



航 天 科 技 通 信 有 限 公 司 *

CASIL TELECOMMUNICATIONS HOLDINGS LIMITED

Interim Report 2001

* the Chinese name of the Company is for reference only



On behalf of the board of directors, I hereby present the interim report of CASIL Telecommunications Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months period from 1 January 2001 to 30 June 2001.

INTERIM FINANCIAL STATEMENTS

Condensed consolidated income statement

		For the six months ended 30 June	
		2001	2000
		(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	3	34,586	28,647
Cost of sales		(30,709)	(24,205)
Gross profit		3,877	4,442
Other revenue	4	224	3,539
Distribution costs		(1,309)	(1,792)
Administrative expenses		(16,845)	(15,399)
Loss from operations	5	(14,053)	(9,210)
Finance costs	6	(4,143)	(2,884)
Share of results of associates		(9)	(105)
Provision for amount due from an associate	7	(37,000)	–
Loss before taxation		(55,205)	(12,199)
Taxation	8	–	–
Loss before minority interests		(55,205)	(12,199)
Minority interests		365	537
Loss for the period	15	(54,840)	(11,662)
Loss per share – Basic	9	HK(6.9)cents	HK(1.6)cents
Dividend per share	10	Nil	Nil

**Condensed consolidated balance sheet**

		30 June 2001 (Unaudited) <i>HK\$'000</i>	31 December 2000 (Unaudited) <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	11	60,540	61,999
Intangible assets		90,774	89,118
Interests in associates		83,908	83,917
		<u>235,222</u>	<u>235,034</u>
Current assets			
Inventories		63,073	48,043
Debtors and prepayments	12	14,078	25,732
Amounts due from fellow subsidiaries		15,841	15,779
Amounts due from associates		127,503	163,936
Taxation recoverable		326	330
Pledged bank deposits		4,500	2,510
Bank balances and cash		38,626	16,705
		<u>263,947</u>	<u>273,035</u>
Current liabilities			
Creditors and accrued charges	13	79,890	84,789
Amounts due to fellow subsidiaries		3,021	3,802
Amount due to ultimate holding company		828	815
Borrowings due within one year		77,122	73,940
		<u>160,861</u>	<u>163,346</u>
Net current assets		<u>103,086</u>	<u>109,689</u>
		<u>338,308</u>	<u>344,723</u>
Capital and reserves			
Share capital	14	87,714	77,714
Reserves	15	228,991	244,969
		316,705	322,683
Minority interests		13,134	13,499
Non-current liabilities			
Borrowings due after one year		8,469	8,541
		<u>338,308</u>	<u>344,723</u>

**Consolidated statement of recognised gains and losses**

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange differences arising on translation of operations reported in currencies other than Hong Kong dollars	6	–
Loss for the period	(54,840)	(11,662)
Total recognised losses	(54,834)	(11,662)

**Condensed consolidated cash flow statement for the six months ended
30 June 2001**

	(Unaudited)
	<i>HK\$'000</i>
Net cash outflow from operating activities	(19,588)
Net cash outflow from returns on investments and servicing of finance	(3,944)
Tax refunded	4
Net cash outflow from investing activities	(6,523)
Net cash outflow before financing	(30,051)
Financing	
Issue of new shares	48,856
New loans raised	3,182
Repayment of borrowings	(72)
Net cash inflow from financing	51,966
Increase in cash and cash equivalents	21,915
Exchange rate adjustment	6
Cash and cash equivalents at 1 January 2001	16,705
Cash and cash equivalents at 30 June 2001	38,626



Notes to the condensed financial statements for the six months ended 30 June 2001

1. Basis of preparation

The condensed financial statements have been prepared under the historical cost convention and in accordance with the Statement of Standard Accounting Practice 25 "Interim financial reporting" ("SSAP25") issued by the Hong Kong Society of Accountants, except that comparative figures are not presented for the condensed consolidated cash flow statement, being the first condensed consolidated cash flow statement to be included in the interim financial report relating to accounting period ended on or after 1 July 2000. Such departure is permitted under the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Certain amount of turnover previously reported in the interim report for the six months period ended 30 June 2000 has been adjusted to conform with the current period's presentation and accounting policies. Certain amount of finance costs previously reported in the interim report for in the six months period ended 30 June 2000 has been reclassified to administrative expenses to conform with the presentations of the current period and that adopted in the audited financial statements for the year ended 31 December 2000.

2. Principal accounting policies

The accounting policies adopted are consistent with those followed in the Group's annual audited financial statements for the year ended 31 December 2000.

In the current period, the Group has adopted SSAP30 "Business Combinations" and has elected not to restate goodwill previously eliminated against reserves. Accordingly, goodwill arising on acquisitions prior to 1 January 2001 is held in reserves and will be charged to the income statement at the time of disposal of the relevant subsidiary, associate or joint venture, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised over its estimated useful life ranging between 5 and 20 years. Negative goodwill arising on acquisitions after 1 January 2001 is presented as a deduction from assets and will be released to income based on an analysis of the circumstances from which the balance resulted.



Notes to the condensed financial statements for the six months ended 30 June 2001 (continued)

3. Segment information

	For the six months ended 30 June			
	2001		2000	
	Contribution to loss from		Contribution to loss from	
	Turnover (Unaudited)	operations (Unaudited)	Turnover (Unaudited)	operations (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Business segments				
Manufacturing and trading				
– Telephone terminal products	26,944	(7,699)	25,842	(6,379)
– Intelligent Transportation System ("ITS") products	5,047	(972)	116	(1,746)
– Switching systems	1,470	252	2,517	(1,237)
– Broadband equipment	691	(4,832)	–	–
ITS service income	380	(856)	–	–
Rental income	54	54	172	152
	<u>34,586</u>	<u>(14,053)</u>	<u>28,647</u>	<u>(9,210)</u>
Geographical segments				
North America	23,920	(6,839)	23,356	(6,174)
People's Republic of China, excluding Hong Kong ("PRC")	7,694	(1,800)	2,528	(1,313)
Hong Kong	2,932	(5,402)	1,172	(1,776)
Europe	–	–	1,576	59
Others	40	(12)	15	(6)
	<u>34,586</u>	<u>(14,053)</u>	<u>28,647</u>	<u>(9,210)</u>

4. Other revenue

Included in other revenue is interest income of HK\$199,000 (period from 1 January 2000 to 30 June 2000:HK\$1,020,000).



Notes to the condensed financial statements for the six months ended 30 June 2001 (continued)

5. Loss from operations

Loss from operations has been stated after charging:

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment	2,214	2,072
Amortisation of intangible assets	<u>2,065</u>	<u>207</u>

6. Finance costs

	For the six months ended 30 June	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on		
Bank loans and overdrafts	1,876	2,664
Convertible debentures	–	144
Obligations under finance leases	6	76
Other loans	<u>2,261</u>	<u>–</u>
	<u>4,143</u>	<u>2,884</u>

7. Provision for amount due from an associate

As at 30 June 2001, the net balance of amounts due from two associates, which represented 66% of the Group's net assets of HK\$316,705,000 is analysed as follows:

	30 June 2001	31 December 2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Shangdong Kongwei Electronics Company Limited	63,543	63,543
Southern Telecommunication Development Company Limited ("Southern Telecom")	<u>227,798</u>	<u>227,231</u>
	291,341	290,774
Provision for doubtful debts	<u>(81,000)</u>	<u>(44,000)</u>
	<u>210,341</u>	<u>246,774</u>



Notes to the condensed financial statements for the six months ended 30 June 2001 (continued)

7. Provision for amount due from an associate (continued)

The amounts due include outstanding dividends receivable for previous years which were retained in the associates as additional working capital, trade credit facilities granted in previous years and additional working capital provided to the associates. The amounts are unsecured, non-interest bearing and overdue.

Due to continuing slow down and severe competitions in the telecommunications market, Southern Telecom has not been able to generate profits and cash so as to repay the amounts due. A provision for doubtful debts of HK\$44,000,000 has been made at 31 December 2000 and a further provision of HK\$37,000,000 has been made during the period in respect of the estimated non-recoverable amounts. The directors are concerned with the abilities of these associates to pay and will closely monitor their operations with a view to recovering the outstanding balances.

8. Taxation

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no estimated assessable profits for both periods.

Pursuant to relevant laws and regulations in the PRC, the Group's subsidiaries are entitled to exemption from income tax under certain tax holidays and concessions. No provision for PRC income tax has been made as the Group's subsidiaries and associates in the PRC had no estimated assessable profits for both periods.

A deferred tax asset has not been recognised in the financial statements as it is not certain that the timing differences will be reversed in the foreseeable future.

9. Loss per share

The calculation of the basic loss per share is based on the loss for the period of HK\$54,840,000 (period from 1 January 2000 to 30 June 2000: loss of HK\$11,662,000) and on the weighted average number of 791,504,404 shares (period from 1 January 2000 to 30 June 2000: 715,040,635 shares) in issue during the period.

10. Dividend

The board of directors does not recommend the payment of an interim dividend for the six months ended 30 June 2001 (period from 1 January 2000 to 30 June 2000: Nil)

11. Property, plant and equipment

During the period, the Group spent approximately HK\$755,000 (period from 1 January 2000 to 30 June 2000: HK\$28,514,000) on acquisition of property, plant and equipment.



Notes to the condensed financial statements for the six months ended 30 June 2001 (continued)

12. Debtors and prepayments

Included in debtors and prepayments are trade debtors of HK\$8,964,000 (31 December 2000:HK\$25,126,000). The Group allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade debtors:

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Unaudited) HK\$'000
Within 90 days	5,815	17,641
Between 91 and 180 days	708	788
Between 181 and 365 days	1,624	511
Over 1 year	817	6,186
	<u>8,964</u>	<u>25,126</u>

13. Creditors and accrued charges

Included in creditors and accrued charges are trade creditors of HK\$17,392,000 (31 December 2000:HK\$30,603,000). The following is an aged analysis of trade creditors:

	30 June 2001 (Unaudited) HK\$'000	31 December 2000 (Unaudited) HK\$'000
Within 90 days	16,250	21,827
Between 91 and 180 days	1,084	8,776
Between 181 and 365 days	58	—
	<u>17,392</u>	<u>30,603</u>

14. Share capital

	Number of shares '000	Nominal value HK\$'000
Issued and fully paid:		
Shares of HK\$0.10 each		
At 1 January 2001	777,140	77,714
Issue of shares	<u>100,000</u>	<u>10,000</u>
At 30 June 2001	<u>877,140</u>	<u>87,714</u>



Notes to the condensed financial statements for the six months ended 30 June 2001 (continued)

14. Share capital (continued)

The authorised share capital of the Company is HK\$1,000 million, comprising 10,000 million shares of HK\$0.10 each. There were no movements in the authorised share capital of the Company in the current period.

15. Reserves

	Contributed surplus HK\$'000	Share premium account HK\$'000	Exchange reserve HK\$'000	General reserve HK\$'000	Goodwill HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2000	117,554	277,034	938	3,499	–	(148,117)	250,908
Translation of financial statements of subsidiaries and associates reported in currencies other than Hong Kong dollars	–	–	(229)	–	–	–	(229)
Share of exchange reserve by minority shareholders	–	–	2	–	–	–	2
Shares issued at premium, net of expenses	–	119,529	–	–	–	–	119,529
Goodwill arising on acquisition of a subsidiary	–	–	–	–	(17,878)	–	(17,878)
Loss for the year	–	–	–	–	–	(107,363)	(107,363)
At 1 January 2001	117,554	396,563	711	3,499	(17,878)	(255,480)	244,969
Translation of financial statements of subsidiaries and associates reported in currencies other than Hong Kong dollars	–	–	6	–	–	–	6
Shares issued at premium, net of expenses	–	38,856	–	–	–	–	38,856
Loss for the period	–	–	–	–	–	(54,840)	(54,840)
At 30 June 2001	<u>117,554</u>	<u>435,419</u>	<u>717</u>	<u>3,499</u>	<u>(17,878)</u>	<u>(310,320)</u>	<u>228,991</u>

16. Review of interim financial statements

The interim financial statements are unaudited and have been reviewed by the Company's Audit Committee.



MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

The Group's operating loss increased by \$4.8 million over the same period of the previous year. Given the increased operating activities resulted from the Group's acquisition of subsidiaries and the newly developed businesses since the second half of 2000, the operating loss for the first six months of 2001 actually decreased when compared with that for the preceding six months period ended 31 December 2000, as a result of measures to tighten the administrative overheads.

Since the approval of frequency spectrum for wireless access applications by the Hong Kong Government, our broadband business with wireless fixed telephone network operators ("WFTNO") has commenced to contribute to the Group near the end of June this year. With our ITS business and service revenues also growing steadily, we expect our operating results will be better in the second half of this year.

Liquidity and financial resources

During the period, the Company issued 100,000,000 shares of HK\$0.10 each to the Company's ultimate holding company under the Subscription Agreement dated 25 May 2001 at the price of HK\$0.50 per share. A net balance of HK\$48.9 million was raised and applied as working capital of the Company.

Despite the funds raised from new shares issued, the current ratio and quick ratio dropped to 1.6 and 1.2 at 30 June 2001 compared with 1.7 and 1.4 at 31 December 2000 respectively due to the depletion of working capital by the operating loss and the provision for bad debts in respect of amount due from an associate.

We will continue to seek for additional finance from bankers, institutional investors and prospective business partners so as to prepare for the expansion of our businesses and to improve our liquidity position.

Human resources

At 30 June 2001, the headquarter in Hong Kong employed 20 employees whereas the subsidiaries employed a total of 202 employees. Employees are mostly paid on a monthly basis. Discretionary performance related bonus and share option schemes are being considered by the directors to boost staff morale.



BUSINESS REVIEW AND PROSPECTS

The Company was still in the development and nourishing stage in the first half year of 2001 and we have worked very hard to restructure our operations, to streamline our operations and to develop and market our products. We participated in the CommunicAsia2001 exhibition held in Singapore this June and our broadband and ITS products and our capability as an OEM manufacturer have drawn much attention from prospects of other Asian countries.

Broadband Wireless Access

Frequency approvals by governments are vital for the sale of wireless broadband equipments in many countries and regions including the PRC and Hong Kong.

In May 2001, the Office of Telecommunication Authority of Hong Kong announced the allocation of 5.8GHz frequency spectrum for wireless access applications. Since then the five WFTNO in Hong Kong can use our CB-ACCESS broadband wireless access products to build their networks. We have negotiated with these operators for the long-term supply of our products and commercial deployment of our products has started in June.

In the PRC, the allocation of frequencies is progressing smoothly and we expect this will be effected in the near future.

Apart from the PRC and Hong Kong, we are also seeking opportunities for the sale of our CB-ACCESS products in Asian countries.

Although the business climate for internet and broadband access has changed and certain WFTNO announced to defer their expansion plans in Hong Kong, we are of the view that the fundamental need for broadband access equipment still exists and the demand for broadband wireless network would not be affected in the longer term. We believe that contribution from our CB-ACCESS products will grow rapidly from the second half of 2001.

Intelligent Transportation System

Since the acquisition of CASTEL Qihua Hi-Tech Investments Limited ("Castel Qihua") as our subsidiary in August 2000, the supply of Global Positioning System ("GPS") products and peripherals for the operation of Castel Qihua was taken up by our own development centres in Beijing and Shenzhen. The supplied systems were tested with satisfactory results in June 2001 and have provided full and essential support for the expansion of our vehicle dispatch operation.



BUSINESS REVIEW AND PROSPECTS (continued)

Intelligent Transportation System (continued)

On the other hand, several GPS and ITS projects have been completed in the first half of 2001 covering different but major application areas such as logistic fleet control, territorial management as well as road traffic control. The pleasing results have set a firm base for further and rapid development in supplying integrated GPS products to different application markets.

The Company anticipates that as demand for GPS control system increases, the definite technical and marketing competitive edges we have over the other suppliers will be reflected in better sales and more business opportunities.

CASIL Telecommunications (Shenzhen) Company Limited, which is another subsidiary supplying Emergency Reporting and Handling Systems in the PRC and MPEG-2 video conferencing system, has continued to report on success and to generate profits for the Group.

Communication and Telephone Product

During the period under review, we continued to produce 900MHz to 2.4GHz cordless phone, features phone, and satellite receiving set-top boxes for customers in the United States of America. We have contacted some prospective customers regarding OEM manufacture of their newly-designed cordless phone with special features and DECT phones. Discussions are progressing well and we have begun with trial samples of the slim type cordless phone in July 2001. Moreover, engineering samples of the special features phone with caller ID in different approval standards will be arranged for customer's evaluation. We are optimistic about the approval and expect that some orders would be discussed for production and delivery in fall 2001.

Due to the slowing down of the US economy as well as the fierce competition in the cordless phones market, we anticipate that orders and margins for cordless phones will be thin in the second half of 2001.

We will explore the opportunities arising from China entering into World Trade Organization ("WTO") soon including possible joint marketing of different kinds of phones to the China market with customers as partners with a view to getting orders for the production of phones at our manufacturing base in the PRC.

**BUSINESS REVIEW AND PROSPECTS** *(continued)*

With China becoming a member of WTO and the successful bidding for hosting the Olympic 2008, the pace for development of the telecommunication industry in China will be sped up. We believe that the demand for broadband access network and ITS products in Beijing and all over China will increase more significantly. The Company is dedicated to develop these two businesses, with ever reinforcing efforts in strengthening the technical team as well as through the acquisition of local and foreign technology. With our highly sophisticated manufacturing capabilities, we will have greater opportunities for a faster market growth. We believe that our business will flourish and grow in a much faster pace in the coming years.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's issued shares during the six months period ended 30 June 2001.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2001, none of the directors or their associates has any beneficial or non-beneficial interest in the share capital of the Company or its subsidiaries or any of its associated corporation which is required to be recorded in the Register of Directors' Interests pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2001, the following declarations of interest by shareholders holding 10% or more of the issued share capital of the Company had been recorded in the Register of Interests pursuant to Section 16(1) of the Securities (Disclosure of Interests) Ordinance:

Name	Number of shares
China Aerospace Science & Technology Corporation ("CASC")	449,244,000 <i>(note 1)</i>
Jetcote Investments Limited ("Jetcote")	449,244,000 <i>(note 1)</i>
China Aerospace International Holdings Limited ("CASIL")	449,244,000 <i>(note 2)</i>
Astrotech Group Limited ("Astrotech")	449,244,000 <i>(note 2)</i>

***SUBSTANTIAL SHAREHOLDERS*** (continued)

Notes:

1. CASC and Jetcote are both deemed to be interested in 449,244,000 shares as Jetcote together with its subsidiaries, Sin King Enterprises Company Limited, Burhill Company Limited and other companies, collectively hold approximately 41.86% of the issued share capital of CASIL, whereas Jetcote is a wholly-owned subsidiary of CASC.
2. Astrotech is a wholly owned subsidiary of CASIL which is deemed to be interested in all the shares held by Astrotech.

CORPORATE GOVERNANCE

The Company has established an Audit Committee comprising three independent non-executive directors in September 1999 with written terms of reference with regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants. On 31 July 2001, Mr. Lau Tit Shing, an independent non-executive director, has also been appointed as a new member of the Audit Committee.

CODE OF BEST PRACTICE

None of the directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months period ended 30 June 2001, in compliance with Appendix 14 of the Listing Rules.

By Order of the Board

Lu Xiaochun

Chairman

Hong Kong, 6 September 2001