

Report of the Directors

The Directors of the Company (the “Directors”) are pleased to present their report together with the audited financial statements of CATIC Shenzhen Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the year ended 31st December, 2000.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 4 to the financial statements.

The Group is principally engaged in the design, manufacturers and sales of certain consumer electronic products, including PCB, LCD and mechanical and quartz timepieces.

The contributions to the Group’s profit attributable to shareholders by activities in percentages for the year ended 31st December, 2000 are as follows:

Activities	As a percentage of the Group’s profit attributable to shareholders	
	2000	1999
PCB	74.67%	59.86%
LCD	18.01%	25.00%
Timepieces	20.86%	4.50%
Others	-13.54%	10.64%
Total	100%	100%

SUBSIDIARIES AND ASSOCIATED COMPANIES

Information on principal subsidiaries and associated companies of the Company is set out in notes 16 and 17 to the financial statements.

GEOGRAPHICAL LOCATION OF MARKETS

Information on major markets of the Group is set out in note 4 to the financial statements.

RESULTS AND APPROPRIATIONS

Details of the Group’s results for the year ended 31st December, 2000 are set out in the consolidated profit and loss account of the financial statements.

The Directors propose to make the following appropriations to the statutory reserves from the net profit of the Company calculated in accordance with the PRC GAAP for the year ended 31st December, 2000:

- RMB6,089,000 being 10% of the net profit, to the statutory common reserve fund;
- RMB4,872,000 being 8% of the net profit, to the statutory common welfare fund.

Details of appropriations of profit are set out in note 29 to the financial statements.

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DIVIDENDS

The Directors have recommended a final dividend of RMB0.05 (approximately HK\$0.047) per share for the year ended 31st December, 2000, payable on 4th July, 2001 to all shareholders whose names appear on the Company's Register of Members on 23rd May, 2001.

DISTRIBUTABLE RESERVES

As at 31st December, 2000, the distributable reserves of the Company was RMB144,263,000 as reported in the statutory accounts prepared in accordance with PRC GAAP.

RESERVES

Details of the movement in reserves of the Group and the Company during the year are set out in the statements of changes in shareholders' equity and note 29 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the Group's operating results, assets and liabilities for the five years ended 31st December, 2000 is set out in the section headed "Financial Summary" of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group's purchases of goods and services from the five largest suppliers of the Group accounted for less than 30%. The Group's sales of goods and services to the five largest customers of the Group also accounted for less than 30%. Accordingly, no further disclosure in respect of major customers and suppliers of the Group has been made.

As at 31st December, 2000, none of the Directors, their associates, or any shareholders (who, to the knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and five largest suppliers.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 28 to the financial statements.

SUBSTANTIAL SHAREHOLDER

As at 31st December, 2000, pursuant to section 16(1) of the Securities (Disclosure of Interests) Ordinance, the following persons were recorded as holders of 10% or more of the respective classes of issued capital of the Company (computed separately according to the respective classes of shares):

Name	Number of shares held	As a percentage of the issued share capital
CATIC Shenzhen	400,000,000 domestic legal person shares	62.31%

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USE OF PROCEEDS FROM H SHARES ISSUE

Net proceeds from the new issue by the Company in 1997 were approximately RMB410,000,000. In accordance with the use of proceeds as disclosed in the prospectus, approximately RMB334,500,000 was utilised up to 31st December, 1999. During the year under review, out of the net proceeds from the new issue by the Company, approximately RMB28,000,000 was utilised for the purchase of PCB production facilities and technology improvements, in accordance with the use of proceeds as set out in the prospectus of the Company.

In 2001, the Company plans to:

- continue to invest approximately RMB27,500,000 for the purchase of PCB production facilities and technology improvement;
- utilise approximately RMB20,000,000 as general working capital for the Group.

As at 31st December, 2000, the balance of the net proceeds from the new issue, amounting to approximately RMB47,500,000, was held as short-term deposits with commercial banks in the PRC.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares for the year ended 31st December, 2000.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and the laws of the PRC which provides the existing shareholders with pre-emptive rights to purchase new shares in any new issue of the Company according to their respective proportions of shareholding.

THE SECOND BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE

Pursuant to the Articles of Association of the Company, the term of the First Board of Directors and the Supervisory Committee expired on 20th June, 2000. Accordingly, Mr. Wei Yu Zhong, Mr. Men Teng Shan and Mr. Zhao Jing Qiu retired as executive directors on the same date. In the 1999 Annual General Meeting of the Company held on 24th June, 2000, it was resolved that Mr. Li Zhi Zheng, Mr. Wang Li Guo, Mr. Sui Yong, Mr. Dong Xu Wang, Mr. Yan Hai Zhong, Mr. Zhu Gen Sen and Mr. Xie Ning be elected executive directors, Mr. Zhang Si Yuan and Mr. Wang Bin Bin be elected non-executive directors and Mr. David Li Kwok-po and Mr. David Chu Yu Lin be elected independent non-executive directors of the Second Board of Directors, and Mr. Shao Ke Xiong be elected supervisor representing the shareholders and Mr. Diao Wei Cheng and Mr. Chen Gang be elected independent supervisors of the Second Supervisory Committee.

Report of the Directors

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company from 24th June, 2000 and up to the date of this report were:

Executive Directors

Mr. Li Zhi Zheng

Chairman

Mr. Wang Li Guo

Mr. Sui Yong

Mr. Dong Xu Wang

Managing Director of Tian Ma

Mr. Yan Hai Zhong

Managing Director of Shennan

Mr. Zhu Gen Sen

Managing Director of Fiyta

Mr. Xie Ning

Authorised Representative of the Company

Independent Non-executive Directors

Dr. David Li Kwok-po

Mr. David Chu Yu Lin

Non-executive Directors

Mr. Zhang Si Yuan

Mr. Wang Bin Bin

Each of the executive Directors has entered into a service contract with the Company. Terms of such contracts, which are identical in all material respects, are as follows:

- i. Each of the service contracts commenced on 24th June, 2000 for a term of three years;
- ii. The aggregate annual remuneration payable to all executive Directors shall be RMB803,250; and
- iii. Each of the executive Directors is entitled to an annual bonus determined by the Board of Directors based on the Company's consolidated profit after taxation and extraordinary income and subject to approval at the Annual General Meeting, provided that the total amount of such bonus shall not exceed 2% of that profit.

Each of the independent non-executive Directors was appointed for a term of three years from 24th June, 2000 and shall be entitled to an annual fee of HK\$80,000.

Each of the non-executive Directors was appointed for a term of three years from 24th June, 2000 and shall be entitled to an annual fee of RMB50,000.

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PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Profiles of Directors, Supervisors and Senior Management are set out in the section headed Directors, Supervisors and Senior Management in this Annual Report.

SUPERVISORS

The Supervisors who held office during the year and up to the date of this report were as follows:

Mr. Shao Ke Xiong
Mr. Chen Gang
Mr. Diao Wei Cheng

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31st December, 2000, the interests of the Directors in the shares of the Company which are required to be disclosed pursuant to the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Interests in Fiyta

Name	Position	Personal Interests	As a percentage of the issued share capital of Fiyta
Li Zhi Zheng	Director	124,416 A Shares	0.05%

Interests in Tian Ma

Name	Position	Personal Interests	As a percentage of the share capital of Tian Ma prior to the Public Offer	As a percentage of the share capital of Tian Ma after the Public Offer
Li Zhi Zheng	Director	9,856 A Shares	0.0085%	0.0074%
Wang Li Guo	Director	9,856 A Shares	0.0085%	0.0074%
Dong Xu Wang	Director	18,480 A Shares	0.0160%	0.0139%

Note: A Public Offer of 16,500,000 new shares by Tian Ma took place during the first quarter of 2001.

Save as disclosed above, none of the Directors and supervisors owned any interests which are required to be disclosed under the SDI Ordinance as at 31st December, 2000.

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DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December, 2000 was the Company and any of its subsidiaries or its holding company a party to any arrangement to enable any of the Company's Directors, Supervisors or members of its management to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No contracts or arrangements of significance in relation to the Company's business to which the Company was a party and in which the Directors and Supervisors of the Company had material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Details of the emoluments of Directors and Supervisors are set out in note 7 to the financial statements.

MANAGEMENT CONTRACTS

During the year, the Company did not enter into and did not have any contract in connection with the management or administration of the Company's business as a whole or any important business of the Company.

RETIREMENT FUND SCHEME, STAFF QUARTERS SCHEME AND HEALTH INSURANCE SCHEME

The Retirement Fund Scheme, Staff Quarters Scheme and Health Insurance Scheme maintained by the Company are set out in note 9 to the financial statements.

A notice in relation to the financial treatment involved in the corporate housing system reform was issued by the Ministry of Finance on 6th September, 2000, which took effect from the date of issue. The Company has, since the date of its incorporation, participated in the housing reserve fund scheme implemented by the Shenzhen Municipal Government, and has neither implemented nor planned to implement any policy to dispose of its staff quarters. Accordingly, in the opinion of the Board of the Directors, the Company does not have problems in relation to housing system reform and no change to the current financial treatment is necessary under the notice. Accordingly, the aforesaid notice will not have any effect on the results and financial positions of the Company.

TAXATION

Details of the Group's taxation for the year are set out in note 10 to the financial statements.

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IMPACT OF THE REVOCATION OF TAX REFUND POLICY BY REGIONAL GOVERNMENT

The State Council of the PRC announced in 1999 “A Notice about the Redress of Tax Refund Policy launched by Regional Governments” that prohibits various regional governments from launching any tax refund policy on their own. The existing tax refund policy in use at the various regions was terminated from 1st January, 2000.

The Company’s taxation was verified under the relevant taxation policy of the State. As the prevailing tax refund policy by regional government was not applicable to the Company, the Directors believe that the change in such taxation policy will have no impact on the Group.

FIXED ASSETS

Details in the movements of fixed assets during the year are set out in note 14 to the financial statements.

BANK LOANS

Particulars of bank loans of the Group are set out in notes 26 and 27 to the financial statements.

ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

During the year ended 31st December, 2000, the Group did not have any entrusted deposit or overdue time deposit.

CONNECTED TRANSACTIONS

During the year ended 31st December, 2000, the Company, CATIC Shenzhen and its associated corporations entered into the following transactions which constituted connected transactions as defined in the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited. The transactions during the year were as follows:

1. Lease and Rental

Details of the lease contracts entered into between the Company and CATIC Property Management Company, a wholly-owned subsidiary of CATIC Shenzhen as at 31st December, 2000 are set out in note 31(i) to the financial statements.

2. Guarantees by CATIC Shenzhen

Details of the loan guarantees provided by CATIC Shenzhen to certain members of the Group as at 31st December, 2000 are set out in note 26(c) to the financial statements.

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CONNECTED TRANSACTIONS (continued)

3. Guarantees provided by the Company for the Subsidiaries

During the year, the Company provided guarantees to several commercial banks for short-term loan facilities granted to several non wholly-owned subsidiaries of the Company. All these were loans for working capital of one year term. These guarantees were provided by the Company under normal commercial terms and conditions. As at 31st December, 2000, the total amount of guarantees was approximately RMB383,475,000. The relevant amounts of such loans and guarantees for subsidiaries are as follows:

Subsidiaries	Short term loan facilities guaranteed by the Company
Tian Ma	approximately RMB200,475,000
Fiyta	approximately RMB150,000,000
Aero-Precision	approximately RMB8,000,000
Shennan	approximately RMB20,000,000
Shenrong	approximately RMB5,000,000

4. Guarantee given by Fiyta to CATIC Shenzhen

Details of the guarantee given by Fiyta, a subsidiary of the Company, to CATIC Shenzhen are set out in note 34 to the financial statements.

5. Transfer of interests in Shennan by the Company to CATIC Shenzhen

During the year, the Company transferred to CATIC Shenzhen, its ultimate holding company, a 5% interest in Shennan at the request of Shenzhen Industry and Commerce Bureau, in relation to the conversion of Shennan into a limited company. This resulted in such a number of shareholders of Shennan that satisfied the Company Law of the People's Republic of China, in relation to the requirement for capital to be contributed by more than 2 shareholders but less than 50 shareholders for the establishment of a limited company, thereby converting Shennan into a limited company. The consideration for the sale of the 5% interest in Shennan by the Company was RMB5,505,800 (approximately HK\$5,185,800), payable by CATIC Shenzhen in cash. Upon completion of the transaction, the Company still held a 95% interest in Shennan.

Being the ultimate holding company which holds 62.31% of the aggregate share capital in issue of the Company, CATIC Shenzhen is a connected party of the Company. In accordance with the Listing Rules, the Transaction constituted a connected transaction. As the consideration of the Transaction was less than 3% of the net value of the consolidated tangible assets of the Company as at 31st December, 1999, the Company was only required to disclose the transaction in accordance with Rule 14.25(1) of the Listing Rules and to include details of the transaction in the 2000 Annual Report of the Group. The Company has disclosed the transaction in compliance with the aforesaid requirements of the Listing Rules.

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INDEPENDENT DIRECTORS' CONFIRMATION IN RESPECT OF THE CONNECTED TRANSACTIONS

Having reviewed the aforesaid connected transactions, the independent non-executive Directors of the Company have confirmed that such transactions were conducted in the ordinary course of business under normal commercial terms and conditions and in accordance with the agreements governing such transactions, which are reasonable and fair to the interests of the shareholders.

SIGNIFICANT SUBSEQUENT EVENTS

In the first quarter of 2001, Tian Ma completed its public offer of new shares and listing of the new shares. 16,500,000 shares of RMB1 each were offered under the public offer at RMB22 (approximately HK\$20.59) per share. Net proceeds (after deduction of expenses) from Tian Ma's public offer of new shares were approximately RMB352,938,000 (approximately HK\$330,250,000). Such proceeds are intended to be used as follows:

- as to approximately RMB197,880,000 (approximately HK\$185,160,000) for the addition of an advanced STN-LCD production line;
- as to approximately RMB80,000,000 (approximately HK\$74,857,000) for the expansion of LCM production lines;
- as to approximately RMB75,058,000 (approximately HK\$70,233,000) as general working capital for Tian Ma.

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

Trading of the new shares in Tian Ma on the Shenzhen Stock Exchange commenced on 23rd February, 2001.

According to Paragraph 19(1)(a)(ii) of the Listing Agreement and Paragraph 5.5 of Practice Note 13 of the Listing Rules, the transaction involving Tian Ma's issue of new shares constituted a material dilution of the interests in a major subsidiary, and was subject to approval by a special resolution of the shareholders in general meeting. The proposed public offer of new shares by Tian Ma was approved by the extraordinary general meeting of the Company.

CODE OF BEST PRACTICE

To the best knowledge of the Directors, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules issued by The Stock Exchange of Hong Kong Limited during 2000.

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AUDIT COMMITTEE

The Board of the Company has formed an Audit Committee in compliance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company.

MATERIAL LITIGATION

During the year, the Company had no material litigation or arbitration.

AUDITORS

The accompanying financial statements were audited by PricewaterhouseCoopers. A resolution not to re-appoint Arthur Andersen & Co as the Company's auditors and to appoint PricewaterhouseCoopers as the Company's auditors for Year 2000 was passed at the 1999 Annual General Meeting of the Company. A resolution to re-appoint PricewaterhouseCoopers as the Company's auditors for Year 2001 will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Li Zhi Zheng

Chairman

Hong Kong

23rd April, 2001