深圳中航實業股份有限公司

CATIC SHENZHEN HOLDINGS LIMITED

(Stock Code: 0161)

INTERIM REPORT 2006

The Board of Directors of CATIC Shenzhen Holdings Limited ("the Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries ("the Group") for the six months ended 30th June 2006 prepared in accordance with the International Financial Reporting Standards as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT (CONDENSED)

		Six months ended 30th June	
		2006	**2005**
		(Unaudited)	**(Unaudited)**
	Notes	*RMB'000*	*RMB'000*
Turnover	*3*	1,190,839	952,958
Cost of sales		(899,323)	(749,329)
Gross profit		291,516	203,629
Operating profit	*4*	128,245	11,423
Share of gain/(loss) of associates		37	(427)
Loss on share segregation reform		(24,538)	–
Profit before taxation		103,744	10,996
Taxation charge	*5*	(17,656)	(7,047)
Profit after taxation		86,088	3,949
Profit/(loss) attributable to:			
Equity holders of the Company		58,287	(11,818)
Minority shareholders		27,801	15,767
		86,088	3,949
Earnings/(loss) per share attributable to the equity holders of the Company, basic and diluted *(RMB per share)*	*9*	0.0908	(0.0184)

CONSOLIDATED BALANCE SHEET (CONDENSED)

	Notes	30th June 2006 (Unaudited) RMB'000	31st December 2005 (Audited) RMB'000
Non-current assets	6	1,181,147	1,159,551
Property, plant and equipment		785,227	819,982
Investment properties		197,488	204,774
Construction-in-progress		12,358	9,509
Leasehold land and land use rights		51,519	35,453
Deferred tax assets		31,645	31,645
Other non-current assets		102,910	58,188
Current assets		2,229,521	1,535,836
Inventories		545,033	487,969
Trade receivables	7	489,202	469,541
Notes receivable		225,208	226,445
Prepayments and other receivables		106,542	50,041
Cash and cash equivalents		801,924	259,610
Financial assets at fair value by way of profit or loss		59,502	40,966
Other current assets		2,110	1,264
Total assets		3,410,668	2,695,387
Capital and reserves			
Share capital		642,000	642,000
Share premium		165,198	165,198
Capital reserve		145,100	182,235
Statutory reserves	10	59,409	59,409
Retained earnings		171,207	116,772
		1,182,914	1,165,614
Minority interests		850,726	607,893
Total equity		2,033,640	1,773,507
Non-current liabilities		87,210	77,210
Non-current borrowings		80,000	70,000
Deferred income on government grants		7,210	7,210
Current liabilities		1,289,818	844,670
Current borrowings		776,144	393,950
Trade payables	8	349,522	308,753
Notes payables		20,959	8,155
Accruals and other payables		79,640	71,480
Other current liabilities		63,553	62,332
Total liabilities		1,377,028	921,880
Total equity and non-current liabilities		2,120,850	1,850,717
Net current assets		939,703	691,166
Total assets less current liabilities		2,120,850	1,850,717

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONDENSED)

	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserve *RMB'000*	Statutory reserves *RMB'000*	Retained earnings *RMB'000*	Minority interests *RMB'000*	Total *RMB'000*
Balance as at 1st January 2006	642,000	165,198	182,235	59,409	116,772	607,893	1,773,507
Earnings attributable to shareholders for the period covered	–	–	–	–	82,825	27,801	110,626
Capital contributed to subsidiaries by minority shareholders	–	–	–	–	–	159,650	159,650
(Decrease)/Increase on share segregation reform	–	–	(37,135)	–	(24,538)	61,673	0
Dividend	–	–	–	–	(3,852)	(6,291)	(10,143)
Balance as at 30th June 2006	642,000	165,198	145,100	59,409	171,207	850,726	2,033,640

CONSOLIDATED CASH FLOW STATEMENT (CONDENSED)

		Six months ended 30th June	
		2006	**2005**
		(Unaudited)	**(Unaudited)**
	Notes	*RMB'000*	*RMB'000*
Net cash generated from operating activities		112,341	92,998
Net cash used in investing activities		(114,828)	(67,232)
Cash flows from financing activities			
Proceeds from/(repayments of) borrowings		395,294	(5,953)
Dividends paid		(3,852)	(8,346)
Capital contribution to subsidiaries from minority shareholders	*11*	159,650	–
Dividends paid to minority shareholders of subsidiaries		(6,291)	(12,161)
Net cash generated from/(used in) financing activities		544,801	(26,460)
Net increase/(decrease) in cash and cash equivalents		542,314	(694)
Cash and cash equivalents at 1st January		259,610	371,961
Cash and cash equivalents at 30th June		801,924	371,267

Notes:

1. Basis of preparation

The consolidated financial statements, including the interim financial statements for the six months ended 30th June 2006 of the Group, have been prepared in accordance with the new/revised International Financial Reporting Standards ("IFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of property, plant and equipment, available-for-sale investments and financial assets at fair value through profit or loss.

2. Changes in Consolidation

The formation of Shanghai Tian Ma Microelectronics Company Limited has been added into the consolidated financial statement compared with the statement of the same period of 2005.

3. Segment reporting

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

	Turnover		**Profit/(Loss) after taxation**	
	2006	**2005**	**2006**	**2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
LCD	640,683	525,048	22,630	18,894
PCB	303,062	201,011	53,282	28,599
Timepieces	207,310	140,566	7,102	2,721
Others	39,784	86,333	(2,536)	(2,412)
Unallocated items	–	–	(22,191)	(59,620)
Total	1,190,839	952,958	58,287	(11,818)

4. Operating profit

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

	2006	**2005**
	RMB'000	*RMB'000*
Revenues of other businesses	8,662	6,913
Finance costs	(21,076)	(15,951)
Depreciation of fixed assets for the period covered	(53,685)	(54,827)

5. Taxation charge

Pursuant to the relevant income tax laws of the PRC, subsidiary corporations and associated companies established by the Group in the Shenzhen Special Economic Zone are subject to income tax at a rate of 15% while those established in other areas in the PRC are subject to income tax at a rate of 33%. For the six months ended 30th June 2006, the tax charge of the Group amounted to approximately RMB17,656,000 (the same period of 2005: RMB7,047,000).

6. Non-current Assets

Within the six-month period ended 30th June 2006, the Group has incurred a capital expenditure of approximately RMB54,300,000 (31st December 2005: RMB67,950,000). The Group did not have any substantial disposal of fixed assets during the period.

7. 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 2006 *RMB'000*	**31st December 2005** *RMB'000*
Current	182,546	180,327
30-60 days	124,016	140,051
60-90 days	86,272	104,856
Over 90 days	181,507	128,466
Less: provision for impairment losses	(85,139)	(84,159)
	489,202	469,541

8. Trade payables

	30th June 2006 *RMB'000*	**31st December 2005** *RMB'000*
Current	149,604	184,285
30-60 days	113,349	61,437
60-90 days	41,955	32,864
Over 90 days	44,614	30,167
	349,522	308,753

9. Earnings/(Loss) per share

Earnings/(Loss) per share is calculated by dividing the net profit/(loss) for the period of approximately RMB58,287,000 (the same period of 2005: loss of RMB11,818,000) by the total number of ordinary shares in issue of 642,000,000 shares of the Company.

10. Statutory reserve movements

The statutory reserve of the Group did not have any changes for the six months ended 30th June 2006.

11. Capital contributed by minority shareholders

The capital contributed by minority shareholders of Shanghai Industrial Investment (Group) Company Limited (上海工業投資(集團)有限公司), Shanghai State-owned Assets Management Company Limited (上海國有資產經營有限公司) and Shanghai Zhang Jiang (Group) Company Limited (上海張江(集團)有限公司) to Shanghai Tian Ma Microelectronics Company Limited, a subsidiary of the Company, has amounted to RMB159,650,000.

DIVIDENDS

The Board of Directors has recommended the distribution of an interim dividend of RMB6 cents per share for the six months ended 30th June 2006, totaling RMB38,520,000 (interim dividend of 2005: nil) from the retained earnings, subject to the approval by the shareholders at the extraordinary general meeting of the Company.

BUSINESS REVIEW

For the six months ended 30th June 2006, the Group's unaudited turnover was approximately RMB1,190,839,000, representing an increase of 24.96% compared with RMB952,958,000 over the same period of last year. The gross profit was approximately RMB291,516,000, representing an increase of 43.16% compared with RMB203,629,000 over the same period of last year. The operating result recorded a dramatic growth and the profit attributable to shareholders was approximately RMB58,287,000 (compared with a loss attributable to shareholders of RMB11,818,000 during the same period of last year). The earning per share was approximately RMB9.08 cents, whereas the loss per share was RMB1.84 cents during the same period of last year.

For the first half of 2006, the PRC economy continued to grow at an energetic pace. According to the preliminary statistics of the National Bureau of Statistics of the PRC, the Gross Domestic Product (GDP) for the first half of the year increased 10.9% compared with the same period of last year. From January to June in aggregate, the value-added of industrial enterprises at a national scale increased 17.7% compared with the same period of last year; while the Consumer Price Index (CPI) increased by 1.3% over the previous year. Boosted by the positive development of the PRC's economy and the strong growth of our three core businesses, the Group's business increased substantially.

- During the first half of the year, the Group's LCD business recorded a sales revenue of approximately RMB640,683,000, representing an increase of 22.02% compared with RMB525,048,000 over the same period of last year. The profit after taxation was approximately RMB22,630,000, representing an increase of 19.77% compared with RMB18,894,000 over the same period of last year.

  The Group's LCD business was largely centralized on the production of domestic mobile phone display modules. The data published by the Ministry of Information Industry shows that the mobile phone industry in the PRC will continue the stable development in 2006. The output and market scale will continue to expand and the total output of mobile phones is expected to reach 340 millions, of which 250 millions will be for export and 90 millions for domestic market in 2006. Despite the increasing sales from domestic market, the market share of domestic mobile phone was further squeezed by international brands and continued to shrink. To counteract the negative impact of the decreasing market share of domestic mobile phones, the Group stepped up the diversified application of small and medium-sized TFT products and the marketing of small and medium-sized TFT products began to reward. In addition, the Group also took endeavor to strengthen export, which resulted in a rapid increase of our export orders from Europe, Asia and America. What's more, the Group enhanced its credit management, through which both receivables and finished product inventory were improved greatly and a healthy growth was realized. And the cost planning and control of the whole supply chain were also strengthened, as a result, the material costs decreased continuously and a higher capacity usage rate of production lines was achieved.

  During the period, the sales of LCD module products recorded an increase of 8.4% compared with the same period of last year, representing 71% of LCD business revenue, in which 42.5% was attributable to the sales of color module LCD products. The orders for and sales of color module LCD products continued its trend of quarterly increase. The sales of LCD panels increased 58.6% compared with the same period of last year, representing 29% of LCD business revenue. Benefiting from the strengthened costs planning and control of the whole supply chain, the material costs kept decreasing. Despite the downward market price, our price competitiveness and the profit margin was still upward. The gross profit margin of LCD business increased by approximately 34.26%.

In the first half of the year, the Group was granted the Quality Management System Certification of TS16949: 2002 by TUV – a recognized international organization for certification, which laid a sound foundation for the Group's LCD products to enter into the auto market. Following PCB, LCD was another product of the Group awarded this certification.

- With regard to PCB business, the Group recorded a sales revenue of approximately RMB303,062,000 in the first half of the year, representing an increase of 50.77% compared with RMB201,011,000 over the same period of last year. The profit after taxation was approximately RMB53,282,000, representing an increase of 86.31% compared with RMB28,599,000 over the same period of last year.

  In the first half of the year, the rapid increase of copper price exerted great cost pressure on the manufacturers. On the other hand, the fierce competition from the industry dragged the prices of PCB products down continuously. However, the PCB industry still maintained a positive trend under the disadvantageous situation of lower prices and higher costs.

  The Group also adopted all kinds of measures to boost the business: (1) Implementing Lean 6 Sigma for internal management and adjusting planning and introducing Kanban Management for bottleneck procedures to improve the production capacity and reduce the obsolesces. (2) Increasing the sales volume of mid- and high-end products. From the view of product structure, the sales growth were mainly contributed from mid- and high-end products of which the sales of PCB with 10 layers or more recorded an increase of 86% compared with the same period of last year. (3) Besides, expanding the industrial application of products. The sales in our core and important industries, such as communication, industrial control and medical equipment, cars, etc, increased rapidly. From the view of client types, all industries recorded an increase in sales. As a result, both the sales revenues and profits of PCB business of the Group for the first half of the year increased significantly, with the gross profit margin increasing 67%.

  In the first half of the year, the Group has already bought the construction land for its production capacity expansion and technology enhancement project of PCB business, and has received the project license.

- The sales revenue of the Group's timepiece business in the first half of the year was approximately RMB207,310,000, representing an increase of 47.48% compared with RMB140,566,000 over the same period of last year. The profit after taxation was approximately RMB7,102,000, representing an increase of 161.01% over RMB2,721,000 of the same period of last year.

  On 1st April 2006, the Chinese government began to impose a 20% consumption tax on high-range timepieces priced at over RMB10,000, which may restrain the import demand to some extent in a short time; yet, it did not stop the whole expanding trend into the Chinese market, thus the competition remains fierce.

  Regarding timepiece business development, the Group remained its emphasis on branding strategy. Taking renowned international brands as its reference, "Fiyta" timepiece business recorded a 49.26% gross profit increase compared with the same period of last year. "Harmony" has further strengthened its relationship with other brands, and entered an unprecedented new era of cooperation with strong brands, top brands as well as potential brands. The turnover of "Harmony" increased by 68.14% over the previous year, and seven new chain stores were opened in the first half year while an old one was merged. During the period, the Group had 47 chain stores of branded timepieces (31st December 2005: 41).

During the period, overall business of the Group grew soundly with double-digit increase in both turnover and gross profit of principle businesses, showing a positive development tendency.

PROSPECTS

Despite a series of macro cooling measures, economic data in the first half of the year indicated that the economy was still overheated. An economy operation report from the National Bureau of Statistic stated that macro control should be further strengthened and improved in the second half of the year, and specific measures will be taken to solve the outstanding problems like excessive fixed-asset investment. Meanwhile, it is also necessary to deepen the reform of economic system and accelerate economic restructuring, as well as change the ways of economic growth.

The overall performance of LCD business in the year will depend, to a large extent, on the business of domestic mobile phone manufacturers. During the second half of the year, the Group will further its effort in developing medium customers with potential to mitigate the risk of relying on single large customer, and strengthen its communication and cooperation with handset design companies to sharpen the competitiveness of the products. In addition to promoting the application to multiple markets like wireless phone, MP3, and automobile, the Group also strengthened its effort in exploiting middle sized TFT market, and continually initiate new products to the markets to fully expand the TFT product line.

Although cost pressure remains, the PCB business is expected to maintain its positive growing trend. Facing double challenges from both upstream and downstream industries, the Group proactively took measures to develop new customers and profit generating sectors; on the other hand, the Group strived to relieve the cost pressures through enhancing internal management standard and improving the production capacity, as well as minimizing obsolescence and energy consumption. In the second half of the year, the Group will commence a project as planned to enhance the production capacity and technological level of its PCB business.

The Group remains cautiously optimistic about the prospect of business development in the second half of the year.

LIQUIDITY AND FUNDING RESOURCES

As at 30th June 2006, the Group had cash and cash equivalents totaling approximately RMB801,924,000. The Group's bank loans included approximately RMB776,144,000 short-term loans with annual interest rates ranging from 2.3% to 5.58% and approximately RMB80,000,000 long-term loans with annual interest rates ranging from 5.18% to 5.76%. The group has established and improved the relevant regulations on the management of trading financial assets, clarifying the decision-making procedure as well as implementation and risk control procedure.

LOAN-TO-EQUITY RATIO

As at 30th June 2006, the Group's loan-to-equity ratio (bank loans to shareholders' equity ratio) was 72.38% (31st December 2005: 39.80%).

PLEDGED ASSETS

As at 30th June 2006, the production plant located in the Hi-tech Industrial Area in Shenzhen with a net book value of approximately RMB2,974,000 (31st December 2005: RMB3,056,000) of Shenzhen Maiwei Cable TV Equipment Co. Ltd. ("Maiwei"), a subsidiary of the Company, was pledged for a short-term bank loan of RMB2,600,000 (31st December 2005: RMB2,600,0000) made available to Maiwei. Shenzhen Tian Ma Microelectronics Co. Ltd. ("Tian Ma"), a subsidiary of the Company, pledged its factory building located in Longgang Industrial Zone (龍 崗 工 業 區) in Shenzhen with a net book value of approximately RMB178,550,000 (31st December 2005: RMB180,742,000), for a short-term bank loan of RMB35,000,000 (31st December 2005: RMB35,000,000) made available to Tian Ma.

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSIT

During the six months ended 30th June 2006, the Company did not have any entrusted deposit and overdue term deposit in any form.

MANAGEMENT CONTRACT

During the six months ended 30th June 2006, 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 during the six months ended 30th June 2006.

SUBSTANTIAL SHAREHOLDERS

As at 30th June 2006, as far as was known to the Directors or the chief executive of the Company, the following are the details of the persons (other than the Directors, supervisors or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under page 3 of provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO") or had otherwise notified to the Company:

Long position in the shares:

Name of shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total registered share capital
Substantial Shareholder				
China Aviation Industry Corporation I (中國航空工業第一集團公司) *(Note 1)*	Interest of controlled corporation	400,000,000 domestic legal person shares	100%	62.31%
China Aviation Industry Corporation II (中國航空工業第二集團公司) *(Note 2)*	Interest of controlled corporation	400,000,000 domestic legal person shares	100%	62.31%
China National Aero-Technology Import and Export Corporation (中國航空技術進出口總公司) *(Note 3)*	Interest of controlled corporation	400,000,000 domestic legal person shares	100%	62.31%
CATIC Shenzhen Company (中國航空技術進出口深圳公司) *(Note 4)*	Beneficial owner	400,000,000 domestic legal person shares	100%	62.31%
Other Shareholders				
Li Ka-Shing	Interest of controlled corporations and founder of discretionary trusts	15,156,000 H shares *(Note 5)*	6.26%	2.36%
Cheung Kong (Holdings) Limited	Interest of controlled corporations	15,156,000 H shares *(Note 5)*	6.26%	2.36%

Name of shareholder	Capacity	Number and class of securities	Approximate percentage of the same class of securities	Approximate percentage of total registered share capital
Li Ka-Shing Unity Trustee Corporation Limited	Trustee and beneficiary of a trust	15,156,000 H shares *(Note 5)*	6.26%	2.36%
Li Ka-Shing Unity Trustcorp Limited	Trustee and beneficiary of a trust	15,156,000 H shares *(Note 5)*	6.26%	2.36%
Li Ka-Shing Unity Trustee Company Limited	Trustee	15,156,000 H shares *(Note 5)*	6.26%	2.36%

Notes:

(1) China Aviation Industry Corporation I (中國航空工業第一集團公司) owns 50% interest in China National Aero-Technology Import and Export Corporation (中國航空技術進出口總公司) which in turn owns 100% interest in CATIC Shenzhen Company ("CATIC Shenzhen"). Hence it is deemed to be interested in the Shares owned by CATIC Shenzhen;

(2) China Aviation Industry Corporation II (中國航空工業第二集團公司) owns 50% interest in China National Aero-Technology Import and Export Corporation (中國航空技術進出口總公司) which in turn owns 100% interest in CATIC Shenzhen. Hence it is deemed to be interested in the Shares owned by CATIC Shenzhen;

(3) China National Aero-Technology Import and Export Corporation (中國航空技術進出口總公司) ("CATIC Corporation") owns 100% interest in CATIC Shenzhen. Hence it is deemed to be interested in the Shares owned by CATIC Shenzhen;

(4) Mr. Wu Guang Quan is the president of CATIC Shenzhen, Mr. Sui Yong is the chief accountant of CATIC Shenzhen, Mr. Lai Wei Xuan, Mr. Huang Gao Jian, Mr. Cheng Bao Zhong, Mr. Liu Rui Lin and Mr. Xu Dong Sheng are the vice-presidents of CATIC Shenzhen, and Mr. Wang Bao Ying is the manager of the Enterprise Strategy and Management department of CATIC Shenzhen. Mr. Sheng Fan is Assistant Manager of Division of Auditing and Supervision of CATIC Shenzhen. They do not own any Shares in the Company, and have no equity interest in CATIC Shenzhen;

(5) The above five references to 15,156,000 H shares in the Company refer to the same interests in shares, which comprising:

    (A) The 7,578,000 H shares held by Empire Grand Limited ("Empire Grand"), a wholly-owned subsidiary of Cheung Kong Investment Company Limited, which in turn is a wholly-owned subsidiary of Cheung Kong (Holdings) Limited ("CKH"); and

(B) The 7,578,000 H shares held by Hutchison International Limited ("HIL"), which is a wholly-owned subsidiary of Hutchison Whampoa Limited ("HWL").

Li Ka-Shing Unity Holdings Limited, of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard is interested in one-third of the entire issued share capital, owns the entire issued share capital of Li Ka-Shing Unity Trustee Company Limited ("TUT1"). TUT1 as trustee of The Li Ka-Shing Unity Trust, together with certain companies which TUT1 as trustee of The Li Ka-Shing Unity Trust is entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, hold more than one-third of the issued share capital of CKH. Certain subsidiaries of CKH are entitled to exercise or control the exercise of more than one-third of the voting power at the general meetings of HWL.

In addition, Li Ka-Shing Unity Holdings Limited also owns the entire issued share capital of Li Ka-Shing Unity Trustee Corporation Limited ("TDT1") as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and Li Ka-Shing Unity Trustcorp Limited ("TDT2") as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 holds units in The Li Ka-Shing Unity Trust.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1, TDT2 and CKH is deemed to be interested in the aggregate 15,156,000 H shares of the Company held by Empire Grand and HIL.

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 30th June 2006, so far as is known to the Directors and the chief executive of the Company, none of the Directors or supervisors or chief executive of the Company is interested in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors or supervisors or chief executives were taken or deemed to have under such provisions of the SFO) or which are required to be entered into the register maintained by the Company under section 352 of the SFO or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The term of office of the third session of the board of directors and supervisory committee of the Company ended at the close of the 2005 annual general meeting of the Company held on 13th June 2006 ("the AGM"). Pursuant to the Articles of Association of the Company, the shareholders of the Company re-elected/elected new directors and supervisors in the AGM. Mr. Wu Guang Quan, Mr. Lai Wei Xuan, Mr. Sui Yong, Mr. Liu Rui Lin, Mr. Xu Dong Sheng, Mr. You Lei, Mr. Wang Bao Ying and Mr. Cheng Bao Zhong were re-elected/elected as executive directors of the fourth session of the board of the Company; Mr. Wang Bin Bin and Mr. Li Cheng Ning were re-elected as non-executive directors of the fourth session of the board of the Company, and Mr. Poon Chiu Kwok, Mr. Eugene Liu and Mr. Liu Xian Fa were re-elected as independent non-executive directors of the fourth session of the board of the Company. Mr. Chen Gang, Mr. Huang Gao Jian and Mr. Sheng Fan were re-elected/elected as supervisors of the fourth session supervisory committee of the Company.

The respective term of the above directors and supervisors are three years from the date of the AGM to the date on which the 2008 annual general meeting of the Company is held.

Mr. Yan Hai Zhong has resigned as an executive director of the Company with effect from the close of the AGM due to his retirement.

Mr. Shao Ke Xiong has resigned as a supervisor of the Company with effect from the close of the AGM due to his transfer to a new assignment.

Mr. Diao Wei Cheng has resigned as a supervisor of the Company with effect from the close of the AGM due to his transfer to a new assignment.

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30th June 2006 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 2006 or at any time during the period.

EMPLOYEES AND SALARIES

As at 30th June 2006, the Group had a total of approximately 7,528 employees (30th June 2005: 6,839 employees). The total remuneration of employees was approximately RMB112,596,000 (the same period of 2005: RMB87,161,000), and the staff welfare costs were approximately RMB28,600,000 (the same period of 2005: RMB23,463,000). The additional staff members were mainly employed to meet the business development demands of the Group. The Group formulated its competitive remuneration policy with reference to market conditions and the performance of individual staff members.

HOUSING SCHEME FOR THE EMPLOYEES

For the six months ended 30th June 2006, the expenses incurred by the Company in connection with the housing fund scheme was approximately RMB133,170 (the same period of 2005: RMB331,000). Employees are also entitled to housing allowances which are paid in the form of cash.

FOREIGN EXCHANGE RISK

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

CONTINGENT LIABILITIES

On 14th September 2005, the Company provided a one-year guarantee for a credit facility of RMB40,000,000 granted to Shenzhen Fiyta Holdings Ltd. ("Fiyta"), a subsidiary owned as to 52.24% by the Company. On 28th February 2006, the Company provided a one-year guarantee for a credit facility of RMB50,000,000 granted to Fiyta. On 16th March 2006, the Company provided a one-year guarantee for a credit facility of RMB5,000,000 granted to Maiwei, a subsidiary owned as to 60% by the Company.

CONNECTED TRANSACTION

Dispose of the 64.5% equity interest of the Mould Company

As at 25th January 2006, the Company entered into an agreement ("the Agreement") with Shan'xi Baocheng Aviation Science and Technology Corporation (陝西寶成航空科技有限公司) ("Baocheng Company") to dispose 64.5% equity interest of Shenzhen Aero-Precision Mould and Plastic Co., Ltd. (深圳航空精密模具塑料製品公司) ("Mould Company") to Baocheng Company at a consideration of RMB9,833,500 ("Disposal"). Subject to the Agreement, Baocheng Company shall pay the consideration in cash to the Company on or before 28 February 2006. In the event that Baocheng Company fails to pay the consideration as scheduled, Baocheng Company shall pay to the Company a daily overdue payment of 0.05% on the outstanding amount.

The Company shall enjoy all rights and bear all obligations in connection with the said disposed 64.5% equity interest of Mould Company before 31 December 2005. The Company shall not appoint directors of Mould Company after 31 December 2005. Baocheng Company shall enjoy all rights and bear all obligations in connection with the said disposed 64.5% equity interest of Mould Company after 31 December 2005.

The return on the net asset value of Mould Company for the year ended 31 December 2004 prepared in accordance with PRC accounting standards was approximately 0.6%. The audited net profits of Mould Company before taxation for the years ended 31 December 2004 prepared in accordance with

PRC accounting standards was approximately RMB130,000 and the unaudited net loss of Mould Company before taxation for the six months ended 30 June 2005 prepared in accordance with PRC accounting standards was approximately RMB1,458,000. In view of the unsatisfactory performance of Mould Company, the Disposal enables the Company to focus its principal business and it provides an opportunity for the Company to obtain a cash proceed of RMB9,833,500 on the Disposal and re-deploy its resources to concentrate its principal business.

Baocheng Company is 49% beneficially and indirectly owned by China Aviation Industry Corporation I (中國航空工業第一集團公司) ("China Aviation I"). China Aviation I also indirectly holds 50% of CATIC Shenzhen which is a promoter and controlling Shareholder of the Company. Baocheng Company is considered as a connected person (as defined in the Listing Rules) of the Company and the Disposal constitutes a connected transaction for the Company. As the Agreement is entered into by the parties on normal commercial terms, and each of the assets ratio, profits ratio, revenue ratio and consideration ratio is less than 2.5%, the Disposal is, according to Rule 14A.32 of the Listing Rules, only subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules and is exempted from the independent Shareholders' approval requirements of Chapter 14A of the Listing Rules.

The Disposal was completed on 7 March 2006.

OTHER MATERIAL MATTERS

Tian Ma proposed to issue additional 80 million shares

The board of directors of Shenzhen Tian Ma Microelectronics Co. Ltd. ("Tian Ma"), a non-wholly owned subsidiary of the Company and the shares of which are listed on the Shenzhen Stock Exchange, proposed to issue not more than 80,000,000 circulating shares to a limited number of institutional investors. The relevant proposal was approved at the second temporary meeting 2006 of the 4th board of directors of Tian Ma held on 11th July 2006 and was approved by the board of directors of the Company on 11th July 2006. The relevant arrangement constitutes a major transaction under Chapter 14 of the Listing Rules and is subject to the approval of the shareholders in the general meeting of the Company under Rule 19A.38 of the Listing Rules. Completion of the relevant arrangement is subject to the approval of the shareholders in the general meeting of the Company and Tian Ma, and the approval of the China Securities Regulatory Commission. For more details, please refer to the circular of the Company dated 26th July 2006.

Formation of Joint Venture – Shanghai Tian Ma Microelectronics Company Limited

On 1st December 2005, the Company, Tian Ma, Shanghai Industrial Investment (Group) Company Limited (上海工業投資（集團）有限公司), Shanghai State-owned Assets Management Company Limited (上海國有資產經營有限公司) and Shanghai Zhang Jiang (Group) Company Limited (上海張江（集團）有限公司) entered into a joint venture agreement to establish a joint venture named as Shanghai Tian Ma Microelectronics Company Limited (上海天馬微電子有限公司), which would engage in the construction and operation of production line in the 4.5 generation tube size thin film transistor liquid-crystal display ("TFT-LCD"). The relevant arrangement has been granted the approval of the shareholders in the extraordinary general meeting held on 28th March 2006 under Chapter 14 of the Listing Rules. As at 30th June 2006, all relevant registration procedures have basically been completed.

Share segregation reform of Fiyta, Tian Ma and Nanguang

According to the share segregation reform requirements of the China Securities Regulatory Commission (中國証券監督管理委員會), the Company, being the holder of non-circulation shares of three A share issuers, namely Fiyta, Tian Ma and Shenzhen Nanguang (Group) PLC ("Nanguang") (深圳市南光（集團）股份有限公司) agreed to carry out share segregation reform based on the proposals of the three companies. The Company has conducted negotiations with other holders of non-circulating shares of each of the three companies concerning the respective proposals. The Company agreed to the following proposals: (1) offering 3.0 shares for every 10 shares held by the Fiyta A shares holders in exchange for their approval for the conversion of all the non-circulating A shares of Fiyta into listed A shares; (2) offering 3.2 shares for every 10 shares held by the Tian Ma A shares holders in exchange for their approval for the conversion of all non-circulating A shares of Tian Ma into listed A Shares; (3) offering 3.0 shares for every 10 shares held by the Nanguang A shares holders in exchange for their approval for the conversion of all non-circulating A shares of Nanguang into listed A shares. Pursuant to the Listing Rules, the share segregation reforms of Fiyta, Tian Ma and Nanguang constitute a disclosable transaction, major transaction and connected transaction exempt from approval by independent shareholders of the Company respectively. The Company has made announcements in respect of such matter. A circular was issued on 20th February 2006. The relevant proposals were approved at the extraordinary general meeting of the Company held on 7th April 2006. The scheme of share segregation reform of Nanguang was approved by shareholders at the extraordinary general meeting of Nanguang held on 7th March 2006, and the trading of the shares of Nanguang was resumed on 11th April 2006 with the stock short name changed to "G Shen Nanguang". The Company holds 10.70% shares of Nanguang after the share segregation reform. The scheme of share segregation reform of Tian Ma was approved by shareholders at the extraordinary general meeting of Tian Ma held on 12th April 2006, and the trading of the shares of Tian Ma was resumed on 26th April 2006 with the stock short name changed to "G Shen Tian Ma". The Company holds 52.62% shares of Nanguang after the share segregation reform. The scheme of share segregation reform of Fiyta was not approved at the extraordinary general meeting of Fiyta held on 12th April 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with all provisions of the Code on Corporate Governance Practices ("the Code"), as set out in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong Limited, throughout this interim period, except for the deviation from code provision A.2.1 in respect of the segregation of duties of the roles of chairman and chief executive officer by two different individuals. Mr. Wu Guang Quan is the Chairman and Chief Executive of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the operations of the Board, which comprises experienced and high caliber individuals. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decision promptly and efficiently.

CONDUCT ON SHARE DEALINGS

The Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules has been adopted as a code of securities transactions for directors and supervisors of the Company. The Company, having made specific enquiries to its directors and supervisors, confirms that, throughout the six months ended 30th June 2006, all directors and supervisors met the criteria laid down in the said code for securities transactions by directors.

AUDIT COMMITTEE

The Board 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 committee currently comprises all the independent non-executive Directors, namely Mr. Poon Chiu Kwok, Mr. Eugene Liu and Mr. Liu Xian Fa. The Audit Committee has reviewed and confirmed the Company's interim results report for the six months ended 30th June 2006.

PUBLIC FLOAT

Based on the publicly available information and to the best knowledge of the Directors, the Company has maintained sufficient public float as at the latest practicable date prior to the date of this interim report.

As at the date of this report, the Company has totally 13 directors, namely Mr. Wu Guang Quan, Mr. Lai Wei Xuan, Mr. Sui Yong, Mr. Cheng Bao Zhong, Mr. Liu Rui Lin, Mr. Xu Dong Sheng, Mr. You Lei and Mr. Wang Bao Ying as executive directors, Mr. Wang Bin Bin and Mr. Li Cheng Ning as non-executive directors, and Mr. Poon Chiu Kwok, Mr. Eugene Liu and Mr. Liu Xian Fa as independent non-executive directors.

By order of the Board,
CATIC Shenzhen Holdings Limited
Wu Guang Quan
Chairman

Shenzhen, PRC, 10th August 2006