

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, 2001.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 18 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, 2001 are as follows:

Activities	As a percentage of the Group’s profit attributable to shareholders (before allocation of Corporate expenses to respective segments)	
	2001	2000
PCB	80.73%	74.67%
LCD	8.30%	18.01%
Timepieces	12.22%	20.86%
Others	–1.25%	–13.54%
Total	100%	100%

SUBSIDIARIES AND ASSOCIATED COMPANIES

Information on principal subsidiaries and associated companies of the Group is set out in notes 18 and 19 to the financial statements.

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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, 2001 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, 2001:

- RMB4,639,000 being 10% of the net profit, to the statutory common reserve fund;
- RMB3,712,000 being 8% of the net profit, to the statutory common welfare fund.

Details of appropriations of profit are set out in note 30 to the financial statements.

DIVIDENDS

The Directors have recommended a final dividend of RMB4 cents (approximately HK\$3.8 cents) per share for the year ended 31st December, 2001, payable on 28th June, 2002 to all shareholders whose names appear on the Company's Register of Members on 17th May, 2002.

DISTRIBUTABLE RESERVES

As at 31st December, 2001, the distributable reserves of the Company were RMB144,943,000 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 30 and 31 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, 2001 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.

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MAJOR CUSTOMERS AND SUPPLIERS (continued)

As at 31st December, 2001, 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 29 to the financial statements.

SUBSTANTIAL SHAREHOLDER

As at 31st December, 2001, 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%

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 RMB396,110,000 was utilized up to 31st December, 2000. During the year under review, out of the net proceeds from the new issue by the Company, approximately RMB13,890,000 was utilized 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.

Up to 31st December, 2001, the total proceeds from the new issue has been used up for the uses in the past years as follows:

1. approximately RMB166,957,000 was applied for acquisition of 40% interests in the registered capital of Shennan, and for purchase of PCB production facilities and technology improvement;
2. approximately RMB115,776,000 was applied for subscription of additional issue shares of Fiyta under rights issue implemented by Fiyta;
3. approximately RMB93,654,000 was applied for subscription of additional issue shares of Tian Ma under rights issue implemented by Tian Ma;
4. approximately RMB33,613,000 was applied as general working capital.

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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, 2001.

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.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The Directors of the Company for the year 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. Unless otherwise specified, terms of such contracts, which are identical in all material respects, are as follows:

- (i) Each of the service contracts commenced on 20th June, 2000 for a term of three years;
- (ii) The aggregate annual remuneration payable to all executive Directors shall be RMB803,000; 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 a general meeting, provided that the total amount of such bonus shall not exceed 2% of that profit.

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DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (continued)

Each of the independent non-executive Directors was appointed for a term of three years from 20th 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 20th June, 2000 and shall be entitled to an annual fee of RMB50,000.

PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31st December, 2001, 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 (as defined in SDI Ordinance):

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, 2001.

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DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31 December, 2001 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.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

During the year, the Directors approved Mr. Chen Hong Liang and Mr. Zeng Jun's resignations as the Company Secretaries, and appointed Mr. You Lei as the Company Secretary from 1st October, 2001. There are no any change in the Directors and Supervisors during the year.

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 housing system reform did not have an impact to the Group and there is no change in the current financial treatment under the notice. Accordingly, the aforesaid notice will not have any effect on the results and financial positions of the Company.

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TAXATION

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

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 28 to the financial statements.

ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS

During the year ended 31st December, 2001, the Group did not have any entrusted deposit or overdue time deposit.

CONNECTED TRANSACTIONS

During the year ended 31st December, 2001, 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 Group and CATIC Property Management Company, a wholly owned subsidiary of CATIC Shenzhen as at 31st December, 2001 are set out in note 33(a)(i) to the financial statements.

2. Interest income

Details of the interest income of the Group from CATIC Shenzhen and its associated company as at 31st December, 2001 are set out in note 33(a)(iii) to the financial statements.

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CONNECTED TRANSACTIONS (continued)

3. Guarantees by CATIC Shenzhen

Details of the loan guarantees provided by CATIC Shenzhen to the Company as at 31st December, 2001 are set out in note 28(c) to the financial statements.

4. Guarantees provided by the Company for subsidiaries and an associated company

During the year, the Company provided guarantees to several commercial banks for short-term loan facilities granted to several non-wholly owned subsidiaries and an associated company 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, 2001, the total amount of guarantees was approximately RMB178,912,000. The relevant amounts of such loans and guarantees for subsidiaries and an associated company are as follows:

Subsidiaries and an associated company	Short-term loan facilities guaranteed by the Company
Tian Ma	approximately RMB95,912,000
Fiyta	approximately RMB70,000,000
Aero-Precision	approximately RMB8,000,000
Shenrong	approximately RMB5,000,000

5. 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 36 to the financial statements.

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

Details on significant subsequent events are set out in the section headed "Management Discussion and Analysis" to this annual report.

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 2001.

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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. The Audit Committee currently comprises of two independent executive directors Mr. Li Bao Guo and Mr. Zhu You Lin and non-executive director Mr. Wang Bin Bin who was appointed as a member of the Audit Committee in the board meeting held on 16th April, 2002.

MATERIAL LITIGATION

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

AUDITORS

The accompanying financial statements have been audited by PricewaterhouseCoopers. The auditors of the Company was Arthur Anderson & Co for the year 1999. PricewaterhouseCoopers has been appointed as the Company's auditors since 2000. A resolution to re-appoint PricewaterhouseCoopers as the Company's auditors for the year 2002 will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Li Zhi Zheng

Chairman

Hong Kong

16th April, 2002