

Deloitte.

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TO THE MEMBERS OF CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

航天科技國際集團有限公司

(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 17 to 69 which have been prepared in accordance with accounting principles generally accepted in Hong Kong, other than as set out below.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Qualified opinion arising from disagreement about accounting treatment

As explained in note 5 to the financial statements, the Company together with certain subsidiaries ("Borrowers") entered into a debt restructuring deed on 7 December 2004 ("Deed") with a banker for the purpose of restructuring the debts due to the banker. The banker will waive debts of HK\$193,520,000 provided the Group fully complies with the repayment terms of the Deed. This amount has been recognised as income in the consolidated income statement for the year ended 31 December 2004. However, in our opinion, such waiver should be recognised as income only when the repayment terms of the Deed have been fully complied with and, accordingly, the net assets as at 31 December 2004 and the profit for the year then ended should be reduced by that amount.

AUDITORS' REPORT

Except for the recognition as income of the waiver of debts of HK\$193,520,000, in our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 22 April 2005