



CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

航天科技國際集團有限公司



interim report 2003

The Board of Directors (the "Board") of China Aerospace International Holdings Limited (the "Company") is pleased 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 2003 together with the comparative figures of the same period in 2002 are as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2003

	Notes	For the six months ended	
		2003 (Unaudited)	2002 (Unaudited and as restated)
		HK\$'000	HK\$'000
Turnover	3	576,220	523,475
Cost of sales and services		(448,298)	(403,438)
Gross profit		127,922	120,037
Other operating income		41,551	5,967
Distribution costs		(20,602)	(20,287)
Administrative expenses		(97,058)	(100,656)
Profit from operations	4	51,813	5,061
Finance costs		(32,570)	(40,826)
Share of results of associates		(1,993)	(284)
Gain on partial disposal of subsidiaries		54	–
Gain on disposal of subsidiaries and an associate		–	2,646
Profit (loss) before taxation		17,304	(33,403)
Taxation	5	(2,862)	(2,215)
Profit (loss) before minority interests		14,442	(35,618)
Minority interests		1,064	7,794
Net profit (loss) for the period		15,506	(27,824)
Earnings (loss) per share	6		
Basic		0.7 cents	(1.3) cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

AT 30 JUNE 2003

	Notes	30.6.2003 (Unaudited) HK\$'000	31.12.2002 (Audited and restated) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	8	802,888	811,241
Investment properties	8	202,495	208,405
Development costs		8,597	7,551
Technology licence right		33,930	33,930
Goodwill		4,044	–
Interests in associates		89,526	91,519
Investments in securities		227,029	227,029
		<b>1,368,509</b>	<b>1,379,675</b>
<b>Current assets</b>			
Inventories		139,682	211,484
Trade and other receivables	9	292,684	241,458
Loans receivable		638,743	653,737
Amounts due from associates		26,519	24,798
Taxation recoverable		334	521
Pledged bank deposits		78,676	78,573
Bank balances and cash		302,541	290,504
		<b>1,479,179</b>	<b>1,501,075</b>
<b>Current liabilities</b>			
Trade and other payables	10	759,190	750,207
Amounts due to associates		22,723	22,723
Taxation payable		14,791	14,168
Obligations under finance leases			
– amount due within one year		3,726	3,137
Bank loans and overdrafts	11	539,362	546,845
Other loans – amount due within one year	12	62,400	–
		<b>1,402,192</b>	<b>1,337,080</b>
<b>Net current assets</b>			
		<b>76,987</b>	<b>163,995</b>
<b>Total assets less current liabilities</b>			
		<b>1,445,496</b>	<b>1,543,670</b>
<b>Non-current liabilities</b>			
Amount due to a major shareholder		176,647	176,647
Obligations under finance leases			
– amount due after one year		3,702	1,684
Bank loans	11	231,397	252,064
Other loans – amount due after one year	12	103,286	202,435
Deferred taxation		25,017	23,920
		<b>540,049</b>	<b>656,750</b>
<b>Minority interests</b>			
		<b>60,615</b>	<b>61,251</b>
		<b>844,832</b>	<b>825,669</b>
<b>Capital and reserves</b>			
Share capital	13	2,142,420	2,142,420
Reserves		(1,297,588)	(1,316,751)
		<b>844,832</b>	<b>825,669</b>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30 JUNE 2003

	Share capital HK\$'000	Share premium HK\$'000	Investment property revaluation reserve HK\$'000	Special capital reserve HK\$'000	General reserve HK\$'000	Negative goodwill reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Capital redemption reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2002											
-As originally stated	2,142,420	939,048	9,243	14,044	23,916	347	(17,878)	(33,222)	1,080	(1,918,508)	1,160,490
-Adjustment on adoption of Statement of Standard Accounting Practice 12 (Revised) (note 2)	-	-	-	-	-	-	-	-	-	(20,474)	(20,474)
- As restated	2,142,420	939,048	9,243	14,044	23,916	347	(17,878)	(33,222)	1,080	(1,938,982)	1,140,016
Translation of accounts of overseas subsidiaries and associates not recognised in the income statement	-	-	-	-	-	-	-	(11)	-	-	(11)
Eliminated on disposal of investment properties	-	-	(1,285)	-	-	-	-	-	-	-	(1,285)
Net loss for the period	-	-	-	-	-	-	-	-	-	(27,824)	(27,824)
At 30 June 2002	2,142,420	939,048	7,958	14,044	23,916	347	(17,878)	(33,233)	1,080	(1,966,806)	1,110,896
Eliminated on disposal of investment properties	-	-	(7,958)	-	-	-	-	-	-	-	(7,958)
Realised on disposal of overseas subsidiaries and an associate	-	-	-	-	-	-	-	(3,675)	-	-	(3,675)
Net loss for the period	-	-	-	-	-	-	-	-	-	(273,594)	(273,594)
At 31 December 2002	2,142,420	939,048	-	14,044	23,916	347	(17,878)	(36,908)	1,080	(2,240,400)	825,669
Goodwill realised upon partial disposal of subsidiaries	-	-	-	-	-	-	3,657	-	-	-	3,657
Net profit for the period	-	-	-	-	-	-	-	-	-	15,506	15,506
At 30 June 2003	<u>2,142,420</u>	<u>939,048</u>	<u>-</u>	<u>14,044</u>	<u>23,916</u>	<u>347</u>	<u>(14,221)</u>	<u>(36,908)</u>	<u>1,080</u>	<u>(2,224,894)</u>	<u>844,832</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30 JUNE 2003

	<b>For the six months ended</b>	
	<b>30 June</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash from (used in) operating activities	<b>114,573</b>	(16,993)
Net cash from investing activities	<b>3,522</b>	26,001
Net cash (used in) from financing activities	<b>(99,767)</b>	1,937
Net increase in cash and cash equivalents	<b>18,328</b>	10,945
Cash and cash equivalents at beginning of the period	<b>221,086</b>	191,976
Cash and cash equivalents at end of the period	<b>239,414</b>	202,921
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	<b>302,541</b>	283,540
Bank overdrafts	<b>(63,127)</b>	(80,619)
	<b>239,414</b>	202,921

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2003

### 1. BASIS OF PREPARATION

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

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

In the current period, the Group has adopted Statement of Standard Accounting Practice (“SSAP”) 12 (Revised) “Income taxes”, for the first time, issued by the HKSA. SSAP 12 (Revised) has introduced a new basis of accounting for income taxes. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. The adoption of SSAP 12 (Revised) has been applied retrospectively and resulted in increases in accumulated losses of the Group at 1 January 2002 and 1 January 2003 by HK\$20,474,000 and HK\$20,619,000, respectively. The adoption of SSAP 12 (Revised) has also resulted in the decrease in net loss of the Group amounted to HK\$4,000 for the six months ended 30 June 2002 and decrease in net profit of the Group amounted to HK\$1,105,000 for the six months ended 30 June 2003. Comparative amounts for the prior period have been restated in order to achieve a consistent presentation.

Other accounting policies adopted are consistent with those followed in the preparation of the Group’s annual audited financial statements for the year ended 31 December 2002.

### 3. SEGMENT INFORMATION

#### (a) Business segments

The Group's turnover and segment results analysed by business segments which is the primary segment, are as follows:

For the six months ended 30 June 2003

	Turnover			Profit (loss) from operations			
	External sales	Inter-segment sales	Total	Segment result	Un-allocated corporate income (note 4)	Un-allocated corporate expenses	Profit from operations
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacturing							
Plastic products	142,325	9,400	151,725	15,398			
Liquid crystal display	32,057	-	32,057	1,350			
Audio-video products	103,129	-	103,129	(5,591)			
Printed circuit boards	37,539	-	37,539	5,593			
Telecommunication products	65,959	-	65,959	1,316			
Intelligent chargers and security system	109,904	432	110,336	14,388			
Other products	5,220	-	5,220	(3,416)			
	496,133	9,832	505,965	29,038			
Property	69,613	4,528	74,141	10,927			
Trading	10,088	-	10,088	(149)			
Finance	386	2,357	2,743	4,831			
	576,220	16,717	592,937	44,647			
Eliminations	-	(16,717)	(16,717)	(8,307)			
	576,220	-	576,220	36,340	36,273	(20,800)	51,813

Inter-segment sales are charged at prevailing market prices.

## 3. SEGMENT INFORMATION (Continued)

## (a) Business segments (Continued)

For the six months ended 30 June 2002

	Turnover			Profit (loss) from operations			
	External sales	Inter-segment sales	Total	Segment result	Un-allocated corporate income (note 4)	Un-allocated corporate expenses	Profit from operations
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Manufacturing							
Plastic products	120,369	7,879	128,248	17,727			
Liquid crystal display	31,510	–	31,510	1,660			
Audio-video products	114,182	–	114,182	(9,529)			
Printed circuit boards	46,985	–	46,985	8,971			
Telecommunication products	41,547	–	41,547	(11,176)			
Intelligent chargers and security system	79,127	419	79,546	11,220			
Other products	8,823	12	8,835	(12,750)			
	442,543	8,310	450,853	6,123			
Property	23,219	3,764	26,983	19,349			
Trading	53,067	–	53,067	(556)			
Finance	4,646	3,128	7,774	7,186			
Others	–	–	–	1,028			
	523,475	15,202	538,677	33,130			
Eliminations	–	(15,202)	(15,202)	(8,408)			
	523,475	–	523,475	24,722	–	(19,661)	5,061



## 3. SEGMENT INFORMATION (Continued)

## (b) Geographical segments

	Turnover		Profit (loss) from operations	
	1.1.2003 to 30.6.2003 HK\$'000	1.1.2002 to 30.6.2002 HK\$'000	1.1.2003 to 30.6.2003 HK\$'000	1.1.2002 to 30.6.2002 HK\$'000
Hong Kong	370,620	380,192	57,683	34,285
Other parts of the People's Republic of China ("PRC")	205,600	143,283	14,930	(9,563)
	<u>576,220</u>	<u>523,475</u>	<u>72,613</u>	<u>24,722</u>
Unallocated corporate expenses			(20,800)	(19,661)
Profit from operations			<u>51,813</u>	<u>5,061</u>

**4. PROFIT FROM OPERATIONS**

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

	<b>1.1.2003</b>	1.1.2002
	<b>to</b>	to
	<b>30.6.2003</b>	30.6.2002
	<b>HK\$'000</b>	HK\$'000
Amortisation of development costs	1,172	1,566
Amortisation of goodwill included in administrative expenses	207	–
Depreciation on property, plant and equipment	27,538	28,685
Gain on disposal of investment properties	(470)	(1,217)
(Gain) loss on disposal of property, plant and equipment	(130)	191
Dividend income from listed investment securities	–	(3,090)
Interest income	(386)	(1,557)
Waiver of interest expense on other loans ( <i>note</i> )	(36,273)	–
	<u>          </u>	<u>          </u>

*Note:* The amount represents interest expense waived by a lender of other loans for early repayment of the loan by the Company during the period. The amount was included in other operating income.

**5. TAXATION**

	<b>1.1.2003</b>	1.1.2002
	<b>to</b>	to
	<b>30.6.2003</b>	30.6.2002
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
Current tax		
– Hong Kong Profits Tax	1,563	1,968
– Overseas income tax	202	193
	<u>          </u>	<u>          </u>
	1,765	2,161
Deferred tax		
– Current period	(1,098)	54
– Attributable to change in tax rate	2,195	–
	<u>          </u>	<u>          </u>
	1,097	54
Taxation attributable to the Company and its subsidiaries	<u>          </u>	<u>          </u>
	2,862	2,215

**5. TAXATION** *(Continued)*

Hong Kong Profits Tax is calculated at 17.5% (for the six months ended 30 June 2002: 16%) on the estimated assessable profits for the period.

Overseas income tax represented the income tax of the PRC. Pursuant to relevant laws and regulations in the PRC, the Company's subsidiaries are entitled to exemption from income tax under certain tax holidays and concessions. Income tax was calculated at rates given under the concessions.

**6. EARNINGS (LOSS) PER SHARE**

The calculation of basic earnings (loss) per share for the period is based on the net profit for the period of HK\$15,506,000 (for the six months ended 30 June 2002: net loss of HK\$27,824,000) and on 2,142,420,000 shares (for the six months ended 30 June 2002: 2,142,420,000 shares) in issue during the period.

**7. DIVIDEND**

No interim dividend was paid by the Company during the period (for the six months ended 30 June 2002: nil).

**8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES**

During the period, the Group disposed of property, plant and equipment with a carrying value of HK\$5,608,000 for proceeds of HK\$5,738,000, resulting in a gain on disposal of HK\$130,000.

Moreover, during the period, the Group disposed of investment properties with a carrying value of HK\$5,910,000 for proceeds of HK\$6,380,000, resulting in a gain on disposal of HK\$470,000.

In addition, the Group spent HK\$24,793,000 (for the six months ended 30 June 2002: HK\$27,640,000) on acquisition of property, plant and equipment.

**9. TRADE AND OTHER RECEIVABLES**

At 30 June 2003, included in trade and other receivables are trade receivables of HK\$185,671,000 (31.12.2002: HK\$163,147,000). The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables at the reporting date:

	<b>30.6.2003</b>	31.12.2002
	<b>HK\$'000</b>	HK\$'000
Within 90 days	<b>166,649</b>	143,243
Between 91–180 days	<b>9,679</b>	10,614
Between 181–365 days	<b>5,642</b>	6,025
Between 1 to 2 years	<b>2,537</b>	3,265
Over 2 years	<b>1,164</b>	–
	<b>185,671</b>	163,147

**10. TRADE AND OTHER PAYABLES**

At 30 June 2003, included in trade and other payables are trade payables of HK\$313,246,000 (31.12.2002: HK\$328,799,000). The following is an aged analysis of trade payables at the reporting date:

	<b>30.6.2003</b>	31.12.2002
	<b>HK\$'000</b>	HK\$'000
Within 90 days	<b>91,547</b>	129,711
Between 91–180 days	<b>27,533</b>	6,200
Between 181–365 days	<b>13,541</b>	3,413
Between 1 to 2 years	<b>19,721</b>	36,045
Over 2 years	<b>160,904</b>	153,430
	<b>313,246</b>	328,799

**11. BANK LOANS AND OVERDRAFTS**

During the period, the Group obtained new bank loans of HK\$3,000,000 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 five years. As at 30 June 2003, the Group's investment properties, property, plant and equipment and bank deposits with aggregate net book values of HK\$177,006,000, HK\$108,278,000 and HK\$78,676,000, respectively, were pledged for the Group's bank loans.

In addition, the Company's interest in a listed subsidiary of HK\$121,290,480 was also pledged to the banks.

## 12. OTHER LOANS

	30.6.2003	31.12.2002
	HK\$'000	HK\$'000
Other loans are repayable:		
– within one year	62,400	–
– in the second to the fifth year inclusive	103,286	202,435
	<b>165,686</b>	202,435
<i>Less:</i> Amount due within one year shown under current liabilities	(62,400)	–
Amount due after one year	<b>103,286</b>	202,435
Other loans comprise:		
Loans from third parties ( <i>note a</i> )	56,558	93,307
Guaranteed exchangeable fixed/floating rate notes ( <i>note b</i> )	62,400	62,400
Guaranteed floating rate notes ( <i>note c</i> )	46,728	46,728
	<b>165,686</b>	202,435

*Notes:*

- a. Loans from third parties represent advances from independent third parties. The amounts are unsecured, bear interest at 4.25% or prime rate per annum and are repayable in December 2004.
- b. In 2001, a subsidiary of the Company issued US\$8,000,000 guaranteed exchangeable fixed/floating rate notes due 2004 which were in bearer form in the denomination of US\$1,000,000 each and will mature in March 2004. 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 rate (for six-month US dollar deposits) thereafter. Unlisted investment securities with a carrying value of HK\$76,662,000 are pledged for the notes.
- c. In 2001, a subsidiary of the Company issued US\$6,000,000 guaranteed secured floating rate notes due 2004 which were in bearer form in the denomination of US\$250,000 each and will mature in September 2004. The notes are interest bearing at 1.5% above London interbank offered rate. Listed investment securities with a carrying value of HK\$50,742,000 are pledged for the notes.

**13. SHARE CAPITAL**

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

**14. CAPITAL COMMITMENTS**

	<b>30.6.2003</b>	31.12.2002
	<b>HK\$'000</b>	HK\$'000
Capital expenditure contracted for but not provided in the condensed financial statements in respect of:		
Capital contribution to investee companies	<b>2,939</b>	2,939
Purchase of property, plant and equipment	<b>12,326</b>	5,139
Properties under development	<b>6,026</b>	5,672
	<b><u>21,291</u></b>	<u>13,750</u>

**15. CONTINGENT LIABILITIES**

	<b>30.6.2003</b>	31.12.2002
	<b>HK\$'000</b>	HK\$'000
Guarantees given for banking and finance facilities granted to third parties	<b><u>4,450</u></b>	<u>4,450</u>

## BUSINESS REVIEW

As at 30 June 2003, the turnover of the Group for the first half of 2003 was HK\$576,220,000, representing an increase of 10.08% over the previous period. The profit before taxation was HK\$17,304,000 and the net profit was HK\$15,506,000. It was the first time the Group recorded profits since 1998.

During the first half of 2003, the overall business environment was full of challenges. Due to the Iraqis war and the outbreak of SARS, the cost of raw materials skyrocketed and consumer demand weakened. Besides, the competition in IT products became intense, this further narrowed profit margins. Under such a harsh condition, the Group managed to increase profitability by adopting effective measures to strengthen market exploration and enhance management. Compared with the previous period, the Group recorded an increase in the overall gross profit by 6.6%, the finance costs decreased by 20.2%, and the administrative and general expenses decreased by 3.6%.

The hi-tech industries of the Group remained solidly competent through technical innovations and equipment renewals during recent years. The turnover and the operating profits for the first half of this year recorded steady growth compared to the previous year. In particular, the growth rate was significant in businesses of intelligent battery chargers and plastic injection. The LCD business managed to maintain the same level of turnover and profits as the previous year while its production lines were under innovations. The price of PCB continued to slip in the international market which led to a drop in its turnover and profit. Yet, the television manufacturing business had been making progress in the exploration of the overseas markets which contributed to a reduction in inventory and remarkably in the operating loss.

The network-based information technology business had made a new progress. CASIL Telecommunications Holdings Limited, a subsidiary of the Company, aggressively develops businesses of broadband wireless access system and intelligent transportation system. It recorded profits again after realizing the aim of turning loss to profits last year. The number of subscribers of digital TV set-top boxes, developed by the Company's research & development subsidiary, continues to grow in Changzhou City, Jiangsu Province. Through public tender in April 2003, the subsidiary became one of the two set-top box suppliers of China Cable Network Company Limited to provide digital broadcasting business in Wenzhou City and Zhaoxing City, Zhejiang Province.

The disposal of non-core assets is the direction of the Group's business transformation. The Group has disposed some of its properties located in Hong Kong and the mainland China amounting to over HK\$60 million. For the remaining properties, effective measures have been adopted to reduce vacancy rate, to raise property management level and maintain a stable rental income. Besides, the Group had made a progress in reducing the outstanding amount of loans receivable.

## MANAGEMENT DISCUSSION AND ANALYSIS

### I. ASSETS AND LIABILITIES

As at 30 June 2003, the total assets of the Group were HK\$2,847,688,000, in which the non-current portion and the current portion were HK\$1,368,509,000 and HK\$1,479,179,000 respectively. The total liabilities were about HK\$1,942,241,000, of which the current and the non-current portion of bank loans were HK\$543,088,000 and HK\$235,099,000 respectively. The contingent liabilities were about HK\$4,450,000 which were more or less the same as that of the end of last year. The assets/liabilities ratio was 68.2% and the current ratio was 1.05, both were similar to that of the end of last year. The Group did not have any material financial changes to be disclosed.

### II. CASH FLOW

The source of funding of the Group mainly comes from its internal financial resources and banking facilities. The Group's cash on hand as at 30 June 2003 was about HK\$381,217,000, most of which was in HK dollars and the rest in RMB and US dollars.

### III. MORTGAGED ASSETS

A couple of the Group's real estates and investments have been mortgaged to banks with interest calculated at prime rate, and their remaining terms by installment vary from 3 to 10 years.

### IV. HUMAN RESOURCES

As at 30 June 2003, the Group has made no major changes in the information related to human resources as stated in its 2002 Annual Report.

## BUSINESS OUTLOOK

Anticipating the second half of the year, global economy is expected to fasten its pace in recovery though fierce competition is going to remain. The Group will continue to enhance the competitive advantage of its hi-tech industrial products, endeavour to explore overseas and mainland markets, strengthen business reorganisation and increase investment in new products and gradually form a new economic growth point. The Group will also further enhance its internal management and reduce cost to maintain a continuous growth in profitability.



## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2003, none of the directors, chief executives or their associates have any beneficial, non-beneficial interests or short position 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 Part XV of the Securities & Futures 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 2003, the following declarations of interests by shareholders holding 5% or more of the issued capital of the Company have been recorded in the Register of Interests pursuant to Part XV of the Securities & Futures Ordinance:

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

*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.

## CORPORATE GOVERNANCE

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.

During the first half of 2003, in order to improve communications, the executive directors of the Company held several meetings with the independent non-executive directors to discuss and supervise the operations of the Group.

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

As at 30 June 2003, the Company had an outstanding loan amounting to US\$5,500,000 (approximately HK\$42,900,000). The loan agreement contains a covenant that the controlling shareholder of the Company, China Aerospace Science & Technology Corporation, will maintain a minimum percentage of shareholding of 40% in the Company, the breach of which would trigger an event of default on the related loan facility.

A wholly-owned subsidiary of the Company had made an advance to a third party in the past. The outstanding balance of the advance was HK\$234,872,296.05 as at 30 June 2003, representing 29% of the Group's audited net worth as at 31 December 2002.

## APPRECIATION

I would like to take this opportunity, on behalf of the Board of the Directors, to express 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  
**Rui Xiaowu**  
*Chairman*

Hong Kong SAR, 17 September 2003

**德勤·關黃陳方會計師行**Certified Public Accountants  
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Hong Kong香港中環干諾道中111號  
永安中心26樓**Deloitte  
Touche  
Tohmatsu****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 13.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the Statement of Standard Accounting Practice 25 “Interim financial reporting” issued by the Hong Kong Society of Accountant and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the content of this report.

**REVIEW WORK PERFORMED**

We conducted our review in accordance with the Statement of Auditing Standards 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 2003.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

Hong Kong, 17 September 2003