CATIC INTERNATIONAL HOLDINGS LIMITED

CATIC International Holdings Limited

(Incorporated in Bermuda with limited liability)

Interim Report 2005

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CHAIRMAN'S STATEMENT

BUSINESS REVIEW

Overall performance

The first half of 2005 saw satisfactory improvement in the profit of facade contracting works and electricity and steam power. Although the turnover of facade contracting works slipped from HK$295,579,000 to HK$144,327,000, its profit still increased by 43% because of the completion of several large projects. The result of Hangzhou Sealand Electricity Power Company Limited ("Hangzhou Sealand") continued to perform well. The turnover increased from HK$52,742,000 to HK$71,619,000. Even though the gross profit of its business was adversely affected by the significant increase in fuel cost, its operating profit still increased by 78% because of the implementation of effective cost control measure and improvement in turnover. Project EC120 did not perform up to expectations, and the income generated therefrom decreased from HK$687,000 to HK$528,000. The Group's total turnover for the period was down to HK$216,474,000 (2004: HK$349,008,000), representing a decrease of 38% over the corresponding period in 2004. However, the total gross profit went up from HK$31,958,000 for the six months ended 30 June 2004 by 18% to HK$37,648,000 for the period, while the profit before tax increased by 167% to HK$12,552,000 (2004: HK$4,707,000). At the end, profit for the period was HK$9,611,000 (2004: HK$2,881,000).

Facade contracting works

For the six months ended 30 June 2005, facade contracting works continued to perform well. The turnover of the first six months in 2004 reached HK$144,327,000, representing a decrease of 51% as compared to HK$295,579,000 for the corresponding period in 2004. However, its profit still increased by 43% because several large projects commenced in the prior years had been substantially completed in the current period and related profits were recognised in the current period.

The main source of profit of facade contracting works came from Hong Kong and Macau. Because of the continuing improvement in the Hong Kong economy and the booming construction industry in Macau, facade contracting works contributed HK$8,078,000 (2004: HK$5,648,000) to the Group's operating profit, which represents an increase of 43%. During the period, the Group has secured a number of new big projects with an aggregate value of HK$572,560,000 (31 December 2004: HK$340,000,000), including four from Hong Kong and two from Macau, as shown as follows:

1. No. 92-94 Queen's Road Central, Hong Kong

2. The Proposed Skyplaza Building at Hong Kong International Airport, Lantau Island

3. Independent Commission Against Corruption Headquarters Building, Java Road, North Point, Hong Kong

4. Union Square Tower T20, KIL 11080

5. Galaxy Starworld Hotel, Macau

6. Venetian Hotel in Macau, Cotai

As at 30 June 2005, the remaining value of contracts on hand reached a high level with the amount of HK$910,000,000 (31 December 2004: HK$474,000,000).

Generation and sale of electricity and steam power

During the period under review, Hangzhou Sealand, a subsidiary of the Company, continued to enjoy a steady growth. The volume of power generation and on-grid electricity decreased slightly, but that of the thermal power increased by 22%. The cost of coal maintained at a high level such that the cost of sales recorded a relatively higher growth. Even though price of electricity and steam power was adjusted upward, it cannot cover the surging cost of sales. In order to cope with such situation, the electricity generating units with high thermal efficiency were used to reduce the consumption of the coal. Sales of coal residues which was previously made through underwriting agent had been switched to direct sales to increase the income. After active negotiation with the government, electricity price was increased in May this year and the grants on excess production of electricity were received. As a result of broadened sources of income and reduced expenditure, the business had a well performance. The sales of electricity and steam power for the six months in 2005 increased by 9% and 45% respectively to HK$15,258,000 (2004: HK$13,979,000) and HK$56,361,000 (2004: HK$38,763,000). It contributed HK$6,110,000 (2004: 3,435,000) to the Group's operating profit. In June this year, the procedure of increasing the Company's investment in Hangzhou Sealand by way of capitalisation of the dividends had been completed. After the increase of issued share capital of RMB8,300,000, Hangzhou Sealand's issued share capital was increased from RMB59,700,000 to RMB68,000,000.

Aero-technology

Recently the order for EC120 helicopters remained low. Having considered the profit and cashflow forecast of Project EC120, the Group made a provision for impairment of HK$1,000,000. Taking into account this provision for impairment and accrued income in respect of an exclusive distributorship of certain helicopter engines as mentioned below, the aero-technology business posted an operating profit of HK$671,000 (2004: HK$1,901,000).

On 24 December 2003, the Company entered into an agreement with an independent third party to pay US$5,000,000 (equivalent to approximately HK$39,000,000) for the exclusive distributorship of certain helicopter engines produced by the third party in the following three years. The Group has accrued for the period a profit of US$200,000 (equivalent to approximately HK$1,560,000) which was credited to other revenue.

During the period under review, China Nav-Info Co., Ltd. ("China Nav-Info") had done well and turned to become profitable. CATIC Siwei Co., Ltd. ("CATIC Siwei") was still in initial development stage and thus suffered losses. In short, the Group recorded a share of profit in the amount of HK$683,000 (2004: losses of HK$1,044,000) from the above two associates in the period.

Others

During the period under review, the Group has acquired approximately 26.42% shareholding of a Hong Kong listed company, Sino Gas Group Limited ("Sino Gas") and is currently taking action to restructure its business.

FINANCIAL REVIEW

Total cash and bank balances were reduced from HK$205,041,000 as at 31 December 2004 to HK$152,112,000 as at 30 June 2005 whilst total liabilities were also reduced from HK$358,659,000 as at 31 December 2004 to HK$317,058,000 as at 30 June 2005. The Group's gearing ratio, calculated on the basis of net borrowings (i.e. after deducting cash and bank balances) relative to shareholders' equity remained unchanged at zero (31 December 2004: zero). As at 30 June 2005, certain of the Group's assets, comprising mainly time deposits and part of long term investments and fixed assets, with an aggregate net carrying value of HK$134,648,000 (31 December 2004: HK$103,536,000), were pledged to banks as securities for banking facilities which consisted of mainly revolving trade finances and bank loans. In all, the Group's financial position remains healthy.

The Group's monetary assets, liabilities and transactions are largely denominated in Hong Kong dollars or Renminbi. On 21 July 2005, The People's Bank of China had revalued the exchange rate of Renminbi which resulted in an appreciation of RMB against HK dollars. Since the amount of total assets at 30 June 2005 was higher than the total liabilities in the Mainland China, it was expected that it might have a positive effect to the Group.

MATERIAL TRANSACTION

On 29 March 2004, Florex Investment Limited ("Florex"), a wholly-owned subsidiary of the Company, entered into an agreement (the "Agreement") with CATIC (H.K.) Limited ("CATIC (HK)"), a substantial shareholder of the Company, to acquire from CATIC (HK) (i) its 45% equity interest (the "Share") in CATIC International Support Limited ("CISL"), an exclusive overseas agent of China National Aero-Technology Import & Export Corporation ("CATIC"), the Company's ultimate holding Company, for distribution and trading of aircraft components and the provision of related services; and (ii) its 45% interest in a shareholder's loan (the "Loan"), with an aggregate sum of HK$50,000,000, to be advanced by CATIC (HK) to CISL. Pursuant to the Agreement, the aggregate consideration for the acquisition, which is limited to the lesser of HK$100,000,000, or to be determined on the basis of a price-earning ratio of 6.7 times of 45% of the average audited net income of CISL for the two years ending 31 December 2006, will be payable in cash by installments as set out in the Agreement. Moreover, pursuant to the Agreement, a put option was granted by CATIC (HK) to Florex, under which Florex is entitled to sell back to CATIC (HK) the Shares and the Loan at Florex's absolute discretion at any time commencing on the completion date of the transaction and up to the fifth anniversary date. At the Special General Meeting held on 20 May 2004, the connected transaction was approved by the independent shareholders of the Company. Further details of the transaction are set out in the announcements of the Company dated 30 March 2004 and 20 May 2004. As Florex and CATIC (HK) are still in the process of finalizing the future business plan and operation of CISL, additional time is required for CATIC (HK) to provide the loan to CISL. Florex and CATIC (HK) have therefore mutually agreed in writing to extend the date by which the conditions of the Agreement must be fulfilled (the "Long Stop Date") from 30 June 2004 to 31 March 2005 and again to 30 September 2005, or such later date as the parties may agree in writing. Further details regarding the twice extensions of the Long Stop date are set out in the announcements of the Company dated 17 September 2004 and 31 March 2005.

On 17 December 2004, Billirich investment Limited, a wholly-owned subsidiary of the Company, entered into separate agreements to purchase an aggregate of 885,000,000 shares of Millennium Group Limited ("Millennium"), representing approximately 26.42% of its then issued share capital, from two independent third parties for a total cash consideration of HK$30,975,000. The acquisition was completed in January 2005. Further details of the acquisition are set out in the announcements of the Company dated 23 December 2004 and 19 January 2005. On 22 April 2005, Millennium changed its name to Sino Gas.

On 25 May 2005, the Company was notified by Sino Gas that Sino Gas proposed to raise fund by issuing not less than 6,699,033,510 ordinary shares and not more than 7,499,033,510 ordinary shares at a price of HK$0.02 per ordinary share by way of the proposed open offer on the basis of two ordinary shares for every Sino Gas ordinary share held. The Company has irrevocably undertaken to take up or procure to take up 1,770,000,000 ordinary shares. The aggregate consideration for the subscription amounted to HK$35,400,000 which was funded by the Company's internal resources. The open offer had become unconditional at 4:00 p.m. on 16 August 2005. After completion, the Company had held 2,655,000,000 shares of Sino Gas, representing approximately 26.42% of its then issued capital. Further details of the transactions are set out in the announcements of the Company dated 30 May 2005 and 11 July 2005.

POST BALANCE SHEET EVENTS

On 7 July 2005, the Company has entered into a non-binding letter of intent with CATIC and Chengdu Aircraft Industry (Group) Corporation Ltd ("Chengdu Aircraft") for a proposed formation of a joint venture engaged in the research and development as well as production of commercial airplane parts and components for leading aircraft manufacturers of the world. The Company, CATIC and Chengdu Aircraft currently intend to contribute 40%, 15% and 45% of the registered capital of the joint venture, respectively, which is anticipated to be Renminbi 100 million. Further details of the transactions are set out in the announcement of the Company dated 8 July 2005.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2005, the Group employed 1,121 employees (31 December 2004: 890). Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical insurance and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

PROSPECTS

Strong regional growth in Hong Kong has fuelled infrastructure's demand and thus increased the number of facade projects available for tender in the market. In Macau, the entertainment developments also boost the building services industries. Due to the limited human resources in the domestic market, the building services industries have the opportunities to benefit from their economy boom. Besides Hong Kong, the Group has also tendered for a large number of projects in Beijing, Shanghai, Macau, Singapore and area as far as the Gulf region in the Middle East. Its overseas market development are still at its initial stage and is anticipated to have greater contributions to the Group in the future.

The continuing economic growth in Hangzhou will lead to increasing demand in electricity and steam power. Hangzhou Sealand presently increases the efficiency of the production and strengthens the control in the operation to ensure that the plant operates in a higher efficiency. These measures are expected to boost the productivity of electricity and steam power generation to meet the peak season of the demand of electricity in the summer during the year. On the other hand, Hangzhou Sealand has also been trying to reduce the consumption of the raw material and increase its efficiency on production. In June this year, new spare steam turbines had been installed which improve the capacity of the steam turbines. It is expected that the production will reach the highest level at the end of 2005. Preparatory work of the second phase plant expansion will continue so as to further develop the business of the plant and satisfy the market need.

Since China Nav-Info has turned to become profitable, so the result is expected to have a steady growth in the second half of the year. The turnover of CATIC Siwei is still in a growth trend and a continuing improvement is expected. Overall speaking, the above aero-technology related business is still in developing stage. The Group will continue to develop this business in order to groom them to become a core business in the future.

After the restructuring of its business, Sino Gas will focus on trading of conversion parts, assembly system for gas station and operation of gas station. Due to the increasing oil price and increasing awareness on environment protection in the Mainland China, the demand of the products of Sino Gas will gradually increase. Therefore, the Group has confidence in the future development of the business.

DIVIDENDS

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2005 (2004: Nil).

APPRECIATION

I would like to take this opportunity to express my appreciation to my fellow directors and all our staff for their support, hard work and dedication.

By Order of the Board
Fu Shula
Chairman

Hong Kong, 28 September 2005

DISCLOSURE OF INTERESTS

DIRECTORS' INTERESTS

As at 30 June 2005, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(a) Shares of the Company

Name of director	Number of shares Personal interests	Percentage of The Company's issued share capital
Ren Haifeng	11,282,000	0.30

(b) Underlying shares in respect of share options

At the annual general meeting held on 14 May 2001, the share option scheme adopted in 1991 (the "1991 Scheme") with a life span of ten years was terminated and concurrently a new share option scheme (the "2001 Scheme") was adopted.

Subsequent to the adoption of the 2001 Scheme on 14 May 2001, the Stock Exchange introduced a number of changes to Chapter 17 of the Rules Governing the Listing of Securities (the "Listing Rules") on share option schemes. These new rules came into effect on 1 September 2001. In compliance with the amended Chapter 17 of the Listing Rules, a new share option scheme (the "Existing Scheme") was adopted by the Company at the annual general meeting held on 13 May 2003 and at the same time the 2001 Scheme was terminated. Since the adoption of the Existing Scheme, no options have been granted thereunder.

Notwithstanding the termination of the old Schemes, the relevant provisions thereof remain in full force and effect to the extent necessary to give effect to the exercise of any outstanding share options granted thereunder prior to their respective terminations. Details of share options, granted under the 1991 Scheme and 2001 Scheme prior to their respective terminations and outstanding as at 30 June 2005, are as follows:

	Number of shares in respect of options								
Eligible person	**Outstanding at 1 January 2005**	**Granted during the period**	**Exercised during the period**	**Lapsed/ cancelled during the period**	**Transferred to other employees during the period**	**Outstanding at 30 June 2005**	**Date of grant**	**Exercise period (i)**	**Exercise price per share (ii)**
									HK$
1991 Scheme									
Director	8,160,000	–	–	–	–	8,160,000	28/1/2000	28/7/2000 to 27/7/2005	0.17
Yang Chunshu									
Yu Li	5,400,000	–	–	–	–	5,400,000	28/1/2000	28/7/2000 to 27/7/2005	0.17
	13,560,000	–	–	–	–	13,560,000			
Other employees	912,000	–	–	–	–	912,000	28/1/2000	28/7/2000 to 27/7/2005	0.17
	14,472,000	–	–	–	–	14,472,000			
2001 Scheme									
Director	20,000,000	–	–	–	–	20,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
Yang Chunshu									
Yu Li	20,000,000	–	–	–	–	20,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
Ji Guirong	20,000,000	–	–	–	–	20,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
	60,000,000	–				60,000,000			
Other employees	22,000,000	–				22,000,000	25/2/2003	25/8/2003 to 24/8/2008	0.13
	82,000,000	–	–	–	–	82,000,000			

(i) Share options must be held for a minimum of six months before exercise. Exercise period shall not exceed a period of five years commencing on the expiry of a period of not less than six months after the date the option is accepted.

(ii) The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

Except as set out above, as at 30 June 2005, none of the directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2005, the interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO were as follows:

Long positions:

Name of Shareholders	**Number of ordinary shares held**	**Percentage of the Company's issued share capital**	*Notes*
Tacko International Limited ("Tacko")	1,265,767,000	33.83	*(1)*
CATIC (H.K.) Limited ("CATIC (H.K.)")	1,265,767,000	33.83	*(1)*
Speed Profit Enterprises Limited ("Speed Profit")	508,616,000	13.59	*(2)*
Catic International Finance Limited ("Catic Finance")	508,616,000	13.59	*(2)*
China National Aero-Technology Import & Export Corporation ("CATIC")	1,774,383,000	47.42	*(3)*
China Aviation Industries Corporation I ("AVIC I")	1,774,383,000	47.42	*(3)*
China Aviation Industries Corporation II ("AVIC II")	1,774,383,000	47.42	*(3)*

Notes:

(1) Tacko is a wholly-owned subsidiary of CATIC (H.K.), which is in turn a wholly-owned subsidiary of CATIC. Pursuant to the SFO, both CATIC (H.K.) and CATIC are deemed to be interested in the 1,265,767,000 shares held by Tacko.

(2) Speed Profit is a wholly-owned subsidiary of Catic Finance, which is in turn a wholly-owned subsidiary of CATIC. Pursuant to the SFO, both Catic Finance and CATIC are deemed to be interested in the 508,616,000 shares held by Speed Profit.

(3) CATIC is owned as to 50% by AVIC I and as to 50% by AVIC II. Pursuant to the SFO, each of CATIC, AVIC I and AVIC II is deemed to be interested in the aggregate of the shares stated in (1) and (2) above (i.e. an aggregate of 1,774,383,000 shares held by Tacko and Speed Profit).

Save as set out above, as at 30 June 2005, no other person or corporation, other than the directors of the Company, whose interests are set out in the section "Directors' Interests" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

OTHER INFORMATION

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the shares of the Company by the Company itself or any of its subsidiaries during the period.

CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company complied with the code provisions as set out in Appendix 14 of the Main Board Listing Rules throughout the accounting period covered by the interim report, except that all of the non-executive directors and independent non-executive directors are not appointed for specific term but are subject to retirement and re-election at each Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code.

AUDIT COMMITTEE

The audit committee has reviewed together with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The interim results for the six months ended 30 June 2005 are unaudited, but have been reviewed by Ernst & Young in accordance with Statement of Auditing Standards 700 "Engagement to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report has been reviewed by the audit committee.

INTERIM FINANCIAL STATEMENTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited For the six months ended 30 June	
		2005	2004
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*3*	**216,474**	349,008
Cost of sales		**(178,826)**	(317,050)
Gross profit		**37,648**	31,958
Other revenue and gains	*4*	**8,557**	5,359
Administrative and other operating expenses		**(34,213)**	(29,917)
Finance costs	*5*	**(2,776)**	(1,649)
Impairment of financial assets under Project EC120	*10*	**(1,000)**	–
Negative goodwill recognised	*1(c)*	**6,215**	–
Share of profit less losses of associates		**(1,879)**	(1,044)
PROFIT BEFORE TAX	*6*	**12,552**	4,707
Tax	*7*	**(2,941)**	(1,826)
PROFIT FOR THE PERIOD		**9,611**	2,881
ATTRIBUTABLE TO:			
Equity holders of the parent		**8,586**	2,218
Minority interests		**1,025**	663
		9,611	2,881
EARNINGS PER SHARE			
– basic	*8*	**0.2295 cent**	0.0593 cent
– diluted	*8*	**N/A**	0.0589 cent
DIVIDEND PER SHARE	*9*	**Nil**	Nil

CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 30 June 2005 HK$'000	Audited 31 December 2004 HK$'000 (Restated)
NON-CURRENT ASSETS			
Investment properties		**12,750**	12,750
Fixed assets	*11*	**169,566**	165,103
Prepaid land premiums/land lease payments	*1(a)*	**7,612**	7,332
Goodwill		**38,117**	38,117
Interest in associates		**74,804**	35,500
Financial asset under Project EC120		**32,759**	33,759
Available-for-sale investments	*1(b)*	**4,074**	17,781
Deferred tax assets		**4,766**	6,906
Rental and utility deposits		**497**	460
Receivable in respect of exclusive distributorship of certain helicopter engines	*12*	**43,680**	42,120
Prepayment for a land use right		**21,698**	21,698
Pledged time deposits		**10,000**	10,000
		420,323	391,526
CURRENT ASSETS			
Inventories		**9,943**	6,530
Amounts due from contract customers		**52,091**	27,588
Accounts and retentions receivable	*13*	**116,450**	163,769
Prepayments, deposits and other receivables		**44,064**	46,558
Prepaid land premiums/land lease payments	*1(a)*	**451**	446
Available-for-sale investments	*1(b)*	**13,707**	–
Pledged time deposits		**58,082**	51,026
Cash and cash equivalents		**84,030**	144,015
		378,818	439,932
CURRENT LIABILITIES			
Amounts due to contract customers		**78,751**	126,758
Accounts and bills payable	*14*	**63,767**	57,369
Tax payable		**1,068**	1,404
Warranty provision		**11,245**	12,368
Other payables and accrued liabilities		**53,569**	77,746
Interest-bearing bank borrowings		**102,780**	76,735
Current portion of finance lease payables		**202**	196
		311,382	352,576
NET CURRENT ASSETS		**67,436**	87,356
TOTAL ASSETS LESS CURRENT LIABILITIES		**487,759**	478,882

CONSOLIDATED BALANCE SHEET (cont'd)

	Notes	**Unaudited 30 June 2005 HK$'000**	Audited 31 December 2004 HK$'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**5,290**	5,594
Long term portion of finance lease payables		**386**	489
		5,676	6,083
		482,083	472,799
CAPITAL AND RESERVES			
Issued capital	*15*	**374,148**	374,148
Reserves	*16*	**76,773**	68,187
		450,921	442,335
MINORITY INTERESTS		**31,162**	30,464
		482,083	472,799

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Net cash outflow from operating activities	**(18,042)**	(22,243)
Net cash (outflow)/inflow from investing activities	**(67,891)**	9,950
Net cash inflow/(outflow) from financing activities	**25,948**	(13,358)
Net decrease in cash and cash equivalents	**(59,985)**	(25,651)
Cash and cash equivalents at 1 January	**144,015**	159,864
Cash and cash equivalents at 30 June	**84,030**	134,213
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**84,030**	134,213

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
At 1 January	**442,335**	426,045
Issue of shares	**–**	2,704
Net profit for the period attributable to shareholders	**8,586**	2,218
At 30 June	**450,921**	430,967

NOTES TO INTERIM FINANCIAL STATEMENTS

1. Accounting policies

The condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) that affect the Group's and are adopted for the first time for the current period financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations
HK(SIC)-Int 21	Income Taxes – Recovery of Revalued Non-depreciable Assets
HK-Int 4	Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases

1. Accounting policies (cont'd)

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 18, 19, 21, 23, 24, 27, 28, 33, 37, 38, HKFRS 2, HK(SIC)-Int 21 and HK-Int 4 has had no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements. The impact of adopting the other HKFRSs is summarised as follows:

(a) HKAS 17 – Leases

In prior periods, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from fixed assets to prepaid land premiums/land lease payments, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid land premiums for land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed consolidated balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of leasehold land.

1. Accounting policies (cont'd)

(b) HKAS 32 and HKAS 39 – Financial Instruments

In prior periods, the Group classified its financial assets as long term investments which were held for non-trading purposes and were stated at cost less any impairment losses.

Upon the adoption of HKASs 32 and 39, these financial investments are classified as available-for-sale investments. Available-for-sale investments are those non-derivative investments in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other categories of financial assets as defined in HKAS 39. After initial recognition, available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; and discounted cash flow analysis and option pricing models.

When the fair value of unlisted equity securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for the investment, or (2) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost.

The Group assesses at each balance sheet date whether there is any objective evidence that an available-for-sale investment is impaired as a result of one or more events that occurred after the initial recognition of the assets ("loss events"), and that the loss event has an impact on the estimated future cash flows that can be reliably estimated.

If there is objective evidence of impairment, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement. The amount of the loss recognized in the income statement shall be the difference between the acquisition cost and current fair value, less any impairment loss on the available-for-sale investments previously recognised in the income statement.

This change in accounting policy has had no effect on the condensed consolidated income statement and retained earnings. The comparatives on the condensed balance sheet for the year ended 31 December 2004 have been restated to reflect the reclassification of available-for-sales investments.

1. Accounting policies (cont'd)

(c) HKFRS 3 – Business Combinations and HKAS 36 – Impairment of Assets

In prior periods, goodwill/negative goodwill arising on acquisitions prior to 1 January 2001 was eliminated against consolidated capital reserve in the year of acquisition and was not recognised in the income statement until disposal or impairment of the acquired business.

Goodwill arising on acquisitions on or after 1 January 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment. Negative goodwill was carried in the balance sheet and was recognised in the consolidated income statement on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets, except to the extent it related to expectations of future losses and expenses that were identified in the acquisition plan and that could be measured reliably, in which case, it was recognised as income in the consolidated income statement when the future losses and expenses were recognised.

Upon the adoption of HKFRS 3 and HKAS 36, goodwill arising on acquisitions is no longer amortised but subject to an annual impairment review (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired). Any impairment loss recognised for goodwill is not reversed in a subsequent period.

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries and associates (previously referred to as "negative goodwill"), after reassessment, is recognised immediately in the income statement.

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 January 2005 the carrying amounts of accumulated amortisation with a corresponding entry to the cost of goodwill and to derecognise the carrying amounts of negative goodwill (including that remaining in consolidated capital reserve) against retained earnings. Goodwill previously eliminated against consolidated capital reserve remains eliminated against consolidated capital reserve and is not recognised in the income statement when all or part of the business to which the goodwill related is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

The effects of the above changes are summarised in note 2 to the condensed consolidated financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

2. Summary of the impact of changes in accounting policies

Effect on opening balance of total equity at 1 January 2005

Effect of new policy (Increase/(decrease))	*Note*	Share premium account *HK$'000*	Capital reserve *HK$'000*	Fixed assets revaluation reserve *HK$'000*	Reserve fund *HK$'000*	Exchange fluctuation reserve *HK$'000*	Retained earnings *HK$'000*	Total *HK$'000*
At 1 January 2005		1,972	162	342	3,740	796	61,175	68,187
HKFRS 3								
Derecognition of								
negative goodwill	*1(c)*	–	(162)	–	–	–	162	–
Total effect at 1 January 2005		1,972	–	342	3,740	796	61,337	68,187

Effect on profit after tax for the six months ended 30 June 2005 attributable to the equity holders of the parent

Effect of new policy	*Notes*	**For the six months ended 30 June 2005 (Unaudited)** ***HK$'000***
Increase in profit after tax		
HKFRS 3		
Discontinuation of amoritsation of goodwill	*1(c)*	**1,304**
Recognition of negative goodwill as income	*1(c)*	**6,215**
Total effect for the period		**7,519**
Effect on earnings per share		
Basic		**0.2010 cent**
Diluted		**N/A**

3. Segmental information

(a) Business segments

The following table presents turnover and operating profit by the Group's business segments:

	For the six month ended 30 June							
	2005				2004			
	Facade contracting works (unaudited) *HK$'000*	Generation and sale of electricity and steam power (unaudited) *HK$'000*	Aero-technology (unaudited) *HK$'000*	Total (unaudited) *HK$'000*	Facade contracting works (Unaudited) *HK$'000*	Generation and sale of electricity and steam power (Unaudited) *HK$'000*	Aero-technology (Unaudited) *HK$'000*	Total (Unaudited) *HK$'000*
Segment revenue:								
Turnover	**144,327**	**71,619**	**528**	**216,474**	295,579	52,742	687	349,008
Other revenue	**17**	**5,691**	**1,560**	**7,268**	96	2,389	1,560	4,045
Total	**144,344**	**77,310**	**2,088**	**223,742**	295,675	55,131	2,247	353,053
Segment Result	**8,078**	**6,110**	**671**	**14,859**	5,648	3,435	1,901	10,984
Unallocated income				**1,289**				1,317
Unallocated administrative and other operating expenses				**(5,156)**				(4,901)
Finance costs				**(2,776)**				(1,649)
Negative goodwill recognised				**6,215**				–
Unallocated share of loss of an associate				**(2,562)**				–
Share of profit/(loss) of associates	**–**	**–**	**683**	**683**	—	—	(1,044)	(1,044)
Tax				**(2,941)**				(1,826)
Profit for the period				**9,611**				2,881

3. Segmental information (cont'd)

(b) *Geographical segments*

The following table presents turnover by the Group's geographical segments:

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Hong Kong	**73,209**	201,279
Mainland China	**143,265**	147,729
	216,474	349,008

4. Other revenue and gains

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Interest income	**1,015**	561
Rental income	**291**	601
Income derived from exclusive distributorship of helicopter engines	**1,560**	1,560
Income from installation of structures for steam supply	**1,966**	1,732
Government subsidy	**1,780**	57
Income from sale of coal residues	**1,893**	599
Gain on disposal of long term investments	**–**	133
Gain on deemed disposal of interest in an associate	**–**	115
Others	**52**	1
	8,557	5,359

5. Finance costs

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Interest on bank overdrafts and bank loans wholly repayable within 5 years	**2,987**	2,252
Less: amount capitalised to long-term construction contracts	**(231)**	(629)
	2,756	1,623
Interest on a finance lease	**20**	26
	2,776	1,649

6. Profit before tax

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Depreciation	**9,397**	5,111
Less: amount capitalised to long term construction contracts	**(1,656)**	(1,592)
	7,741	3,519
Amortisation of prepaid land premiums/land lease payments	**20**	217
Amortisation of goodwill	**–**	1,191
Provision for doubtful debts	**600**	600
Loss on disposal of fixed assets	**23**	–

7. Tax

(a) For both current and prior periods, no Hong Kong profits tax has been provided as the Group had available tax losses brought forward to offset the assessable profits arising in Hong Kong. Tax on profits assessable in the Mainland China has been provided at the applicable rate based on existing legislation of The People's Republic of China, interpretations and practices in respect thereof. Deferred tax on deductible/taxable temporary differences reversed during the period has been charged/credited to the profit and loss account using the applicable rates of tax in Hong Kong and the Mainland China.

(b) The tax charge for the period is made up as follows:

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Group		
Current tax – Hong Kong	**–**	–
– Mainland China	**1,105**	1,200
Deferred tax	**1,836**	626
	2,941	1,826

8. Earnings per share

The calculation of basic and diluted earnings per share was based on the following data:

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Earnings for the purposes of basic and diluted earnings per share	**8,586**	2,218
	Number of shares	
Weighted average number of shares for the purpose of basic earnings per share	**3,741,481,000**	3,737,608,473
Potential dilutive effect arising from share options	**–**	31,067,015
Weighted average number of shares for the purpose of diluted earnings per share	**3,741,481,000**	3,768,675,488

9. Dividend

At a meeting of the board of directors held on 28 September 2005, the directors do not recommend the payment of any interim dividend to shareholders (six months ended 30 June 2004: Nil).

10. Impairment of financial assets under Project EC120

During the period, having considered the future cash flow and profit forecasts of Project EC120, a provision for impairment of HK$1,000,000 (six months ended 30 June 2004: Nil) was charged to the profit and loss account in the current period.

11. Fixed assets

	Unaudited
	HK'000
At 1 January 2005	165,103
Additions	12,227
Disposals	(23)
Depreciation	(7,741)
At 30 June 2005	169,566

(a) During the period, the Group incurred HK$2,263,000 in purchasing new furniture, fixtures and equipment, HK$2,771,000 in purchasing generation plant and related structure, HK$1,484,000 in purchasing leasehold land & building and HK$5,040,000 in development of construction in progress.

(b) At 30 June 2005, certain of the Group's leasehold land and building and generation plant and related structure with net book value of HK$44,719,000 (31 December 2004: HK$20,236,000) and HK$7,032,000 (31 December 2004: HK$7,456,000), respectively, were pledged to secure general banking facilities granted to the Group.

12. Receivable in respect of exclusive distributorship of certain helicopter engines

On 24 December 2003, the Company entered into an agreement with an independent third party to pay US$5,000,000 (equivalent to approximately HK$39,000,000) (the "Paid Amount") for the exclusive distributorship of 20 certain helicopter engines produced by that third party in the three years ending 31 December 2006. The amount was paid in full on 20 January 2004.

12. Receivable in respect of exclusive distributorship of certain helicopter engines (cont'd)

Pursuant to the agreement, the third party agreed to provide a discount of US$300,000 to the Company for each of the first 20 aforesaid helicopter engines delivered provided that the average annualised return to the Company on the Paid Amount shall not be less than 8% per annum or effectively US$1,200,000 in aggregate for the three years ending 31 December 2006. Up to 30 June 2005, no engines were sold. Pursuant to the agreement, US$200,000 (equivalent to approximately HK$1,560,000 (note 4)), which represents 8% per annum on the Paid Amount for the six months period ended 30 June 2005, was recorded as other income and a receivable of the Group. The receivable in respect of exclusive distributorship of certain helicopter engines in the amount of HK$43,680,000 (31 December 2004: HK$42,120,000) on the consolidated balance sheet consists of the Paid Amount of HK$39,000,000 and the accumulated income of HK$4,680,000.

13. Accounts and retentions receivable

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Accounts receivable	**38,547**	80,107
Retentions receivable	**94,867**	100,005
	133,414	180,112
Less: provision for doubtful debts	**(16,964)**	(16,343)
	116,450	163,769

The ageing analysis of accounts receivable is as follows:

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Within 30 days	**28,677**	70,483
31-60 days	**4,256**	5,195
61-90 days	**611**	28
Over 90 days	**5,003**	4,401
	38,547	80,107
Less: provision for doubtful debts	**(4,905)**	(4,306)
	33,642	75,801

13. Accounts and retentions receivable (cont'd)

Retentions receivable represent certified contract payments in respect of works performed, for which payments are withheld by customers for retention purposes, and are released to the Group pursuant to the provisions of the relevant contracts after the completion of projects in question. No aged analysis of retentions receivable is presented as the amount retained is provided on each payment up to a maximum amount calculated at a prescribed percentage of the contract sum.

The Group's accounts receivable mainly represent of (i) progress payments receivable from facade building contracting works performed by Far East Aluminium Works Company Limited ("Far East Aluminium"), the Company's principal operating subsidiary, which is generally engaged as a nominated sub-contractor in respect of property development projects in Hong Kong, and (ii) the credit sale of electricity and steam power. Far East Aluminium adopts credit policies consistent with the trade practices prevailing in the Hong Kong building industry. The normal credit term of accounts receivable from the sale of electricity and steam power is 30 to 60 days.

14. Accounts and bills payable

The ageing analysis of accounts and bills payable is as follows:

	30 June 2005 *HK$'000*	31 December 2004 *HK$'000*
Within 30 days	**54,526**	51,883
31-60 days	**827**	3,064
61-90 days	**890**	114
Over 90 days	**7,524**	2,308
	63,767	57,369

15. Share capital

	Number of ordinary shares of HK$0.10 each	*HK$'000*
Authorised:		
At 1 January 2005 and 30 June 2005	6,000,000,000	600,000
Issued and fully paid:		
At 1 January 2005 and 30 June 2005	3,741,481,000	374,148

16. Reserves

	Share premium account	Capital reserve	Fixed assets revaluation reserve	Reserve fund	Exchange fluctuation reserve	Retained earnings/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 January 2004	1,348	162	320	2,852	796	48,499	53,977
Issue of shares	624	–	–	–	–	–	624
Net profit for six months ended 30 June 2004	–	–	–	–	–	2,218	2,218
Balance at 30 June 2004	1,972	162	320	2,852	796	50,717	56,819
Balance at 1 January 2005 as previously reported	1,972	162	342	3,740	796	61,175	68,187
Derecognition of negative goodwill	–	(162)	–	–	–	162	–
Balance at 1 January 2005 as restated	1,972	–	342	3,740	796	61,337	68,187
Net profit for six months ended 30 June 2005	–	–	–	–	–	8,586	8,586
Transfer to reserve fund	–	–	–	12	–	(12)	–
	1,972	**–**	**342**	**3,752**	**796**	**69,911**	**76,773**

17. Post balance sheet events

On 7 July 2005, the Company has entered into a non-binding letter of intent with CATIC and Chengdu Aircraft Industry (Group) Corporation Ltd ("Chengdu Aircraft") for a proposed formation of a joint venture engaged in the research and development as well as production of a commercial airplane parts and components for leading aircraft manufacturers of the world. The Company, CATIC and Chengdu Aircraft currently intend to contribute 40%, 15% and 45% of the registered capital of the joint venture, respectively, which is anticipated to be Renminbi 100 million. Further details of the transactions are set out in the announcement of the Company dated 8 July 2005.

18. Commitments

	30 June 2005	31 December 2004
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Acquisition of plant and machinery	**12,945**	14,664
Acquisition of an associate (a)	**35,400**	30,975
	48,345	45,639

(a) On 25 May 2005, the Company has irrevocably undertaken to take up or procure to take up 1,770,000,000 ordinary shares of Sino Gas. The aggregate consideration for the subscription amounted to HK$35,400,000 and was funded by the Company's internal resources. The amount was paid in full on 9 August 2005.

In addition to the above commitments, as set out under the heading of Material Transaction in Chairman's Statement, Florex Investment Limited, a wholly owned subsidiary of the Company, entered into an agreement with CATIC (HK), a substantial shareholder of the Company, to acquire from CATIC (HK) 45% equity interest in CISL and 45% interest in a shareholder' loan to be advanced by CATIC (HK) to CISL at an aggregate consideration not exceeding HK$100,000,000.

19. Contingent liabilities

As at 30 June 2005, the Group had contingent liabilities in respect of guarantees under performance bonds in the amount of HK$100,221,000 (31 December 2004: HK$142,051,000). In addition, the Group had a contingent liability in respect of possible future long service payments to certain employees under the Hong Kong Employment Ordinance with a maximum possible amount of HK$478,000 (31 December 2004: HK$715,000) which has not been recognized in light of the improbability if resulting in a material cash outflow for the Group.

20. Related party transactions

(a) Transactions with related parties

In addition to the agreement entered into between Florex and CATIC (H.K.) as set out under the heading of Material Transaction in the Chairman's Statement, the Group had the following significant related party transactions during the period:

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Rental expenses paid to a fellow subsidiary (i)	**39**	234
Rental received from a substantial shareholder (ii)	**274**	–
Interest received from an associate (iii)	**57**	–

Notes:

(i) The Company leases certain premises for use as its office from Karlane Investment Limited, a fellow subsidiary and a wholly owned subsidiary of CATIC. The monthly rentals were determined with reference to open market rentals.

(ii) During the period, the Company entered into a tenancy agreement with CATIC (H.K.) for a term of one year commencing on 1 January 2005 at a total annual rental of HK$550,000 (exclusive of rates, management fees and air-conditioning charges).

(iii) During the period, the Company granted loans in aggregate of HK$4,500,000 to Sino Gas. The loans bore interest at 2.5% over the 3-month Hong Kong Interbank Offered Rate per annum and were fully settled during the period.

(iv) During the period, the Group had granted a loan of RMB3,000,000 (31 December 2004: Nil) to 北京中油潔能環保科技有限責任公司, a subsidiary of Sino Gas in the Mainland China. The loan is interest free.

(b) Compensation of key management personnel of the Group

	For the six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Short term employee benefits	**3,462**	3,712

INDEPENDENT REVIEW REPORT

ERNST & YOUNG

TO THE BOARD OF DIRECTORS OF CATIC INTERNATIONAL HOLDINGS LIMITED

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 12 to 31.

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 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 liabilities to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with 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 2005.

Ernst & Young
Certified Public Accountants
Hong Kong

28 September 2005