



REVIEW OF OPERATIONS

Business Review

In the first half of 2001, externally the Company faced more challenges than opportunities. Despite the PRC continues to enjoy a robust growth in its economy as evidenced by an increase of 7.9 per cent of its gross domestic product ("GDP") over the first six months, the U.S. economy remained sluggish as well as the dampened sentiment amidst the information technology industry throughout the world, which caused severe decrease in the global demands for printed circuit boards ("PCB") and liquid crystal displays ("LCD"), and sharp falling prices in the market. At the same time, the uncertainty of the spin-off of China Telecom had precipitated respective telecommunications equipment manufacturers in the PRC to stay sidelined, which to a certain extent affected the demand for PCB products. In addition, the domestic timepieces industry was not recovering yet so the profits of the Company was under pressure.

In view of the aforesaid unfavourable market conditions, the Company was yet able to capture the fine business opportunities arising from the market demand for high-quality multi-layered PCBs ("Multi-layered PCB") and personal digital assistants ("PDA") by more competitive product portfolio and tight cost control. As a result, sales for high value-added Multi-layered PCB and "liquid crystal mold" ("LCM") had surged in the first half year. With a substantial decrease in the selling expenses in timepieces business, the Company maintains its healthy profit momentum.

- For PCB business, revenue of Multi-layered PCB surged by 113 per cent to RMB95.62 million, an increase of 81 per cent when compared with that of the same period of the last year. Total revenue of PCBs amounted to RMB120 million, an increase of 32 per cent from RMB91 million recorded of the last year. The contribution of Multi-layered PCB to the total revenue of PCB had increased from 50 per cent of the last year to 80 per cent of this year.

Despite the depreciation of newly acquired equipment for the expansion project in Shennan Circuit Corporation ("Shennan") (its 95 per cent interests are held by the Company) and the increase in renting plants area have increased the manufacturing costs, this was offset by a drop in the price of copper clad laminate, the major raw material used for PCB that constitute over 50 per cent of the product cost, in the second quarter. As a result, selling costs only increased by 43 per cent notwithstanding sales of its major product Multi-layered PCB have surged more than 80 per cent. Furthermore, Shennan is entitled to enjoy an exemption on value-added tax for its domestic products in proportion to a fixed ratio under the preferential tax treatment granted by the government. In other words, a substantial increase in its turnover during the first half of 2001 would also give rise to its value-added tax. Being high and new technology company in Shenzhen, Shennan has taken advantage of a 50 per cent reduction on its income tax for the first half year under the preferential tax treatment granted starting from the year of 2000 for a period of 5 years. Such tax reduction has not yet reflected in the income statement for the first half of 2000.



The above factors have resulted a 32 per cent increase in net profit of PCB business from RMB24.15 million to RMB31.89 million compared with the same period over the last year.

- For the LCD sector, the significant drop in global demand of LCD markets had significantly affected our LCD business, which depended mainly on overseas market. During the first six months, sales of twist nematic liquid crystal display ("TN-LCD") and super twist nematic liquid crystal display ("STN-LCD") had dropped by 35 per cent and 22 per cent respectively. However, by taking the opportunities of the increasing demand for LCM in the domestic PDA market, the Company had adjusted its products structure, increased the sales of LCM by a 120 per cent in the first half year, which effectively offset the adverse effects of the drop in STN-LCD and TN-LCD markets. In the first six months of this year, total revenue of LCD operations of the Company had a slight drop of 3.1 per cent to RMB152 million. Contributed by the implementation of effective cost control, net profit increased by 3.8 per cent to RMB16.50 million.
- In the timepieces sector, as the PRC timepiece consumer market remained sluggish in the first half of this year, revenue had decreased by 11.4 per cent to RMB63.50 million. Net profit amounted to RMB27.34 million, a drop of 17.1 per cent. However, with effective control in cost and expenses, Shenzhen Fiyta Holdings Ltd. ("Fiyta"), a major subsidiary of the Company which was principally engaged in timepieces business, had achieved a significant increase in net profits over the corresponding period of 2000.

In the first half of this year, the Company continued to maintain a prudent capital structure. Liabilities/assets ratio dropped by 9 per cent to 23.68 per cent from 32.64 per cent that recorded in the corresponding period of the last year. Such decrease was mainly due to the A shares issued by Shenzhen Tian Ma Microelectronics Co., Ltd. ("Tian Ma"), a major subsidiary of the Company. A net proceeds of RMB353 million in the beginning of 2001 had enlarged shareholders' equity of the Company. The factor of earnings before interest, taxation, depreciation and amortisation ("EBITDA") over interest paid of 2001 was 7, clearly demonstrating a relatively strong solvency of the Company. Net cash flow from operating activities increased significantly to RMB84.16 million from RMB56.48 million over the same period of the last year, giving us strong proof of a hefty growth in profits during the first half of this year.