CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

航 天 科 技 國 際 集 團 有 限 公 司

CASIL

Interim Report 2005

China Aerospace

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr Zhao Liqiang
Mr Zhou Qingquan
Mr Zhao Yuanchang
Mr Wu Hongju
Mr Guo Xianpeng

Non-Executive Directors

Mr Rui Xiaowu *(Chairman)*
Mr Lee Hung Sang *(Independent Director)*
Mr Chow Chan Lum, Charles
(Independent Director)
Mr Luo Zhenbang *(Independent Director)*
Mr Gong Bo
Mr Chen Dingyi
Ms Chan Ching Har, Eliza
Mr Wang Yujun

AUDIT COMMITTEE

Mr Chow Chan Lum, Charles
Mr Luo Zhenbang
Mr Wang Yujun

REMUNERATION COMMITTEE

Mr Lee Hung Sang
Mr Chow Chan Lum, Charles
Mr Luo Zhenbang
Mr Gong Bo
Ms Chan Ching Har, Eliza

COMPANY SECRETARY

Mr Chan Ka Kin, Ken

AUDITORS

Deloitte Touche Tohmatsu

SHARE REGISTRAR

Standard Registrars Limited

LEGAL COUNSELS

Sit, Fung, Kwong & Shum
Richards Butler

PRINCIPAL BANKERS

Bank of China (Hong Kong)
Bank of Communications
Wing Hang Bank
Standard Chartered Bank

REGISTERED OFFICE

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The Board of Directors (the "Board") of China Aerospace International Holdings Limited (the "Company") announces that the unaudited results and financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2005 together with the comparative figures of the same period in 2004 are as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

	Notes	**1.1.2005 to 30.6.2005 (Unaudited) HK$'000**	1.1.2004 to 30.6.2004 (Unaudited and restated) HK$'000
Turnover	3	**1,029,889**	610,948
Cost of sales and services		**(723,593)**	(465,040)
Gross profit		**306,296**	145,908
Other operating income		**6,216**	2,695
Distribution costs		**(21,941)**	(21,697)
Administrative expenses		**(101,525)**	(87,980)
Profit from operations	4	**189,046**	38,926
Finance costs		**(15,014)**	(25,880)
Share of results of associates		**274**	(182)
Share of results of jointly controlled entities		**(5,269)**	(13,354)
Impairment loss on available-for-sale investments		**(146,705)**	–
Gain on deemed disposal of subsidiaries and associates		**–**	65,806
Gain on deemed disposal of an associate		**–**	11,590
Allowance for amounts due from jointly controlled entities		**–**	(27,959)
Profit before taxation		**22,332**	48,947
Taxation	5	**(3,338)**	(501)
Profit for the period		**18,994**	48,446
Attributable to:			
Equity holders of the Company		**18,833**	48,331
Minority interests		**161**	115
		18,994	48,446
Earnings per share			
– Basic	6	**0.9 cents**	2.3 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2005

	Notes	**30.6.2005 (Unaudited) HK$'000**	31.12.2004 (Audited and restated) HK$'000
Non-current assets			
Property, plant and equipment	8	**655,987**	804,091
Investment properties	8	**32,531**	267,750
Interests in associates		**15,220**	94,967
Interests in jointly controlled entities		**73,266**	78,535
Available-for-sale investments		**80,324**	–
Investments in securities		**–**	227,029
		857,328	1,472,372
Current assets			
Inventories		**197,535**	175,762
Trade and other receivables	9	**388,025**	235,308
Loans receivable		**258,878**	261,371
Amounts due from associates		**3,308**	2,971
Taxation recoverable		**54**	1,232
Pledged bank deposits		**64,151**	66,612
Bank balances and cash		**500,012**	326,050
		1,411,963	1,069,306
Assets classified as held for sale	10	**80,021**	–
		1,491,984	1,069,306
Current liabilities			
Trade and other payables	11	**474,079**	459,563
Amounts due to associates		**34,829**	33,787
Taxation payable		**24,487**	13,305
Obligations under finance leases			
– amount due within one year		**8,773**	7,596
Bank loans and overdrafts	12	**226,971**	221,976
Other loans	13	**16,195**	53,931
		785,334	790,158
Net current assets		**706,650**	279,148
Total assets less current liabilities		**1,563,978**	1,751,520

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

At 30 June 2005

	Notes	**30.6.2005 (Unaudited) HK$'000**	31.12.2004 (Audited and restated) HK$'000
Non-current liabilities			
Amount due to a major shareholder	14	**180,619**	176,644
Obligations under finance leases			
– amount due after one year		**7,681**	7,084
Secured bank loans		**377,825**	579,527
Deferred taxation		**8,125**	17,531
		574,250	780,786
		989,728	970,734
Capital and reserves			
Share capital	15	**2,142,420**	2,142,420
Reserves		**(1,172,287)**	(1,191,120)
Equity attributable to equity holders of the Company		**970,133**	951,300
Minority interests		**19,595**	19,434
Total equity		**989,728**	970,734

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Attributable to equity holders of the Company											
	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	Translation reserve HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2004	2,142,420	939,048	–	14,044	23,916	347	(29,536)	1,080	(2,206,985)	884,334	19,157	903,491
Reserves realised upon disposal of subsidiaries	–	–	–	–	–	–	(1,724)	–	–	(1,724)	–	(1,724)
Net profit for the period	–	–	–	–	–	–	–	–	48,331	48,331	115	48,446
Total recognised income and expense for the period	–	–	–	–	–	–	(1,724)	–	48,331	46,607	115	46,722
At 30 June 2004	2,142,420	939,048	–	14,044	23,916	347	(31,260)	1,080	(2,158,654)	930,941	19,272	950,213
Surplus on revaluation of investment properties and gains recognised directly in equity	–	–	12,910	–	–	–	–	–	–	12,910	–	12,910
Net profit for the period	–	–	–	–	–	–	–	–	7,449	7,449	112	7,561
Total recognised income and expense for the period	–	–	12,910	–	–	–	–	–	7,449	20,359	112	20,471
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	–	50	50
At 31 December 2004	2,142,420	939,048	12,910	14,044	23,916	347	(31,260)	1,080	(2,151,205)	951,300	19,434	970,734
Adjustment due to adoption of Hong Kong Accounting Standard 40 and Hong Kong Financial Reporting Standard 3	–	–	(12,910)	–	–	(347)	–	–	13,257	–	–	–
Restated balance as at 1 January 2005	2,142,420	939,048	–	14,044	23,916	–	(31,260)	1,080	(2,137,948)	951,300	19,434	970,734
Net profit for the period	–	–	–	–	–	–	–	–	18,833	18,833	161	18,994
At 30 June 2005	2,142,420	939,048	–	14,044	23,916	–	(31,260)	1,080	(2,119,115)	970,133	19,595	989,728

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	1.1.2005 to 30.6.2005 (Unaudited) HK$'000	1.1.2004 to 30.6.2004 (Unaudited) HK$'000
Net cash (used in) from operating activities	**(87,538)**	72,580
Net cash from investing activities		
Proceeds from disposal of property, plant and equipment	**184,666**	4,174
Proceeds from disposal of investment properties	**352,550**	10,418
Other investing cash flows	**(30,178)**	(9,379)
	507,038	5,213
Net cash used in financing activities		
Repayments of borrowings	**(244,425)**	(60,312)
Other financing cash flows	**(11,095)**	(20,055)
	(255,520)	(80,367)
Net increase (decrease) in cash and cash equivalents	**163,980**	(2,574)
Cash and cash equivalents at beginning of the period	**326,050**	254,232
Cash and cash equivalents at end of the period	**490,030**	251,658
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	**500,012**	299,011
Bank overdrafts	**(9,982)**	(47,353)
	490,030	251,658

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard (the "HKAS") 34 Interim Financial Reporting.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the Group) for the year ended 31 December 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS"s), HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in the change in presentation of income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

At the date of authorization of these condensed financial statements, the following new HKFRSs and Interpretations were in issue but not yet effective:

HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS – Int 4	Determining whether an Arrangement contains a Lease
HKFRS – Int 5	Right to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
Amendment to HKAS 19	Actuarial Gains and Losses, Group Plans and Disclosure
Amendments to HKAS 39	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
	Fair Value Option

The directors anticipate that the adoption of these new HKFRSs and Interpretations in future periods will have no material impact on the condensed financial statements of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

In the current period, the Group has applied HKFRS 3, *Business Combinations*, which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and negative goodwill arising on acquisitions after 1 January 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised the negative goodwill of HK$347,000 at 1 January 2005 with a corresponding decrease in accumulated losses.

Investment properties

In the current period, the Group has, for the first time, applied HKAS 40 *Investment Property*. The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties under the predecessor standard were measured at open market values, with revaluation surplus or deficit credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 January 2005 onwards. The amount held in investment property revaluation reserve as at 1 January 2005 has been transferred to the Group's accumulated losses.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Deferred taxes related to investment properties

In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale in accordance with the predecessor Interpretation. In the current period, the Group has applied HKAS Interpretation 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* which removes the presumption that the carrying amount of investment properties are to be recovered through sale. Therefore, the deferred tax consequences of the investment properties are now assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date. In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively. However, the adoption of HKAS Interpretation 21 does not have any significant impact on the profit of the prior period and no prior period adjustment is necessary.

Financial instruments

In the current period, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice ("SSAP") 24. Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealized gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any).

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Classification and measurement of financial assets and financial liabilities (Continued)

From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

Upon the adoption of HKAS 39, the investments in securities was reclassified to available-for-sale investment.

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. However as the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Non-current assets held for sale and discontinued operations

The Company has adopted HKFRS 5 *Non-current Assets held for Sale and Discontinued Operations* during the period. According to HKFRS 5, an entity shall classify a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale and the assets of a group classified as held for sale must be disclosed separately from other assets in the balance sheet, which are stated at the lower of the carrying amount and fair value less costs to sell.

Accordingly, an interest in subsidiary and the related shareholder's loan which is expected to be sold within twelve months have been reclassified to non-current assets held for sale during the period and there is no impact in the profit for the period.

SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The cumulative effects of the application of the new HKFRSs as at 1 January 2005 are summarised below:

Balance sheet items	**As originally stated**	**Adjustment**	**As restated**
	HK$'000	HK$'000	HK$'000
Available-for-sale investments *(Note a)*	–	227,029	227,029
Investments in securities *(Note a)*	227,029	(227,029)	–
Total effects on assets and liabilities	227,029	–	227,029
Accumulated losses *(Notes b and c)*	(2,151,205)	13,257	(2,137,948)
Investment property revaluation reserve *(Note b)*	12,910	(12,910)	–
Negative goodwill reserve (*Note c)*	347	(347)	–
Total effect on equity	(2,137,948)	–	(2,137,948)

There was no financial effect on the application of new HKFRSs to the Group's equity at 1 January 2004.

Notes:

(a) Upon the adoption of HKAS 39, the investment in securities was reclassified as available-for-sale investment.

(b) Upon the adoption of HKAS 40, the Group has applied the relevant transitional provisions in HKAS 40. The amount held in investment property revaluation reserve at 1 January 2005 has been transferred to the Group's accumulated losses.

(c) Upon the adoption of HKFRS 3, the Group has applied the relevant transitional provisions in HKFRS 3. The amount held in negative goodwill reserve at 1 January 2005 has been transferred to the Group's accumulated losses.

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 2005

	Turnover			Profit from operations		
	External sales HK$'000	Inter-segment sales HK$'000	Total HK$'000	Segment results HK$'000	Unallocated corporate expenses HK$'000	Profit from operations HK$'000
Manufacturing						
Plastic products	241,533	24,035	265,568	26,044		
Liquid crystal display	63,111	–	63,111	4,988		
Audio-video products	115,244	–	115,244	(15,607)		
Printed circuit boards	79,030	–	79,030	13,379		
Intelligent chargers and security system	156,053	–	156,053	22,530		
Other products	–	–	–	(676)		
	654,971	24,035	679,006	50,658		
Property	365,222	5,822	371,044	164,298		
Trading	8,138	–	8,138	818		
Finance	1,558	712	2,270	824		
Others	–	–	–	2,930		
	1,029,889	30,569	1,060,458	219,528		
Eliminations	–	(30,569)	(30,569)	(10,182)		
	1,029,889	–	1,029,889	209,346	(20,300)	189,046

Inter-segment sales are charged at prevailing market prices.

3. SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2004

	Turnover			Profit from operations		
	External sales HK$'000	Inter-segment sales HK$'000	Total HK$'000	Segment results HK$'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

4. PROFIT FROM OPERATIONS

	1.1.2005 to 30.6.2005 HK$'000	1.1.2004 to 30.6.2004 HK$'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation on property, plant and equipment	**23,803**	23,824
Loss (gain) on disposal of property, plant and equipment	**4,573**	(172)
Interest income	**(1,557)**	(240)

5. TAXATION

	1.1.2005 to 30.6.2005 HK$'000	1.1.2004 to 30.6.2004 HK$'000
The charge comprises:		
Current tax		
Hong Kong Profits Tax	**12,183**	1,522
PRC Enterprise Income Tax	**561**	107
	12,744	1,629
Deferred tax	**(9,406)**	(1,128)
Taxation attributable to the Company and its subsidiaries	**3,338**	501

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.

6. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to the ordinary equity holders of the Company for the period is based on the net profit for the period attributable to the equity holders of the Company of HK$18,833,000 (1.1.2004 to 30.6.2004: HK$48,331,000) and on 2,142,420,000 shares (1.1.2004 to 30.6.2004: 2,142,420,000 shares) in issue during the period.

7. DIVIDENDS

No interim dividend was paid by the Company during the current period (1.1.2004 to 30.6.2004: 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$189,239,000 for proceeds of HK$184,666,000, resulting in a loss on disposal of HK$4,573,000.

Moreover, during the period, the Group disposed of investment properties with a carrying value of HK$202,460,000 for proceeds of HK$352,550,000, resulting in a gain on disposal of HK$150,090,000.

In addition, the Group spent HK$38,519,000 (1.1.2004 to 30.6.2004: HK$10,914,000) on acquisition of property, plant and equipment.

At 30 June 2005, 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 by using fair values at the balance sheet date. Consequently, no gain or loss on change in fair value has been recognised in the current period.

9. TRADE AND OTHER RECEIVABLES

At 30 June 2005, included in trade and other receivables are trade receivables of HK$337,771,000 (31.12.2004: HK$191,807,000). 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:

	30.6.2005 **HK$'000**	31.12.2004 HK$'000
Within 90 days	**325,989**	189,882
Between 91-180 days	**9,990**	1,925
Between 181-365 days	**1,792**	–
	337,771	191,807

10. NON-CURRENT ASSETS HELD FOR SALE

On 22 January 2005, the Company resolved to dispose of the entire interest in and the shareholder's loan due from Astrotech Group Limited (Astrotech) at an aggregate cash consideration of approximately HK$143 million to China Academy of Launch Vehicle Technology (CALT) which is wholly-owned by China Aerospace Science & Technology Corporation, a substantial shareholder of the Company. Astrotech holds 449,244,000 ordinary shares, representing approximately 44.17% equity interest, in CASIL Telecommunications Holdings Limited. The interests in Astrotech, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the balance sheet. The disposal has been duly completed on 10 July 2005 with a gain of approximately HK$62 million.

11. TRADE AND OTHER PAYABLES

At 30 June 2005, included in trade and other payables are trade payables of HK$214,929,000 (31.12.2004: HK$254,128,000). The following is an aged analysis of trade payables at the reporting date:

	30.6.2005 HK$'000	31.12.2004 HK$'000
Within 90 days	**129,619**	220,331
Between 91-180 days	**44,014**	6,537
Between 181-365 days	**14,984**	1,819
Between 1 to 2 years	**1,916**	197
Over 2 years	**24,396**	25,244
	214,929	254,128

12. BANK LOANS AND OVERDRAFTS

As at 30 June 2005, the Group's investment properties, property, plant and equipment, bank deposits and available-for-sale investments with aggregate net book values of HK$23,741,000, HK$35,216,000, HK$64,151,000 and HK$40,560,000, 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$80,021,000 and equity interest in a non-wholly owned subsidiary, China Aerospace (Huizhou) Industrial Garden Limited, were also pledged to banks.

13. OTHER LOANS

	30.6.2005 HK$'000	31.12.2004 HK$'000
Other loans comprise:		
Loan from a fellow subsidiary *(Note a)*	**9,434**	47,170
Loans from third parties *(Note b)*	**6,761**	6,761
	16,195	53,931

13. OTHER LOANS *(Continued)*

Notes:

(a) 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 (CASC). 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$940,480. The Group has fully repaid the loan in July 2005.

(b) Loans from third parties represent advances from independent third parties. The amounts are unsecured, non-interest bearing and are repayable on demand.

14. AMOUNT DUE TO A MAJOR SHAREHOLDER

As at 31 December 2004, the amount due to CASC was non-interest bearing and repayable on 31 December 2006. On 9 September 2005, the Company entered into a loan agreement with CASC to modify the terms of the loan (Loan Agreement) with retrospective effect on 1 January 2005. Pursuant to the terms of the Loan Agreement, CASC charges interest on the loan at an annual rate of 4.5%.

15. SHARE CAPITAL

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

16. CAPITAL COMMITMENTS

	30.6.2005 **HK$'000**	31.12.2004 HK$'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	**10,201**	9,071
– properties under development	**–**	165
	13,030	12,065
Capital expenditure authorised but not contracted for in respect of:		
– capital contribution to an investee company	**–**	873

17. CONTINGENT LIABILITIES

	30.6.2005 HK$'000	31.12.2004 HK$'000
Guarantees given for banking and finance facilities granted to a third party	–	2,055

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 judgment 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 would be substantially less than the loan principal and interest to be received by the subsidiary.

18. SUBSEQUENT EVENTS

On 13 July 2005, the directors of the Company put forward to the shareholders a proposed reorganisation of the share capital of the Company involving:

(i) a proposed reduction of the capital of the Company by adjusting the nominal value of the shares of the Company by way of cancelling paid up capital to the extent of HK$0.90 on each of the issued shares and by reducing the nominal value of all the issued and unissued shares from HK$1.00 to HK$0.10;

(ii) a proposed cancellation of all the share premium account of the Company as at the effective date of the reduction of capital; and

(iii) a proposed restoration of the authorised share capital of the Company after the reduction of capital becomes effective to the original amount of HK$10,000,000,000 by the creation of additional 90,000,000,000 new shares,

allowing all the Company's accumulated losses to be written off, which will improve the prospects of raising funds and to increase the possibility of declaring dividend in the future. The special resolution and the ordinary resolution to approve the capital reorganisation were duly passed at the extraordinary general meeting held on 25 August 2005.

BUSINESS REVIEW

For the six months ended 30 June 2005, the Group recorded a turnover of HK$1,029,889,000, representing an increase of 69% over the corresponding period in 2004; gross profit amounted to HK$306,296,000, representing a 1.1 times increase when comparing to the same period of last year; profit before tax amounted to HK$22,332,000, resulting in 54.4% decrease over the corresponding period in 2004; profit attributable to shareholders was HK$18,833,000 (or HK$0.9 cents per share), resulting in a 61% decrease over the same period of last year.

The Group's industrial manufacturing business had maintained a steady growth during the first half of 2005. For the six months ended 30 June 2005, the industrial manufacturing business recorded a turnover of HK$654,971,000, representing an increase of 14% over the corresponding period in 2004; profit from operations amounted to HK$50,658,000, representing a 6.3% decrease when comparing to the same period of last year.

The printed circuit boards business has gained competitive advantages after increasing investment in flexible boards production and enhancing the R&D in high precision rigid flexible boards applications. The plastic injection business, especially precision plastic injection and mould manufacturing, has maintained steady growth due to continuous enhancement in key production facilities and management quality. For the liquid crystal display (LCD) business, the sales of STN-LCD and STN-LCD modules were mainly boosted by new STN production line and new factory being established. For the intelligent battery charging systems business, satisfactory return was recorded after the continuous effort in strengthening the product and overseas market development, as well as tightening control in production management. The TV manufacturing business has been encountering fierce market competitions and its operations are relatively difficult, which has inevitably resulted in a not insignificant negative impacts on the overall performance of the industrial manufacturing business.

The independent shareholders of the Company had approved the disposal of the entire interest in Astrotech Group Limited (Astrotech), which holds a 44.17% interest in CASIL Telecommunications Holdings Limited (CASTEL), at the Extraordinary General Meeting held on 15 March 2005. The disposal of Astrotech was completed in July 2005. Since then, the Company will no longer hold any direct or indirect interest in CASTEL.

The Group captured the market opportunity and disposed the Conic Investment Building in Hung Hom, Kowloon at a consideration of HK$330 million in May 2005. The shareholders of the Company had approved the disposal at the Extraordinary General Meeting held on 28 June 2005. The transaction was completed at the end of June 2005.

BUSINESS REVIEW *(Continued)*

Through the strategic investment in APT Satellite Holdings Limited (APT), the Group has become one of the major shareholders of APT since October 1997. As the market share price of APT maintained below the value recorded in the books of the Group, necessary provision has been made in accordance with the applicable accounting standards.

Looking forward to the second half of this year, the Group is confident in further raising its profitability through strengthening management system, reducing expenditures and controlling cost. Industrial manufacturing business would continue the upward momentum of the first half of the year and maintains a steady growth both in terms of turnover and profit before tax.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2005, the total assets of the Group were HK$2,349,312,000, of which the non-current portion and the current portion were HK$857,328,000 and HK$1,491,984,000 respectively. The total liabilities was about HK$1,359,584,000, of which the non-current and the current portion were HK$574,250,000 and HK$785,334,000 respectively. As at 30 June 2005, the Group had no contingent liabilities except for the litigation as disclosed under the paragraph "Corporate Governance" on this report. As at 30 June 2005, the gearing ratio was 57.9%, representing an improvement compared to that of 61.8% at the end of last year and the current ratio was 1.9, which was relatively greater than that of 1.35 at the end of last year.

The source of funding of the Group is mainly from its internal financial resources and banking facilities. The Group's cash on hand as at 30 June 2005 was about HK$500,012,000, mainly in HK dollars and the rest in RMB and US dollars. The Group reviews its cash flow and financial position periodically and does not engage any financial instruments or derivatives to hedge the exchange and the interest rate risks.

Following the debt restructuring agreement with the Bank of China last year, the Group had sold certain assets with the aim of betterment of assets allocation, including the disposal of the interest in Astrotech and Conic Investment Building. Such effort had effectively further reduced the debt level, and the finance cost was reduced by approximately 42% over the same period of last year.

During the first half of 2005, the administrative expenses of the Group had increased by approximately HK$13 million, which were attributed to the legal and professional fees arising from a series of substantial transactions, and a disposal of fixed assets of a subsidiary.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

The Company announced in July 2005 to conduct a proposed reorganisation of the share capital, for details of the proposed reorganisation of the share capital, please refer to the Company's announcement dated 13 July 2005 and Circular sent to its shareholders dated 28 July 2005. The shareholders of the Company had approved the reorganisation at the Extraordinary General Meeting held on 25 August 2005. The Company is in the course of applying with the High Court for hearing of petition, and further development of the reorganisation will be disclosed where necessary.

A couple of the Group's real estates have been mortgaged to banks for financings with interest calculated at prime rate minus margin rate, and their remaining terms by installment are about 6 years.

As at 30 June 2005, the Group has about 6,000 staff in both the Mainland and Hong Kong.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 30 June 2005, none of the directors, chief executives or their associates have any beneficial or non-beneficial interests 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.

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 2005, and no Directors had traded any securities of the Company during the period.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2005, 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	**Capacity**	**Number of shares interested**	**Percentage of issued share capital**
China Aerospace Science & Technology Corporation	Interests in controlled corporation	896,818,664 *(Note 1)*	41.86%
Jetcote Investments Limited	Beneficial owner	5,490,456	0.26%
	Interests in controlled corporation *(Note 2)*	891,328,208	41.60%
		896,818,664	41.86%
Burhill Company Limited	Beneficial owner *(Note 2)*	393,681,580	18.38%
Sin King Enterprises Company Limited	Beneficial owner *(Note 2)*	393,272,908	18.36%
Jet Square Developments Limited	Beneficial owner *(Note 2)*	61,706,700	2.88%
Star River Assets Limited	Beneficial owner *(Note 2)*	32,165,100	1.50%
Full Power International Limited	Beneficial owner *(Note 2)*	10,501,920	0.49%

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. All these companies are wholly owned subsidiaries of Jetcote Investments Limited. The shares held by them form part of the total number of shares held by 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

For the six months ended 30 June 2005, the Company had complied with the provisions of the *Code on Corporate Governance Practices* of Appendix 14 of the Listing Rules, including but not limited to the establishment of Remuneration Committee, the specific term of Non-Executive Directors (including Independent Non-Executive Directors), segregation of the offices of the Chairman and the President, division of responsibilities of the Chairman and the President and so on.

The Board of Directors of the Company had approved the establishment of Remuneration Committee in a meeting held in June 2005, and also reviewed, discussed and approved a written Terms of Reference. All of the membership of the Remuneration Committee is Non-Executive Directors and most of them are Independent Non-Executive Directors.

The office of chairman and president of the Company had been segregated by different individuals since September 2004. In June 2005, the Board of Directors reviewed, discussed and approved the respective written Terms of Reference in order to divide the respective responsibilities of the Chairman and the President.

The Non-Executive Directors of the Company, including Independent Non-Executive Directors, were not appointed for a specific term in the past. In June 2005, the Board of Directors reviewed, discussed and approved that the specific term for each Non-Executive Director is two years, provided that each Non-Executive Director is subject to retirement by rotation and re-election, if eligible, in accordance with the Articles of Association of the Company.

CORPORATE GOVERNANCE *(Continued)*

Pursuant to Rule 13.20 of the Listing Rules, a wholly-owned subsidiary of the Company had made an advance to an independent third party in the past. The loan was secured by a piece of land and guaranteed personally by the substantial shareholder and chairman of the independent third party. The subsidiary was alleged a breach of the loan agreement in failing to advance the full amount of HK$330,000,000 to the independent third party in 1997. 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 under the loan agreement and the mortgage. 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.

AUDIT COMMITTEE

The Audit Committee of the Company currently has a membership comprising two independent non-executive directors, Mr Chow Chan Lum, Charles and Mr Luo Zhenbang, and a non-executive director, Mr Wang Yujun. The Audit Committee of the Company reviewed, discussed and approved this 2005 unaudited interim report that had been reviewed by the auditors, Deloitte Touche Tohmatsu.

APPRECIATION

I would like to express, on behalf of the Board of 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
Zhao Liqiang
Executive Director

Hong Kong, 21 September 2005

China Aerospace

Deloitte.
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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 2 to 18.

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 Hong Kong Accounting Standard 34 "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 the Group's 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.

MODIFIED REVIEW CONCLUSION ARISING FROM DISAGREEMENT ABOUT ACCOUNTING TREATMENT

As explained in the annual report of the Company for the year ended 31 December 2004, 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. As at 30 June 2005, the repayment terms of the Deed have not been fully complied with and, accordingly, the net assets and the accumulated losses as at 30 June 2005 should be reduced and increased by that amount respectively.

On the basis of our review which does not constitute an audit, with the exception of the matter described in the preceding paragraph, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
21 September 2005