

# Report of the Directors

The Directors of the Company (the “Directors”) present their report together with the audited financial statements of CATIC Shenzhen Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the year ended 31st December, 2002.

## *PRINCIPAL ACTIVITIES*

The principal activity of the Company is investment holding. Details of the principal activities of its subsidiaries are set out in note 19 to the financial statements.

The Group is principally engaged in the design, manufacture and sale of certain consumer electronic products, including PCB, LCD and mechanical and quartz timepieces.

## *SUBSIDIARIES*

Information on the principal subsidiaries and associated companies of the Group is set out in notes 19 and 20 to the financial statements.

## *GEOGRAPHICAL LOCATION OF MARKETS*

Information on major markets of the Group is set out in note 4 to the financial statements.

## *RESULTS AND APPROPRIATIONS*

Details of the Group’s results for the year ended 31st December, 2002 are set out in the consolidated profit and loss account of the financial statements.

## *DIVIDENDS*

The Directors do not recommend the payment of a final dividend for the year ended 31st December, 2002.

## *DISTRIBUTABLE RESERVES*

As at 31st December, 2002, the distributable reserves of the Company were RMB32,476,000 as reported in the statutory accounts prepared in accordance with generally accepted accounting principles and relevant financial regulations in the PRC.

## *RESERVES*

Details of the movement in reserves of the Group and the Company during the year are set out in the statements of changes in shareholders’ equity and notes 32 and 33 to the financial statements.

# Report of the Directors

## *FIVE YEAR FINANCIAL SUMMARY*

A summary of the Group's operating results, assets and liabilities for the part five years ended 31st December, 2002 is set out in the section headed "Summary of Consolidated Results" of this Annual Report.

## *MAJOR CUSTOMERS AND SUPPLIERS*

During the year, the Group's purchase of goods and services from the five largest suppliers of the Group accounted for less than 30%. The Group's sales of goods and services to the five largest customers of the Group also accounted for less than 30%. Accordingly, no further disclosure in respect of major customers and suppliers of the Group has been made.

As at 31st December, 2002, none of the Directors, their associates, or any shareholders (who, to the knowledge of the Directors, owns more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and five largest suppliers.

## *SHARE CAPITAL*

Details of the share capital of the Company are set out in note 31 to the financial statements.

## *SUBSTANTIAL SHAREHOLDER*

As at 31st December, 2002, pursuant to section 16 (1) of the Securities (Disclosure of Interests) Ordinance, the following persons were recorded as holders of 10% or more of the respective classes of issued capital of the Company (computed separately according to the respective classes of shares):

Name	Number of Ordinary Shares	As a percentage of the issued share capital
Shenzhen CATIC	400,000,000 domestic legal person shares	62.31%

## *APPLICATION OF PROCEEDS FROM H SHARES ISSUE*

In accordance with the plan for application of proceeds as disclosed in the prospectus, proceeds from the new issue by the Company in 1997 (net proceeds were approximately RMB410,000,000) was totally utilized before 2001.

## *PURCHASE, SALE OR REPURCHASE OF SHARES*

Neither the Company nor any of its subsidiaries purchased, sold or repurchased any of the Company's listed shares during the year ended 31st December, 2002.

## *PRE-EMPTIVE RIGHTS*

There is no provision for pre-emptive rights under the Company's Articles of Association and the laws of the PRC which provides the existing shareholders with pre-emptive rights to purchase new shares in any new issue of the Company according to their respective proportions of shareholding.

# Report of the Directors

## *DIRECTORS AND DIRECTORS' SERVICE CONTRACTS*

The Directors of the Company up to the date of this report were:

### **Executive Directors**

Mr. Li Zhi Zheng

*Chairman*

Mr. Sui Yong

Mr. Dong Xu Wang

Mr. Yan Hai Zhong

Mr. Zhu Gen Sen

Mr. Xie Ning

### **Independent Non-executive Directors**

Dr. David Li Kwok-po

Mr. David Chu Yu Lin

### **Non-executive Directors**

Mr. Wang Bin Bin

Mr. Ji Gui Rong

Each of the executive Directors has entered into a service contract with the Company. Unless otherwise specified, terms of such contracts, which are identical in all material respects, are as follows:

- (i) Each of the service contracts commenced on 20th June, 2000 for a term of three years;
- (ii) The aggregate annual remuneration payable to all the executive Directors shall be RMB803,000; and
- (iii) Each of the executive Directors is entitled to an annual bonus determined by the Board of Directors based on the Company's consolidated profit after taxation and extraordinary income and subject to approval at a general meeting, provided that the total amount of such bonus shall not exceed 2% of that profit.

Each of the independent non-executive Directors was appointed for a term of three years from 20th June, 2000 and shall be entitled to emolument of HK\$80,000 per annum.

Each of the non-executive Directors was appointed for a term of three years from 20th June, 2000 and shall be entitled to emolument of HK\$50,000 per annum.

## *PROFILE OF DIRECTORS AND SENIOR MANAGEMENT*

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

# Report of the Directors

## *DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES*

As at 31st December, 2002, the interests of each Directors, chief executive and supervisors in the shares of the Company which are pursuant to the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows (as defined in SDI Ordinance):

### Interests in Fiyta

Name	Position	Personal Interests	As a percentage of the issued share capital of Fiyta
Li Zhi Zheng	Director	124,416 A Shares	0.05%

### Interests in Tian Ma

Name	Position	Personal Interests	As a percentage of the issued share capital of Tian Ma
Li Zhi Zheng	Director	9,856 A Shares	0.0074%
Dong Xu Wang	Director	18,480 A Shares	0.0139%

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Saved as disclosed above, none of the Directors and Supervisors owned any interests which are required to be disclosed under the SDI Ordinances as at 31st December, 2002.

## *DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES*

At no time during the year ended 31st December, 2002 was the Company and any of its subsidiaries or its holding company a party to any arrangement to enable any of the Company's Directors, Supervisors or members of its management to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## *DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS*

No contracts or arrangements of significance in relation to the Company's business to which the Company or its holding company was a party and in which the Directors and Supervisors of the Company had material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## *EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT*

Details of the emoluments of Directors and Supervisors are set out in note 8 to the financial statements.

# Report of the Directors

## *CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT*

The Company approved removal of Mr. Zhang Si Yuan from office as non-executive Director of the Company and elected Mr. Ji Gui Rong as non-executive Director of the Company at the general meeting held on 17th June, 2002. Mr. Ji Gui Rong's term of office will expire on the term when the Board of Directors expires, and his remuneration will be determined in compliance with the prevailing standard for non-executive Director. The Board of Directors was authorized to decide on specific terms of service contract with him.

On 5th December, 2002, Mr. Wang Li Guo passed away due to a traffic accident.

Save as aforesaid, there is no change for any other Directors, Supervisors and Senior Management of the Company for the year.

## *MANAGEMENT CONTRACTS*

During the year, the Company did not enter into and did not have any contract in connection with the management or administration of the Company's business as a whole or any important business of the Company.

## *RETIREMENT FUND SCHEME, STAFF HOUSING SCHEME AND HEALTH INSURANCE SCHEME*

The Retirement Fund Scheme, Staff Housing Scheme and Health Insurance Scheme maintained by the Company are set out in note 10 to the financial statements.

On 6th September, 2000 the Ministry of Finance issued a notice relating to the financial treatment in the corporate housing system reform, which became effective on the date of its promulgation. The Board of Directors of the Company is of the opinion that since the date of its incorporation, the Company has been participating in the housing reserve fund scheme organized by the Shenzhen Municipal Government, and has never implemented or planned to implement any policy on disposal of its staff quarters. Accordingly, the Company faces no problem relating to the housing system reform and need not change its approaches in current financial treatment under the foresaid notice. As such, the foresaid notice will not have any effect on the results and financial position of the Company.

"Tentative Measure for Guangzhou Urban Workers' Basic Health Insurance" became effective on 1st December, 2001. The Board of Directors of the Company is of the opinion that similar measures for Shenzhen urban workers' basic health insurance (Temporary Provisions for Shenzhen Worker's Basic Health Insurance) had become effective on 1st July, 1996, and the Group has participated in the health insurance scheme administered by the SMSIB according to it since 1997. Accordingly, the Group need not make any change on staff's basic health insurance scheme. As such, it will not have any effect on the results and financial position of the Group.

## *TAXATION*

Details of the Group's taxation for the year are set out in note 11 to the financial statements.

## *IMPACT OF THE CHANGES IN TAXATION POLICY*

The Company's taxation was verified under the relevant taxation policy of the State and applicable to the tax relief policy of Shenzhen Special Economic Zone, including 15% enterprise income tax and partial refunds of value-added tax of local products to local entities (i.e. products are finally sold to enterprises within Shenzhen Special Economic Zone).

In 2002, the 50% income tax-relief preferential policy applicable to "High-tech Enterprise in Shenzhen" was adjusted by Shenzhen Municipal as levy before refunding. A subsidiary of the Group, Shennan, is currently entitled to 50% tax-relief preferential policy as a hi-tech enterprise in Shenzhen. Due to the foresaid adjustment in taxation policy, the applicable rate for Shennan was adjusted to 15% in 2002 from 7.5% in 2001.

The value-added tax relief policy of local products to local entities in Shenzhen will be terminated from 1st January, 2003 and part of the business of the Group may be affected accordingly.

## *FIXED ASSETS*

Details of the movements of fixed assets during the year are set out in note 15 to the financial statements.

## *BANK LOANS*

Particulars of bank loans of the Group are set out in note 30 to the financial statements.

## *ENTRUSTED DEPOSITS AND OVERDUE TIME DEPOSITS*

During the year ended 31st December, 2002, the Company did not have any entrusted deposit or overdue time deposit.

## *CONNECTED TRANSACTIONS*

During the year ended 31st December, 2002, the Company, Shenzhen CATIC and its connected companies entered into the following transactions which constituted connected transactions as defined in the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited. Details of transactions during the year were as follows:

### **1. Lease and rental**

Details of the lease contracts entered into between the Group and relevant connected companies of Shenzhen CATIC as at 31st December, 2002 are set out in note 35(a) to the financial statements.

### **2. Interest income**

Details of the interest income of the Group from Shenzhen CATIC as at 31st December, 2002 are set out in note 35(a) to the financial statements.

## *CONNECTED TRANSACTIONS (continued)*

### **3. Guarantees provided by the Company for subsidiaries**

During the year, the Company provided guarantees to several commercial banks for short-term loan facilities granted to several non-wholly owned subsidiaries of the Company. All these were loans for working capital of one-year term. These guarantees were secured by the Company under normal commercial terms and conditions. As at 31st December, 2002, the total amount of guarantees was approximately RMB103,832,000. The relevant amounts of such loans and guarantees for subsidiaries are as follows:

<b>Subsidiaries</b>	<b>Short-term loan facilities guaranteed by the Company</b>
Tian Ma	approximately RMB94,832,000
Shenzhen Aero-Precision Mold & Plastic Co., LTD.	approximately RMB9,000,000

## *INDEPENDENT DIRECTORS' CONFIRMATION IN RESPECT OF THE CONNECTED TRANSACTIONS*

Having reviewed the aforesaid connected transactions, the independent non-executive Directors of the Company have confirmed that such transactions were carried out in the ordinary course of business under normal commercial terms and conditions and in accordance with the agreements governing such transactions, which are reasonable and fair to the interests of the shareholders.

## *SIGNIFICANT SUBSEQUENT EVENTS*

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

## *CODE OF BEST PRACTICE*

To the best knowledge of the Directors, the Company has complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules issued by The Stock Exchange of Hong Kong Limited during 2002.

## *AUDIT COMMITTEE*

The Board of the Company has established an Audit Committee in compliance with the Listing Rules to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company. The Audit Committee currently comprises independent non-executive Directors Mr. David Li Kwok-po and Mr. David Chu Yu Lin and non-executive Director Mr. Wang Bin Bin.

## *MATERIAL LITIGATION*

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

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## Report of the Directors

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### *AUDITORS*

The financial statements have been audited by PricewaterhouseCoopers. The auditors of the Company was Arthur Anderson & Co. for the year 1999. PricewaterhouseCoopers has been appointed as the Company's auditors since 2000. A resolution to re-appoint PricewaterhouseCoopers as the Company's auditors for the year 2003 will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

**Li Zhi Zheng**

*Chairman*

Shenzhen, 15th April, 2003