



# 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 2004.

## **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 industry and consumer electronic products, including LCD, PCB and mechanical and quartz timepieces.

Details of the contribution from each of the businesses to profit attributable to shareholders of the Group for the year ended 31st December 2004 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 2004 are set out in the consolidated profit and loss account of the financial statements.

## **DISTRIBUTABLE RESERVES**

As at 31st December 2004, the distributable reserves of the Company were about RMB9,066,000 as reported in the statutory accounts prepared in accordance with generally accepted accounting principles and relevant financial regulations in the PRC.

## **PROFIT ALLOCATION**

Each year, the Company shall set aside 10% of its net profit as reported in the PRC statutory accounts for the statutory common reserve fund (except where the fund has reached 50% or above of the Company’s registered share capital) and 5% to 10% for the statutory common welfare fund. These reserves cannot be used for any other purposes and are not distributable as cash dividends. For the year ended 31st December 2004, no appropriation to the above statutory reserve funds was made by the Company due to a loss in overall results recorded.

## **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 31 to the financial statements.

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## DIVIDENDS

For the year ended 31st December 2004, the Board of Directors of the Company has recommended the distribution of a final dividend of RMB1.3 cent per share, totaling RMB8,346,000 (2003: final dividend of RMB3 cent per share, totaling RMB19,260,000) from the retained earnings. The final dividend for the year will be paid on 30th June 2005 to all the shareholders whose name appear in the registers of members of the Company at the close of business on 13th May 2005 subject to the approval by the shareholders at the Annual General Meeting. The register of H shares of the Company will be closed from 17th May 2005 to 13th June 2005 (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 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 4:00 p.m. 13th May 2005. According to the Articles of Association of the Company, the dividend distributed to the shareholders of domestic shares will be paid in RMB. The dividend distributed to the shareholders of H shares will be paid in HKD by reference to the exchange rate, which is the average of the closing exchange rate for converting RMB into HKD quoted by the People's Bank of China for five working days preceding the day on which the final dividend is declared.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the Group's operating results, assets and liabilities for the past five years ended 31st December 2004 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

The Group's purchases from the five largest suppliers did not exceed 30% of the Group's total purchases for the year ended 31st December 2004.

The Group's five largest customers accounted for approximately 36% of the Group's turnover for the year ended 31st December 2004. Approximately 12% of the Group's turnover was attributed to the largest customer.

The Company, together with its subsidiary Fiyta, held about 2.66% equity interest in the largest customer of the Group. Save as aforesaid, as at 31st December 2004, 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.

## FIXED ASSETS

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

# Report of the Directors

## 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 29 to the financial statements.

## ENTRUSTED DEPOSITS AND OVERDUE TERM DEPOSITS

During the year ended 31st December 2004, 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.

## 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%.

## SUBSTANTIAL SHAREHOLDER

As at 31st December 2004, 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 the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance ("SFO"):

Long Positions in the domestic shares of the Company:

Name	Number of the domestic shares (note 1)	Approximate percentage of the domestic shares of the Company	Approximate percentage of total issued share capital
CATIC Shenzhen Company ("Shenzhen CATIC")	400,000,000 domestic legal person shares	100%	62.31%
Note 1: Unlisted shares			

Save as disclosed herein, the register required to be kept under section 336 of Part XV of the SFO showed that the Company has not been notified of any interest or short positions in the shares and underlying shares of the Company as at 31st December 2004.

# Report of the Directors

## SHARE CAPITAL

Details of the share capital of the Company are set out in note 30 to the financial statements.

## 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 2004.

## 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 during the year and up to the date of this report were:

### Executive Directors

Mr. Wu Guang Quan	<i>Chairman</i>
Mr. Xu Ye Chun	
Mr. Sui Yong	
Mr. Yan Hai Zhong	
Mr. Lai Wei Xuan	(appointed on 24th May 2004)
Mr. Liu Rui Lin	
Mr. You Lei	
Mr. Xu Dong Sheng	
Mr. Wang Xin Kuo	(resigned on 24th May 2004)

### Independent Non-executive Directors

Mr. Poon Chiu Kwok	
Mr. Eugene Liu	
Mr. Liu Xian Fa	(appointed on 24th May 2004)

### Non-executive Directors

Mr. Wang Bin Bin	
Mr. Li Cheng Ning	(appointed on 29th March 2005)
Mr. Ji Gui Rong	(resigned on 29th March 2005)

# Report of the Directors

## **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 will expire at the conclusion of the 2005 annual general meeting;
- (ii) The annual basic salaries and aggregate allowances payable to the executive Directors is RMB1,724,000; 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 service contract of the independent non-executive Directors will expire at the conclusion of the 2005 annual general meeting. The emolument payable to the independent non-executive Director is totally RMB262,000 per annum (thereinto: HK\$200,000, approximately RMB212,000).

Each service contract of the non-executive Directors will expire at the conclusion of the 2005 annual general meeting. The emolument payable to the non-executive Directors is totally RMB100,000 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 2004, 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 SFO) 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 Issuers.



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

At no time during the year ended 31st December 2004 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.

## **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**

At the 2003 annual general meeting convened on 24th May 2004, the resignation of Mr. Wang Xin Kuo as an executive director due to his transfer to a new assignment was approved and it was resolved Mr. Lai Wei Xuan be elected as an executive director of the Company, and Mr. Liu Xian Fa was elected as an independent non-executive director of the Company.

At the 2004 Interim Board Meeting convened on 9th August 2004, Mr. You Lei resigned as the company secretary of the Company due to reallocation of work. The Board has approved his resignation and appointed Mr. Huang Yong Feng as the company secretary of the Company.

## **EMPLOYEES AND SALARIES**

As at 31st December 2004, the Group employed approximately 7,200 (2003: 5,500) employees, with employee related costs of approximately RMB188,202,000 (2003: RMB142,891,000). 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 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 2004, particulars of any contract of significant between the Group and a controlling shareholders or any of its subsidiaries are 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 2004 are set out in note 33(a) to the financial statements.

### 2. Loan From Shenzhen CATIC

Details of the Loan entered into between the Group and Shenzhen CATIC as at 31st December 2004 are set out in note 29(d) and 33(c) to the financial statements.

### 3. Loan Guaranteed by Shenzhen CATIC

Details of the guarantee entered into between the Group and Shenzhen CATIC as at 31st December 2004 are set out in note 29(e) and 33(d) to the financial statements.

### 4. Formation of joint venture company CAERO

On 24th September 2004, the Company entered into a joint venture agreement with K-Bridge Electronics Co., Ltd. and Shenzhen CATIC Commerce & Trading Corporation to establish a Sino-foreign equity joint venture company, namely Shenzhen CAERO Inc.. Details of the Joint Venture are set out in the section of Management Discussion and Analysis.

## 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.

## 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 2004, the Group did not have any significant contingent liabilities.



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## **MATERIAL LITIGATION**

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

## **SUBSEQUENT EVENTS**

### **1. Acquisition of certain legal person shares in Shenzhen Nanguang**

On 20th January 2005, the Company entered into share transfer agreements respectively with each of China New Era Group Corporation, Huangshi Economic and Co-operation Company, Agricultural Construction Division 10 of Xinjiang Production and Construction Group and Beijing Exhibition Centre to acquire 12.06% of the legal person shares of Shenzhen Nan-guang (Group) PLC held by the said companies ("the Acquisition") at a total consideration of RMB47,050,080. Details of the Acquisition are set out in the section of Management Discussion and Analysis.

### **2. Change of non-executive director**

At the First Extraordinary General Meeting 2005 convened on 29th March 2005, Mr. Ji Gui Rong resigned as a non-executive director of the Company due to his busy working schedules and his resignation was approved at the meeting. It was resolved that Mr. Li Cheng Ning be elected as a non-executive director of the Company for a term of office expiring at the conclusion of the 2005 annual general meeting.

## **COMPLIANCE WITH CODE OF BEST PRACTICE AND MODEL CODE**

The directors consider that the Company complied with the Code of Best Practice set out in Appendix 14 of the Listing Rules during 2004. 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 reporting period, all directors and supervisors met the criteria laid down in the said code for securities transactions by directors.

## **AUDIT COMMITTEE**

The Board of the Company 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 Audit Committee has reviewed and approved the Company's annual results announcement and financial statements for the twelve months ended 31st December 2004.

On 14th April 2005, the Board appointed Mr. Liu Xian Fa, who is the independent non-executive Director, as the audit commissary to replace Mr. Wang Bin Bin, who is a non-executive Director, due to the independence of the commissary which is required in the Listing Rules.





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## **INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS**

The Board has obtained written confirmations from all independent non-executive directors concerning their independence in accordance with Rule 3.13 of the Listing Rules. The Directors believe that the existing independent non-executive directors are independent based on the guidelines set out in rule 3.13 of the Listing Rules.

## **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 annual report.

## **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 2005 will be proposed at the forthcoming Annual General Meeting.

By Order of the Board

**Wu Guang Quan**

*Chairman*

Shenzhen, PRC

14th April 2005