

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 2003.

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.

The details of the contribution from each of the businesses to profit attributable to shareholders of the Group for the year ended 31st December 2003 is set out in business review under the section “Management Discussion and Analysis”.

SUBSIDIARIES

Information on the principal subsidiaries and associated companies of the Group is set out in note 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

Details of the Group’s results for the year ended 31st December 2003 are set out in the consolidated profit and loss account of the financial statements.

DISTRIBUTABLE RESERVES

As at 31st December 2003, the distributable reserves of the Company were RMB60,125,000 as reported in the statutory accounts prepared in accordance with generally accepted accounting principles and relevant financial regulations in the PRC.

PROFIT ALLOCATION

For the year ended 31st December 2003, the Directors of the Company propose to make the following appropriations to the statutory reserves from the net profit of the Company calculated in accordance with the PRC GAAP:

- An Appropriation of 10% of net profit to statutory common reserve fund, totaling an amount of approximately RMB3,372,000;
- An Appropriation of 8% of net profit to statutory common welfare fund, totaling an amount of approximately RMB2,697,000.

Details of profit allocation of the Group during the year are set out in note 32 to the financial statements.

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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 note 32 to the financial statements.

DIVIDENDS

For the year ended 31st December 2003, the Directors of the Company have recommended a final dividend of RMB0.03 (approximately HK\$0.028) per share, the final dividend for the year will be paid to all the shareholders on the list of register of members of the Company on 24th April 2004 if approval at the Annual General Meeting. The register of members of the Company will be closed from 24th April 2004 to 24th May 2004 (both days inclusive). In order to qualify for the final dividend, all instruments of transfer, accompanied by the relevant share certificates must be delivered to the H Share Registrar of the Company, Hong Kong Registrars Limited, whose address is at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 4:00 p.m. 23th April 2004.

FIVE YEAR FINANCIAL SUMMARY

A summary of the Group's operating results, assets and liabilities for the past five years ended 31st December 2003 is set out in the section headed "Summary of Consolidated Results" of this Annual Report.

MANAGEMENT CONTRACTS

In the year, the Company did not sign or maintain any contracts in respect of the management or administration of overall business or any major business.

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 2003, 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.

DISCONTINUING OPERATION

In the year, the Group sold or terminated the loss-making catering and entertainment business, include Shanghai Tian Lin Xianmen Restaurant Co., Ltd, Shenzhen Pengmen Restaurant Co., Ltd. and Xi'an Haomen Food & Recreation City Co., Ltd, which were owned by the Group's subsidiary Shenzhen Fiyta Holdings Limited.

Details of discontinuing operation of the Group in the year are set out in the note 5 to the financial statements.

FIXED ASSETS

Details of changes of the Group's fixed assets in the year are set out in note 15 to the financial statements.

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PLEDGED ASSETS

Information on the pledged assets of Group for the year is set out in note 15 to the financial statements.

BANK LOANS

Information on the bank loans of Group for the year is set out in note 30 to the financial statements.

ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

During the year ended 31st December 2003, the Company did not have any entrusted deposits or overdue deposits in any form.

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 income tax laws of PRC and the tax relief policy of the Shenzhen Special Economic Zone, is applicable, including 15% enterprise income tax, while companies established in other areas are subject to income tax at a rate of 33%.

The preferential policy of partial VAT refund to operations under "local products to local entities" mode applicable to the enterprises incorporated in Shenzhen Special Economic Zone was terminated with effect from 1st January 2003, which accordingly affected the performance of the overall results of the Group. (The Group received a VAT refund of approximately RMB20,317,000 for the year 2002.).

SUBSTANTIAL SHAREHOLDER

As at 31st December 2003, 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%

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SHARE CAPITAL

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

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) were 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 2003.

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.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

Executive Directors

Mr. Wu Guang Quan

Chairman

Mr. Wang Xin Kuo

Mr. Xu Ye Chun

Mr. Sui Yong

Mr. Yan Hai Zhong

Mr. Xu Dong Sheng

Mr. You Lei

Mr. Liu Rui Lin

Independent Non-executive Directors

Mr. Poon Chiu Kwok

Mr. Eugene Liu

Non-executive Directors

Mr. Wang Bin Bin

Mr. Ji Gui Rong

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DIRECTORS AND DIRECTORS' SERVICE CONTRACTS *(Continued)*

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 31st May 2003 for a term of three years;
- (ii) The annual basic salaries and aggregate allowances payable to the executive Directors is RMB1,249,000; and
- (iii) Each of the executive Directors is entitled to an annual bonus determined by the Board of Directors based on the Group's salary policy.

Each of the independent non-executive Directors was appointed for a term of three years from 31st May 2003 and shall be entitled to emolument of HK\$100,000 per annum.

Each of the non-executive Directors was appointed for a term of three years from 31st May 2003 and shall be entitled to emolument of RMB50,000 per annum.

PROFILE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

DIRECTORS' AND SUPERVISORS' INTERESTS IN SHARES

As at 31st December 2003, none of the directors, chief executive and supervisors of the Company owned any interests which are required to be disclosed under the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance").

DIRECTORS' AND SUPERVISORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year ended 31st December 2003 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 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.

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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.

CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT MEMBERS

The terms of the 2nd Board of Directors and the supervisory committee of the Company were due to expire on 31st May 2003, the new Board of Directors and shareholder representative supervisors and independent supervisors of the supervisory committee were elected at the 2002 Annual General Meeting ("Annual General Meeting") on the same date.

In the Annual General Meeting, 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 was elected as an executive director of the Company; each of Mr. Poon Chiu Kwok and Mr. Eugene Liu was elected as an independent non-executive director of the Company; each of Mr. Wang Bin Bin and Mr. Ji Gui Rong was 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 expiring in 2006 falling on which the term of the Board of Directors expires.

Mr. Shao Ke Xiong was elected as a shareholder representative supervisor; each of Mr. Chen Gang and Mr. Diao Wei Cheng was 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 expiring in 2006 falling on which the term of the board of supervisors expires.

EMPLOYEES AND SALARIES

As at 31st December 2003, the Group employed approximately 5,500 (2002: 5,000) employees, with employee related costs of approximately RMB142,891,000 (2002: RMB104,738,000). The increase in staff was mainly due to the need of the Group's business development. The Group prepared its competitive salary policy based on reference to market levels and individual employee's performance.

SOCIAL INSURANCE SCHEMES

Details of 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.

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CONNECTED TRANSACTIONS

During the year ended 31st December 2003, the Group and 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 connected 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 2003 are set out in note 34(a) to the financial statements.

2. Interest Income

Details of the interest income of the Group from Shenzhen CATIC as at 31st December 2003 are set out in note 34(a) to the financial statements.

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

Details of acquisition of properties in South Xiao Sha He Industrial area by Shennan, a subsidiary of the Company, as at 31st December 2003 are set out in Management Discussion and Analysis and note 34(a) to the financial statements respectively.

4. 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 2003, the total amount of guarantees was approximately RMB3,100,000. The relevant amounts of such loans and guarantees for subsidiaries are as follows:

Subsidiaries	Short-term loan facilities guaranteed by the Company
Shenzhen Aero-Precision Mold & Plastic Co. LTD.	RMB3,000,000
Shenzhen Fiyta Holdings Limited	RMB100,000

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.

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FOREIGN EXCHANGE RISK

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

CONTINGENT LIABILITIES

As at 31st December 2003, the Group did not have any significant contingent liabilities.

MATERIAL LITIGATION

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

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 Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited during 2003.

AUDIT COMMITTEE

The Board of the Company has formed an Audit Committee in compliance with the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited to fulfill the functions of reviewing and monitoring the financial reporting and internal control of the Company. The Audit Committee currently comprises of two independent directors Mr. Poon Chiu Kwok and Mr. Eugene Liu and one non-executive director Mr. Wang Bin Bin.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers. 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 2004 will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

Wu Guang Quan

Chairman

Shenzhen, PRC

7th April 2004