



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

INTERIM REPORT 2004

The Board of Directors of CATIC Shenzhen Holdings Limited (“the Company”) hereby announces the unaudited interim results of the Company and its subsidiaries (collectively, “the Group”) for the six months ended 30th June 2004 prepared in accordance with the International Financial Reporting Standards as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (CONDENSED)

	<i>Notes</i>	Six months ended 30th June	
		2004 (Unaudited) RMB'000	2003 (Unaudited) RMB'000
Turnover	2	761,382	517,221
Cost of sales		(578,001)	(391,215)
Gross profit		183,381	126,006
Operating profit	3	49,135	40,857
Share of results of associates		(288)	164
Profit before taxation		48,847	41,021
Taxation charge	4	(10,206)	(6,686)
Profit after taxation		38,641	34,335
Minority interests		(14,354)	(11,077)
Profit attributable to shareholders	2	24,287	23,258
Earnings per share	8	RMB3.78 cents	RMB3.62 cents

CONSOLIDATED BALANCE SHEET (CONDENSED)

		30th June 2004 (Unaudited) RMB'000	31st December 2003 (Audited) RMB'000
	Notes		
Non-current assets	5	1,174,450	1,168,107
Current assets		1,407,563	1,293,545
Inventories		464,767	354,536
Trade receivables	6	388,459	326,872
Notes receivables		56,820	91,780
Prepayments and other receivables		65,613	84,491
Trading investments		172,657	151,392
Designated deposits		—	51,004
Other current assets		2,845	2,589
Cash and bank balances		256,402	230,881
Current liabilities		804,718	706,491
Trade payables	7	293,953	229,163
Short-term loans		429,942	347,277
Other current liabilities		80,823	130,051
Net current assets		602,845	587,054
Total assets less current liabilities		<u>1,777,295</u>	<u>1,755,161</u>
Non-current liabilities			
Deferred tax liabilities		1,939	1,939
Deferred income on government grant		6,736	6,380
		<u>8,675</u>	<u>8,319</u>
Minority interests		566,715	549,964
Capital and reserves			
Share capital		642,000	642,000
Share premium		165,198	165,198
Capital reserve		182,235	182,235
Statutory reserves	9	58,355	58,355
Retained earnings		154,117	149,090
		<u>1,201,905</u>	<u>1,196,878</u>
Total shareholders' equity, non-current liabilities and minority interests		<u>1,777,295</u>	<u>1,755,161</u>

CONSOLIDATED STATEMENTS 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 2004	642,000	165,198	58,355	182,235	149,090	1,196,878
Net profit for the period covered	—	—	—	—	24,287	24,287
Dividend	—	—	—	—	(19,260)	(19,260)
Balance as at 30th June 2004	642,000	165,198	58,355	182,235	154,117	1,201,905

CONSOLIDATED CASH FLOW STATEMENT (CONDENSED)

	Six months ended 30th June	
	2004 (Unaudited) <i>RMB'000</i>	2003 (Unaudited) <i>RMB'000</i>
Net cash (used in)/ generated from operating activities	(485)	5,562
Net cash used in investing activities	(49,626)	(291,295)
Net cash generated from/(used in) financing activities	75,632	(37,850)
Net increase/(decrease) in cash and cash equivalents	25,521	(323,583)
Cash and cash equivalents at 1st January	230,881	594,164
Cash and cash equivalents at 30th June	256,402	270,581

Notes:

1. Basis of preparation

These consolidated financial statements include the report of interim results of the Company and its subsidiaries ended 30th June 2004, and have been prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board.

2. Segmental information

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

	Turnover		Profit/(loss) attributable to shareholders	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
LCD	439,770	259,543	20,970	12,115
PCB	173,872	131,293	21,477	15,334
Timepieces	126,133	88,224	816	2,924
Others	21,607	38,161	(2,674)	(976)
Unclassified items	—	—	(16,302)	(6,139)
Total	<u>761,382</u>	<u>517,221</u>	<u>24,287</u>	<u>23,258</u>

Notes: Adjustment has been made to the business classification in the interim report for 2004 whereby the sales of “Harmony” timepieces chain stores is classified as “Timepieces Business” (In the interim report for 2003, the sales of “Harmony” timepieces chain stores was classified as “Other Business” and “Timepieces Business” referred only to the manufacture and sale of “FIYTA” timepieces). Corresponding adjustment has also been made to the turnover and the profit/loss attributable to shareholders of timepieces business for the same period of 2003.

3. Operating profit

The following items have been included in/(deducted from) the operating profit of the Group for the six months ended 30th June:

	2004	2003
	RMB'000	RMB'000
Other revenue	4,230	10,797
Finance costs	(10,083)	(8,845)
Depreciation on fixed assets in the period	(48,221)	(24,922)

4. Taxation charge

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%.

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

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Current PRC enterprise income tax	10,206	6,665
Share of tax of associates	—	21
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	10,206	6,686
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5. Non-current Assets

Within the six-month period ended 30th June 2004, the Group has incurred a capital expenditure of approximately RMB36,730,000. The Group did not have any substantial disposal of fixed assets during the period.

6. Trade receivables

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

	30th June 2004 <i>RMB'000</i>	31st December 2003 <i>RMB'000</i>
Current	230,513	204,199
30-60 days	74,362	72,524
60-90 days	51,405	24,550
Over 90 days	105,320	96,970
Less: provision for impairment losses	(73,141)	(71,371)
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	388,459	326,872
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7. Trade payables

	30th June 2004 <i>RMB'000</i>	31st December 2003 <i>RMB'000</i>
Current	118,407	78,413
30-60 days	108,176	55,152
60-90 days	41,898	40,072
Over 90 days	25,472	55,526
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	293,953	229,163
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8. Earnings per share

Earnings per share was based on dividing the consolidated profit attributable to shareholders of approximately RMB24,287,000 (the same period of 2003: approximately RMB23,258,000) by the total number of issued shares of 642,000,000 shares of the Company.

9. Statutory reserve movements

The statutory reserve of the Group did not have any changes for the six months ended 30th June 2004.

DIVIDENDS

Pursuant to the provisions of the Articles of Association of the Company, the Board of Directors has decided that no dividend will be distributed for the six-month period ended 30th June 2004.

BUSINESS REVIEW

For the six months ended 30th June 2004, the Group's unaudited turnover was approximately RMB761,382,000, an increase of 47.21% compared with RMB517,221,000 over the same period of last year. The gross profit was approximately RMB183,381,000, an increase of 45.53% compared with RMB126,006,000 over the same period of last year. The profit attributable to shareholders was RMB24,287,000, an increase of 4.42% compared with RMB23,258,000 over the same period of last year. Earnings per share was RMB3.78 cents whereas it was RMB3.62 cents over the same period of last year.

For the first half of 2004, the Mainland economy maintained its strong growth, providing favourable conditions for the Group to develop its businesses. According to the statistics of the Ministry of the Information Industry of the PRC, the production value of the Mainland electronic industry recorded an increase of 45.1% during the period from January to June, and the Group's businesses also showed a rapid growth momentum.

- During the first half of the year, the Group's LCD business recorded a sales revenue of approximately RMB439,770,000, an increase of 69.44% compared with RMB259,543,000 over the same period of last year. The profit attributable to shareholders was approximately RMB20,970,000, representing an increase of 73.09% compared with RMB12,115,000 over the same period of last year.

According to the statistics published by the Ministry of Information Industry of the PRC, the sales of color screen multi-function mobile phones exceeded 70% of the total sales of mobile phones in the first half of the year. The screen colorization of mobile phone has become a market trend. During the period, the new color super twist nematic liquid crystal display production line invested in and constructed by the Group has commenced batch production, and there was a trend of quarterly increase in orders and sales. During the first half of 2004, LCD business of the Group maintained an overall rapid growth, and LCD module made an increase of 102% compared with that over the same period of last year with ratio to the sales revenue growing to 76.9%; of which the mobile phone module made an increase of 151% compared with the same period of last year and represented 48.8% of the sales revenue; and the color mobile phone module in turn represented 40.6% of the sales revenue of the mobile phone module.

- With regard to PCB business, the Group recorded a sales revenue of approximately RMB173,872,000 in the first half of the year, an increase of 32.43% compared with RMB131,293,000 over the same period of last year. The profit attributable to shareholders was RMB21,477,000, representing an increase of 40.06% compared with RMB15,334,000 over the same period of last year.

During the period, the Group's PCB product structure was further optimized. The proportion of sales revenue for higher value-added Multi-layered PCB has been enhanced to 90.6% of the total sales revenue (it was 87.1% in the first half of 2003), and there was a steady increase of domestic orders. Meanwhile, the Group actively expanded its overseas business and achieved during the period an increase of 113.6% in export compared with the same period of the last year, representing 16.45% of the sales revenue from PCB business.

- The sales revenue of timepieces business of the Group in the first half of the year was approximately RMB126,133,000, an increase of 42.97% compared with RMB88,224,000 over the same period of last year. The profit attributable to shareholders was approximately RMB816,000, representing a decrease compared with RMB2,924,000 over the same period of last year.

During the period, by integrating market information to meet the customer's demand, the Group strengthened its product R&D and marketing work, pushed a number of new timepiece models into the market, and launched the social activities "Care for the Future Campaign (關注未來時代)" to contribute to the Project Hope, so as to enhance the market share of the Group. As a result, the Group recorded a relatively large increase of sales revenue. However, the profitability of timepieces business remained unsatisfactory.

During the period, the total number of the Group's "Harmony" timepieces chain stores reached 21.

During the period, the turnover of various principal businesses of the Group recorded relatively large increases, and the gross profit margin basically maintained a concurrent increase. The profitability of LCD and PCB businesses was relatively satisfactory. Nevertheless, the Group's business had to face the tough test posed by the rising raw materials prices and the continuing downward trend of its product prices. Besides, the Group's overall profitability during the period was directly affected by an increase of taxation charge and a decrease of revenues from other businesses.

PROSPECTS

The Ministry of Information Industry of the PRC expects that the market demand for electronic products will be generally stable with an increase in some respects and the electronic industry will continue to bring good economic benefit in the latter half of the year. In the meantime, the data of the National Bureau of Statistics of China show a drop in the prices of raw materials and fuels and receding inflation pressure following the gradual implementation of the macroeconomic control measures adopted by the PRC. In the second half of the year, the economy will maintain an overall stable and healthy development.

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

In the second half of the year, the Group will adopt a number of pro-active measures to promote its principal businesses, step up its effort on marketing and product R&D, promote program re-engineering, develop its information system, strengthen its internal management, and maintain a healthy growth of its business. Amongst these businesses, the Group's color module project will be further expanded, and the technology level of the new color super twist nematic liquid crystal display production line is expected to be further enhanced.

LIQUIDITY AND FUNDING RESOURCES

As at 30th June 2004, the Group had cash and bank deposits totaling approximately RMB256,402,000. The Group's bank loans, totaling approximately RMB429,942,000, were all short-term loans with annual floating interest rates ranging from 1.88% to 5.84%.

DEBT TO EQUITY RATIO

As at 30th June 2004, the Group's loans to equity ratio (bank loans to shareholders' equity ratio) was 35.77% compared with 29.02% on 31st December 2003.

PLEDGED ASSETS

As at 30th June 2004, the production plant located in the Hi-tech Industrial Area in Shenzhen of approximately RMB9,253,000 (31st December 2003: 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 2003: RMB5,000,000) for Maiwei.

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSIT

During the six months ended 30th June 2004, the Company did not have any entrusted deposit and overdue term deposit in any form.

MANAGEMENT CONTRACT

During the six months ended 30th June 2004, the Group did not enter into any contract or had any existing contract in relation to the management or administration of its general business or any major business.

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 2004.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2004, CATIC Shenzhen Company held 400,000,000 legal person shares of the Company, 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.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wang Xin Kuo resigned as an executive director due to change in his own work. Mr. Wang's resignation was approved pursuant to the Articles of Association of the Company at the 2003 annual general meeting convened on 24th May 2004. It was resolved that Mr. Lai Wei Xuan (賴偉宣) be elected as an executive director of the Company. At the same time, in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited which came into effect on 31st March 2004, Mr. Liu Xian Fa (劉憲法) was also elected as an independent non-executive director.

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 2004.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30th June 2004 was the Company and its subsidiaries or its holding company a party to any arrangement to enable any 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 any significant interest, either direct or indirect, in any contract or arrangement of significance to the business of the Company as at 30th June 2004 or at any time during the period.

HOUSING SCHEME FOR THE EMPLOYEES

For the six months ended 30th June 2004, the expenses incurred by the Company in connection with the housing fund scheme was approximately RMB788,000 (the same period of 2003: RMB929,000).

FOREIGN EXCHANGE RISK

As the majority of the Group's products are distributed in the PRC and overseas sales are settled mainly in US dollars or Hong Kong dollars, there is no material foreign exchange risk exposure.

CONTINGENT LIABILITIES

On 9th March 2004, the Company provided a one-year guarantee for a credit facility of US\$15,000,000 granted to Tian Ma, a subsidiary owned as to 59.85% by the Company. On 26th May 2004, the Company provided a one-year guarantee for a credit facility of RMB50,000,000 granted to Fiyta, a subsidiary owned as to 52.24% by the Company.

MATERIAL LITIGATION

During the period, the Company did not have any material litigation or arbitration.

CODE OF BEST PRACTICE

The directors are not aware of any information which may be sufficient to reasonably prove that the Company was not in compliance with the Code of Best Practice set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30th June 2004.

AUDIT COMMITTEE

The audit committee has reviewed the Company's Interim Report for the six months ended 30th June 2004.

As at the date of this report, the Company has totally 13 directors, namely Mr. Wu Guang Quan, Mr. Xu Ye Chun, Mr. Sui Yong, Mr. Yan Hai Zhong, Mr. Lai Wei Xuan (賴偉宣), Mr. Xu Dong Sheng, Mr. You Lei and Mr. Liu Rui Lin as executive directors, Mr. Wang Bin Bin and Mr. Ji Gui Rong as non-executive directors, and Mr. Poon Chiu Kwok, Mr. Eugene Liu and Mr. Liu Xian Fa (劉憲法) as independent non-executive directors.

By order of the Board
Wu Guang Quan
Chairman

Shenzhen, PRC, 9th August 2004