



深圳中航實業股份有限公司
CATIC SHENZHEN HOLDINGS LIMITED

INTERIM REPORT 2003



The Board of Directors of CATIC Shenzhen Holdings Limited ("the Company") is pleased to announce the unaudited operating results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30th June 2003 prepared in accordance with the International Accounting Standards as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (CONDENSED)

		Six months ended 30th June	
		2003	2002
		(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	2	517,221	389,107
Cost of sales		<u>391,215</u>	<u>289,111</u>
Operating profit	3	40,857	36,418
Share of profits of associates		<u>164</u>	<u>8</u>
Profit before taxation		41,021	36,426
Taxation charge	4	<u>(6,686)</u>	<u>(7,244)</u>
Profit after taxation		34,335	29,182
Minority interests		<u>(11,077)</u>	<u>(10,216)</u>
Profit attributable to shareholders	2	<u>23,258</u>	<u>18,966</u>
Earnings per share	7	<u>RMB3.62 cents</u>	<u>RMB2.95 cents</u>

**CONSOLIDATED BALANCE SHEET (CONDENSED)**

		30th June 2003 (Unaudited) RMB'000	31st December 2002 (Audited) RMB'000
	<i>Notes</i>		
Non-current assets		1,083,853	1,023,922
Current assets		1,247,880	1,298,974
Inventories		349,767	296,389
Trade receivables	5	285,387	191,370
Prepayments and other receivables		52,201	57,298
Cash and bank balances		270,581	594,164
Trading investments		163,248	6,615
Specific deposits		125,000	125,000
Other current assets		1,696	28,138
Current liabilities		610,509	643,614
Long-term loans		349,822	377,804
Trade payables	6	162,842	126,569
Other current liabilities		97,845	139,241
Net current assets		637,371	655,360
Total assets less current liabilities		<u>1,721,224</u>	<u>1,679,282</u>
Non-current liabilities			
Long-term payables		1,408	—
Deferred tax liabilities		—	3,223
Minority interests		544,456	523,957
		<u>545,864</u>	<u>527,180</u>
Capital and reserves			
Share capital		642,000	642,000
Share premium		165,198	165,198
Statutory reserves	8	52,286	52,286
Capital reserve		182,235	182,235
Retained earnings		133,641	110,383
		<u>1,175,360</u>	<u>1,152,102</u>
Total non-current liabilities and shareholders' equity		<u>1,721,224</u>	<u>1,679,282</u>



CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (CONDENSED)

	Share capital <i>RMB'000</i>	Share premium <i>RMB'000</i>	Statutory reserves <i>RMB'000</i>	Capital reserve <i>RMB'000</i>	Retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>
Balance as at						
1st January 2003	642,000	165,198	52,286	182,235	110,383	1,152,102
Profit for the year	—	—	—	—	23,258	23,258
Dividend	—	—	—	—	—	—
Balance as at						
30th June 2003	<u>642,000</u>	<u>165,198</u>	<u>52,286</u>	<u>182,235</u>	<u>133,641</u>	<u>1,175,360</u>

CONSOLIDATED STATEMENT FOR CASH FLOWS (CONDENSED)

	Six months ended 30th June	
	2003 (Unaudited) <i>RMB'000</i>	2002 (Unaudited) <i>RMB'000</i>
Net cash inflow from operation activities	5,562	63,590
Net cash outflow used in investing activities	(291,295)	(63,937)
Net cash inflow from financing activities	<u>(37,850)</u>	<u>22,788</u>
Increase in cash and cash equivalents	(323,583)	22,441
Cash and cash equivalents, beginning of the period covered	<u>594,164</u>	<u>870,235</u>
Cash and cash equivalents, end of the period covered	<u>270,581</u>	<u>892,676</u>

Notes:

1. Basis of preparation

These consolidated financial statements includes the report of interim results of the Company and its subsidiaries for the six months ended 30th June 2003, and have been prepared in accordance with International Accounting Standards ("IAS") promulgated by the International Accounting Standards Committee.



2. Segmental information

The turnover and profit attributable to shareholders of the Group by activities for the six months ended 30th June 2003 are classified as follows:

	Turnover		Profit attributable to shareholders	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
PCB	131,293	97,934	15,334	16,168
LCD	259,543	150,401	12,115	8,747
Timepieces	50,943	49,795	3,176	4,575
Others	75,442	90,977	(1,228)	(657)
Unclassified items	—	—	(6,139)	(9,867)
Total	<u>517,221</u>	<u>389,107</u>	<u>23,258</u>	<u>18,966</u>

3. Operating profit

Operating profit of the Group for the six months ended 30th June includes the following items:

	2003 RMB'000	2002 RMB'000
Other revenue	10,797	9,382
Financial expenses	8,845	3,790
Depreciation on fixed assets in the period	24,922	28,543

4. Taxation

Pursuant to the relevant income tax laws of the PRC, the Group is subject to income tax at a rate of 15% as a corporation established in Shenzhen Special Economic Zone while those established in other areas are subject to income tax at a rate of 33%. In September 1999, Shenzhen Shennan Circuit Co., Ltd ("Shennan") was classified by the Shenzhen Municipal Science & Technology Bureau as the "Hi-tech Enterprise in Shenzhen" which was entitled to a tax preferential policy of 50% tax reduction. In 2001, the enterprise income tax rate applicable to Shennan was 7.5%. However, in 2002, such half-relief tax preferential policy adopts new implementation approach through which the paid income tax at 15% will be subject to a refund to the effect that the company actually pays tax at 7.5%, thus the applicable rate for Shennan is adjusted to 15%. Besides, from 1st January 2003, the value-added tax relief policy of Local Products to Local Entities in Shenzhen, which some companies of the Group enjoyed has been cancelled.

Taxation of the company for six months ended 30th June includes as follows:

	2003 RMB'000	2002 RMB'000
PRC enterprise income tax	6,665	7,207
Share of taxation of associates	<u>21</u>	<u>37</u>
	<u>6,686</u>	<u>7,244</u>



5. Trade Receivables

The Group's credit terms on sales of goods range from 30 to 90 days, and the aging analysis of trade receivables is as follows:

	30th June 2003 RMB'000	31st December 2002 RMB'000
Current	100,618	87,488
30-60 days	75,033	43,507
60-90 days	71,979	22,521
Over 90 days	107,314	108,138
Less: provision for doubtful debts	(69,557)	(70,284)
	<u>285,387</u>	<u>191,370</u>

6. Trade Payables

	30th June 2003 RMB'000	31st December 2002 RMB'000
Current	76,622	82,088
30-60 days	39,614	17,698
60-90 days	30,037	6,833
Over 90 days	16,569	19,950
	<u>162,842</u>	<u>126,569</u>

7. Earnings Per Share

Earnings per share was based on dividing consolidated profit attributable to shareholders of approximately RMB23,258,000 (the same period of 2002: RMB18,966,000) by the total number of issued shares of 642,000,000 shares of the Company.

8. Reserve movements

The reserve of the Group did not have any change for the six months ended 30th June 2003.

DIVIDENDS

The Directors did not recommend payment of any interim dividend for the six-month period ended 30th June 2003.

BUSINESS REVIEW

For the six months ended 30th June 2003, the Group's unaudited turnover was RMB517,221,000, a rise of 32.93% compared with RMB389,107,000 over the same period of last year. The profit attributable to shareholders was RMB23,258,000, representing a rise of 22.63% compared with RMB18,966,000 over the same period of last year. Earnings per share was RMB3.62 cents whereas it was RMB2.95 cents over the same period of last year.



For the first half of 2003, there was a sign showing that the global electronics industry was recovering. The external market situation of the Group was obviously more improved than that over the same period of the last year, except that the business of the Group was partly affected by the sudden "SARS epidemic". During the period, in spite of a remarkable increase of demand for investment in domestic telecommunication facilities and consequently a notable growth of revenue of the Group's Printed Circuit Board ("PCB") business, profit decreased slightly compared with that over the same period of last year as adversely affected by the decline of PCB sales price and rescission of the value-added tax relief policy of Local Products to Local Entities in Shenzhen. Thanks to the improvement of the domestic market development of the mobile phones modules, both sales and earnings of Liquid Crystal Display ("LCD") increase substantially over the same period of last year. The timepieces business did not improve due to the effect of "SARS epidemic". Generally speaking, the overall results of the Group in the period have improved notably over the same period of last year.

- With regard to PCB business, the Group recorded sales revenue of RMB131,293,000 for the first half of the year, a rise of 34.06% compared with RMB97,934,000 over the same period of last year. The profit attributable to shareholders was RMB15,334,000, representing a slight drop of 5.16% compared with RMB16,168,000 over the same period of last year.

According to the statistics published by Chinese Ministry of Information Industry, in the first half of 2003, fixed assets investment of the domestic telecommunication sector increased 54.9% as compared with that over the same period of last year (it was decreased by 36.5% in the first half of 2002). The orders from domestic telecommunication equipment manufacturers, the major clients of PCB business of the Group, increased over 30% compared with that over the same period of last year. The proportion of sales revenue for higher value-added Multi-layered PCB in this period has been further enhanced to 87.14% (it was 82.10% in the first half of 2002).

Due to the intense market competition continued in the industry, the price of multi-layered PCB in the first half of the year decreased by approximately 12.28% on average compared with that over the same period of last year. Meanwhile, the actual value-added tax payable on the PCB business of the Group increased by RMB8,464,000 compared with that over the same period of last year as Shenzhen Municipal People's Government had terminated the valued-added tax-relief preferential policy of Local products to Local Entities since 1st January 2003. As a result, though during the period, the sales revenue of PCB increased rapidly, its profit represented a slight drop compared with that over the same period of last year.

- During the first six months, the Group's LCD business recorded a sales revenue of RMB259,543,000, an increase of 72.57% compared with RMB150,401,000 over the same period of last year. The profit attributable to shareholders was RMB12,115,000, representing an increase of 38.50% compared with RMB8,747,000 over the same period of last year.



LCD business of the Group for the first half of 2003 performed well due to the significant improvement of batch orders on display module placed by domestic mobile phone manufacturers. The sales revenue of module products in this period increased by 164% compared with that over the same period of last year, representing 65% in the aggregate sales volume of LCD business and appeared to be increasing quarter by quarter. Such significant increases also enhanced the profitability of LCD operation of the Group.

The newly established color STN-LCD production line of the Group had undergone technology test during the period and was expected to put into batch production in the second half. Moreover, product developments were also making progress. The trial production and the final design for color STN mobile phone display module were accomplished and the module was expected to enter the market recently.

- The sales revenue of timepieces business of the Group in the first half of the year was RMB50,943,000, a slight increase of 2.31% compared with RMB49,795,000 over the same period of last year. The profit attributable to shareholders was RMB3,176,000, representing a decrease of 30.58% compared with RMB4,575,000 over the same period of last year.

During this period, the profitability of the timepieces business of the Group represented a decline compared with that over the same period of last year, as was adversely affected by “SARS epidemic”.

During the period, the Group set up two new timepiece chain stores in the cities of Nanjing and Xuzhou respectively, and the total number of such stores reaches 20.

PROSPECTS

In the first half of 2003, despite the serious effect from the severe acute respiratory syndrome (“SARS”), China still maintained a strong economic growth momentum with its rapid GDP growth rate of 8.2%. Meanwhile, an increasing number of global electronic manufacturers have been moving to PRC on the lower cost and enormous markets, which also brings new market opportunities to the Group's principal operations.

With the market development in the first half of the year, the Group's PCB and LCD operations recorded a significant increase, especially in mobile phone display module market of LCD operation. Where there is no material change, the Group is optimistic about its operation development in the second half of the year.

In the second half of the year, the Group's new color super twist nematic liquid crystal display (STN-LCD) production line established by an investment of approximately RMB400,000,000 will be put into operation, which is expected to enhance its technology level and production capability, contributing a great positive effect upon the Group's LCD operation. With a view to maintaining



the positive growth in its principal operations, the Group has also adopted various pro-active measures to implement Business Process Reengineering (BPR), upgrade production technology and strengthen internal management, so as to improve working efficiency and build a closer relationship with its clients.

OTHER SIGNIFICANT EVENTS

Shennan's Acquisition of Property in South Xiao Sha He Industrial Area

On 24th March 2003, Shennan, a subsidiary owned as to 95% by the Company, and CATIC Shenzhen Company ("CATIC Shenzhen"), 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 at the cash consideration of RMB67,080,000. The acquisition constituted a connected transaction under Chapter 14 of the Listing Rules and had obtained the approval by independent Shareholders in the extraordinary general meeting of the Company held on 31st May 2003. The transaction for transferring relevant property rights is in the progress.

LIQUIDITY AND FUNDING RESOURCES

As at 30th June 2003, the Group had cash and bank deposits totaling RMB270,581,000. The Group's bank loans, totaling RMB349,822,000, were all short-term borrowings with annual floating interest rates ranging from 4.78% to 5.549%.

DEBT TO EQUITY RATIO

As at 30th June 2003, the Group's loans to equity ratio (bank loans to shareholders' equity ratio) was 29.76% compared with 32.79% on 31st December 2002.

PLEDGED ASSETS

As at 30th June 2003, production plant located in Hi-tech Industrial Area in Shenzhen of approximately RMB9,253,000 (31st December 2002: RMB9,253,000) of Shenzhen Maiwei Cable TV Equipment Co. Ltd. ("Maiwei"), a subsidiary of the Group, was pledged as the security for a bank loan of RMB5,000,000 (31st December 2002: RMB5,000,000) for Maiwei. Production plant located in Ma Jia Long Industrial Area of Nanshan District in Shenzhen of approximately RMB17,945,000 (31st December 2002: RMB17,945,000) of Shenzhen Aero-precision Mold & Plastics Co. ("Aero-Precision"), a subsidiary of the Group, was pledged as the security for a bank loan of RMB6,000,000 (31st December 2002: RMB6,000,000) for Aero-Precision.



FOREIGN EXCHANGE RISK

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.

HOUSING SCHEME FOR THE EMPLOYEES

For the six months ended 30th June 2003, the expenses incurred by the Company related to the housing reserve fund scheme was RMB929,000 (the same period in 2002: RMB784,000).

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

During the six months ended 30th June 2003, the Company did not have any entrusted deposits or overdue term deposits in any form.

SUBSTANTIAL SHAREHOLDER

As at 30th June 2003, CATIC Shenzhen held 400,000,000 legal person shares, representing 62.31% of the issued share capital of the Company. Save as disclosed herein, the Company was not aware of any other shareholders' interests required to be disclosed under Part XV of the Securities and Futures Ordinance.

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 six months ended 30th June 2003.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

Pursuant to the Articles of Association of the Company, as the term for the 2nd board of directors and the supervisory committee were due to expire on 31st May 2003, the 3rd board of directors and supervisory committee were elected at the 2002 Annual General Meeting on the same date:

Each of Mr. Wu Guang Quan, Mr. Wang Xin Kuo, Mr. Xu Ye Chun, Mr. Sui Yong, Mr. Yan Hai Zhong, Mr. Xu Dong Sheng, Mr. You Lei and Mr. Liu Rui Lin has been elected as an executive director of the Company; each of Mr. Poon Chiu Kwok and Mr. Eugene Liu has been elected as an independent non-executive director of the Company; each of Mr. Wang Bin Bin and Mr. Ji Gui Rong has been elected as a non-executive director of the Company and the board of directors was authorized to determine their remuneration and terms of service contracts with relevant directors for the term of office of three years.



Mr. Shao Ke Xiong has been elected as a shareholder representative supervisor; Each of Mr. Chen Gang and Mr. Diao Wei Cheng has been elected as an independent supervisor and the board of directors was authorized to determine their remuneration and the terms of service contracts with relevant supervisors for the term of office of three years.

At the 1st meeting of the 3rd board of directors of the Company held on 31st May 2003, Mr. Wu Guang Quan was elected as the chairman of the board; Mr. Wang Xin Kuo was elected as the vice-chairman of the board; Mr. You Lei was re-appointed as the secretary of the board; Mr. Zeng Jun was appointed as the co-secretary of the board.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

None of the Directors, the chief executive and supervisors had owned any interests which were required to be disclosed under Part XV of the Securities and Futures Ordinance as at 30th June 2003.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30th June 2003 was the Company and its subsidiaries or its holding company a party to any arrangement to enable the Directors, supervisors or management members to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS

No director or supervisor had a significant interest, either direct or indirect, in any contract or arrangement of significance to the business of the Company as at 30th June 2003 or during the period.

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 the six months ended 30th June 2003.

AUDIT COMMITTEE

Audit Committee has reviewed the Company's Interim Report for the six months ended 30th June 2003.

By Order of the Board
Wu Guang Quan
Chairman