

Interim Report 2004



CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED
航天科技國際集團有限公司

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 2004 together with the comparative figures of the same period in 2003 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

	Notes	1.1.2004 to 30.6.2004 HK\$'000 (Unaudited)	1.1.2003 to 30.6.2003 HK\$'000 (Unaudited)
Turnover	3	610,948	576,220
Cost of sales and services		(465,040)	(448,298)
Gross profit		145,908	127,922
Other operating income		2,695	41,551
Distribution costs		(21,697)	(20,602)
Administrative expenses		(87,980)	(97,058)
Profit from operations	4	38,926	51,813
Finance costs		(25,880)	(32,570)
Share of results of associates		(12,241)	(1,993)
Gain on deemed disposal of subsidiaries and associates	5	65,806	–
Allowance for amounts due from associates	6	(27,959)	–
Gain on deemed disposal of an associate	7	11,590	–
Gain on partial disposal of subsidiaries		–	54
Profit before taxation		50,242	17,304
Taxation	8	(1,796)	(2,862)
Profit before minority interests		48,446	14,442
Minority interests		(115)	1,064
Net profit for the period		48,331	15,506
Earnings per share	9		
– Basic		2.3 cents	0.7 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

	Notes	30.6.2004 HK\$'000 (Unaudited)	31.12.2003 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	705,123	719,664
Investment properties	11	190,674	199,545
Interests in associates		170,064	121,814
Investments in securities		227,029	227,029
		1,292,890	1,268,052
Current assets			
Inventories		140,467	116,414
Trade and other receivables	12	296,129	333,525
Loans receivable		633,719	635,588
Amounts due from associates		6,294	8,597
Taxation recoverable		117	177
Pledged bank deposits		67,376	67,407
Bank balances and cash		299,011	301,440
		1,443,113	1,463,148
Current liabilities			
Trade and other payables	13	640,616	640,325
Amounts due to associates		40,058	38,014
Taxation payable		16,830	12,965
Obligations under finance leases – amount due within one year		7,687	5,114
Bank loans and overdrafts	14	599,539	604,660
Other loans	15	100,659	116,449
		1,405,389	1,417,527
Net current assets		37,724	45,621
Total assets less current liabilities		1,330,614	1,313,673
Non-current liabilities			
Amount due to a major shareholder		176,647	176,647
Obligations under finance leases – amount due after one year		10,831	3,196
Secured bank loans	14	176,016	212,320
Deferred taxation		16,891	18,019
		380,385	410,182
Minority interests		19,272	19,157
		930,957	884,334
Capital and reserves			
Share capital	16	2,142,420	2,142,420
Reserves		(1,211,463)	(1,258,086)
		930,957	884,334

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

	Share capital HK\$'000	Share premium 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 2003	2,142,420	939,048	14,044	23,916	347	(17,878)	(36,908)	1,080	(2,237,181)	828,888
Goodwill realised upon partial disposal of subsidiaries	-	-	-	-	-	3,657	-	-	-	3,657
Net profit for the period	-	-	-	-	-	-	-	-	15,506	15,506
At 30 June 2003	2,142,420	939,048	14,044	23,916	347	(14,221)	(36,908)	1,080	(2,221,675)	848,051
Reserves realised upon deemed disposal of subsidiaries	-	-	-	-	-	14,221	7,372	-	-	21,593
Net profit for the period	-	-	-	-	-	-	-	-	14,690	14,690
At 31 December 2003	2,142,420	939,048	14,044	23,916	347	-	(29,536)	1,080	(2,206,985)	884,334
Exchange differences on translation of overseas subsidiaries not recognised in the income statement	-	-	-	-	-	-	16	-	-	16
Reserves realised upon disposal of subsidiaries	-	-	-	180	-	-	(1,724)	-	(180)	(1,724)
Net profit for the period	-	-	-	-	-	-	-	-	48,331	48,331
At 30 June 2004	2,142,420	939,048	14,044	24,096	347	-	(31,244)	1,080	(2,158,834)	930,957

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

	1.1.2004 to 30.6.2004 HK\$'000 (Unaudited)	1.1.2003 to 30.6.2003 HK\$'000 (Unaudited)
Net cash from operating activities	72,580	114,573
Net cash from investing activities	5,213	3,522
Net cash used in financing activities	(80,367)	(99,767)
Net (decrease) increase in cash and cash equivalents	(2,574)	18,328
Cash and cash equivalents at beginning of the period	254,232	221,086
Cash and cash equivalents at end of the period	251,658	239,414
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	299,011	302,541
Bank overdrafts	(47,353)	(63,127)
	251,658	239,414

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") 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.

The 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 2003.

3. SEGMENT INFORMATION

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 2004

	Turnover			Profit (loss) from operations		
	External sales HK\$'000	Inter-segment sales HK\$'000	Total HK\$'000	Segment result HK\$'000	Unallocated corporate expenses HK\$'000	Profit from operations HK\$'000
Manufacturing						
Plastic products	208,381	10,952	219,333	26,137		
Liquid crystal display	40,108	–	40,108	2,447		
Audio-video products	151,964	–	151,964	982		
Printed circuit boards	58,063	–	58,063	9,759		
Intelligent chargers and security system	113,370	330	113,700	18,189		
Other products	464	–	464	(3,452)		
	572,350	11,282	583,632	54,062		
Property	33,163	4,740	37,903	14,261		
Trading	5,195	–	5,195	(1,405)		
Finance	240	663	903	(2,489)		
Others	–	–	–	200		
	610,948	16,685	627,633	64,629		
Eliminations	–	(16,685)	(16,685)	(7,139)		
	610,948	–	610,948	57,490	(18,564)	38,926

Inter-segment sales are charged at prevailing market prices.

3. SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2003

	Turnover			Profit (loss) from operations			
	External sales	Inter-segment sales	Total	Segment result	Unallocated corporate income	Unallocated 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

4. PROFIT FROM OPERATIONS

	1.1.2004 to 30.6.2004 HK\$'000	1.1.2003 to 30.6.2003 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Amortisation of development costs	–	1,172
Amortisation of goodwill included in administrative expenses	–	207
Depreciation on property, plant and equipment	23,824	27,538
Gain on disposal of investment properties	(1,547)	(470)
Gain on disposal of property, plant and equipment	(172)	(130)
Interest income	(240)	(386)
Waiver of interest expense on other loans (<i>Note</i>)	–	(36,273)

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

5. GAIN ON DEEMED DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

On 27 October 2003, the Company entered into a strategic alliance agreement with New World TMT Limited ("NWTMT") in respect of the subscription of 15,000,000 shares in China Aerospace New World Technology Limited ("CANW") at a consideration of HK\$150,000,000 to acquire 51% of the enlarged issued share capital of CANW. On 23 February 2004, a formal shareholders' agreement was entered into between the Company, NWTMT, CANW and Star Dream Group Limited, a wholly-owned subsidiary of NWTMT, to regulate their respective rights and responsibilities towards CANW and to amend the terms of the strategic alliance agreement. Pursuant to the shareholders' agreement, NWTMT subscribed for 15,000,000 shares of CANW representing 50% of the enlarged issued share capital of CANW at a consideration of HK\$150,000,000.

5. GAIN ON DEEMED DISPOSAL OF SUBSIDIARIES AND ASSOCIATES *(Continued)*

The effect of the disposal is summarised as follows:

	HK\$'000
Net assets disposed of	24,449
Gain on deemed disposal of subsidiaries and associates	65,806
Realised of reserve on disposal of subsidiaries	(1,724)
	<hr/>
Amount reclassified to interests in associates	88,531
	<hr/>
Net cash outflow arising on disposal:	
Bank balances and cash disposed of	1,677
	<hr/>

6. ALLOWANCE FOR AMOUNTS DUE FROM ASSOCIATES

The amounts represented allowances for amounts due from China Aerospace New World Technology Limited and CASIL Science & Technology Development (Shenzhen) Company Limited.

7. GAIN ON DEEMED DISPOSAL OF AN ASSOCIATE

Pursuant to a placing and underwriting agreement dated 3 March 2004, CASIL Telecommunications Holdings Limited ("CASTEL"), an associate of the Company issued 100,000,000 shares of HK\$0.10 each at a placing price of HK\$0.41 per share. The Company's interest in this associate decreased from approximately 49% to 44% after this placement.

8. TAXATION

	1.1.2004 to 30.6.2004 HK\$'000	1.1.2003 to 30.6.2003 HK\$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	1,522	1,563
PRC Enterprise Income Tax	107	202
	1,629	1,765
Deferred tax		
Current period	(1,128)	(1,098)
Attributable to change in tax rate	–	2,195
	(1,128)	1,097
Taxation attributable to the Company and its subsidiaries	501	2,862
Share of taxation attributable to associates	1,295	–
	1,796	2,862

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both periods.

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.

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the period is based on the net profit for the period of HK\$48,331,000 (1.1.2003 to 30.6.2003: HK\$15,506,000) and on 2,142,420,000 shares (1.1.2003 to 30.6.2003: 2,142,420,000 shares) in issue during the period.

10. DIVIDENDS

No interim dividend was paid by the Company during the current period (1.1.2003 to 30.6.2003: nil).

11. 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\$4,002,000 for proceeds of HK\$4,174,000 resulting in a gain on disposal of HK\$172,000.

Moreover, during the period, the Group disposed of investment properties with a carrying value of HK\$8,871,000 for proceeds of HK\$10,418,000 resulting in a gain on disposal of HK\$1,547,000.

In addition, the Group spent HK\$10,914,000 (1.1.2003 to 30.6.2003: HK\$24,793,000) on acquisition of property, plant and equipment.

At 30 June 2004, the directors have considered the carrying amount of the Group's investment properties carried at revalued amounts and have estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

12. TRADE AND OTHER RECEIVABLES

At 30 June 2004, included in trade and other receivables are trade receivables of HK\$231,870,000 (31.12.2003: HK\$176,487,000). 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:

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Within 90 days	206,626	157,694
Between 91-180 days	10,206	10,470
Between 181-365 days	5,786	5,182
Between 1 to 2 years	6,264	3,141
Over 2 years	2,988	–
	231,870	176,487

13. TRADE AND OTHER PAYABLES

At 30 June 2004, included in trade and other payables are trade payables of HK\$143,702,000 (31.12.2003: HK\$182,978,000). The following is an aged analysis of trade payables at the reporting date:

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Within 90 days	110,232	146,715
Between 91-180 days	3,431	5,601
Between 181-365 days	1,426	1,845
Between 1 to 2 years	1,743	6,847
Over 2 years	26,870	21,970
	143,702	182,978

14. BANK LOANS AND OVERDRAFTS

As at 30 June 2004, the Group's investment properties, property, plant and equipment, bank deposits and listed investment securities with aggregate net book values of HK\$171,044,000, HK\$128,072,000, HK\$67,376,000 and HK\$ 28,589,000, respectively, were pledged for the Group's bank loans.

In addition, the Company's interest in a listed associate with a carrying amount of HK\$78,440,000 and equity interest in a non-wholly owned subsidiary, China Aerospace (Huizhou) Industrial Garden Limited, were also pledged to banks.

15. OTHER LOANS

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Other loans comprise:		
Loans from third parties (<i>Note a</i>)	6,761	7,321
Loan from a subsidiary of a major shareholder (<i>Note b</i>)	47,170	–
Guaranteed exchangeable fixed/floating rate notes (<i>Note c</i>)	–	62,400
Guaranteed floating rate notes (<i>Note d</i>)	46,728	46,728
	100,659	116,449

15. OTHER LOANS (Continued)

Notes:

- (a) Loans from third parties represent advances from independent third parties. The amounts are unsecured, non-interest bearing and are repayable on demand.
- (b) On 22 March 2004, the Group borrowed a loan of a principal of RMB50,000,000 from a subsidiary of the major shareholder, China Aerospace Science & Technology Corporation. The loan is unsecured, bears interest at 5.09% per annum and repayable on 25 September 2004. The interest incurred during the period amounted to HK\$647,000.
- (c) 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 was redeemed in March 2004. The notes were 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. At 31 December 2003, unlisted investment securities with a carrying value of HK\$76,662,000 were pledged for the notes.
- (d) 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 (31.12.2003: HK\$50,742,000) are pledged for the notes.

16. SHARE CAPITAL

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

17. CAPITAL COMMITMENTS

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the condensed financial statements in respect of:		
– capital contribution to investee companies	2,829	2,829
– purchase of property, plant and equipment	14,677	6,908
	17,506	9,737

18. CONTINGENT LIABILITIES

	30.6.2004	31.12.2003
	HK\$'000	HK\$'000
Guarantees given for banking and finance facilities granted to a third party	4,450	4,450

In addition, a subsidiary of the Company was named as a defendant in a litigation in respect of an alleged breach of the loan agreement in failing to advance the full amount of HK\$330,000,000 to an independent third party in 1997. Concurrently, the subsidiary resisted the claim and counterclaimed against the independent third party and sued against its guarantor upon default on, including but not limited to, interest and payment of the loan amount advanced under the loan agreement and the mortgage. On 30 July 2004, the Court judged that the independent third party was entitled to damages consequent upon the subsidiary's breach of loan agreement. However, the subsidiary was also entitled to repayment of principal outstanding under the loan agreement and interest thereon in terms of the loan agreement and to judgement against both the owners of the pledged assets under the mortgage and the guarantor under the guarantee.

The compensation to be made to the independent third party and the loan principal and interest to be received by the subsidiary have not yet been concluded. In the opinion of the directors, the amount of compensation cannot be determined at this stage and no provision was made accordingly.

BUSINESS REVIEW

For the six months ended 30 June 2004, the Group recorded a turnover of HK\$610,948,000, representing an increase of 6% over the corresponding period in 2003. The profit before tax amounted to HK\$50,242,000, resulting in 1.9 times the figure of last year. The profit attributable to shareholders was HK\$48,331,000, resulting in a 2.12 times rise from last year.

The overall business environment exhibited an upturn during the first half of 2004, led to an upward trend of global electronics market. However, with the oil prices hovering near record high, the cost of raw materials and transportation surged. Competition was intensified that narrowed down the profit margin of electronics products. Facing the challenging market environment, the Group continued to strengthen its internal management. The administrative costs and general expenses declined by 9.4% compared to that of last year. The finance costs also dropped by 20.5%. Meanwhile, effective measures were taken to develop new products and expand domestic and overseas markets. Solid improvement in operating profits and efficiency were made.

The turnover and the profit before tax of our manufacturing subsidiaries during the first half-year grew significantly over the corresponding period of last year. As efforts were devoted to tap the growing market of China, our plastics and electroplating business progressed well, with total sales in China accounting for over 60% of the turnover, while the turnover and the profit before tax reported obvious growth in comparing to the same period of last year. In respect of the PCB business, we continued to enhance the R&D and the market development of flexible and multi-layer boards, the turnover and the profit before tax of which rose remarkably over the same period of last year. In respect of the LCD business, we overcame the difficulties of shortage of raw materials and electricity supply in the first half of the year, and accomplished the technical upgrading of STN production lines. The turnover and the profit before tax rebounded over the same period of last year. For the colour TV manufacturing business, amidst the adverse factors such as the soaring of material cost, intensified market competition and prevailing downward trend of export price, we adopted various strategies such as slashing costs, lowering inventory levels, expediting turnover, narrowing profit margin with an objective of boosting sales and developing overseas markets. The turnover in the first half of this year grew by nearly one-half from a year earlier on, of which income generated from overseas markets accounted for a major share of the total revenue. Thereby, the objective of turning loss to profit was achieved.

In the first half of 2004, CASIL Telecommunications Holdings Limited, the Group's associate company, had made a significant progress in the exploration of both domestic and China markets in the businesses of broadband wireless access, intelligent transportation and video conference systems. The turnover during the period grew by 3.1% over the same period of last year, while the net profit increased considerably to HK\$2,340,000.

BUSINESS REVIEW *(Continued)*

China Aerospace New World Technology Limited, a joint venture of New World TMT Limited and the Company, commenced its operations in the first half of 2004 in the R&D and marketing of cable digital TV network, provincial broadband TV network and related value-added services.

Effective measures were implemented by the Company's property subsidiaries in Hong Kong and China Aerospace (Huizhou) Industrial Garden Limited to tighten cost and boost leasing rate, thereby increasing the overall revenue. An increase in revenue from property was recorded when compared to the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2004, the total assets of the Group were HK\$2,736,003,000, of which the non-current portion and the current portion were HK\$1,292,890,000 and HK\$1,443,113,000 respectively. The total liabilities were about HK\$1,785,774,000, of which the current and the non-current portion of bank loans were HK\$607,226,000 and HK\$186,847,000 respectively. In terms of contingent liabilities, there was about HK\$4,450,000 which was more or less the same as that of the end of last year. As at 30 June 2004, the assets/liabilities ratio was 65.3% and the current ratio was 1.03 respectively, both were similar to that of the end of last year. The Group did not have any material financial changes to be disclosed for the half-year period from 1 January 2004 to 30 June 2004.

A couple of the Group's real estates and investment securities have been pledged to banks for mortgages and financings. Most of the loans' interest rates are calculated at prima rate and the remaining installments are less than 10 years.

As at 30 June 2004, the Group has made no major changes in the information related to human resources as stated in its 2003 Annual Report.

BUSINESS OUTLOOK

Looking forward to the second half of this year, it is expected that the Group would maintain its growth momentum and consolidate its business in China and overseas markets. The associated companies of the Group would persist in strengthening R&D and marketing of digital TV and information technology products, gradually forming new sources of income. The Group would further enhance its management control in cost and expenditure, with a view to achieve a steady growth in profit.

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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2004, 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 and 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 Issuers.

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 of the Listing Rules, as the required standard for the Directors of the Company to trade the securities of the Company. Hence, the Company enquired all the Directors individually whether they had complied with the Appendix 10 while trading the securities of the Company during the first half of 2004, and all Directors had complied with the requirements of the Appendix 10 during the period.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2004, 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 and 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>)

SUBSTANTIAL SHAREHOLDERS *(Continued)*

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.

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 Listing Rules, 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 2004, the independent non-executive directors of the Company held certain meetings with the management regularly and participated in a meeting of working group to review matters relating to financial statements, operations, general compliance and substantial issues of the Group.

The Audit Committee of the Company currently has a membership comprising two independent non-executive directors, Mr. Chow Chan Lum, Charles and Ms. Chan Ching Har, Eliza, and a non-executive director, Mr. Xu Shilong. The Audit Committee of the Company reviewed, discussed and approved this 2004 unaudited interim report that had been reviewed by the auditors, Deloitte Touche Tohmatsu.

Pursuant to Rule 13.20 of the Listing Rules, a wholly-owned subsidiary of the Company had made an advance to a third party company in the past. The outstanding balance of the advance was HK\$234,229,000 as at 30 June 2004, representing 26% of the Group's audited net worth as at 31 December 2003. The loan was secured by a piece of land and guaranteed personally by the substantial shareholder and chairman of the third party company. A court hearing in respect of the loan was conducted in June 2004, and the judgement in respect of the action was received at the end of July 2004. The judgement was merely a fact finding and confined to issues of liability only. For the issues of damages, both parties were advised to arrange for directions for the further conduct of this action.

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

Rui Xiaowu

Chairman

Hong Kong SAR, 16 September 2004



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 14.

DIRECTORS’ RESPONSIBILITIES

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 Institute of Certified Public Accountants 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 Institute of Certified Public 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 2004.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
16 September 2004