BUSINESS REVIEW

Overview

The consolidated turnover and profit of the Group for 2002 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")	59.85%	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 2002, the Group recorded a consolidated turnover of approximately RMB836,201,000, representing a slight increase of approximately 0.86% over the previous year. For prudencial sake, provisions of RMB60,000,000 and RMB78,247,000 were made by the management of the Group for Tian Ma and Fiyta respectively for the year, which resulted in a consolidated loss attributable to shareholders of approximately RMB60,548,000. However, the operations of main businesses of the Group remained healthy. The gross profit slightly decreased by 5.5% over the previous year. Taking no account of the above extraordinary provisions made for the above mentioned items, the Group's consolidated profit attributable to shareholders (after minority interests) amounted to approximately RMB16,000,000.

The analysis of the Group's turnover and gross profit margin for 2002 by principal activities with the comparative figures for 2001 was as follows:

Turnover by activities	2002	2001
PCB	**25.85%**	28.62%
LCD	**39.17%**	34.16%
Timepieces	**18.12%**	19.49%
Other activities	**16.86%**	17.73%
Total	**100%**	100%

PCB

The turnover of the Group's PCB operations was RMB216,129,000 for the year, representing a decrease of 8.09% over the previous year. And the net profit (after minority interests) was RMB27,315,000, representing a decrease of 56.17% over the previous year.

The major clients of the Group's PCB operations are mainly domestic communication equipment manufacturers. Clouded by the deteriorating business environment of communication sector, the demand for orders for mid-to high-end products is notably shrinking. According to the statistics issued by Chinese Ministry of Information Industry, investments in domestic communication infrastructure decreased by 20% in 2002.

Global electronic industry which recovers slowly sent chills to the whole PCB industry this year. Due to the general weak demand and intensifying price competition in the industry, the Group's average selling price of PCB dropped by approximately 25% over the previous year. In order to minimize the effect of the shrinking demand for mid-to high-end product orders and price competition, the Group increased mid-to low-end product orders for the time being. The Group's PCB output for the year was approximately 147,000 sq.m., jumping by 30% over the previous year. However, due to the significant decrease in price, the overall sales income still decreased over the previous year. As a result of the aforesaid factors, the gross profit margin of PCB operations declined to 21.18% for the year, representing a drop of 7.5% over the previous year.

Through complementing and optimizing the key procedures of production capacity, the Group's production capacity of PCB operations further expanded during the year, with annual production capacity of approximately 350,000 sq.m. and the introduction of high-end production equipment of Characteristic Impendence PCB and HDI PCB production equipment. During the year Shennan passed QS9000 Quality Systems certification, and the development of Characteristic Impendence PCB was honored by the third prize of Advanced Science and Technology Award of Shenzhen, and its quality control and technology were both further enhanced.

Gross Profit Margin

	2002 ***RMB'000***	2001 *RMB'000*	2000 *RMB'000*
Sales income	**216,129**	237,252	234,122
Cost of sale	**170,355**	169,051	152,918
Gross profit	**45,744**	68,201	81,204
Gross profit margin	**21.18%**	28.75%	34.68%

Market Structure

	2002	2001	2000
PRC	**88.04%**	89.82%	89.40%
Europe and America	**7.18%**	1.38%	10.60%
Southeast Asia	**4.83%**	8.80%	–
Total	**100%**	100%	100%

Product Structure

	2002	2001	2000
Telecommunications equipment	**86.48%**	79.46%	87.56%
Electronic devices	**3.59%**	15.17%	10.03%
Others	**9.93%**	5.37%	2.41%
Total	**100%**	100%	100%

LCD

The turnover of the Group's LCD operations was RMB327,574,000 for the year, representing a 15.67% increase over the previous year, and the net profit (after minority interests) recorded a loss of RMB26,663,000.

The demand for the Group's LCD module products witnessed a rapid increase. The Group expanded module production capacity and introduced relevant module production equipment and technology in a timely manner. The sales income of LCD module increased by 66% over the previous year. Its sales share ratio increased to 53%, reflecting a rising trend as compared with that of low-end TN products.

Following the rapid slip of global LCD market in the previous year, the demand for LCD products bounced back for the year. The Group restructured sales team for the time being, enhanced development of new products, and organized to work on technological problems of key projects, with a view of upgrading technology and production capacity for LCD and it's module product to meet the demands of market and clients. The orders for LCD operation appeared to be increasing quarter by quarter and its sales hit a record high.

However, due to an impairment provision of RMB60,000,000 made for the receivables from Dalian Securities Limited, the Group recorded a net loss of RMB26,663,000 for LCD operations for the year.

The color STN-LCD production line established by an application of the fund from public A share issue of Tian Ma in 2001 was basically completed during the year. Tian Ma's LCD module products were honored by the second prize of Excellent New Product Award of Guangdong Province, and the module production technology was honored by the third prize of Advanced Science and Technology Award of Shenzhen in 2002.

Gross Profit Margin

	2002 *RMB'000*	2001 *RMB'000*	2000 *RMB'000*
Sales income	**327,574**	283,202	319,375
Cost of sale	**254,242**	232,576	248,634
Gross Profit	**73,332**	50,626	70,741
Gross profit margin	**22.39%**	17.88%	22.15%

Market Structure

	2002	2001	2000
PRC:	**30%**	33%	29%
Guangdong province	**15%**	20%	17%
Other regions	**15%**	13%	12%
Hong Kong	**25%**	35%	45%
Europe and America	**35%**	30%	24%
Southeast Asia	**10%**	2%	2%
Total	**100%**	100%	100%

Product Structure

	2002	2001	2000
Telecommunications equipment	**23%**	28%	30%
Electrical household appliances	**23%**	26%	15%
Apparatus and devices	**46%**	41%	40%
Electronic games machines	**8%**	5%	15%
Total	**100%**	100%	100%

Timepieces

The turnover of the Group's timepieces operations was approximately RMB151,524,000, representing a decrease of 6.23% over the previous year. The net loss (after minority interests) was RMB30,988,000.

Due to the restructure of marketing network and product mix during the year, and for the sake of prudence considered by the management of the Group, a provision of RMB78,247,000 was made for stagnant inventories, impairment receivables and impairment losses on fixed assets. As a result, Group's timepieces operations recorded a significant loss.

The demand from domestic timepieces market had no substantial improvement for the year. During the year, the Group established additional 5 timepieces chain stores in Ningbo, Changshan and Shenzhen, and the total number of such stores is 18.

During the year, Fiyta watches was honoured by the title of "China Famous Goods" recommended by China State Bureau of Quality and Technical Supervision.

Gross Profit Margin

	2002	2001	2000
The gross profit margin of high-end timepieces	**59.66%**	52.18%	53.18%
The gross profit margin of low-to mid-end timepieces	**16.74%**	29.75%	24.70%

	2002 *RMB'000*	2001 *RMB'000*	2000 *RMB'000*
Sales income	**151, 524**	161,593	176,491
Cost of sale	**96,180**	102,304	102,365
Gross profit	**55,344**	59,289	74,126
Gross profit margin	**37%**	37%	42%

Market Structure

During the year, the Group's timepieces operation was engaged in the manufacture and sale of the timepieces under the name of "Fiyta", and the distribution of globally branded timepieces through chain stores of "Harmony", most of which focused on domestic market with no noticeable changes in market structure over the same period of the previous year.

PROSPECT FOR 2003

The Group is still optimistic about China's economic growth in 2003.

Overshadowed by the recent adjustment in global electronic industry, the Group's related business recorded poor performance as a result of both shrinking demand and increasing price competition. However, there are facts showing that China will become a beneficiary of global industries adjustment. In contrast with the global economic depression in the past two years, China maintains higher GDP growth. This is deemed a major source of a sales and profitable driving engine by most of globally leading electronic players. Along with China's accession to WTO, tariffs have been reducing, and as a result, it attracts certain leading electronic giants who bring their own upstream and downstream partners. They help to form a vertical supply chain integrating elements from chip and other components to set manufacturers, as well as a lateral cooperation chain of contracted manufacturers. This cluster effect results in the shift of the industry chain. Driven by such elements as market and cost, global electronic manufactures have been transferring to China. Despite the increasing competition, domestic electronic industry enjoys improving market capacity and technology.

In the recent years, the Group has been increasing its investment in expanding production capacity and improving technology amidst sluggish market. At the same time, it is building a pool of client resources and expanding marketing channels. All these investments and efforts will generate returns on the back of a new cycle of industry recovery and growth.

PCB

Over the past two years, the overall demand for domestic PCB is boosted by the increasing investment in China from global OEMs, ODMs and EMSPs. In consideration of cost and market elements, more and more US or Europe based PCB manufacturers close their local factories and turn to China Mainland or Taiwan for contracted manufacturing or for establishment of ventures. This provides a favorable external environment for the expansion of the Group's PCB operations.

In 2003, the Group will have its internal flow optimized and the overall client response time shortened, in order to meet such features of the Group's PCB operations as wide varieties, small bulk and high difficulty, by exploiting its advantages of rapid delivery and high quality service. With increasing client resources as well as enhanced production capacity and technology, the Group believes that its PCB operations should have better performance in 2003.

LCD

The newly established color STN-LCD production line of the Group was under technical test in the first quarter of 2003 and it is expected to put into production in the second half of the year. Investment on the production line amounts to approximately RMB400,000,000. The line introduced from Japan is the first of its kind in China with top technical advantages presently.

The Group will focus on the development of mobile phone display module market in 2003. According to the statistics from Chinese Ministry of Information Technology, Chinese domestic production of mobile phones exceeded 130 million in 2002, representing a 43.8% increase over the previous year. Rapid growth is expected to maintain in the future. Meanwhile, colorization of mobile phone display will become popular in China in the coming years, with share jumping from about 10% currently to more than 50%. At present, many domestic mobile phone manufacturers are placing orders for color STN-LCD products.

In 2003, the Group will continue to enhance internal product management, and strengthen the quality control for the overall production cycle in order to ensure stable batch production by color STN-LCD production line. Moreover, the Group will speed up product development cycle and shorten client response time to enhance the Group's competitive edge in LCD operations in all respects.

TIMEPIECES

No significant changes are yet expected in the timepieces industry in 2003.

The Group will, under the brand name strategy of "seeking force with improvement, and obtain success with the force", continue to sustain the market image of "Fiyta" as a domestic mid-to high-end brand name of timepieces by profound market research, and study of customers' needs and market orientation, with a view of establishing a scientific and reasonable Fiyta product mix, enhancing technology innovation and promoting sales of timepieces.

Riding on the existing chain stores, the Group will improve the brand name of "Harmony" and extend the agency network for brand name. Meanwhile, the Group will speed up the process of establishing new shops so as to form a network of timepieces chain stores in major cities throughout the country.

FINANCIAL REVIEW

Capital Structure

	2002	2001
	RMB'000	*RMB'000*
Total loans	**377,804**	255,797
Total liabilities	**646,837**	485,660
Minority interests	**523,957**	586,828
Shareholders' equity	**1,152,102**	1,238,330
Total assets	**2,322,896**	2,310,818
Loan-to-equity ratio	**32.79%**	20.66%
Debt-to-equity ratio	**56.14%**	39.22%

Loan-to-equity ratio = total loans 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 Resource

As at 31st December, 2002, the Group had cash and bank deposits totaling RMB594,164,000, which was mainly derived from the following sources:

- Cash and bank deposits at the beginning of the year;
- Revenue from operations;
- Increase in short term bank borrowings.

As at 31st December, 2002, the bank loan of the Group totaled RMB377,804,000 with floating interest rates ranging from 3.08% to 6.44% per annum.

Capital expenditure of the Group in 2002 amounted to approximately RMB445,543,000, of which approximately RMB60,812,000 were applied for the purchase of additional PCB production equipment, approximately RMB323,085,000 were applied for the purchase of production equipment and relevant production facilities for LCD and modules operations, approximately RMB52,108,000 were applied for the construction project of Fiyta Mansion in Shenzhen High-tech Zone and newly established timepieces chain stores, and another RMB9,538,000 were invested in other projects.

The Group's budget for capital expenditure for 2003 is approximately RMB290,900,000, of which approximately RMB74,200,000 will be applied for the purchase of Catic plant and Composite building in South Sha He Industrial Zone as well as the production equipment and auxiliary facilities, approximately RMB66,000,000 will be applied for technical renovation of color STN-LCD and module production lines, approximately RMB144,970,000 will be invested in the construction of Fiyta Hi-tech industrial zone inside Shenzhen Industrial Zone and newly established 8 chain stores of Harmony Worldwide Timepieces Center, and approximately RMB5,730,000 will be invested in other projects. The proposed capital expenditure will be financed by bank deposits and the cash generated from the Group's operations.

Others

There is no material foreign exchange expensive as the Group's products are mainly distributed in the PRC and overseas sales are settled in US$ or HK$.

As at 31st December, 2002, the Group did not have any significant contingent liabilities save as those disclosed in the financial statements.

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OTHER SIGNIFICANT EVENTS

Termination of Disposal of Fiyta Shares

On 5th July, 2002, the Company announced that it had terminated the agreement with Peking Founder Holdings Limited ("Peking Founder") dated 7th December, 2001 whereby 72,302,200 unlisted shares of Fiyta, a subsidiary of the Company whose 52.24% shares are held by the Company, were subject to disposal to Peking Founder. Pursuant to the agreement, one of the prerequisites to such disposal is to obtain the approval from the relevant authorities prior to 30th June, 2002. Peking Founder notified the Company that since the above prerequisite was not fulfilled as scheduled, the agreement shall be terminated. The Company will not proceed with the disposal. The Company and Peking Founder shall have no further obligations in respect of the agreement. The Company shall refund to Peking Founder the deposit of RMB10 million received under the agreement. The Directors confirm that the termination of the agreement has no material adverse effect to the Group. Currently the Company is not proposed to dispose of its 52.24% equity interest in Fiyta.

In the meantime, Fiyta and Peking Founder's Hong Kong listed arms agreed to terminate the Heads of Agreement dated 7th December, 2001 between them in relation to the setting up of a proposed joint venture ("JV"), as the two parties failed to agree on the terms of joint venture contract in respect of the proposed JV.

Provision for Part of Tian Ma's Government Bond Investment

The Company made announcement on 23rd September, 2002 that as a result of the decision of Chinese Securities Regulatory Commission to suspend the business of Dalian Securities for restructuring from 7th September, 2002, the recovery of part of Tian Ma's investment in PRC 99(8) government bonds for a total sum of RMB150,000,000 as entrusted by Tian Ma with Dalian Securities Limited was affected accordingly.

On 3rd April, 2003, Chinese Securities Regulatory Commission imposed punishment to Dalian Securities Limited by cancellation of its security business license and ordered it to shutdown. As at the date of this report, Tian Ma has recovered RMB90,000,000 from Dalian Securities Limited with RMB60,000,000 and relevant gains outstanding. Tian Ma has been closely monitoring the situation and will inform the Company from time to time of the progress on the recovery of the remaining amount.

Tian Ma has decided to make a provision of RMB60,000,000 for it for the year.

SIGNIFICANT SUBSEQUENT EVENTS

Shennan's Acquisition of Property in Sha He Nan Area

On 24th March, 2003, Shennan and CATIC Shenzhen Company ("Shenzhen CATIC"), the ultimate holding company of the Company entered into an agreement regarding the acquisition of the land lot no. T309-30 located at Qiaocheng East Industrial Zone, Xiao Sha He Area, Nanshan District, Shenzhen, Guangdong Province with the structures erected thereon ("Property"). The consideration of RMB67,080,000 (approximately HK$63,283,000) payable by Shennan will be paid in cash upon completion of the acquisition.

Part of the property is currently leased to Shennan as its production base for double and multiple-layered print circuit boards (within the factory building) and staff quarters and canteen, and parts to other independent third parties. Shennan intends to occupy further area in the factory building of approximately 3,000 to 5,000 sq. m. to satisfy its present production requirements and may further expand depending on its future needs. The acquisition aims to control and reduce the rental expenses of Shennan's current production base to meet Shennan's future requirement for expansion of its production base and utilize its resources effectively for the future growth and development of the Group.

The acquisition constitutes a connected transaction of the Company under Chapter 14 of the Listing Rules and is subject to approval by independent Shareholders in the extraordinary general meeting to be held on 10th May, 2003 as required. Shenzhen CATIC has obtained the approvals as prerequisite, required in accordance with the relevant Chinese laws regarding the transaction stated in the agreement. Up to the date of the report, the Company has sent circular to shareholders on the acquisition.