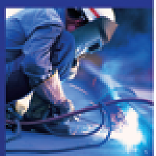
CASIL TELECOMMUNICATIONS HOLDINGS LIMITED
航天科技通信有限公司*

# Interim Report 2005
# 二零零五年中期報告



*本公司之中文名稱只作參考
the Chinese name of the Company is for reference only

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

*Executive Directors*

Mr. Rui Xiaowu *(Chairman)*

Mr. Wang Xiaodong

*(Vice-chairman cum Managing Director)*

Mr. Zhou Xiaoyun

Mr. Han Jiang

Mr. Guo Xianpeng

Mr. Xu Jian Hua

*Non-Executive Director*

Mr. Ma Yucheng

*Independent Non-Executive Directors*

Mr. Zhu Shixiong

Mr. Moh Kwen Yung

Mr. Yiu Ying Wai

Mr. Wong Fai, Philip

## COMPANY SECRETARY

Mr. Cheng Chai Fu

## REGISTERED OFFICE

Ugland House

South Church Street

P.O. Box 309, George Town

Grand Cayman, Cayman Islands

British West Indies

## PRINCIPAL PLACE OF BUSINESS

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Wanchai, Hong Kong

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**AUDITORS**
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111 Connaught Road Central
Hong Kong

**SHARE REGISTRAR**
Standard Registrars Limited
G/F., BEA Harbourview Centre
56 Gloucester Road, Wanchai
Hong Kong

**PRINCIPAL BANKERS**
Bank of China (Hong Kong) Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited

**LEGAL ADVISERS**
Richards Butler
Sit, Fung, Kwong & Shum
Maples and Calder

Deloitte.
德勤

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香港中環干諾道中111號
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26/F Wing On Centre
111 Connaught Road Central
Hong Kong

TO THE BOARD OF DIRECTORS OF
**CASIL TELECOMMUNICATIONS HOLDINGS LIMITED**
*(Incorporated in the Cayman Islands with limited liability)*

## INTRODUCTION

We have been instructed by CASIL Telecommunications Holdings Limited to review the interim financial report set out on pages 6 to 19.

## 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 Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provision 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 contents of this report.


## REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. 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.

## 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.

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

Hong Kong
20 September 2005

# CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## I. CONDENSED CONSOLIDATED INCOME STATEMENT

*FOR THE SIX MONTHS ENDED 30 JUNE 2005*

| | *NOTES* | **1.1.2005 to 30.6.2005** ***HK$'000*** ***(Unaudited)*** | 1.1.2004 to 30.6.2004 *HK$'000* *(Unaudited)* |
|---|---|---|---|
| Turnover | *4* | **97,321** | 68,006 |
| Cost of sales | | **(62,843)** | (37,639) |
| Gross profit | | **34,478** | 30,367 |
| Other operating income | | **2,038** | 558 |
| Distribution costs | | **(4,277)** | (6,171) |
| Administrative expenses | | **(28,719)** | (17,638) |
| Finance costs | *5* | **(2,618)** | (2,560) |
| Share of results of an associate | | **(139)** | — |
| Profit before taxation | *6* | **763** | 4,556 |
| Taxation | *7* | **(143)** | (2,931) |
| Profit for the period | | **620** | 1,625 |
| Attributable to: | | | |
| Equity holders of the parent | | **287** | 2,343 |
| Minority interests | | **333** | (718) |
| | | **620** | 1,625 |
| Earnings per share — Basic | *9* | **HK0.03 cents** | HK0.24 cents |


## II. CONDENSED CONSOLIDATED BALANCE SHEET
*AT 30 JUNE 2005*

| | *NOTES* | **30.6.2005 *HK$'000* *(Unaudited)*** | 31.12.2004 *HK$'000* *(Audited and restated)* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *10* | **46,402** | 47,202 |
| Goodwill | | **1,734** | 4,275 |
| Intangible assets | *10* | **34,027** | 36,391 |
| Interests in associates | | **1,130** | 1,269 |
| | | **83,293** | 89,137 |
| **Current assets** | | | |
| Inventories | | **46,586** | 70,523 |
| Debtors and prepayments | *11* | **151,601** | 124,170 |
| Amounts due from related companies | *15(b)* | **15,291** | 15,291 |
| Amount due from an associate | | **28,797** | 19,122 |
| Taxation recoverable | | **—** | 210 |
| Pledged bank deposits | *14* | **3,483** | 1,264 |
| Bank balances and cash | | **26,342** | 37,616 |
| | | **272,100** | 268,196 |
| **Current liabilities** | | | |
| Creditors and accrued charges | *12* | **64,915** | 68,312 |
| Amounts due to related companies | *15(b)* | **3,743** | 3,743 |
| Amount due to immediate holding company of a shareholder | *15(b)* | **906** | 906 |
| Amounts due to associates | *15(b)* | **821** | 870 |
| Taxation payable | | **196** | 296 |
| Bank and other borrowings due within one year | | **39,358** | 39,358 |
| | | **109,939** | 113,485 |
| **Net current assets** | | **162,161** | 154,711 |
| **Total assets less current liabilities** | | **245,454** | 243,848 |
| **Non-current liabilities** | | | |
| Bank and other borrowings due after one year | | **60,586** | 59,831 |
| Deferred taxation | | **2,906** | 2,675 |
| | | **63,492** | 62,506 |
| | | **181,962** | 181,342 |
| **Capital and reserves** | | | |
| Share capital | *13* | **101,714** | 101,714 |
| Reserves | | **79,119** | 78,832 |
| Equity attributable to equity holders of the parent | | **180,833** | 180,546 |
| Minority interests | | **1,129** | 796 |
| Total equity | | **181,962** | 181,342 |

## III. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE SIX MONTHS ENDED 30 JUNE 2005*

| | Attributable to the equity holders of the parent | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Special reserve | Share premium account | Exchange reserve | General reserve | Goodwill | Accumulated losses | Total | Minority interests | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2004 | 91,714 | 117,554 | 442,932 | 868 | 3,499 | (14,221) | (507,221) | 135,125 | 7,969 | 143,094 |
| Profit for the period | — | — | — | — | — | — | 2,343 | 2,343 | (718) | 1,625 |
| Shares issued at a premium | 10,000 | — | 31,000 | — | — | — | — | 41,000 | — | 41,000 |
| Share issue expenses | — | — | (839) | — | — | — | — | (839) | — | (839) |
| At 30 June 2004 | 101,714 | 117,554 | 473,093 | 868 | 3,499 | (14,221) | (504,878) | 177,629 | 7,251 | 184,880 |
| Exchange differences arising on translation of foreign operations recognised directly in equity | — | — | — | 108 | — | — | — | 108 | — | 108 |
| Release on liquidation of subsidiaries | — | — | — | (147) | (69) | — | — | (216) | (5,983) | (6,199) |
| Profit for the period | — | — | — | — | — | — | 3,025 | 3,025 | (472) | 2,553 |
| Total recognised income and expense for the period | — | — | — | (39) | (69) | — | 3,025 | 2,917 | (6,455) | (3,538) |
| At 31 December 2004 | 101,714 | 117,554 | 473,093 | 829 | 3,430 | (14,221) | (501,853) | 180,546 | 796 | 181,342 |
| At 1 January 2005 | 101,714 | 117,554 | 473,093 | 829 | 3,430 | (14,221) | (501,853) | 180,546 | 796 | 181,342 |
| — effect of changes in accounting policies *(note 3)* | — | — | — | — | — | 14,221 | (14,221) | — | — | — |
| — as restated | 101,714 | 117,554 | 473,093 | 829 | 3,430 | — | (516,074) | 180,546 | 796 | 181,342 |
| Profit for the period | — | — | — | — | — | — | 287 | 287 | 333 | 620 |
| At 30 June 2005 | 101,714 | 117,554 | 473,093 | 829 | 3,430 | — | (515,787) | 180,833 | 1,129 | 181,962 |

## IV. CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*FOR THE SIX MONTHS ENDED 30 JUNE 2005*

| | **1.1.2005 to 30.6.2005** ***HK$'000*** ***(Unaudited)*** | 1.1.2004 to 30.6.2004 *HK$'000* *(Unaudited)* |
|---|---|---|
| Net cash used in operating activities | **(4,648)** | (11,268) |
| Net cash (used in) from investing activities | **(4,764)** | 668 |
| Net cash (used in) from financing activities | | |
| Proceeds from issue of shares | **—** | 40,161 |
| Other financing cash flow | **(1,862)** | (5,474) |
| | **(1,862)** | 34,687 |
| Net (decrease) increase in cash and cash equivalents | **(11,274)** | 24,087 |
| Cash and cash equivalents at beginning of the period | **37,616** | 28,959 |
| Cash and cash equivalents at end of the period, representing bank balances and cash | **26,342** | 53,046 |


## V. 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 and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis. The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements 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 ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. 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:

#### (1) 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:

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (1) Business combinations *(Continued)*

***Goodwill***

In previous periods, goodwill arising on acquisitions prior to 1 January 2001 was held in reserves, and goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. Goodwill previously recognised in reserves has been transferred to the Group's accumulated losses on 1 January 2005. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005 onwards and goodwill will be tested for impairment at least annually and in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

In the current period, the Group has also applied HKAS 21 "The Effects of Changes in Foreign Exchange Rates" which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1 January 2005 is treated as a non-monetary foreign currency item of the Company. Therefore, no prior period adjustment has been made.

### (2) 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. The application of HKAS 32 has had no material effect on the presentation of financial instrument in the financial statements of the Group. 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:

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### (2) Financial instruments *(Continued)*

***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 Statement of Standard Accounting Practice 24) in accordance with the requirements of HKAS 39. 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. No adjustment to the previous carrying amounts of assets or liabilities are required upon adoption of HKAS 39.

### (3) 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. Since 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. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new Standards or Interpretations ("Int") that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

| | |
|---|---|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS-Int 4 | Determining whether an Arrangement Contains a Lease |
| HKFRS-Int 5 | Rights to Interests arising from decommissioning, Restoration and Environmental Rehabilitation Funds |

## 3. SUMMARY OF EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effect of the changes in the accounting policies described in note 2 above on the results for the current and prior periods are as follows:

| | **1.1.2005 to 30.6.2005** ***HK$'000*** ***(Unaudited)*** | 1.1.2004 to 30.6.2004 *HK$'000* *(Unaudited)* |
|---|---|---|
| Decrease in amortisation of goodwill | **127** | — |
| Increase in profit for the period *(Note)* | **127** | — |

*Note:* The increase in profit for the period presented a decrease in administrative expenses of approximately HK$127,000 (six months ended 30 June 2004: nil) according to their function.

## 3. SUMMARY OF EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(Continued)*

The cumulative effect of the application of the new HKFRSs on the balance sheet at 31 December 2004 and 1 January 2005 are summarised below:

| | At 31 December 2004 (originally stated) *HK$'000* | Adjustment *HK$'000* | At 31 December 2004 (restated) *HK$'000* | Adjustment *HK$'000* | At 1 January 2005 (restated) *HK$'000* |
|---|---|---|---|---|---|
| Goodwill reserve | (14,221) | — | (14,221) | 14,221 | — |
| Accumulated losses | (501,853) | — | (501,853) | (14,221) | (516,074) |
| Total effects on equity | (516,074) | — | (516,074) | — | (516,074) |

## 4. SEGMENT INFORMATION

### Business segments

The Group's primary format for reporting segment information is business segments.

*Six months ended 30 June 2005*

| | Communication Products *HK$'000* | Intelligent Transportation System *HK$'000* | Video Conference System *HK$'000* | Broadband Wireless Access *HK$'000* | Eliminations *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|
| Turnover | | | | | | |
| External sales | 10,645 | 14,870 | 6,118 | 65,688 | — | 97,321 |
| Inter-segment sales* | — | — | — | 535 | (535) | — |
| Total | 10,645 | 14,870 | 6,118 | 66,223 | (535) | 97,321 |

* *Inter-segment sales are charged at prevailing market rates.*

| | Communication Products *HK$'000* | Intelligent Transportation System *HK$'000* | Video Conference System *HK$'000* | Broadband Wireless Access *HK$'000* | Eliminations *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|
| Result | | | | | | |
| Segment result | (1,992) | (4,072) | (5,124) | 15,946 | — | 4,758 |
| Unallocated corporate expenses | | | | | | (1,238) |
| Finance costs | | | | | | (2,618) |
| Share of loss of an associate | — | (139) | — | — | — | (139) |
| Profit before taxation | | | | | | 763 |
| Taxation | | | | | | (143) |
| Profit for the period | | | | | | 620 |

## 4. SEGMENT INFORMATION *(Continued)*

### Business segments *(Continued)*

*Six months ended 30 June 2004*

| | Communication Products *HK$'000* | Intelligent Transportation System *HK$'000* | Video Conference System *HK$'000* | Broadband Wireless Access *HK$'000* | Others *HK$'000* | Eliminations *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|---|---|---|
| Turnover | | | | | | | |
| External sales | 14,142 | 2,338 | 9,344 | 42,169 | 13 | — | 68,006 |
| Inter-segment sales* | — | — | — | 470 | — | (470) | — |
| Total | 14,142 | 2,338 | 9,344 | 42,639 | 13 | (470) | 68,006 |

* *Inter-segment sales are charged at prevailing market rates.*

| | Communication Products | Intelligent Transportation System | Video Conference System | Broadband Wireless Access | Others | Eliminations | Consolidated |
|---|---|---|---|---|---|---|---|
| Result | | | | | | | |
| Segment result | 2,366 | (5,956) | 784 | 10,470 | (378) | — | 7,286 |
| Unallocated corporate expenses | | | | | | | (170) |
| Finance costs | | | | | | | (2,560) |
| Profit before taxation | | | | | | | 4,556 |
| Taxation | | | | | | | (2,931) |
| Profit for the period | | | | | | | 1,625 |

## 5. FINANCE COSTS

| | **1.1.2005 to 30.6.2005** ***HK$'000*** | 1.1.2004 to 30.6.2004 *HK$'000* |
|---|---|---|
| Interest on: | | |
| Bank borrowings | | |
| — wholly repayable within five years | **1,390** | 1,322 |
| — not wholly repayable within five years | **244** | 248 |
| Other borrowings wholly repayable within five years | **984** | 990 |
| | **2,618** | 2,560 |

## 6. PROFIT BEFORE TAXATION

| | 1.1.2005 to 30.6.2005 HK$'000 | 1.1.2004 to 30.6.2004 HK$'000 |
|---|---|---|
| Profit before taxation has been arrived at after charging and (crediting): | | |
| Allowance (reversal of allowance) for bad and doubtful debts | **2,360** | (1,554) |
| Allowance for obsolete inventories | **292** | — |
| Amortisation of goodwill *(note a)* | **—** | 127 |
| Amortisation of intangible assets *(note b)* | **2,364** | 2,152 |
| Depreciation of property, plant and equipment | **3,439** | 2,223 |
| Impairment losses recognised in respect of goodwill *(note a)* | **2,438** | — |
| Property, plant and equipment written off | **—** | 8 |
| Interest income | **(103)** | (67) |

*Notes:*

(a) The amount is included in administrative expenses.

(b) During the six months ended 30 June 2005, amortisation of intangible assets of approximately HK$1,988,000 (2004: HK$1,777,000) and HK$376,000 (2004: HK$375,000) were included in cost of sales and administrative expenses respectively.

## 7. TAXATION

| | 1.1.2005 to 30.6.2005 HK$'000 | 1.1.2004 to 30.6.2004 HK$'000 |
|---|---|---|
| Current tax: | | |
| Hong Kong Profits Tax | | |
| — current period | **—** | 74 |
| — underprovision in prior period | **17** | 824 |
| The People's Republic of China (the "PRC") Income Tax | | |
| — current period | **—** | 220 |
| — overprovision in prior year | **(105)** | — |
| | **(88)** | 1,118 |
| Deferred taxation: | | |
| Current period | **231** | 1,813 |
| | **231** | 1,813 |
| Taxation attributable to the Group | **143** | 2,931 |

## 7. TAXATION *(Continued)*

No provision for Hong Kong Profits Tax made in the current period as the Company's subsidiaries incurred tax losses for the period.

Tax provision of Hong Kong Profits Tax made in six months ended 30 June 2004 was calculated at 17.5% of the estimated assessable profit for the period.

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

## 8. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005.

## 9. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the period attributable to entity holders of the parent of HK$287,000 (2004: HK$2,343,000) and the number of shares of 1,017,139,763 (2004: weighted average number of shares of 974,832,071) in issue throughout the period.

## 10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

During the period, the Group spent approximately HK$2,648,000 (six months ended 30 June 2004: HK$1,256,000) and nil (six months ended 30 June 2004: HK$826,000) on acquisition of property, plant and equipment and intangible assets respectively.

## 11. DEBTORS AND PREPAYMENTS

Included in debtors and prepayments are trade debtors of HK$133,034,000 (31 December 2004: HK$85,987,000). The Group allows credit periods ranging from 45 to 180 days to its customers for sales of goods. At the discretion of the directors, several major customers were allowed to settle their balances beyond credit terms up to one year. The average credit period of one year will be given to customers for revenue from service contracts. The following is an aged analysis of trade debtors:

| | **30.6.2005**<br>***HK$'000*** | 31.12.2004<br>*HK$'000* |
|---|---|---|
| Within 30 days | **38,184** | 44,241 |
| Between 31 and 90 days | **45,827** | 7,951 |
| Between 91 and 180 days | **5,980** | 20,734 |
| Between 181 and 365 days | **35,371** | 8,913 |
| Over 1 year | **7,672** | 4,148 |
| | **133,034** | 85,987 |

## 12. CREDITORS AND ACCRUED CHARGES

Included in creditors and accrued charges are trade creditors of HK$11,593,000 (31 December 2004: HK$14,186,000). The following is an aged analysis of trade creditors:

| | **30.6.2005**<br>***HK$'000*** | 31.12.2004<br>*HK$'000* |
|---|---|---|
| Within 30 days | **2,760** | 6,760 |
| Between 31 and 90 days | **1,972** | 1,766 |
| Between 91 and 180 days | **1,280** | 377 |
| Between 181 and 365 days | **1,110** | 1,762 |
| Over 1 year | **4,471** | 3,521 |
| | **11,593** | 14,186 |

## 13. SHARE CAPITAL

| | **Number of shares** | **Share capital nominal value**<br>*HK$'000* |
|---|---|---|
| Ordinary shares of HK$0.10 each | | |
| Authorised: | | |
| At 1 January 2005 and 30 June 2005 | 10,000,000,000 | 1,000,000 |
| Issued and fully paid: | | |
| At 1 January 2005 and 30 June 2005 | 1,017,139,763 | 101,714 |


## 14. PLEDGE OF ASSETS

At 30 June 2005, the Group had pledged certain land and buildings with carrying value of HK$10,375,000 (31 December 2004: HK$10,663,000) to secure the banking facilities granted to the Group. At 30 June 2005, bank deposits amounted to HK$3,483,000 (31 December 2004: HK$1,264,000) have been pledged to secure short term borrowings and are therefore classified as current assets.

## 15. RELATED PARTY TRANSACTIONS

(a) During the period, the Group had the following transactions with related parties:

| | **1.1.2005 to 30.6.2005** *HK$'000* | 1.1.2004 to 30.6.2004 *HK$'000* |
|---|---|---|
| Immediate holding company of shareholder | | |
| Rental expenses and management fee paid | **—** | 8 |
| Associate | | |
| Goods sold | **151** | 3,484 |
| Goods purchased | **16,402** | 28,223 |
| Management fee income received | **—** | 200 |

(b) The balances with associates, related companies and immediate holding company of shareholder were unsecured, non-interest bearing and had no fixed repayment terms. The related companies are subsidiaries of immediate holding company of a shareholder of the Company.

## 16. CAPITAL COMMITMENT

At 30 June 2005, the Group was committed to capital expenditure of approximately HK$113 million for the establishment of two Sino-foreign joint ventures to engage in wind power generation in the PRC. Both Sino-foreign joint ventures will be owned as to 25% by the Group.


# MANAGEMENT DISCUSSION AND ANALYSIS

## RESULTS SUMMARY

For the six months ended 30 June 2005, the Group's turnover and net profit was approximately HK$97,321,000 and HK$287,000 respectively as compared to the turnover of HK$68,006,000 and its net profit of HK$2,343,000 for the corresponding period of 2004.

### Reorganisation

On 22 January 2005, China Aerospace International Holdings Limited ("CASIL") and China Academy of Launch Vehicle Technology Limited ("CALT") entered into a Sale and Purchase Agreement for the purpose of effecting the group reorganisation (the "Sale and Purchase Agreement"). Pursuant to the Sale and Purchase Agreement, for an aggregate cash consideration of HK$143,758,081, CASIL agreed to sell, and CALT agreed to purchase, CASIL's entire 100% equity interest in and the entire shareholder's loan due from Astrotech Group Limited, which, in turn, holds 449,244,000 ordinary shares (representing approximately 44.17% equity interest) in the Company. Upon completion of the Sale and Purchase Agreement, CASIL will no longer hold any direct or indirect equity interest in the Company.

Pursuant to the Sale and Purchase Agreement, China Aerospace Science & Technology Corporation ("CASC") will be the ultimate shareholder of the company via the immediate shareholding of CALT, which provides the opportunity for the Company to establish its unique profile in the marketplace.

### Major Transaction

The Joint Venture Contracts in respect of 江蘇龍源風力發電有限公司 Jiangsu Longyuan Wind Energy Company Limited ("Jiangsu Longyuan") and 吉林三源風力發電有限公司 Jilin Sanyuan Wind Energy Company Limited ("Jilin Sanyuan") were entered into by Crownplus International Limited ("Crownplus"), a wholly owned subsidiary of the Company, in respect of the building, maintenance and operation of wind energy plants and facilities in the PRC respectively on 15 April 2005.

1) Jilin Sanyuan (a Sino-foreign equity joint venture enterprise to be established in Jilin Province, the PRC)

| | | |
|---|---|---|
| Business scope | : | wind power generation; wind field survey and design and construction works; full-set installation, testing, and maintenance and repairs of wind-driven generators; sale of electricity; and related technical consultancy and training. |
| Term of joint venture | : | 25 years |
| Construction size | : | 100 megawatt |
| Total investment | : | RMB811,960,000 (HK$766,000,000) |
| Total registered capital | : | RMB269,020,000 (HK$253,792,453)<br>(Crownplus's share: 25% HK$63,448,113) |
| Return | : | prior to the production of 30,000 hours of electricity, Jilin Sanyuan would be entitled to an electricity rate of RMB0.509 per hour for each kilowatt. After the production of electricity has reached 30,000 hours until the end of the authorised operation period, the electricity price will be calculated according to the average local grid electricity rate. The actual rate would be determined by the relevant price authority. |

2) Jiangsu Longyuan (a Sino-foreign equity joint venture enterprise to be established in Jiangsu Province, the PRC)

| | | |
|---|---|---|
| Business scope | : | wind power generation; wind field survey and design and construction works; full-set installation, testing, and maintenance and repairs of wind-driven generators; sale of electricity; and related technical consultancy and training. |
| Term of joint venture | : | 25 years |
| Construction size | : | 100.5 megawatt |
| Total investment | : | RMB872,620,000 (HK$823,226,415) |
| Total registered capital | : | RMB211,610,000 (HK$199,632,075)<br>(Crownplus's share: 25% HK$49,908,019) |
| Return | : | prior to the production of 30,000 hours of electricity, Jiangsu Longyuan would be entitled to an electricity rate of RMB0.519 per hour for each kilowatt. After the production of electricity has reached 30,000 hours until the end of the authorised operation period, the electricity price will be calculated according to the average local grid electricity rate. The actual rate would be determined by the relevant price authority. |

The Group would benefit from the entering into of the Joint Venture Contracts, as the transactions will widen the business scope and earning base of the Group. Given the shortage of electricity supplies in the PRC and the global trend towards renewable energy for environment reasons, the investment by the Company into such power supply project is also fulfilling the Group corporate responsibility.

## BUSINESS REVIEW AND PROSPECT

During the first half year of 2005 the Group had continuously deployed resources on broadband wireless communication technology and its application and had fully fostered and supported Intelligent Transportation System Business, Video Conferencing System Business and Communication Products Business, resulting in the lucrative Broadband Wireless Communication Business amounting to approximately 68% of the Group's total turnover that the Group's turnover during the period was HK$97,321,000, increased by 43% as compared to its corresponding period of 2004, by effective means of exploring new markets, applying cost control and expense cutting. However, highly competitive pressure in the marketplaces of Intelligent Transportation system Business and communication Product Business are leading to the decline in the Group's overall gross margin ratio by 9% as compared to its corresponding period of 2004, which is contributable to the profit for the period HK$287,000 as compared to its decrease in its profit of the corresponding period of 2004 HK$2,343,000 by 88%.

The Group's products of broadband wireless access systems had been continuously selected as network construction equipment by large operators and internet service provider (ISP) during the year, such as China Telecom, China Netcom, China Unicom, China Mobile, China Railcom and CETC Communications. Business orders had been placed in the region of Greater China, such as Beijing, Shanghai, Guangdong, Jiangsu, Henan, Jiangxi, Sichuan, Guizhou, Yunnan, Gansu, Qinghai, Hong Kong, Macau and Taiwan.

The Group's CB-ACCESS broadband wireless access system and its successfully self-developed CB-MUX series product, used for voice and data comprehensive assessing, had been launched, installed and operated in a commercially influential scale. In terms of commercially reliable applications, good functionality and economic price, those products had maintained a clear competitive edge in the communication market.

The Broadband Wireless Communication Business's turnover (to outsiders) was, in the first half year of 2005, increased by 56% to HK$65,688,000, as compared to its turnover of HK$42,169,000 for the corresponding period of 2004.

The Group had utilized two types of self-developed product, namely, the mobile control unit based on GSM/GPRS communication network and the software of vehicle despatching and control system based on internet-related operation centres, providing the total solutions as well as operation services to the public.


In order for product segmentation to provide tailor-made services, the Group would, under the brand name HangTianQiHua, provide the mobile vehicle monitoring and despatching services to the target clientele of taxi and rented vehicle in the region of Beijing and Tangshan. The Group would also, under the band name SpaceiNet, serve the target clientele of privately owned vehicles in the region of Shanghai, Shenzhen and Hong Kong.

The Group's GPS vehicle service oriented clientele base was significantly widened from 2,000 units for the last year end to 10,000 units or above for the time being, as the taxi business in the region of Beijing was rapidly developed in the first half year of 2005.

The Group's Video Conferencing System Business had, during the year, launched new products based on MPEG4 technique, together with existing MPEG2 video conferencing system, which constituted MPEG2/MPEG4 dual-mode system to fulfil different requirements of end-users and the product chain of video conferencing systems.

Because of the achievement of the design in core parts regarding MPEG2/MPEG4 encoder in the first half year of 2005, the costing of Video Conferencing System Business will be significantly reduced, thus consolidating the existing market foundation and aggressively promoting the specialized system concurrently.

In terms of strict quality control, in time delivery and valued services, the Group had, during the first half year of 2005, developed good working relationship with oversea buyers so as to continuously collect OEM orders.

## HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2005, the Group has 43 employees (2004: 38 employees) in the Hong Kong head office and 387 employees (2004: 237 employees) in the China Mainland offices. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides Mandatory Provident Fund and medical insurance to its employees. In addition, discretionary performance related bonus and share option schemes are available and are at the discretion of the Directors.

## FINANCIAL REVIEW

### Liquidity and Financial Resources

Total borrowings of the Group as at 30 June 2005 was HK$ 99,944,000 (31 December 2004: HK$99,189,000), of which HK$53,723,000 (31 December 2004: HK$52,789,000) was fixed rate borrowings and the remaining was floating rate. All borrowings of the Group were determined at market interest rate. The Group has not issued any financial instruments for hedging or other purposes.

Gearing ratio (total borrowings over shareholders' equity) as at 30 June 2005 was 55% (31 December 2004: 55%).

### Exchange And Other Exposures

Most of the Group's business transactions were conducted in Hong Kong dollars, Renminbi and United States dollars. The Group expected that the exposure to exchange rates fluctuation was minimal and therefore have not engaged in any hedging activities.

At 30 June 2005, the Group was committed to investment of approximately HK$113 million for the capital contribution into two Sino-foreign joint ventures regarding wind facilities in the PRC. Details of the transaction were set out in an announcement made by the Company on 18 April 2005.


# DISCLOSURE OF ADDITIONAL INFORMATION

## INTERIM DIVIDEND

The Board of the Company did not recommend any interim dividend for the six months ended 30 June 2005 (2004: Nil).

## DIRECTOR'S AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, none of the directors and chief executives of the Company or their respective associates had any interest or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of SFO), or to be recorded in the register required to be maintained pursuant to Section 352 of the SFO, or otherwise to be notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## REORGANISATION

On 22 January 2005, China Aerospace International Holdings Limited ("CASIL") and China Academy of Launch Vehicle Technology Limited ("CALT") entered into a Sale and Purchase Agreement for the purposes of effecting the group reorganisation (the "Sale and Purchase Agreement"). Pursuant to the Sale and Purchase Agreement, for an aggregate cash consideration of HK$143,758,081, CASIL agreed to sell, and CALT agreed to purchase, CASIL's entire 100% equity interest in and the entire shareholder's loan due from Astrotech Group Limited ("Astrotech"), which, in turn, holds 449,244,000 ordinary shares (representing approximately 44.17% equity interest) in the Company. Upon completion of the Sale and Purchase Agreement which had taken place on 10 July 2005, CASIL would no longer hold any direct or indirect equity interest in the Company.

Details of the transaction were set out in an announcement made by the Company on 24 January 2005.


## SHARE OPTION SCHEMES

Under the terms of the share option scheme of the Company (the "CASTEL Scheme") which became effective on 23 July 1997 and shall be valid until 23 July 2007, the board of directors may offer to any full time employees, including executive directors of the Company and/or any of its subsidiaries, options to subscribe for shares in the Company at a price which is not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time. The options granted must be accepted within 28 days from date of grant. Upon acceptance of an offer of options, an amount of HK$1 by way of consideration is payable by the employee. Options may be exercised, at any time for a period to be determined by the directors of the Company, which shall not exceed ten years from the adoption of the CASTEL Scheme. Unless otherwise terminated or altered, the CASTEL Scheme will remain in force for a period of ten years from the date of adoption.

Under the terms of the share option scheme of CASIL (the "CASIL Scheme") which became effective on 8 July 1997 and shall be valid until 8 July 2007, the board of directors of CASIL may offer to any full time employees of CASIL, and/or any of its subsidiaries including executive directors of the Company, options to subscribe for shares in CASIL at a price which is not less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options, subject to a maximum of 10% of the issued share capital of CASIL from time to time. The options granted must be accepted within 28 days from date of grant. Upon acceptance of an offer of options, an amount of HK$1 by way of consideration is payable by the employee. Options may be exercised, at any time for a period to be determined by the directors of the Company, which shall not exceed ten years from the adoption of the CASIL Scheme. Unless otherwise terminated or altered, the CASIL Scheme will remain in force for a period of ten years from the date of adoption.

The purpose of the schemes is to recognise the contribution of employees of the Group.

Pursuant to Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") with which the Company must comply, the exercise price of options under an option scheme must be at least the higher of: (i) the closing price of the shares on the Stock Exchange on the date of grant, which must be a business day; and (ii) the average closing price of the shares for the five business days immediately preceding the date of grant. The total number of options to be issued to each participant in any twelve-month period must not exceed 1% of the share capital of the Company in issue.

As the Listing Rules relating to a share option scheme were amended on 1 September 2001, share option can only be granted under the share option scheme provided that the existing Listing Rules on share option schemes are complied with.

No share option under either the CASTEL Scheme or the CASIL Scheme was held by the directors or employees of the Company or its subsidiaries in both years ended 31 December 2003 and 31 December 2004 and the period ended 30 June 2005.

**DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Apart from as disclosed under the headings "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures" and "Share option scheme", at no time during the period was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangements to enable the directors of the Company or their associates (as defined in the "Listing Rules") to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

**SUBSTANTIAL SHAREHOLDERS**

As at 30 June 2005, so far as is known to the directors, the persons/entitles (other than a director or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interest in such securities or in any options in respect of such capital were as follows:


| **Name** | **Capacity** | **Number of shares** *(Note 1)* | **Percentage of shareholding** |
|---|---|---|---|
| CASC | Interest of a controlled corporation *(Note 2)* | 449,244,000 (L) | 44.17% |
| CALT | Interest of a controlled corporation *(Note 3)* | 449,244,000 (L) | 44.17% |
| Astrotech | Beneficial owner | 449,244,000 (L) | 44.17% |

*Notes:*

1. The letter "L" denotes the shareholder's long position in the shares.

2. CASC is deemed to be interested in 449,244,000 shares as it holds 100% of the issued share capital of CALT.

3. Astrotech is a wholly owned subsidiary of CALT. Accordingly, CALT is deemed to be interested in all the shares held by Astrotech.

Save as disclosed herein, according to the register of interests kept by the Company under Section 336 of the SFO and so far as was known to the Directors, there is no other person/entity (other than a director or chief executive of the Company) who, as at 30 June 2005, had any interest or short position in the shares of underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group in any options in respect of such capital.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's issued shares during the six months period ended 30 June 2005.

## AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters. The Group's financial statements for the period ended 30 June 2005 have been reviewed by the audit committee, who are of the opinion that such statements comply with the applicable accounting standards, and the Listing Rules and legal requirements, and that adequate disclosures have been made.

## CORPORATE GOVERNANCE

The Group has adopted all of the Code Provisions in Appendix 14 of the Listing Rules except the following deviations:

1. The Board of Directors of the Company is in the process of defining the composition and terms of reference of the Remuneration Committee. It is expected that such process will be completed around late September 2005 where a board meeting is scheduled.

2. All of the Independent Non-executive Directors are not appointed for specific term but are subject to retirement and rotation and re-election at the Company's Annual General Meeting.

The Group has adopted procedures governing directors' securitites transactions in compliance with the Model Code as set out in Appendix 10 of the Listing rules.

## BOARD OF DIRECTORS

As at the date of this report, the Board of the Company comprises six executive directors, namely Mr. Rui Xiaowu, Mr Wang Xiaodong, Mr. Zhou Xiaoyun, Mr. Han Jiang, Mr. Guo Xianpeng and Mr. Xu Jian Hua and one non-executive director namely Mr. Ma Yucheng and four independent non-executive directors, namely, Mr. Zhu Shixiong, Mr. Moh Kwen Yung and Mr. Yiu Ying Wai and Mr. Wong Fai, Philip.

On behalf of the Board
**Wang Xiaodong**
*Managing Director*

Hong Kong, 20 September 2005