



航天科技通信有限公司*

CASIL TELECOMMUNICATIONS HOLDINGS LIMITED



Interim Report 2002

* 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 2002 to 30 June 2002.

UNAUDITED INTERIM FINANCIAL STATEMENTS

I. CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 June	
		2002	2001
		(Unaudited) HK\$'000	(Unaudited) HK\$'000
Turnover	3	41,547	34,586
Cost of sales		(30,884)	(30,709)
Gross profit		10,663	3,877
Other revenue		940	224
Distribution costs		(2,433)	(1,309)
Administrative expenses		(19,988)	(16,845)
Loss from operations	4	(10,818)	(14,053)
Finance costs	5	(3,070)	(4,143)
Share of result of an associate		–	(9)
Impairment loss on amount due from an associate		–	(37,000)
Loss before taxation		(13,888)	(55,205)
Taxation charge	6	–	–
Loss before minority interests		(13,888)	(55,205)
Minority interests		993	365
Loss for the period		(12,895)	(54,840)
Loss per share	7	HK(1.5) cents	HK(6.9) cents

II. CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30/6/2002 (Unaudited) HK\$'000	31/12/2001 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	8	59,761	60,935
Intangible assets		42,497	41,270
Interests in associates		42,838	42,838
		<u>145,096</u>	<u>145,043</u>
Current assets			
Inventories		31,696	41,540
Debtors and prepayments	9	20,273	18,150
Amounts due from fellow subsidiaries		15,291	15,274
Amounts due from associates		4,068	5,203
Taxation recoverable		326	326
Pledged bank deposits		12,342	4,502
Bank balances and cash		15,628	26,557
		<u>99,624</u>	<u>111,552</u>
Current liabilities			
Creditors and accrued charges	10	22,500	36,645
Amounts due to fellow subsidiaries		2,747	3,463
Amount due to ultimate holding company		1,870	866
Provision for taxation		125	249
Borrowings due within one year		45,111	29,550
		<u>72,353</u>	<u>70,773</u>
Net current assets		<u>27,271</u>	<u>40,779</u>
		<u>172,367</u>	<u>185,822</u>
Capital and reserves			
Share capital		87,714	87,714
Reserves		17,408	30,303
		<u>105,122</u>	<u>118,017</u>
Minority interests		12,262	12,620
Non-current liabilities			
Borrowings due after one year		54,983	55,185
		<u>172,367</u>	<u>185,822</u>

III. UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Special reserve HK\$'000	Share premium account HK\$'000	Exchange reserve HK\$'000	General reserve HK\$'000	Goodwill HK\$'000	Accumu- lated losses HK\$'000	Total HK\$'000
At 1 January 2001	77,714	117,554	396,563	711	3,499	(17,878)	(255,480)	322,683
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	10,000	-	38,856	-	-	-	-	48,856
Loss for the period	-	-	-	-	-	-	(54,840)	(54,840)
At 30 June 2001	<u>87,714</u>	<u>117,554</u>	<u>435,419</u>	<u>717</u>	<u>3,499</u>	<u>(17,878)</u>	<u>(310,320)</u>	<u>316,705</u>
Translation of financial statements of subsidiaries and associates reported in currencies other than Hong Kong dollars	-	-	-	240	-	-	-	240
Share of exchange reserve by minorities	-	-	-	(89)	-	-	-	(89)
Net gains not recognised in the income statement	-	-	-	151	-	-	-	151
Loss for the period	-	-	-	-	-	-	(198,839)	(198,839)
At 31 December 2001	<u>87,714</u>	<u>117,554</u>	<u>435,419</u>	<u>868</u>	<u>3,499</u>	<u>(17,878)</u>	<u>(509,159)</u>	<u>118,017</u>
Loss for the period	-	-	-	-	-	-	(12,895)	(12,895)
At 30 June 2002	<u>87,714</u>	<u>117,554</u>	<u>435,419</u>	<u>868</u>	<u>3,499</u>	<u>(17,878)</u>	<u>(522,054)</u>	<u>105,122</u>

IV. CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2002	2001
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Net cash used in operating activities	(14,199)	(23,528)
Net cash used in investing activities	(13,728)	(6,523)
Net cash from financing	12,319	51,966
	<hr/>	<hr/>
Net (decrease) increase in cash and cash equivalents	(15,608)	21,915
Exchange rate adjustment	–	6
Cash and cash equivalents at 1 January	12,068	3,263
	<hr/>	<hr/>
Cash and cash equivalents at 30 June	(3,540)	25,184
	<hr/>	<hr/>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	15,628	38,626
Bank overdrafts	(19,168)	(13,442)
	<hr/>	<hr/>
	(3,540)	25,184
	<hr/>	<hr/>

V. NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants (the “HKSA”).

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the Group’s annual audited financial statements for the year ended 31 December 2001, except as described below.

V. NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(cont'd)*

3. Segment information *(cont'd)*

Business segments *(cont'd)*

	For the six months ended 30 June 2001 (Unaudited)					
	CP HK\$'000	ITS HK\$'000	Broadband HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover						
External sales	28,414	5,427	691	54	–	34,586
Inter-segment sales	–	–	–	478	(478)	–
	<u>28,414</u>	<u>5,427</u>	<u>691</u>	<u>532</u>	<u>(478)</u>	<u>34,586</u>
Result						
Segment result	(7,447)	(1,828)	(4,832)	168	–	(13,939)
Unallocated corporate expenses						(114)
Loss from operations						<u>(14,053)</u>

Geographical segments

	Turnover		Loss from operations	
	For the six months ended 30 June			
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
United States of America	9,589	23,920	(2,999)	(6,839)
The People's Republic of China other than Hong Kong (the "Mainland China")	17,942	7,694	(4,140)	(1,800)
Hong Kong	11,834	2,932	(3,008)	(5,402)
Others	2,182	40	(671)	(12)
	<u>41,547</u>	<u>34,586</u>	<u>(10,818)</u>	<u>(14,053)</u>

V. NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(cont'd)*

4. Loss from operations

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss from operations has been arrived after charging:		
Amortisation of intangible assets	538	2,065
Depreciation of property, plant and equipment	2,565	2,214
and crediting:		
Interest income	201	199
	<u>201</u>	<u>199</u>

5. Finance costs

	For the six months ended 30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on		
Bank loans and overdrafts wholly repayable within five years	2,066	1,876
Obligations under finance leases wholly repayable within five years	4	6
Other loans wholly repayable within five years	1,000	2,261
	<u>3,070</u>	<u>4,143</u>

6. Taxation charge

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 Mainland China, the subsidiaries registered in the Mainland China are entitled to exemption from income tax under certain tax holidays and concessions. No provision for income tax in the Mainland China has been made as these subsidiaries had no estimated assessable profits for both periods.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

V. NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(cont'd)*

7. Loss per share

The calculation of the basic loss per share is based on the loss for the period of HK\$12,895,000 (six months ended 30/6/2001: HK\$54,840,000) and on 877,139,763 shares (six months ended 30/6/2001: weighted average number of 791,504,404 shares) in issue throughout the period.

8. Property, plant and equipment

During the period, the Group spent approximately HK\$1,418,000 (six months ended 30/6/2001: HK\$755,000) on acquisition of property, plant and equipment.

9. Debtors and prepayments

Included in debtors and prepayments are trade debtors of HK\$12,259,000 (31/12/2001: HK\$9,816,000). The Group allows an average credit period of 30 days to its trade customers. The following is an aged analysis of trade debtors:

	30/6/2002 (Unaudited) HK\$'000	31/12/2001 (Audited) HK\$'000
Within 90 days	10,362	7,841
Between 91 and 180 days	805	1,975
Between 181 and 365 days	1,092	—
	<u>12,259</u>	<u>9,816</u>

V. NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(cont'd)*

10. Creditors and accrued charges

Included in creditors and accrued charges are trade creditors of HK\$4,932,000 (31/12/2001: HK\$7,426,000). The following is an aged analysis of trade creditors:

	30/6/2002 (Unaudited) HK\$'000	31/12/2001 (Audited) HK\$'000
Within 90 days	616	3,257
Between 91 and 180 days	542	809
Between 181 and 365 days	3,774	3,360
	<u>4,932</u>	<u>7,426</u>

11. Related party transactions

	For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
During the period, the Group had the following transactions with related parties:		
Ultimate holding company		
Rental and management fee paid (note a)	15	39
Fellow subsidiaries		
Rental paid (note a)	3	18
Subcontracting charges received (note b)	49	–
Associates		
Goods sold (note b)	1,542	–
Goods purchased (note b)	9,482	–
Subcontracting charges paid (note b)	–	2,530
	<u>–</u>	<u>2,530</u>

Notes: (a) Rental and management fee paid to related parties were comparable to rent and management fees for similar properties by tenants occupying such premises.

(b) The goods sold and purchased and subcontracting charges received and paid from/to related parties were determined on a cost plus basis.

DIRECTORS' BUSINESS REVIEW

Results of operation

The Group's turnover, loss from operations and loss for the six months ended 30 June 2002 increased by 20%, decreased by 23% and 76% respectively compared with the same period in the prior year. Sales for the Broadband and ITS business segments increased by 1,831% and 123% respectively whereas sales for the CP segment decreased by 43%. This is the result of our effort in focusing on businesses with better profit margin. In order to improve our financial results, we will consider all means including the sourcing of business associates and partners with a view to achieving better growth in sales and thus profits.

Liquidity and financial resources

At 30 June 2002, the current ratio and quick ratio dropped to 1.4 and 0.9 from 1.6 and 1.0 at 31 December 2001 respectively due to the depletion of working capital by the operating loss.

New short term bank borrowings were obtained for the operations of the Group's core businesses. At 30 June 2002, gearing ratio which is calculated as a percentage of total borrowings over shareholders' equity, increased to 95% compared with 72% at 31 December 2001 as a result of these new borrowings. Interests on the Group's borrowings are charged at market rates. The Group has not issued any financial instruments for hedging or other purposes.

We expect that our core business will turnaround soon and our liquidity position will improve when more business and thus profits are generated in the near future. In the meantime, we will continue to seek for additional finance from bankers, institutional investors and strategic partners in order to strengthen our liquidity position.

Pledge of assets

Additional bank deposits to the extent of HK\$7.8 million have been pledged to secure new bank borrowings. At 30 June 2002, except for the bank deposits totaling HK\$12.3 million, the Group has not pledged other assets for the purposes of obtaining banking facilities for the Group.

Development costs

During the period, the Group invested approximately HK\$1.8 million in the development of items that are complementary to our existing Broadband products. With the introduction of these new products, we are able to provide more complete range of services and this will definitely contribute to the expansion of our Broadband business.

Amounts due from Associates

As at 30 June 2002, the net balance of amounts due from two associates, which represented 45% (31/12/2001: 41%) of the Group's net assets of HK\$105,122,000 (31/12/2001:HK\$118,017,000) is analysed as follows:

	30/6/2002 (Unaudited) HK\$'000	31/12/2001 (Audited) HK\$'000
Shandong Kongwei Electronics Company Limited ("Shandong Kongwei")	63,496	63,543
Southern Telecommunication Development Company Limited ("Southern Telecom")	225,410	226,498
	<u>288,906</u>	<u>290,041</u>
Impairment loss	242,000	242,000
	<u>46,906</u>	<u>48,041</u>

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

Due to poor world economy and the deteriorating telecommunications market, the associates have not been able to generate profits and cash so as to repay the amounts due. At 31 December 2001, the Group has recognised total impairment losses to the extent of HK\$242,000,000 in respect of the amounts due from these associates. The Group has actively participated in the management of Southern Telecom and is in continuing negotiation with the managing joint venture partner of Shandong Kongwei for the recovery of the amounts due. Net repayment of HK\$1,135,000 has been made during the period.

Broadband Wireless Access

The Broadband Division continued to progress smoothly in Hong Kong. Our CB-ACCESS products have connected over a thousand buildings and residents therein to the broadband networks and services. Our products are fully recognised in the Hong Kong market and business negotiations with other prospective network operators have been going on.

In the Mainland China, the Government has formally approved the 5.8GHz frequency band for wireless access in July this year. The trial sites established in various parts of the Mainland China have been performing satisfactorily and our CB-Access System had passed through the technical accreditations of China Unicom and of China Railcom this year. In August, our CB-Access System is chosen by China Railcom as its only commercial use wireless broadband last mile access system. With the experience earned on the practical deployment and successful application of our products in Hong Kong, we expect that network operators will actively deploy our products in the Mainland China very soon.

Broadband Wireless Access *(cont'd)*

During the period, we have successfully developed E1 and T1 adaptors for our CB-ACCESS products. These new adaptors have provided flexibility for different network operators in meeting their last mile access demands. With this new device, the application of CB-ACCESS has been further expanded from IP network and ATM network to the traditional telecommunication networks. We have managed to maintain our unique position in providing last mile access solutions and believe that sales in the Mainland China and other Asian countries/territories will gradually grow to a significant level.

Intelligent Transportation System

The business in the first half of 2002 had seen the two major streams of business in the Division, viz. the Qihua Calling Centre Business and the System Integration Business further developed with closer ties with each other.

The Global Positioning System ("GPS") calling centre in Beijing has been operating smooth on the existing station for taxis dispatch. The second system, for private vehicles, started to roll off and the immediate response from the market was encouraging. Particularly when the GPS device did help in numerous occasions in finding lost cars and in preventing thefts, the Centre has developed a positive, professional and model-like position in the region and countrywide. Such would definitely help in taking up a larger market stake when the requirement for GPS strengthens in particular for the Olympics 2008. The calling centre in Tangshan started to pick up when the DDN direct telephone line was in place. With the support of the local government authorities, subscriptions increased steadily to over 500 vehicles and set to increase substantially in the second half.

Although the performance of the System Integration Business is not pleasing, due mainly to the general reluctance to invest without assured commercial returns under the poor economic environment, the three centres in Hong Kong, Shenzhen and Beijing continued to provide strong technical support for the calling centres. We believe that we will be able to generate more business when the recovery of world economy becomes more evident.

Our business on Emergency Reporting and Handling Systems and Video Conferencing System continued to perform successfully with significant growth in turnover and profits.

The Calling Centre Business is going to be the core business of the Division, projecting for remarkable development in the second half of 2002 and 2003. Discussions for cooperation in various forms, with both local enterprises in the Mainland China, in Hong Kong as well with internationally renowned companies, were in the pipeline that will help to achieve great business growth planned for the entire ITS business.

Communication Products

During the period under review, the Communication Products Division continued to produce telephone amplifiers, key phone, and telephone with special hearing aid devices. However, sales decreased when we focused and accepted orders with reasonable gross margins only.

Despite the “911” incident, orders from US customers remained stable. During the period, we have worked with our US customer and re-design a new version of telephone amplifier. Engineering samples have already been submitted for FCC type approval. We are optimistic about the approval and expect the first order of this new version to be placed for production and delivery in second half of 2002.

We will continue to seek OEM orders and manufactures, especially in the wireless integrated devices, GPS security devices and modules.

Human resources

At 30 June 2002, the Group employed 47 employees in the Hong Kong headquarter and 178 employees in the Mainland China offices. Employees are mostly paid on a monthly basis. Discretionary performance related bonus and share option schemes are available and will be considered by the directors as and when appropriate.

Other exposures

As reported in the previous Annual Report, the Group’s cash balances are maintained in Hong Kong dollars and Renminbi whereas transactions are conducted mainly in Hong Kong dollars, Renminbi or United States dollars. These currencies have remained, and are expected to remain, very stable. We expect that the Group’s exposure to fluctuation in exchange rates is minimal and therefore have not engaged in any hedging activity. The Group has no contingent liabilities existing at the end of the reporting period.

Except for the above, there is no significant matter the disclosure of which is required under paragraph 32 of Appendix 16 to the Rules Governing The Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2002.

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 2002.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2002, none of the directors or their associates have any beneficial or non-beneficial interest in the share capital 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2002, 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 (note 1)
Jetcote Investments Limited ("Jetcote")	449,244,000 (note 1)
China Aerospace International Holdings Limited ("CASIL")	449,244,000 (note 2)
Astrotech Group Limited ("Astrotech")	449,244,000 (note 2)

- 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

During the year 2002 and as at the date of this report, two formal meetings of the Audit Committee were held to review the financial reports and to discuss the performance of the Group. In particular, the Audit Committee has reviewed and approved this unaudited interim report of the Group for the six months period from 1 January 2002 to 30 June 2002.

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 2002, in compliance with Appendix 14 of the Listing Rules.

By Order of the Board

Lu Xiaochun

Chairman

Hong Kong, 11 September 2002