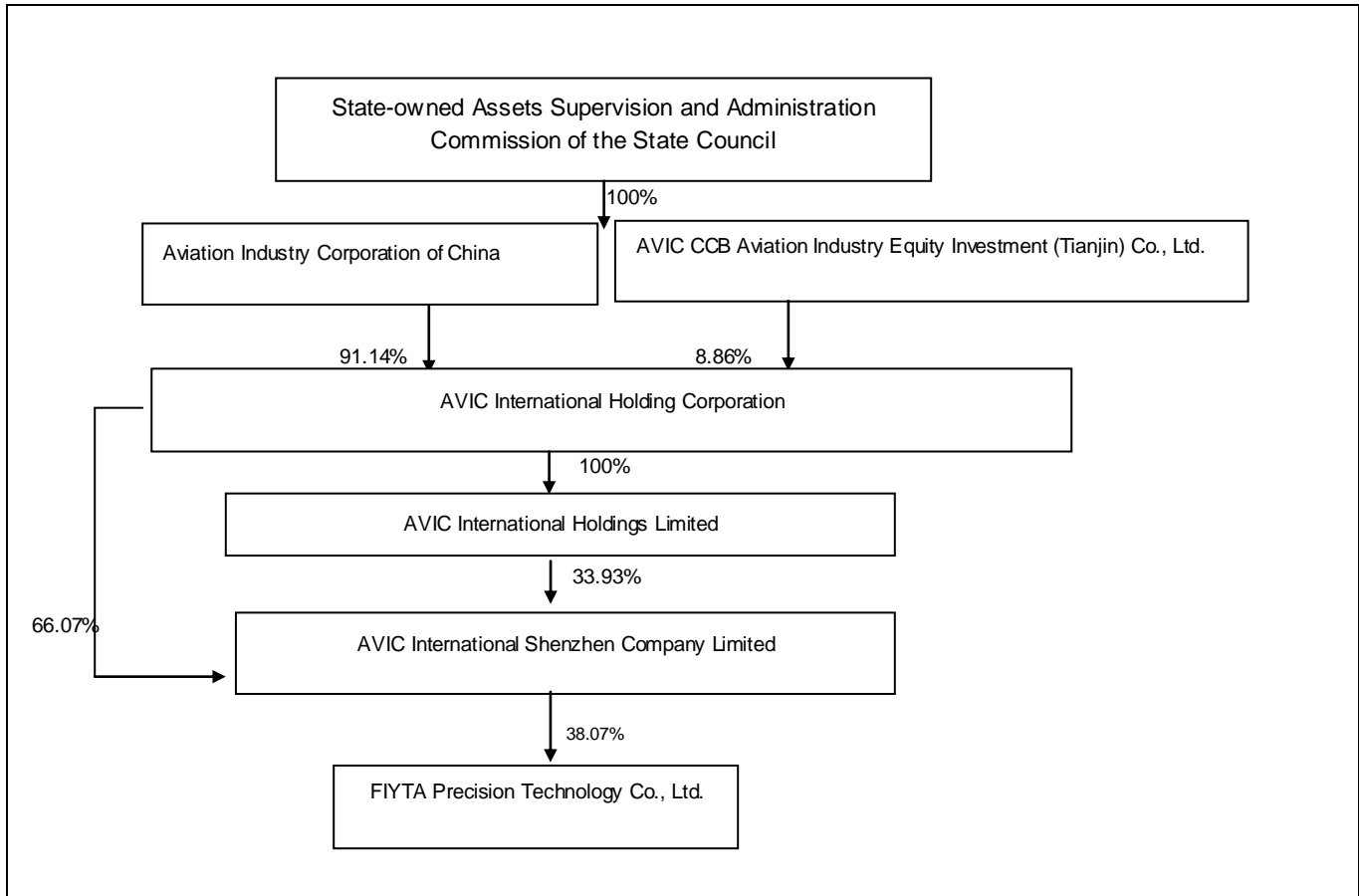
Total common shareholders at the end of the reporting period	29,546	Total common shareholders at the end of the month before the	30,247	Total preference shareholders with the voting power recovered at the	0	Total preference shareholders with the voting power recovered at the end	0
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		date of disclosing the Annual Report		end of the reporting period		of the month before the day of disclosing the Annual Report	
Shareholding by top 10 shareholders							
Names of the Shareholders	Nature of the shareholder	Shareholding proportion	Number of shares held	Number of the restricted shares held	Pledging or freezing		
					Status of the shares	Quantity	
AVIC International Holding Limited	State corporate	38.07%	162,977,327	0			
Construction Bank of China - Penghua Value Superiority Hybrid Securities Investment Fund (LOF)	Domestic non-state-owned legal person	1.75%	7,472,435	0			
Construction Bank of China - Penghua High Quality Growth Hybrid Securities Investment Fund	Domestic non-state-owned legal person	1.23%	5,250,906	0			
UBS AG	Foreign corporate	1.04%	4,461,801	0			
Construction Bank of China - Penghua Selected Growth Hybrid Securities Investment Fund	Domestic non-state-owned legal person	0.54%	2,322,734	0			
Basic Endowment Insurance Fund Portfolio 904	Domestic non-state-owned legal person	0.46%	1,988,500	0			
MORGAN STANLEY & CO. INTERNATIONAL PLC.	Foreign corporate	0.44%	1,894,750	0			
Construction Bank of China - Penghua Hongjia Flexible Configuration Hybrid Securities Investment Fund	Domestic non-state-owned legal person	0.40%	1,714,400	0			
# Chi Dexuan	Domestic natural person	0.40%	1,703,500	0			
Qiu Hong	Domestic natural person	0.37%	1,600,000	0			
Explanation on associated relationship or consistent action of the above shareholders	Inapplicable						
Note the shareholders involved in margin financing & securities lending (if any)	Among the above shareholders, Chi Dexuan purchased 1,703,500 shares through the customer credit transaction guarantee securities account of Huaxin Securities Co., Ltd.						

## (2) Total Preference Shareholders and the Shareholding by the Top 10 Preference Shareholders

Inapplicable

**(3) Block Diagram of the Ownership and Control Relations between the Company and the Actual Controller**



**5. Bonds**

Did there exist any company bonds which were issued to the public and listed with the stock exchange for trading and was due by the date when the Annual Report was approved for issuing or failed to be fully cashed by the end of the reporting period.

No

**III. Discussion and Analysis of the Operation**

**1. Operation Summary in the Reporting Period**

2020 is an extraordinary year. The sudden pandemics of COVID-19 has brought a huge impact to the Company's business. The Company suffered a quarterly loss in its operation result in the first quarter. In the face of unprecedented challenge, the Company actively responded and quickly launched the "Wartime Command System", mobilized all employees to prevent and control the epidemic, and at the same time, fully promoted the operational counterattack, controlled costs and expenses, and captured market opportunity through innovations such as live video and community marketing, accelerated digital transformation, and established close relationships with customers. With gradual recovery of the market, the Company's operating performances turned better and better continuously. In the second half year, the Company seized the opportunity of the explosive growth of the high-end luxury watch business after the epidemic in the country was basically brought under control, actively deployed new growth opportunities in Hainan's tax-free channels, and continued to accelerate internal capacity building and the cultivation of new growth points. As a result, the Company realized a big growth on year-on-year basis in the whole year. In the reporting period, the Company realized revenue amounting to CNY 4243.44 million with year-on-year growth of 14.56% and realized total profit amounting to CNY 373.4606 million with a year-on-year growth of 35.20%. The Company has also made further breakthrough in high-quality development with the efficiency and performance indicator

rapidly improved, the return on net assets has increased to 10.78% with the year-on-year growth of 2.57%, and the inventory turnover rate has reached 1.35 times, an increase of 0.17 times over the previous year. With the joint efforts of the team, the Company has achieved sustained and rapid growth in operating profit for 4 consecutive years.

During the reporting period, the Company carried out the following key work.

**(I) Promoting the pandemic prevention and control work steadily, and having achieve "zero suspicion and zero diagnosis" throughout the year**

After the outbreak of COVID-19, the Company's management team took the lead in commanding, followed the overall deployment of the CPC Central Committee and authorities, refined the deployment of prevention and control strategies based on the situation at different stages of epidemic prevention and control, implemented responsibilities at all levels, and achieved "zero suspicion and zero diagnosis" prevention and control performance, implemented the obligation and responsibilities of a central enterprise with practical actions, and ensured the safety of employees' lives and the Company's assets.

**(II) Activating the "wartime command system" and having demonstrated strong "combat power"**

During the reporting period, in the face of the severe market environment, the Company established a "wartime command system", quickly adjusted the status of the team, actively organized the resumption of work and production, strictly controlled internal costs, lean management, and seized market opportunity externally and actively expanded community marketing through WeChat, live video and other methods, adapted itself to the market situation and competitive situation in an innovative way after the epidemic, and promoted business breakthrough through multiple channels and multi ways. From the basic zero revenue in February to the profit-making in the main business in March, the Company achieved year-on-year profit growth in April, hit a new high in monthly revenue in August. The Company achieved one step at a time, with strong combat effectiveness, it has achieved growth against trend in operating performance in a down-to-earth way, which has demonstrated powerful market recovery and adjustment and adaptation capability, and further improved the ability of the team.

**(III) Continuously tamping the basic management and persistently consolidating the core competitiveness advantages**

During the reporting period, the Company continued to build professional capabilities around the "brand power, product power, and channel power" to strengthen the advantage of the core competitiveness. Under the severe situation of the off-line sales once returning to zero for a time, the Company deepened the integration of products and sales. With the brand of "FIYTA", the livestreaming hosted by "Gao Yuanyuan X Viya" set the highest sales record of watch category in Tmall single store livestreaming; the Company focused on improvement of product efficiency with the core series. The new products, such as Four-Leaf clover and Xtreme Series, were launched in the market as scheduled. Professional series products such as "Mars-500" and "Attack-11" are favored by consumers; the Company promoted the implementation of the "Excellent Operation, Excellent Sales" project in a solid way; and the per unit yield of self-operated stores continued to increase. The sales began to rebound steadily in the third quarter. HARMONY World Watch Retail seized the opportunity, continuously deepened and refined store operations. In the second quarter, it began to achieve year-on-year sales growth, with an average monthly growth of more than 50%.

**(IV) Continuously promoting channel upgrading and reserving the core kinetic energy for future development**

During the reporting period, the Company paid close attention to changes in consumption trends and market conditions, and continued to promote channel optimization, adjustment and upgrading. The retail business of "HARMONY" World Watches Retail focused on core cities and core business area, systematically counted future opportunities, drew a strategic channel map, promoted channel entry in an orderly manner, and further increased the number of high-end brand accounts. While maintaining endogenous growth, it was also actively exploring extensional expansion model and accelerated the coverage of target channels. "FIYTA" Brand reshaped the image of the terminal and actively promoted the entry of shopping malls and also achieved good results. During the reporting period, the Company actively seized the opportunity in Hainan's existing duty-free channel market, accelerated the entry and sales of its own brands, and actively explored channel development opportunities.

**(V) Breakthrough in digital transformation and initial results of membership operation**

During the reporting period, the Company was persistently building a customer-centered digital operation system. The full implementation and popularization of the "HARMONY" Digital Retail System effectively promoted customer value mining and operational efficiency improvement. The on-line and off-line service interactions were realized. Potential customer transactions and repurchases of regular customers made important contribution to the growth of sales throughout the year. During the Pandemic of COVID-19, the system has provided a strong guarantee for making up the income gap. The own-brand membership management system was also officially launched in September and full coverage of all self-run stores both online and offline was realized, which laid the foundation for in-depth operations with focus on "people, goods, and markets".

**(VI) Accelerating the cultivation of new growth points and transforming and upgrading to high-end precision**

## technology

During the reporting period, the Company continued to promote the development of precision technology business and smart wearables business. The precision technology business accelerated the expansion of the medical and aerospace markets on the basis of deep cultivating optical communications and lasers, and initiated cooperation with core customers in related fields. The revenue increased by more than 50% year-on-year; the smart wearable business completed its own R&D team formation. The new products of "Little Red Watch" and "Black Knight" came into the market smoothly; more than 100,000 smart watches were sold during the "Double Eleven" activities.

## Balance sheet items

Items	Ending balance	Opening balance	Variation proportion	Cause of the movement
Notes receivable	48,192,442.15	10,596,431.31	354.80%	Mainly due to the influence from the growth of the precision technology business scale and the bill payment term.
Advance payment for goods	16,612,773.76	10,847,962.28	53.14%	Mainly due to the increase of advance payment for purchases for HARMONY World Watch Retail
Other non-current assets	13,536,307.13	7,373,248.48	83.59%	Mainly due to the increase of advance payment for refurbishment for HARMONY World Watch Retail
Notes payable	3,581,360.00	-	-	Mainly due to the impact of the new bill payable business in the precision technology business in the reporting year.
Advance receipts	9,991,850.67	23,433,463.57	-57.36%	Mainly due to the impact of the adjustment of presentation in accordance with the requirements of the new revenue standard in the reporting year.
Contract liabilities	18,213,396.49	-	-	Mainly due to the impact of the adjustment of presentation in accordance with the requirements of the new revenue standard in the reporting year.
Payroll payable to the employees	132,853,462.20	82,602,845.67	60.83%	Mainly due to the influence from the performance growth and increase of the performance incentive.
Payable taxes	68,925,271.90	24,064,803.00	186.42%	Mainly due to the increase in taxes and fees payable due to the increase in income in the reporting year and the greater impact of retainment in the same period last year.
Dividends payable	1,639,513.77	848,233.27	93.29%	Mainly due to the increase in dividends payable in the equity incentive part of the current year.
Other current liabilities	2,299,755.09	-	-	Mainly due to the impact of the tax part of the contract liabilities in accordance with the requirements of the new income standards in the reporting year.
Deferred income tax liability	3,067,834.55	1,256,242.49	144.21%	Mainly due to the impact of a one-off pre-tax deduction of fixed assets.
Other comprehensive income	976,871.41	-940,209.09	203.90%	Mainly due to movement of the translation balance of foreign currency statements

## Income statement items from the beginning of the year to the end of the reporting period

Items	Amount incurred in the reporting period	Amount incurred in the previous period	Variation proportion	Cause of the movement
Interest income	4,941,334.19	1,956,334.31	152.58%	Mainly due to the impact of the increase in the stock of monetary funds in the current year.
Other income	25,170,397.09	18,428,906.18	36.58%	Mainly due to the increase in government subsidies received in the reporting year.

Return on Investment	5,072,577.64	1,787,907.10	183.72%	Mainly due to the influence from the profit increase of Shanghai Watch Industry in the current year.
Loss from impairment of credit	-9,096,922.74	-16,640,961.07	45.33%	Mainly due to the decrease in bad debt provision for individual accounts receivable in the current year.
Loss from impairment of assets	-15,426,526.41	-4,295,134.47	-259.16%	Mainly due to the increase of the provision for price falling of the brand watch inventory in the reporting year.
Income from disposal of assets	-369,857.30	-926,118.60	60.06%	Mainly due to big loss from the auxiliary facilities and equipment of Xi'an FIYTA Building in the same period last year.
Non-operating income	3,111,413.64	4,754,105.30	-34.55%	Mainly due to the greater impact of the adjustment of the compensation received by some of HARMONY's stores in the same period last year.
Income tax expenses	79,338,516.60	60,324,629.25	31.52%	The increase in income tax expenses was mainly due to the increase in profit.

#### Cash flow statement items from the beginning of the year to the end of the reporting period

Items	Amount incurred in the reporting period	Amount incurred in the previous period	Variation proportion	Cause of the movement
Rebated taxes received	1,849,055.57	5,510,592.39	-66.45%	Mainly due to the reduction in export tax rebates caused by the reduction in export business affected by the overseas pandemic in the current year.
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	150,556.62	626,107.64	-75.95%	Mainly due to decrease of the fixed assets disposed in the current year.
Cash received from absorbing investment	-	18,585,600.00	-100.00%	Mainly due to the implementation of equity incentives in the same period and received subscription payments last year, but none in the current year.
Cash paid for other financing activities	72,317,669.93	53,117,325.02	36.15%	Mainly due to increase of the payment for repurchasing B-shares.
Influence of the change of exchange rate on the cash and cash equivalent	-2,810,603.32	468,366.93	-700.09%	Mainly due to the influence of the change of exchange rate.

#### 2. Did there exist any significant change in the principal business during the reporting period

No

#### 3. Products taking over 10% of the prime operating revenue or prime operating profit of the Company

In CNY

Product description	Turnover	Operating profit	Gross profit rate	Year-on-year increase/decrease of operating revenue over the previous year	Year-on-year increase/decrease of operating profit over the previous year	Year-on-year increase/decrease of gross profit rate over the previous year



Watch brand business	970,035,756.22	690,045,412.79	71.14%	-12.66%	-11.50%	0.93%
Watch retail and services	3,000,867,670.14	802,309,278.17	26.74%	27.54%	39.80%	2.34%
Precision technology business	138,806,456.76	25,057,848.35	18.05%	51.96%	42.18%	-1.24%
Leases	117,282,310.32	76,710,369.97	65.41%	-11.15%	-26.12%	-13.25%
Others	16,447,759.15	10,087,506.25	61.33%	-4.68%	-15.38%	-7.76%

**4. Does there exist operation seasonality or periodicity necessary to be paid special attention to**

No

**5. Note to the Significant Change in Operation Revenue, Operation Costs, Total Amount of Composition of the Net Profit Attributable to the Company's Common Shareholders during the Reporting Period over the Previous Reporting Period**

Inapplicable

**6. Delisting Possibly to be Confronted with**

Inapplicable

**7. Matters in Connection with the Financial Report**

**(1) Explanation on the Changes in the Accounting Policy, Accounting Estimate, and Accounting Method in Comparison with the Financial Report of the Previous Year**

The Ministry of Finance revised and issued the "Accounting Standards for Enterprises No. 14-Revenues" on July 5, 2017. According to the requirement of the Ministry of Finance, a company which is listed both at home and abroad or listed overseas and prepares its financial statements according to the International Financial Reports Standards or the Accounting Standards for Enterprises started implementing the said accounting standards commencing from January 1, 2018; other domestically listed enterprises started the implementation commencing from January 1, 2020; non-listed companies started the implementation commencing from January 1, 2021.

On September 19, 2019, the Ministry of Finance promulgated the "Circular on Amending and Issuing the General Corporate Financial Statement Templates for Year 2019" (CAI KUAI [2019] No. 16), according to which the Company amended its general corporate financial statement templates; and prepared the consolidated financial statements for year 2019 and the consolidated financial statements for the subsequent periods in accordance with the accounting standards and the Amendment Circular.

According to the concerned requirements of the aforesaid accounting standards and the consolidated financial statement templates, the Company implemented the aforesaid new rules and prepared the consolidated financial statements for year 2019 and the consolidated financial statements for the subsequent periods according to the relevant provisions. For details, please refer to the "Announcement on Change of the Accounting Policies 2020-015" disclosed on the Securities Times, Hong Kong Commercial Daily and <http://www.cninfo.com.cn/> on March 20, 2020.

The Ministry of Finance revised and issued the "Accounting Standards for Enterprises No. 21-Leases" on December 7, 2018. According to the requirement of the Ministry of Finance, a company which is listed both at home and abroad or listed overseas and prepares its financial statements according to the International Financial Reports Standards or the Accounting Standards for Enterprises started implementing the said accounting standards commencing from January 1, 2019; other enterprises implementing the accounting standards for enterprises started the implementation commencing from January 1, 2021. The Company as a domestically listed company started implementing the new lease standards commencing from January 1, 2021 according to the aforesaid standards and circular promulgated by the Ministry of Finance. For details, please refer to the "Announcement on Change of the Accounting Policies 2021-030" disclosed on the Securities Times, Hong Kong

Commercial Daily and <http://www.cninfo.com.cn/> on March 20, 2021.

**(2) Explanation on Serious Accounting Errors Occurred in the Reporting Period Necessary to be Restated Retrospectively**

Inapplicable

**(3) Explanation on the Changes in the Scope of the Consolidated Statements in Comparison with the Financial Report of the Previous Year**

Inapplicable

Board of Directors of  
FIYTA Precision Technology Co., Ltd.  
March 10, 2021