



航天科技通信有限公司^{*}
CASIL TELECOMMUNICATIONS HOLDINGS LIMITED
Interim Report

2003

^{*} the Chinese name of the Company is for reference only

The board of directors (the "Directors") of CASIL Telecommunications Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2003 as follows:

I. CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Unaudited	
		Six months ended 30 June	
		2003	2002
		HK\$'000	HK\$'000
			(As restated)
Turnover	3	65,959	41,547
Cost of sales		(45,614)	(30,884)
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Gross profit		20,345	10,663
Other operating income		1,813	940
Distribution costs		(3,251)	(2,433)
Administrative expenses		(17,592)	(19,988)
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Profit (loss) from operations	4	1,315	(10,818)
Finance costs	5	(2,517)	(3,070)
Gain on partial disposal of a subsidiary		17	-
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Loss before taxation		(1,185)	(13,888)
Taxation	6	(171)	(127)
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Loss before minority interests		(1,356)	(14,015)
Minority interests		1,499	986
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Net profit (loss) for the period		143	(13,029)
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Basic earnings (loss) per share	8	HK0.02 cents	HK(1.49) cents

II. CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	Unaudited 30.6.2003 HK\$'000	Audited and as restated 31.12.2002 HK\$'000
Non-current assets			
Property, plant and equipment	9	49,644	55,347
Intangible assets		47,926	42,658
Interests in associates		42,838	42,838
		140,408	140,843
Current assets			
Inventories		22,314	27,122
Debtors and prepayments	10	47,770	35,583
Amounts due from fellow subsidiaries		15,291	15,280
Amounts due from associates		20,596	10,883
Taxation recoverable		210	210
Pledged bank deposits		11,238	11,185
Bank balances and cash		27,521	28,579
		144,940	128,842
Current liabilities			
Creditors and accrued charges	11	43,915	35,595
Amounts due to fellow subsidiaries		3,743	3,743
Amount due to ultimate holding company		899	884
Taxation payable		1,053	1,225
Bank and other borrowings due within one year		46,522	44,547
		96,132	85,994
Net current assets		48,808	42,848
		189,216	183,691
Capital and reserves			
Share capital		87,714	87,714
Reserves		27,540	23,740
		115,254	111,454
Minority interests		9,709	10,735
Non-current liabilities			
Bank and other borrowings due after one year		57,527	54,747
Deferred taxation		6,726	6,755
		64,253	61,502
		189,216	183,691

III. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Special reserve	Share premium account	Exchange reserve	General reserve	Goodwill	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002,								
as previously reported	87,714	117,554	435,419	868	3,499	(17,878)	(509,159)	118,017
Adjustment on adoption of SSAP 12 (Revised) (note 2)	-	-	-	-	-	-	(7,136)	(7,136)
At 1 January 2002,								
as restated	87,714	117,554	435,419	868	3,499	(17,878)	(516,295)	110,881
Net loss for the period	-	-	-	-	-	-	(13,029)	(13,029)
At 30 June 2002	87,714	117,554	435,419	868	3,499	(17,878)	(529,324)	97,852
Net profit for the period	-	-	-	-	-	-	13,602	13,602
At 31 December 2002	87,714	117,554	435,419	868	3,499	(17,878)	(515,722)	111,454
Goodwill realised upon partial disposal of a subsidiary	-	-	-	-	-	3,657	-	3,657
Net profit for the period	-	-	-	-	-	-	143	143
At 30 June 2003	87,714	117,554	435,419	868	3,499	(14,221)	(515,579)	115,254

IV. CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Net cash used in operating activities	(4,798)	(14,199)
Net cash from (used in) investing activities	1,502	(13,728)
Net cash from financing activities	2,238	12,319
Net decrease in cash and cash equivalents	(1,058)	(15,608)
Cash and cash equivalents at beginning of the period	14,050	12,068
Cash and cash equivalents at end of the period	12,992	(3,540)
Analysis of balances of cash and cash equivalents		
Bank balances and cash	27,521	15,628
Bank overdrafts	(14,529)	(19,168)
	12,992	(3,540)

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") and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. Significant accounting policies

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

In the current period, the Group has adopted SSAP12 (Revised) "Income Taxes", for the first time, issued by the HKSA. SSAP12 (Revised) has introduced a new basis of accounting for deferred tax which have been adopted in the condensed financial statements. The adoption of SSAP12 (Revised) has been applied retrospectively and resulted in increases in accumulated losses of the Group of HK\$7,136,000 at 1 January 2002 and HK\$6,743,000 at 1 January 2003 respectively. The adoption of SSAP12 (Revised) has also resulted in the increases in loss of the Group amounted to HK\$127,000 for the period ended 30 June 2002 and profit of the Group amounted to HK\$29,000 for the period ended 30 June 2003. Comparative amounts for the prior period have been restated in order to achieve a consistent presentation.

Other than the above, the accounting policies adopted are consistent with those followed in the Group's annual audited financial statements for the year ended 31 December 2002.

3. Segment information

Business segments

Six months ended 30 June 2003

	Communication Products HK\$'000	Intelligent Transportation System HK\$'000	Video Conference System HK\$'000	Broadband Wireless Access HK\$'000	Others HK\$'000	Consolidated HK\$'000
Turnover						
External sales	16,088	11,539	14,217	24,073	42	65,959
Result						
Segment result	1,808	(3,377)	1,605	1,740	(321)	1,455
Unallocated corporate expenses						(140)
Profit from operations						1,315
Finance costs						(2,517)
Gain on partial disposal of a subsidiary						17
Loss before taxation						(1,185)
Taxation						(171)
Loss before minority interests						(1,356)

Six months ended 30 June 2002

	Communication Products HK\$'000	Intelligent Transportation System HK\$'000	Video Conference System HK\$'000	Broadband Wireless Access HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Turnover							
External sales	16,110	1,590	10,503	13,344	-	-	41,547
Inter-segment sales*	288	-	-	-	548	(836)	-
	16,398	1,590	10,503	13,344	548	(836)	41,547

* Inter-segment sales are charged at prevailing market rates

Result							
Segment result	(4,058)	(6,858)	1,102	(787)	149	-	(10,452)
Unallocated corporate expenses							(366)
Loss from operations							(10,818)
Finance costs							(3,070)
Loss before taxation							(13,888)
Taxation							(127)
Loss before minority interests							(14,015)

4. Profit (loss) from operations

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Profit (loss) from operations has been arrived at after charging:		
Amortisation of intangible assets	1,298	538
Depreciation of property, plant and equipment	2,165	2,565
and crediting:		
Gain on disposal of property, plant and equipment	375	-
Interest income	90	201
	958	3,304

5. Finance costs

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings		
- wholly repayable within five years	1,291	1,733
- not wholly repayable within five years	266	333
Obligations under finance leases wholly repayable within five years	2	4
Other borrowings wholly repayable within five years	958	1,000
	2,517	3,070

6. Taxation

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Current period taxation:		
Hong Kong Profits Tax	15	-
The People's Republic of China (the "PRC") income tax	185	-
	<hr/>	<hr/>
	200	-
	<hr/>	<hr/>
Deferred taxation:		
Current period	(616)	127
Attributable to a change in tax rate	587	-
	<hr/>	<hr/>
	(29)	127
	<hr/>	<hr/>
Taxation attributable to the Group	171	127
	<hr/>	<hr/>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the period.

Pursuant to relevant laws and regulations in the PRC, the Group's subsidiaries registered in the PRC are entitled to exemption from income tax under certain tax holidays and concessions. Income tax is calculated at rates given under the respective concessions.

No provision for Hong Kong Profits Tax and PRC income tax was made in prior period as the Company and its subsidiaries had no estimated assessable profit for that period.

7. Dividends

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2003.

8. Basic earnings (loss) per share

The calculation of the basic earnings (loss) per share is based on the net profit for the period of HK\$143,000 (net loss for 2002: HK\$13,029,000) and on 877,139,763 (2002: 877,139,763) shares in issue throughout the period.

9. Property, plant and equipment

During the period, the Group spent HK\$778,000 (30 June 2002: HK\$1,418,000) on acquisition of property, plant and equipment.

During the period, the Group disposed of property, plant and equipment with a carrying amount of HK\$4,316,000 for proceeds of HK\$4,691,000, resulting in gain on disposal of HK\$375,000.

10. Debtors and prepayments

Included in debtors and prepayments are trade debtors of HK\$28,666,000 (31 December 2002: HK\$30,648,000). The Group allows an average credit period of 30 to 90 days to its trade customers. The following is an aged analysis of trade debtors:

	Unaudited	Audited
	30.6.2003	31.12.2002
	HK\$'000	HK\$'000
Within 30 days	23,886	25,426
Between 31 and 90 days	840	4,294
Between 91 and 180 days	3,940	928
	<hr/> 28,666	<hr/> 30,648

11. Creditors and accrued charges

Included in creditors and accrued charges are trade creditors of HK\$21,972,000 (31 December 2002: HK\$12,323,000). The following is an aged analysis of trade creditors:

	Unaudited	Audited
	30.6.2003	31.12.2002
	HK\$'000	HK\$'000
Within 30 days	11,854	1,518
Between 31 and 90 days	5,491	6,959
Between 91 and 180 days	929	-
Between 181 and 365 days	2,155	47
Over 1 year	1,543	3,799
	<hr/> 21,972	<hr/> 12,323

12. Related party transactions

During the period, the Group had the following transactions with related parties:

	Unaudited	
	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Ultimate holding company		
Rental expenses and management fee paid (<i>note a</i>)	21	15
Fellow subsidiaries		
Rental expenses paid (<i>note a</i>)	-	3
Subcontracting charges received (<i>note b</i>)	-	49
Disposal of property, plant and equipment (<i>note c</i>)	6	-
Associate		
Goods sold (<i>note b</i>)	4,914	1,542
Goods purchased (<i>note b</i>)	15,892	9,482
Disposal of property, plant and equipment (<i>note c</i>)	4,500	-
Management fee income received (<i>note d</i>)	387	-

Notes:

- (a) Rental expenses 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 from/to related parties were determined on a cost plus basis.
- (c) The proceeds from disposal of property, plant and equipment were determined by the directors with reference to the estimated open market value.
- (d) Management fee income was received with reference to the estimated market price for the services rendered as determined by the directors.
- (e) The balances with associates, fellow subsidiaries and ultimate holding company were unsecured, non-interest bearing and had no fixed repayment terms.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of operation

For the six months ended 30 June 2003, the Group's turnover increased by 58.8% to HK\$65,959,000. Operating profit for the period was HK\$1,315,000 as compared to a loss of HK\$10,818,000 for the corresponding period of 2002.

BUSINESS REVIEW AND PROSPECTS

Following the management restructuring at the end of 1999, the Group has firmly carried out business restructuring during the subsequent years. Resources were concentrated on broadband wireless communication technology and its applications. With all efforts in fostering and supporting business of broadband wireless access, intelligent transportation system, video conferencing system and communication terminal products, the Group carried out stringent control on costs and significantly cut down administrative expenses. Through the steps in tapping new resources and cutting expenses have resulted in a steady increase in proportion of new businesses with better profits margin in the Group's total turnover. Although in the reporting period, the Group's activities really suffered impacts more or less from SARS, the Group finally saw satisfactory results by all the staff's efforts.

Broadband Wireless Access

In July 2002, the PRC's Radio Regulatory Committee exercised a liberalization of access to the frequency band in the 5 GHz range. Since then, the Group's CB-ACCESS wireless access system has been selected as network construction equipment during the first half of this year by large operators and ISP in domestic communication market, such as China Telecom, China Netcom, China Unicom, China Mobile, China Railcom and CETC Communications. Meanwhile, at the beginning of this year, the CB MUX series products successfully developed by a subsidiary of the Group engaged in broadband business were well received by the market and secured plenty of overseas and domestic orders, an evidence of the Group's technical and competitive edges. Currently, the Group is developing wireless access system working on other frequency bands, which is expected to contribute satisfactory profits in the future.

Intelligent Transportation System

The Group continued to develop the intelligent transportation business, providing the public with total solutions as well as operation services.

In respect of total solutions, during the first half of this year, the Group has completed the development of two types of products, namely, the mobile control unit based on GPRS communicated environment and the central managing software based on internet transmission. Meanwhile, the Group continued to cooperate with the China General Administration of Customs for promoting projects like IC card management system, electronic guardrail system and GPS vehicle control throughout Customs in China.

As regards intelligent transportation operation service, during the first half of the year, the Group promoted its business under the unified brand name HangTianQiHua, especially in the areas of Beijing, Tangshan, Shenzhen and Hong Kong and received good response. In Beijing, the Group entered into the mobile control unit installation and service contracts with Capital Taxi Co. Ltd., and Beijing Beiqi Municipal Taxi Group Co. The Group also signed a cooperation agreement with Huatai Insurance Co. Ltd., for promotion of the Group's mobile control unit installation and theft preventing service among users of insured vehicles. In addition, the Group also carried out operation service activities in Hong Kong and Shenzhen. Thanks to the above measures, the Group's intelligent transportation operation service recorded significant increase in operating revenue during the first half of the year.

Video Conferencing System Business

The Group's video conferencing system business targets at local public security departments across the PRC. Operating revenue from this business had a good performance with consecutively several folds increase in recent years. The Group's video conferencing system products are very popular among users for their outstanding performance in terms of function and features at major national or international meetings. In the first half of the year, the Group continued to negotiate with over ten domestic public security departments and bureaus on the cooperation in respect of construction of video conferencing systems. And the business progressed well.

Communication Products

In the first half of the year, the production base in which the Group undertook its business of communication terminal products was satisfactorily reviewed and accredited with ISO9001:2000 certification. For the first half of the year, orders for communication terminal products and computer wireless peripheral products undertaken by the Group from overseas and domestic market maintained at a rational level.

Human resources

At 30 June 2003, the Group employed 256 (31 December 2002: 238) employees. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides provident funds and medical insurance to its employees. In addition, discretionary performance related bonus and share option schemes are available and are at the discretion of the directors.

FINANCIAL REVIEW

Liquidity and financial resources

Total borrowings of the Group as at 30 June 2003 was HK\$104,049,000 (31 December 2002: 99,294,000), of which HK\$46,800,000 was fixed rate borrowings and the remaining was floating rate. All borrowings of the Group were determined at market interest rate. The Group has not issued any financial instruments for hedging or other purposes.

Gearing ratio (total borrowings over shareholders' equity) as at 30 June 2003 was 90% (31 December 2002: 89%).

Pledge of assets

As at 30 June 2003, the Group had pledged certain land and buildings with carrying value of HK\$25,635,000 (31 December 2002: HK\$26,166,000) to secure general banking facilities. Bank deposits amounted to HK\$11,238,000 (31 December 2002: HK\$11,185,000) have been pledged to secure short term borrowings.

Exchange and other exposures

Most of the Group's business transactions were conducted in Hong Kong dollars, Renminbi and United States dollars. The Group expected that the exposure to exchange rates fluctuation was minimal and therefore have not engaged in any hedging activities.

The Group did not have any contingent liabilities as at 30 June 2003.

Amounts due from associates

As at 30 June 2003, the amounts due from two associates, which represented 55% (31 December 2002: 48%) of the Group's net assets of HK\$115,254,000 (31 December 2002: HK\$111,454,000) is analysed as follows:

	Unaudited 30 June 2003 HK\$'000	Audited 31 December 2002 HK\$'000
Shandong Kongwei Electronics Company Limited ("Shandong Kongwei")	63,355	63,401
Southern Telecommunication Development Company Limited ("Southern Telecom")	242,079	232,320
	305,434	295,721
Allowance for amounts due from associates	(242,000)	(242,000)
	63,434	53,721

The amounts due include: (1) outstanding dividends receivable of previous years which were retained in the associates as additional working capital, (2) advances for the purpose of providing additional working capital and (3) trade credit facilities utilised by the associates in previous years. The amounts are unsecured, non-interest bearing and overdue. In light of their respective financial positions, these associates have not been able to settle the outstanding amounts. An allowance of HK\$242 million was recognised in previous years.

With a view to protecting the Group's interest and monitoring the repayment of amount due from Southern Telecom, the Group has actively participated in its business strategy and operations. The Group is in continuing negotiation with the managing joint venture partner of Shangdong Kangwei for the settlement of the outstanding amount.

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 2003.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 30 June 2003, none of the directors or chief executives or their associates had any beneficial or non-beneficial interest or short position in the share capital of the Company or its subsidiaries or any of its associated corporations (within the meaning of the Securities and Futures Ordinance) as recorded in the register to be kept under section 352 of the Securities and Futures Ordinance.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2003, the register of interests in shares and short positions kept under Section 336 of the Securities and Futures Ordinance showed that (other than directors or chief executives of the Company) the following shareholders had an interest or short position of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of shares (Note 1)	Percentage of shareholding
China Aerospace Science & Technology Corporation ("CASC")	Interest of a controlled corporation (Note 2)	449,244,000 (L)	51.2%
		21,000,000 (S)	
China Aerospace International Holdings Limited ("CASIL")	Interest of a controlled corporation (Note 3)	449,244,000 (L)	51.2%
		21,000,000 (S)	
Astrotech Group Limited ("Astrotech")	Beneficial owner	449,244,000 (L)	51.2%
		21,000,000 (S)	

Notes:

- The letters "L" and "S" denote the shareholder's long position and short position in the shares, respectively.
- CASC is deemed to be interested in 449,244,000 shares and in the short position of 21,000,000 shares as it holds approximately 41.86% of the issued share capital of CASIL.
- Astrotech is a wholly owned subsidiary of CASIL. Accordingly, CASIL is deemed to be interested in all the shares and in the short position held by Astrotech.

AUDIT COMMITTEE

Up to the date of this report, two formal meetings of the Audit Committee were held in 2003 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 ended 30 June 2003.

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 2003, in compliance with Appendix 14 of the Listing Rules.

By Order of the Board
Wang Xiaodong
Managing Director

Hong Kong, 3 September 2003