Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

Overview

The consolidated turnover and profit of the Group for 2000 were primarily derived from the following subsidiaries:

Name of subsidiary	Percentage of equity held by the Group	Principal activities
Shenzhen Shennan Circuit Corporation ("Shennan")	95.00%	Manufacture and sale of printed circuit boards ("PCB")
Shenzhen Tian Ma Microelectronics Co., Ltd. ("Tian Ma")	68.34%	Manufacture and sale of liquid crystal displays ("LCD")
Shenzhen Fiyta Holdings Limited ("Fiyta")	52.24%	Manufacture and sale of mid-to high-end timepieces

In 2000, the PRC domestic economy continued to be favourable. Its gross domestic product reached US$1,000 billion for the first time with total imports and exports amounted to US$474.3 billion, representing respective growth of 8% and 31.5% over 1999. The amount increased and the growth rate were the highest ever recorded in the past twenty years. The nationwide domestic consumption price index increased by 0.4% over last year which bucked the downward trend for the past two consecutive years since 1998. The technology of the domestic electronic industry is changing day to day. The development of the electronic product market has been buoyant and, in particular, the markets for the telecommunications and network industries.

In 2000, the Group recorded a consolidated turnover of approximately RMB920,740,000, an increase of approximately 14.64% over last year. Consolidated profit attributable to shareholders was approximately RMB69,456,000, an increase of approximately 98.17% over last year.

The analysis of the Group's turnover and contributions to profit for 2000 by principal activities and the comparative figures for 1999 were as follows:

Analysis of turnover by activity	2000	1999
PCB	**25.43%**	18.41%
LCD	**34.69%**	33.84%
Timepieces	**19.17%**	22.36%
Other activities	**20.71%**	25.39%
Total	**100%**	100%

Analysis of contributions to profit by activity	2000	1999
PCB	74.67%	59.86%
LCD	18.01%	25.00%
Timepieces	20.86%	4.50%
Other activities	-13.54%	10.64%
Total	100%	100%

PCB

Turnover and net profit before minority interests of the PCB operations for the year were approximately RMB234,122,000 and RMB73,518,000 respectively, representing respective increases of approximately 58.28% and 96.38% over last year.

Feverish development of the telecommunications and network industries has offered enormous business opportunities for the PCB industry. During the year, the overall production capacity for domestic PCB still showed an upward trend. The Company has continued to invest approximately RMB27,928,000 in the PCB operations to expand production capacity and upgrade product quality in order to meet market demands and respond to fierce competition. Up to now, the Company's investment in expanding the PCB operations has shown noticeable results with its annual production capacity reaching 200,000 sq.m. During the year, the Company's PCB production volume was 150,000 sq.m., an increase of 33.75% over last year, with upgrades in product quality. Sales of high value-added multi-layered boards were RMB145,000,000, an increase of 142.66% over last year, and accounted for 61.97% of total sales, representing an increase of 21% over last year.

During the year, at the request of the State Administration of Industry and Commerce Bureau of Shenzhen in respect of the conversion of Shennan into a company with limited liability, the Company transferred 5% of its interest in Shennan to its holding company, CATIC Shenzhen Company ("CATIC Shenzhen"), so that the number of shareholders in Shennan would satisfy the provisions of the PRC Company Law in respect of the requirement that a company with limited liability had to be established by the capital contributions of two to fifty shareholders. Thus Shennan was converted into a company with limited liability. Details regarding the transaction are set out in the section headed "Other Important Matters" below.

Gross Profit Margin

As a result of the increase in the proportion of multi-layered boards sales and the increase in the valued added to the product mix, an increase of approximately 4% in the gross profit margin of the Group's PCB operations was recorded this year as compared with the previous year.

	2000	1999	1998
	RMB'000	*RMB'000*	*RMB'000*
Turnover	**234,122**	147,915	151,431
Cost of sales	**152,918**	102,273	102,008
Gross profit	**81,204**	45,642	49,423
Gross profit margin	**34.68%**	30.86%	32.64%

Market structure

During the year, as a result of the strong PRC demand and the slowdown of the US economy in the fourth quarter, the proportion of overseas sales of PCB fell.

	2000	1999
PRC	**89.40%**	75.06%
Europe and America	**10.60%**	21.59%
Southeast Asia	**–**	3.35%
Total	**100%**	100%

Product structure

As a result of the significant upgrade in the production capacity of multi-layered boards, the proportion of multi-layered board sales exceeded double-layered boards for the first time. Because PCB used in telecommunications equipment are primarily multi-layered boards, the proportion of PCB sales for applications by telecommunications equipment has grown correspondingly.

Analysis of sales by number of PCB layers	**2000**	1999	1998
Double-layered boards	**38.03%**	59.36%	54.3%
Multi-layered boards	**61.97%**	40.64%	45.7%
Total	**100%**	100%	100%

Analysis of sales by product applications	2000	1999	1998
Telecommunications equipment	**87.56%**	83.37%	86.9%
Electronic devices	**10.03%**	15.40%	10.8%
Others	**2.41%**	1.23%	2.3%
Total	**100%**	100%	100%

LCD

The Group's turnover and net profit before minority interests of the LCD operations for the year were approximately RMB319,375,000 and RMB28,440,000 respectively, representing respective increases of approximately 17.50% and 24.29% over last year.

During the past three years, the Group committed its resources to upgrade technology and to improve product range and market structure in respect of its LCD operations. New technology enhancement has been made in respect of the module production line, using integrated circuits and Chip-on-glass ("COG") technology. The proportions of high value-added products, such as super-twisted liquid crystal displays ("STN-LCD") and liquid crystal module ("LCM"), have been further expanded in the product mix. The European and American and domestic markets have been actively explored to achieve balanced development in the markets of Europe and the U.S, PRC and Southeast Asia.

During the year, the Group has appointed about 20 distributors in the European and American markets, and established supplier relationships with a number of reputable domestic and overseas conglomerates. The European and American orders for high-end products and the domestic orders each saw significant increases in 2000.

During the year, the Group received orders of intent in respect of COG modules from various mobile phone manufacturers and began to provide small batches of products to some of them.

Gross Profit Margin

Due to the increase in product quality, the gross profit margin of the Group's LCD operations somewhat increased in 2000.

	2000	1999	1998
	RMB'000	*RMB'000*	*RMB'000*
Turnover	**319,375**	271,812	174,715
Cost of sales	**248,634**	220,753	127,408
Gross profit	**70,741**	51,059	47,307
Gross profit margin	**22.15%**	18.79%	27.07%

Market structure

During the year, the market distribution of the Group's LCD operations was rather even.

	2000	1999	1998
PRC	**29%**	30%	25%
Guangdong Province	**17%**	18%	20%
Other regions	**12%**	12%	5%
Hong Kong	**45%**	35%	35%
Europe and America	**18%**	34%	35%
Southeast Asia	**8%**	1%	5%
Total	**100%**	100%	100%

Product structure

The proportions of the Group's STN-LCD and LCM sales to turnover continued to rise. The proportion of LCD sales for applications by telecommunications equipment grew correspondingly.

Analysis of sales by product	**2000**	1999
STN-LCD	**24%**	21%
TN-LCD	**55%**	66%
LCM	**21%**	13%
Total	**100%**	100%

Analysis of sales by product applications	**2000**	1999	1998
Telecommunications equipment	**30%**	20%	10%
Electrical household appliances	**15%**	35%	25%
Apparatus and devices	**40%**	35%	25%
Electronic games machines	**15%**	10%	40%
Total	**100%**	100%	100%

Timepieces

The Group's turnover and gross profit of the timepiece operations for the year were approximately RMB176,491,000 and RMB74,126,000 respectively, representing respective decreases of approximately 1.71% and 12.17% over last year.

The net profit of the Group's timepiece operations for the year of RMB24,988,000 is not, however, comparable with the net profit of the previous year. In 1999, the Group's management, after prudent consideration, made a major one-off provision against inventories and accounts receivables of the timepiece operations and the profit of which was offset as a result. In 2000, having considered that the 1999 provisions had adequately reflected the risks of diminution in value of the assets, the management did not continue to make any major provisions and a significant increase in the net profit of the timepiece operations for the year 2000 was recorded accordingly.

Despite a favourable change in the domestic consumer market for the year, the environment for the timepiece industry did not see any turnaround. During the year, the Group put particular emphasis on satisfying specific demands of the market by strengthening our efforts in the product design, customer service, sales and distribution mode aspects and focused on upgrading the market position of the Group's timepiece brand name "Fiyta".

During the year, the Group has set up timepiece chain stores in Shenzhen, Wuhan and Chongqing respectively.

Gross Profit Margin

As a result of the decreases in the gross profit margins of high-end and mid-to low-end timepieces, the composition of product sales did not have any favourable changes and the gross profit margin of the timepiece operations for the year went down by approximately 5%.

	2000	1999	1998
Gross profit margin of high-end timepieces	**53.18%**	54.71%	58.98%
Gross profit margin of mid- to low-end timepieces	**24.70%**	26.86%	43.71%

	2000	1999
	RMB'000	*RMB'000*
Turnover	**176,491**	179,559
Cost of sales	**102,365**	95,166
Gross profit	**74,126**	84,393
Gross profit margin	**42%**	47%

Market structure

During the year, the Group's timepiece operations are entirely located in the PRC with no noticeable changes in respect of market structure.

Prospects for 2001

The Group is cautiously optimistic about the prospects for 2001 with respect to its principal operations.

Repeated profit warnings issued by new economy enterprises of the US since November 2000 have reflected the slowdown of the US economy with adjustments being effected by the new economy, of which the network and telecommunications industries form the core. At the beginning of 2001, the US Federal Reserve Bank relaxed its monetary policies so as to turn around the US economic situation and to revitalize the growth momentum of the new economy. The PRC has clearly indicated that it will continue to adopt positive fiscal and stable monetary policies and, possibly, further measures in adjusting the policy for the reallocation of revenue in order to further stimulate the swift growth of consumption. In addition, after the accession of the PRC into the WTO, the external environment for development of electronic information product manufacturers will be gradually enhanced. At the same time, the State will exploit the rules permitted by the WTO with respect to industry policies and tariffs to support the development of some industries such as the mobile telecommunications industry. In view of this, the Directors expect that the domestic electronic information product market will still exhibit a growth trend, and that, in particular, telecommunications, software, microelectronics and network products will continue with their speedy growth.

The target market of the Group's principal products, PCB and LCD, is primarily the telecommunications equipment industry. With the high-speed growth of that industry, the Group's business will be presented with broad business opportunities. However, the pressure of competition faced by the Group will intensify with numerous entries of competitors and swift upgrades in technology. In the next few years, the Group will research and study the changes and development trends of the market more actively and respond with timely and effective adjustments to further nurture the core of its competitive advantages in technology, quality and services. The Group will spare more efforts in trying to achieve breakthroughs in technology and to create high value-added in new products, new functions and high quality. At the same time, we will strengthen order management and speed up response time in organizing production and delivery in order to provide a more fine-tuned and reliable service to major customers.

PCB

As a result of the strong market demand for raw materials, it will not be possible in the short term to foresee reductions in prices of primary raw materials for PCB, such as glass fibre cloth and copper clad laminate. PCB prices may have to be lowered to accommodate customers' requests. It will be necessary to improve technology innovations continually in order to maintain a relative level of profitability. With electronic products being miniaturized, accelerated in speed and digitalized, the capability to design and produce super-thin, high-density PCB is a requisite for the development of new products.

On the other hand, swift development of telecommunications and network products will create larger market demands for PCB with high technology content as the PRC is becoming the region with the highest growth rate. Major customers of Shennan have signified their willingness to continue our cooperation in the coming year. Shennan has also recently reached a preliminary understanding on establishing a supplier relationship with one major telecommunications manufacturer in the PRC. These measures will relieve some of the sales pressure brought about by the growth in production capacity of Shennan.

In 2001, Shennan will continue to upgrade its technology capacity, increase its production capacity in multi-layered boards, enhance its production technology of high-density interconnectivity ("HDI") board and put in place production at a small scale. In terms of market expansion, given the expected slowdowns in the speed of development of major customers and the overall downward adjustments in profitability of the domestic market, Shennan will actively seek to establish supplier relationships with international purchasers of electronic components and parts.

LCD

In early 2001, Tian Ma made a public offer of 16,500,000 A Shares in the PRC and raised net proceeds, after deduction of expenses, of RMB352,938,000. The funds will be applied in the purchase of an advanced STN-LCD production line, expansion of the LCM production line, and development and production of COG, Tape Automatic Bonding ("TAB") and the Chip on Flexible PCB ("COF") series of LCM. Upon completion of the above projects, it is expected that Tian Ma will have a stable capacity to mass-produce high-end LCD products like mobile phones, personal data assistants ("PDA") and global positioning systems ("GPS").

The Directors consider that, with the emergence and popularity of portable telecommunications and information products as exemplified by mobile phones, the applications of small to medium sizes of STN-LCD will be broadened further. It is expected that in the next few years, demand for STN-LCD will take up 20% to 30% of the whole LCD market and that applications of STN-LCD in mobile phones and PDA will maintain an annual growth rate of 14-21%.

As Tian Ma is currently one of the largest scale LCD manufacturers in the PRC, the incentive measures complementing the localization of mobile phone production by the Ministry of Information Industry will create better business opportunities for Tian Ma.

With respect to the expansion of market, Tian Ma will continue to increase the professional training it provides to its marketing personnel. It will establish more agency relationships in the European and American markets and stable supplier relationships with international reputable companies. It will also enhance its domestic customer services, capitalize fully on the functions of its sales agencies in Beijing and Shanghai and establish new sales agencies in other major cities of China at the appropriate time.

Timepieces

The Directors do not expect any significant favourable changes in the market situation of the domestic timepiece market in 2001.

The Group will continue to sustain the market image of "Fiyta" as a domestic mid-to high-end brand name for timepieces by launching new personalized timepieces on a timely basis and enhancing its sales and distribution network, customer service and internal management on an on-going basis.

The Group will continue to conduct market research actively and be prudent in establishing new shops so as to maintain an optimal pace of expansion of its timepiece chain stores.

Management Discussion and Analysis

FINANCIAL REVIEW

Capital Structure

	As at 31st December, 2000	
	2000	1999
	RMB'000	*RMB'000*
Total borrowings	**438,328**	357,636
Total liabilities	**733,832**	608,506
Minority interests	**414,989**	416,171
Shareholders' equity	**1,035,256**	978,640
Total assets	**2,184,077**	2,003,317
Borrowings to equity ratio	**42.34%**	36.54%
Debt to equity ratio	**70.88%**	62.18%

Borrowings to equity ratio = total borrowings at the year end ÷ shareholders' equity at the year end
Debt to equity ratio = total liabilities at the year end ÷ shareholders' equity at the year end

Liquidity and Capital Resources
As at 31st December, 2000, the Group had cash and bank balances totalling RMB699,773,000, which was derived from the following sources:

- Cash and bank balances at the beginning of the year;
- Cash inflows generated from operations;
- Increase in short-term bank loans.

As at 31st December, 2000, the Group's bank loans, totalling RMB438,328,000, were short term borrowings at floating interest rates ranging from 5.36% to 7.88% per annum.

As at 31st December, 2000, production plant of approximately RMB12,240,000 was pledged as security for a bank loan of RMB7,500,000 for Shenzhen Maiwei Cable TV Equipments Co., Ltd., ("Maiwei") a subsidiary of the Group.

Capital expenditure by the Group in 2000 amounted to approximately RMB99,461,000, of which RMB63,094,000 and RMB25,019,000 were applied for the purchases of production equipment for the PCB and LCD operations respectively.

The Group's capital expenditure for 2001 is estimated to be approximately RMB280,000,000 which will primarily be used for the purchases of additional production equipment for the LCD and PCB operations respectively. Planned capital expenditure will be financed by proceeds from a possible share issue by a subsidiary, bank deposits and the cash inflow generated from the operations of the Group.

Others

As the majority of the Group's products are sold in the PRC and exports sales are settled in US dollars or Hong Kong dollars, the Group does not have any significant foreign exchange risk.

As at 31st December, 2000, the Group did not have any significant contingent liabilities.

OTHER IMPORTANT MATTERS

Transfer of a 5% interest in Shennan to the Company's ultimate holding company

During the year, at the request of the State Administration of Industry and Commerce Bureau of Shenzhen in respect of the conversion of Shennan into a company with limited liability, the Company transferred 5% of its interest in Shennan to its ultimate holding company, CATIC Shenzhen so that the number of shareholders in Shennan would satisfy the provisions of the PRC Company Law in respect of the requirement that a company with limited liability had to be established by the capital contributions of two to fifty shareholders. Thus Shennan was converted into a company with limited liability. The total consideration of RMB5,505,800 (approximately HK$5,185,800) for the sale of the 5% interest in Shennan by the Company was paid by CATIC Shenzhen in cash. Subsequent to the completion of the transaction, the Company still held a 95% interest in Shennan.

CATIC Shenzhen is a connected person of the Company as it is the ultimate holding company, holding 62.31% of the total issued share capital, of the Company. Pursuant to the Listing Rules, the transaction constituted a connected transaction. As the consideration of the transaction was less than 3% of the consolidated tangible net asset value of the Company as at 31st December, 1999, the disclosures regarding the transaction were subject to the provisions of Rule 14.25(1) of the Listing Rules and details of the transaction had to be included in the 2000 annual report ultimate holding company of the Group. The Company has complied with the provisions of the said Listing Rules by disclosing the transaction accordingly.

Public Offer of New Shares by Tian Ma

In the first quarter of 2001, Tian Ma completed a public offer and listing of new shares. Tian Ma made a public offer of 16,500,000 A Shares of RMB1.00 each at an issue price of RMB22.00 (approximately HK$20.59) per share. The public offer of new shares by Tian Ma raised net proceeds, after deduction of expenses, of approximately RMB352,938,000 (approximately HK$330,250,000) which are intended to apply for the following purposes:

– as to approximately RMB197,880,000 (approximately HK$185,160,000) for the purchase of an advanced STN-LCD production line;

– as to approximately RMB80,000,000 (approximately HK$74,857,000) for the expansion of the LCM production lines;

– as to approximately RMB75,058,000 (approximately HK$70,233,000) for the general working capital of Tian Ma.

Management Discussion and Analysis

Immediately following the completion of the public offer by Tian Ma, the Company still held approximately 79,464,000 shares in Tian Ma, representing approximately 59.85% of the total enlarged issued share capital of Tian Ma.

New shares of Tian Ma commenced trading on the Shenzhen Stock Exchange on 23rd February, 2001.

Pursuant to the provisions of Paragraph 19(1)(a)(ii) of the Listing Agreement and Paragraph 5.5 of Practice Note 13 of the Listing Rules, the transaction in respect of the public offer of new shares by Tian Ma constituted a material dilution of the interest in a major subsidiary which required the approval by a special resolution of shareholders in general meeting before implementation. The public offer of new shares by Tian Ma was approved by the extraordinary general meeting of the Company.