CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

航 天 科 技 國 際 集 團 有 限 公 司

Interim Report 2001

The Board of Directors (the "Board") of China Aerospace International Holdings Limited (the "Company") would like to announce that the unaudited results and financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2001 are as follows:

Condensed Consolidated Income Statement

	Notes	**1.1.2001 to 30.6.2001 (Unaudited)** ***HK$'000***	1.1.2000 to 30.6.2000 (Unaudited) *HK$'000*
Turnover	*3*	**456,583**	496,458
Cost of sales		**(344,304)**	(386,854)
		112,279	109,604
Other revenue		**8,027**	15,874
Distribution costs		**(18,308)**	(20,964)
Administrative expenses		**(96,098)**	(125,459)
Profit (Loss) from operations	*4*	**5,900**	(20,945)
Finance costs		**(59,940)**	(68,261)
Share of results of associates		**2,562**	(2,315)
Provision for amount due from an associate	*5*	**(37,000)**	–
Loss before taxation		**(88,478)**	(91,521)
Taxation	*6*	**(2,610)**	(995)
Loss before minority interests		**(91,088)**	(92,516)
Minority interests		**26,852**	8,467
Net loss for the period		**(64,236)**	(84,049)
Loss per share	*7*		
– Basic		**(3.0) cents**	(4.0) cents

Condensed Consolidated Balance Sheet

	Notes	30.6.2001 (Unaudited) HK$'000	31.12.2000 (Audited) HK$'000
Non-current assets			
Fixed assets	9	**1,348,511**	1,371,555
Properties under development	9	**142,678**	129,733
Development costs		**25,153**	24,579
Technology license		**69,030**	69,030
Interests in unconsolidated subsidiaries		**5**	5
Interests in associates		**439,924**	437,362
Investments in securities		**250,732**	250,732
		2,276,033	2,282,996
Current assets			
Inventories		**472,908**	470,410
Trade and other receivables	10	**272,173**	302,848
Loans receivable		**793,183**	799,158
Amounts due from associates		**174,971**	233,485
Deposits pledged		**14,238**	9,645
Cash and bank balances		**475,505**	359,669
		2,202,978	2,175,215
Current liabilities			
Trade and other payables	11	**706,965**	732,360
Dividend payable		**26**	26
Amounts due to associates		**8,416**	29,886
Amount due to a major shareholder		**310,629**	314,186
Provision for profits tax		**4,399**	2,532
Value added tax payable		**6,490**	5,841
Other loans	12	**115,950**	105,250
Bank loans and overdrafts	13	**587,625**	643,359
		1,740,500	1,833,440
Net current assets		**462,478**	341,775
Total assets less current liabilities		**2,738,511**	2,624,771
Non-current liabilities			
Bank loans	13	**443,202**	324,394
Other loans	12	**232,089**	163,818
Obligations under finance leases		**3,624**	1,875
		678,915	490,087
Minority interests		**171,430**	174,423
		1,888,166	1,960,261
Capital and reserves			
Share capital	14	**2,142,420**	2,142,420
Reserves	15	**(254,254)**	(182,159)
		1,888,166	1,960,261

Condensed Consolidated Statement of Recognised Gains and Losses

	1.1.2001 to 30.6.2001 ***(Unaudited)*** ***HK$'000***	1.1.2000 to 30.6.2000 *(Unaudited)* *HK$'000*
Exchange differences arising on translation of financial statements of overseas subsidiaries and associates	**388**	(266)
Net loss for the period	**(64,236)**	(84,049)
Total recognised losses	**(63,848)**	(84,315)

Condensed Consolidated Cash Flow Statement

	1.1.2001 to 30.6.2001 ***(Unaudited)*** ***HK$'000***
Net cash inflow from operating activities	**2,524**
Net cash outflow from returns on investments and servicing of finance	**(40,029)**
Tax paid	**(743)**
Net cash inflow from investing activities	**11,608**
Net cash outflow before financing	**(26,640)**
Financing	
New loans raised	**227,482**
Repayments of loans	**(73,502)**
Repayments of finance leases obligations	**(2,950)**
Repayments to a major shareholder	**(3,557)**
Net cash inflow from financing	**147,473**
Increase in cash and cash equivalents	**120,833**
Cash and cash equivalents at 1 January 2001	**273,383**
Cash and cash equivalents at 30 June 2001	**394,216**

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

2. *Principal Accounting Policies*

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investment in securities.

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

In the current period, the Group has adopted SSAP 30 "Business combinations" and has elected not to restate goodwill (negative goodwill) previously eliminated against (credited to) 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 or associate, or at such time as the goodwill is determined to be impaired. Negative goodwill arising on acquisitions prior to 1 January 2001 will be credited to income at the time of disposal of the relevant subsidiary or associate.

Goodwill arising on acquisitions after 1 January 2001 is capitalized and amortised over its estimated useful life i.e. over periods 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.

3. *Segment Information*

In the current period, the Group has changed the basis of identification of reportable segments to that required by SSAP 26 "Segment reporting". Segment disclosures for the six months ended 30 June 2000 have been amended so that they are presented on a consistent basis:

(a) Business segments

	Turnover			Attributable to profit (loss) from operations		
	External sales	**Inter–segment sales**	**Consolidated**	**Segment result**	**Unallocated corporate expenses**	**Profit (loss) from operations**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2001						
Manufacturing						
Plastic products	**103,024**	**1,516**	**104,540**	**7,676**		
Liquid crystal display	**26,456**	**–**	**26,456**	**2,220**		
Audio-video products	**88,525**	**–**	**88,525**	**(4,897)**		
Printed circuit boards	**57,390**	**–**	**57,390**	**12,670**		
Telecommunication products	**34,586**	**–**	**34,586**	**(14,053)**		
Intelligent chargers & security system	**45,968**	**731**	**46,699**	**5,208**		
Other products	**19,561**	**15**	**19,576**	**(4,550)**		
	375,510	**2,262**	**377,772**	**4,274**		
Property	**43,378**	**4,118**	**47,496**	**19,365**		
Trading	**21,663**	**–**	**21,663**	**(1,689)**		
Finance	**14,571**	**1,610**	**16,181**	**12,924**		
Others	**1,461**	**–**	**1,461**	**998**		
	456,583	**7,990**	**464,573**	**35,872**		
Eliminations	**–**	**(7,990)**	**(7,990)**	**(5,253)**		
	456,583	**–**	**456,583**	**30,619**	**(24,719)**	**5,900**
2000						
Manufacturing						
Plastic products	95,150	6,762	101,912	8,940		
Liquid crystal display	31,799	–	31,799	3,835		
Audio-video products	118,289	7	118,296	(7,137)		
Printed circuit boards	58,369	–	58,369	16,805		
Telecommunication products	28,647	–	28,647	(13,405)		
Intelligent chargers & security system	43,788	–	43,788	3,424		
Other products	22,352	846	23,198	(5,036)		
	398,394	7,615	406,009	7,426		
Property	26,462	2,685	29,147	8,952		
Trading	19,442	–	19,442	(3,608)		
Finance	49,296	3,552	52,848	(2,953)		
Others	2,864	–	2,864	1,745		
	496,458	13,852	510,310	11,562		
Eliminations	–	(13,852)	(13,852)	(4,834)		
	496,458	–	496,458	6,728	(27,673)	(20,945)

3. ***Segment Information** – continued*

(b) Geographical segments

	Hong Kong market *HK$'000*	PRC market *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
2001				
Revenue				
External sales	**250,783**	**205,800**	**–**	**456,583**
Inter-segment sales	**19,495**	**86,809**	**(106,304)**	**–**
Total revenue	**270,278**	**292,609**	**(106,304)**	**456,583**
Segment result	**28,575**	**2,374**	**(330)**	**30,619**
Unallocated corporate expenses				**(24,719)**
Profit from operations				**5,900**
2000				
Revenue				
External sales	263,694	232,764	–	496,458
Inter-segment sales	58,897	79,005	(137,902)	–
Total revenue	322,591	311,769	(137,902)	496,458
Segment result	5,046	2,055	(373)	6,728
Unallocated corporate expenses				(27,673)
Loss from operations				(20,945)

4. ***Profit (Loss) from Operations***

Profit (loss) from operations has been arrived at after charging (crediting):

	1.1.2001 to 30.6.2001 ***HK$'000***	1.1.2000 to 30.6.2000 *HK$'000*
Amortisation of development costs	**5,737**	552
Depreciation on fixed assets	**34,317**	25,730
Gain on disposal of fixed assets	**(6,392)**	–
Dividend income from listed investment securities	**(9,270)**	(3,090)
Interest income	**(10,641)**	(54,887)

5. ***Provision for Amount Due from an Associate***

The amount represents a provision for doubtful debt due from an associate of a subsidiary, Southern Telecommunications Development Company Limited.

6. ***Taxation***

	1.1.2001 to 30.6.2001 *HK$'000*	1.1.2000 to 30.6.2000 *HK$'000*
The Company and its subsidiaries		
Hong Kong profits tax	**2,470**	950
Income tax outside Hong Kong	**140**	45
	2,610	995

Income tax outside Hong Kong represents the income tax of the People's Republic of China.

7. ***Loss per Share***

The calculation of the basic loss per share is based on the following data:

	1.1.2001 to 30.6.2001 *HK$'000*	1.1.2000 to 30.6.2000 *HK$'000*
Loss		
Net loss for the period for the calculation of basic loss per share	**(64,236)**	(84,049)

	1.1.2001 to 30.6.2001	1.1.2000 to 30.6.2000
Number of Shares		
Weighted average number of ordinary shares for the calculation of basic loss per share	**2,142,419,902**	2,087,494,148

8. ***Dividend***

No dividend was paid for the six months ended 30 June 2001 (1.1.2000 to 30.6.2000: Nil).

9. ***Movements in Fixed Assets and Properties under Development***

During the period, the Group disposed of fixed assets with a carrying value of HK$14,258,000 for proceeds of HK$12,403,000. The gain on disposal, after realizing profits from investment property revaluation reserve of HK$8,247,000, was HK$6,392,000.

In addition, the Group spent HK$27,776,000 and HK$12,945,000 on acquisition of fixed assets and properties under development, respectively.

10. Trade and Other Receivables

Included in trade and other receivables are trade receivables of HK$129,366,000 (31.12.2000: HK$165,178,000). The Group allows an average credit period of 30 days to 90 days to its trade customers. The aging analysis of trade receivables at the reporting date is as follows:

	30.6.2001	31.12.2000
	HK$'000	*HK$'000*
Within 90 days	**104,865**	135,860
Between 91 – 180 days	**11,635**	14,577
Between 181 – 365 days	**8,060**	8,850
Between one to two years	**1,881**	–
Over 2 years	**2,925**	5,891
	129,366	165,178

11. Trade and Other Payables

Included in trade and other payables are trade payables of HK$292,595,000 (31.12.2000: HK$406,099,000). The aging analysis of trade payables at the reporting date is as follows:

	30.6.2001	31.12.2000
	HK$'000	*HK$'000*
Within 90 days	**87,191**	164,614
Between 91 – 180 days	**10,072**	24,173
Between 181 – 365 days	**2,645**	53,249
Between one to two years	**5,967**	27,947
Over 2 years	**186,720**	136,116
	292,595	406,099

12. Other Loans

Other loans include US$8,000,000 guaranteed exchangeable fixed/floating rate notes due 2004 (the "Notes') issued by a subsidiary of the Company during the current interim reporting period. The Notes are in bearer form in the denomination of US$1,000,000 each and will mature in March 2004 (the "Maturity Date"). The Notes are interest bearing at 6.5% per annum for the period up to September 2002 and at 1.5% above London interbank offered rates for 6 months US dollar deposits thereafter. The Notes may be redeemed before the Maturity Date at the option of the noteholders on the interest payment date falling in September 2002 at the principal amount. Unlisted investment securities of HK$76,662,000 as held by a subsidiary of the Company are pledged for the Notes.

13. Bank Loans and Overdrafts

During the current interim reporting period, the Group obtained new bank loans of HK$139,702,000 and they bear interests at the rate from prime rate to prime rate plus 1.5% and are repayable in instalments over a period of 10 years. The Group's investment properties and land and buildings with aggregate net book values of HK$245,954,000 and HK$18,404,000, respectively, and bank deposits of HK$4,593,000 were pledged for these new bank loans.

14. Share Capital

There was no movement in the authorized, issued and fully paid share capital of the Company during the current interim reporting period.

15. Reserves

	Share premium	Investment property revaluation reserve	Special capital reserve	General reserve	Goodwill reserve	Exchange reserve	Capital redemption reserve	Revenue reserve	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2000	664,570	116,163	14,044	23,916	347	(31,245)	1,080	(164,768)	624,107
Premium arising on placement of shares	285,614	–	–	–	–	–	–	–	285,614
Share issue expenses	(11,136)	–	–	–	–	–	–	–	(11,136)
Deficit on revaluation	–	(36,812)	–	–	–	–	–	–	(36,812)
Translation of accounts of overseas subsidiaries and associates	–	–	–	–	–	(8,625)	–	–	(8,625)
Goodwill on acquisition of subsidiaries	–	–	–	–	(17,878)	–	–	–	(17,878)
Net loss for the year	–	–	–	–	–	–	–	(1,017,429)	(1,017,429)
At 31 December 2000	939,048	79,351	14,044	23,916	(17,531)	(39,870)	1,080	(1,182,197)	(182,159)
Realised on disposals of investment properties	–	(8,247)	–	–	–	–	–	–	(8,247)
Translation of accounts of overseas subsidiaries and associates	–	–	–	–	–	388	–	–	388
Net loss for the period	–	–	–	–	–	–	–	(64,236)	(64,236)
At 30 June 2001	939,048	71,104	14,044	23,916	(17,531)	(39,482)	1,080	(1,246,433)	(254,254)

16. Capital Commitments

	30.6.2001	**31.12.2000**
	HK$'000	*HK$'000*
Contracted but not provided for		
Capital contribution to investee companies	**2,829**	17,613
Purchase of fixed assets	**829**	4,312
Properties under development	**8,300**	18,090
Others	**–**	107
	11,958	40,122

17. Contingent Liabilities

	30.6.2001	**31.12.2000**
	HK$'000	*HK$'000*
Guarantees given for banking and finance facilities granted to third parties	**8,000**	8,000

Business Review

In the first half of this year, major industrialized countries suffered from a lasting global sluggish economy. Their weak import demands triggered off drops in export from manufacturers in Mainland China. Consequently, Hong Kong also suffered from an obvious slowdown in its export business and economic growth. Under such harsh external economic environments, the Group continued to focus its target of turning losses into profits by developing new markets, strengthening management, reducing costs and improving efficiency.

The Group's loss was reduced by 23.6% over the same period of last year. The Group's turnover in the first half of 2001 was HK$456,583,000, representing a 8.03% decrease over the previous period, and the loss attributable to shareholders was cut by 23.6% over the previous period. These decreases attributed to the Group's further reduction in administrative, distribution and finance costs.

The Group's high-tech enterprises maintained stable growth with some profit drop. The Group's high-tech enterprises maintained continuing and stable growth against difficult market environments in the first half of this year. All of the high-tech manufacturing businesses recorded profits except for the losses in manufacture of telecommunications equipment and audio-video products owing to overall adverse market situation. The processing business for electronic products targeted at overseas markets expanded its ODM scale. Its turnover rose by 5% over the previous period with a large-margin profit increase. For the turnover of PCB manufacturing business, there was some drop that representing about 25% profit decrease over the previous period. Despite of an 8% increase in turnover, the plastic moulding business still suffered from a 14% profit decrease. The turnover drop also occurred in the LCD business but its profit earning was maintained. The Group's subsidiary, CASIL Telecommunications Holdings Limited ("CASTEL"), suffered from further losses owing to a sales slowdown in its traditional telecommunications equipment and a taking off in its newly-developed business. Nevertheless, the 5.8GHz Broadband Wireless Access System (CB-ACCESS) developed by CASTEL was approved by the Hong Kong Telecommunications Authorities in May this year to enter into the market. CASTEL was also approved to be the supplier for products of broadband wireless access system by the Government of HKSAR. In addition, CASTEL achieved further progress in promoting its self-developed intelligent traffic control system in Hong Kong, Beijing and Guangdong Province. These two businesses are taking shape and will grow to meet further market needs. The Group's subsidiaries, CASIL Electronic Products Limited and Conhui (Huizhou) Electronics Company Limited, reduced their first-half-year losses in audio-video products business by 31% over the previous period. Now by scaling down its manufacturing in audio-video products, it focuses on developing and manufacturing network-based products such as set-top boxes so as to accomplish its business and product restructure.

The broadband internet business of the Group's joint-venture ("JS-CASIL Network") started its commercial operation. The JS-CASIL Network, a joint-venture invested by the Group in Nanjing, Jiangsu Province in Mainland China, has been "taking data link business as the basis and internet business as the key in order to develop broadcasting/television-style broadband multimedia business". Based on its data link leasing business, the JS-CASIL Network established a broadband internet center in the Jiangsu provincial broadcasting and television network, installed with the sophisticated broadband internet access equipment from the U.S. company, CISCO. It started commercial operation on 20 March 2001, providing internet access service for 12 cities in Jiangsu Province.

Business Review (Continued)

The Group's R&D for DVB-C access and value-added service system was accelerated with reduced costs. The Group relocated its R&D centre to Shenzhen, and its management was integrated with the Group's R&D company in Hong Kong. In the first half of this year, the Group's R&D was accelerated with reduced costs. In the DVB-C project, a new Subscriber Management System (SMS) and an Electronic Program Guidance System were developed, and the Conditional Access System (CAS), the Subscriber Authorization System (SAS) and the Value-Added Service System (VAS) were improved as well. Five items of value-added services, such as stock quotations, were in commercial operation over the broadband network through some cable TV stations in Mainland China, and were well received by those cable TV stations and the users.

The Group's property business made some progress. The turnover in the Group's property business in the first half of this year increased by 63.9% with a profit growth of 1.2 times more than the previous period, of which the sales of non-core properties accounted for a large part. Against a sluggish property market in Hong Kong, the Group's subsidiary, CASIL Realty Limited, took active and workable measures and fulfilled its property sales target in the first half of this year.

Business Outlook

Looking into the second half of this year, major industrialized countries are still to encounter severe economic situations. However, Mainland China has been maintaining quite a high economic growth, and is about to enter the WTO. These positive factors are expected to boost Hong Kong's import and export businesses. Although the traditional manufacturing businesses of the Group are under the pressure of economic slowdown in European countries and the U.S. and of import cut by them, the Group has braved such hardships thanks to its achievements scored from recent-year development in network-based terminal products, broadband wireless access system and intelligent traffic control system. These newly developed businesses have proved promising in the markets of Mainland China, Hong Kong and many overseas countries. Moreover, under the full support of its major shareholder, China Aerospace Science & Technology Corporation, the Group has been taking active measures to re-positioning its business structure in order to establish new core business. I have full confidence for the Group's continuing and stable business growth in all aspects in the second half of this year.

Management Discussion and Analysis

I. Overall Results

In order to consolidate its business foundation for long-term development, the Group had made provisions for its investments, inventories and trade receivables for the financial year of 2000. In addition, the Group has been further benefited from its continuous efforts of scaling down business, as well as sorting out and integrating of certain business activities. Under the circumstances of a sluggish economy in Hong Kong in the first half of 2001, the Group recorded a turnover of HK$456,583,000, representing a decrease of 8.03% over the same period of last year. However, the Group's loss lowered to HK$64,236,000, representing a large margin cut by 23.6% over the same period of last year. The loss mainly suffered from the telecommunications business by CASTEL owing to its increased provision and loss, the set-top box business, the audio-video products manufacturing business and the trading business. The overall loss cut of the Group was attributed to the reduction in its financial and administrative expenditures, as well as the positive results from its business restructure. The Group did not have any material financial changes to be disclosed for the half-year period from 1 January 2001 to 30 June 2001.

Management Discussion and Analysis (Continued)

II. Assets and Liabilities

As at 30 June, 2001, the Group still had total liabilities of about HK$2,419,415,000, of which HK$587,625,000 are the bank loans repayable within one year and HK$443,202,000 are those repayable after one year. Among the bank loans, there is an outstanding principal of a syndicated loan, of US$28,000,000, to be repaid by December 2001. The Group expects to settle it by internal resources and re-financings. In terms of contingent liabilities, there was no material change during the first half of 2001.

The Group's assets/liabilities ratio is calculated from its total liabilities divided by total tangible assets. As at 30 June 2001, the Group's assets/liabilities ratio was 55%, a slight increase over the 52% as of the end of last year.

The Group reviews its cash flow and financial position periodically. At present, the Group is exploring various ways to refinance its current liabilities into non-current one so as to reduce the pressure of short-term liquidity.

In the first half of the year, the Group strengthened its effort to sell its investment properties and achieved satisfactory results. In the second half of the year, the Group will continue to clear off its non-core assets in order to pool up resources on its core businesses. Meanwhile, the Group will continue to carry on the second-phase construction in its Huizhou Industrial Park in Mainland China, which is expected to be completed by the end of this year.

III. Cash Flow

The Group is financed mainly by its own internal financial resources supplemented by banking facilities. The Group's cash on hand as at the end of June 2001 was over HK$400 million, most of which was in HK dollars and the rest of which were in RMB and in US dollars respectively.

The Group's bank loans are at market interest rates and denominated in HK and in US dollars. In addition to mortgage loans, several term loans and overdraft facilities amounting to HK$420 million arranged by local banks are at prime rate, whereas the remaining loans are at HIBOR plus margin basis. The Group manages the exposure and risk in exchange rate under the Linked Exchange Rate System in Hong Kong, and foresees that the interest rate will remain at a lower level in the near future. Therefore, there is no necessity for the Group to engage any financial instruments or derivatives to hedge the exchange and the interest rate risks.

The Group will continue to control its costs and expenditures under strict financial management system.

Management Discussion and Analysis (Continued)

IV. Major Financial Activities

On 21 May 2001, the Group made a placement of 50,000,000 shares and subscribed for 100,000,000 shares in CASTEL at HK$0.5 each through a placing and top-up transaction. As at 30 June 2001, the Group still had a 51.22% shareholding in CASTEL.

After part of the proceeds generated from the placement at the beginning of 2000 was utilized for the initial planned purposes, the Group has still had a remaining amount of over HK$200 million. Due to a change of policy in Mainland China, the placing proceeds have not been allocated completely to those planned projects and that was deposited with banks for future use.

V. Mortgaged Assets

A couple of the Group's real estates had been mortgaged to banks with installment repayment terms. As at the end of June 2001, there were outstanding mortgage loans of approximately HK$300 million at prime rate and their remaining terms by installment vary from 10 to 11 years.

VI. Human Resources

The Group has made no major changes in the information on its staff number, salary and share option as stated in its 2000 Annual Report.

Directors' and Chief Executive's Interests in Shares

As at 30 June 2001, none of the directors, chief executives or their associates have any beneficial or non-beneficial interests in the share capital, warrants and options of the Company or its subsidiaries or any of its associated corporations 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 of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Substantial Shareholders

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

Name	Number of ordinary shares	
China Aerospace Science & Technology Corporation	896,818,664	*(note 1)*
Jetcote Investments Limited	896,818,664	
Sin King Enterprises Company Limited	393,272,908	*(note 2)*
Burhill Company Limited	393,681,580	*(note 2)*

Notes:

1. These 896,818,664 shares are duplicated in the interests held by Jetcote Investments Limited, a wholly owned subsidiary of China Aerospace Science & Technology Corporation.

2. These 393,272,908 shares held by Sin King Enterprises Company Limited and 393,681,580 shares held by Burhill Company Limited are duplicated in the interests held by Jetcote Investments Limited. Both companies are wholly owned subsidiaries of Jetcote Investments Limited.

Purchase, Sale or Redemption of the Company's Listed Securities

There had been no purchase, sale or redemption of the Company's listed securities by the Company and its subsidiaries during the period.

Code of Best Practice

The Company had complied throughout the period with those paragraphs of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with which it is required to report compliance, except that none of the non-executive directors of the Company has been appointed for a specific term but are subject to retirement by rotation.

Audit Committee

The Audit Committee of the Company and the external auditors, Deloitte Touche Tohmatsu, had reviewed this unaudited interim financial statements.

Practice Note 19 of the Listing Rules ("PN 19")

Pursuant to PN 19 of the Listing Rules, the Company has a continuing obligation to disclose information in relation to loans ("Loans") which are significant to the operations of the Company and which contain covenants by the ultimate controlling shareholder of the Company to maintain a specified percentage of shareholding in the Company, the breach of which would trigger a default in respect of such loans.

As at 30 June 2001, the Company had outstanding Loans in the aggregate amount of US$37,000,000 (equivalent to approximately HK$288,600,000 at an exchange rate of US$1.00: HK$7.8). Each of these Loans contains a convenant from the ultimate controlling shareholder to maintain a minimum percentage of shareholding (in most of the cases, a minimum of 40%) in the Company, the breach of which would trigger default under the Loans.

Appreciation

I would like to take this opportunity to express, on behalf of the Board of the Directors, my sincere gratitude to our shareholders, bankers, business partners, people from various social communities, as well as all staff of the Group for their long-time support.

By Order of the Board
Lu Xiaochun
Chairman

Hong Kong SAR, 21 September 2001

INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF
CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED
(Incorporated in Hong Kong with limited liabilities)

Introduction

We have been instructed by China Aerospace International Holdings Limited (the "Company") to review the interim financial report set out on pages 1 to 9.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants. However, the Listing Rules permit departure from SSAP 25 in that comparative figures are not required for the condensed cash flow statement to be included in the first interim financial report relating to accounting periods ending on or after 1 July 2000. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with the Statement of Auditing Standards ("SAS") 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of Group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2001.

Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement and condensed consolidated statement of recognized gains and losses for the six months ended 30 June 2000 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 21 September 2001