



CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED
ANNUAL REPORT 2004



Corporate Information	2
Chairman’s Statement	3
Management Discussion and Analysis	5
Biographical Details of Directors	6
Directors’ Report	10
Auditors’ Report	15
Consolidated Income Statement	17
Balance Sheets	18
Consolidated Statement of Changes in Equity	20
Consolidated Cash Flow Statement	21
Notes to the Financial Statements	23
Appendices	
I. Financial Summary	70
II. Investment Properties	71
III. Major Properties under Development	72

BOARD OF DIRECTORS

Executive Directors

Mr. Rui Xiaowu (*Chairman*)
Mr. Zhao Liqiang
Mr. Zhou Qingquan
Mr. Zhao Yuanchang
Mr. Wu Hongju
Mr. Guo Xianpeng

Non-Executive Directors

Mr. Lee Hung Sang (*Independent Director*)
Mr. Chow Chan Lum, Charles (*Independent Director*)
Mr. Luo Zhenbang (*Independent Director*)
Mr. Li Jinsheng
Mr. Xu Shilong
Mr. Chen Dingyi
Ms. Chan Ching Har, Eliza

AUDIT COMMITTEE

Mr. Chow Chan Lum, Charles (*Chairman*)
Mr. Xu Shilong
Mr. Luo Zhenbang

COMPANY SECRETARY

Mr. Chan Ka Kin, Ken

AUDITORS

Deloitte Touche Tohmatsu

SHARE REGISTRARS

Standard Registrars Limited

LEGAL COUNSELS

Sit, Fung, Kwong & Shum
Richards Butler

PRINCIPAL BANKERS

Bank of China (Hong Kong)
CITIC Ka Wah Bank
Bank of Communications
DBS Bank (Hong Kong) Limited
Wing Hang Bank
Standard Chartered Bank
Hua Xia Bank

REGISTERED OFFICE

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On behalf of the Board of Directors, I am pleased to announce the audited results of China Aerospace International Holdings Limited (the "Company") and its subsidiaries (together hereinafter referred to as the "Group") for the financial year ended 31 December 2004.

BUSINESS REVIEW

The audited consolidated profit attributable to shareholders of the Group for the year ended 31 December 2004 was approximately HK\$55,780,000, representing an increase of about 85% as compared to that of HK\$30,196,000 in 2003. The turnover increased by 13.7% to HK\$1,410,240,000. Administrative expenses and finance costs decreased by 15.5% and 22.4% to HK\$165,608,000 and HK\$50,135,000 respectively.

The economy of Hong Kong continued to improve in 2004. Economic growth for the whole year reached 8.1%. Through aggressively adopting measures in strengthening market exploration and cost control, cutting finance and administrative expenses and accelerating asset consolidation, the Group achieved the above results. This further improves the condition of the Group's development.

Through continuous measures like technological innovation, equipment replacement and plant expansion etc., the Group maintains a relatively strong competitiveness of its major products with rooms of development. The turnover for business of liquid crystal display, audio and video products, printed circuit boards, plastic moulding and intelligent battery charging systems had been recorded growth respectively. The overall turnover of industrial manufacturing for the year 2004 had reached HK\$1,330,992,000, grown by 34%. Profit had recorded a growth of more than 63%. This shows that the profitability of the Group has been obviously strengthened.

In order to develop the digital TV and satellite digital broadcasting markets in China, the Group established China Aerospace New World Technology Limited ("CANW"), a jointly controlled entity, in early 2004 through completion of internal business and assets integration and the introduction of a strategic partner. A business development plan had also been made. Under the fierce market competition and uncertainty of relevant state policies, it is expected that CANW will still face certain challenges in its business development.

The disposal of non-core assets and better resource allocation are policies of the Group. The Group speedily captured the market opportunity and disposed some properties located at Concordia Plaza in Tsimshatsui East, Kowloon, Hong Kong at a consideration of HK\$180 million in 2004. The transaction was completed at the end of March 2005.

During the course of disposal of the property, the Group actively negotiated with the lending bank, Bank of China (Hong Kong) Limited, for a debt restructuring arrangement. After many rounds of negotiation and effort, the Group finally reached a debt restructuring agreement with the Bank. A sum of approximately HK\$193 million was waived. The rest of the debt will be settled by instalments according to the new terms.

Upon completion of property assets disposal and the debt restructuring, the gearing ratio of the Group was reduced to 61.8 % at the end of 2004 from 66.9% at the end of 2003. The financial position of the Group was further improved.

BUSINESS OUTLOOK

Looking forward, the Group will continue to strengthen the internal management, raise operational efficiency and management level under the thesis of steady operation and practical exploration. Besides, the Group will continue to strengthen the technological innovation, improve products quality and diversify its customer base with the aim of utilizing its integrated advantages and maintaining a stable growth of current business. At the same time, the Group will try seeking investment opportunities, introducing potential investment projects that fall in line with the Group's business development strategies. The Group will strive to achieve even better results in order to contribute back to shareholders and the society.

COMPLIMENTS

I would like to take this opportunity to express, on behalf of the Board of the Directors, my sincere gratitude to our shareholders, bankers, business partners, people from various social communities, as well as all staff of the Group for their long-time support.

By order of the Board

Rui Xiaowu
Chairman

Hong Kong, 22 April 2005

As at 31 December 2004, the total assets of the Group were HK\$2,541,678,000, of which the non-current portion and the current portion were HK\$1,472,372,000 and HK\$1,069,306,000 respectively. The total liabilities were HK\$1,570,944,000, of which the current and the non-current portion of bank loans were HK\$229,572,000 and HK\$586,611,000 respectively. In terms of contingent liabilities, there was about HK\$3,000,000 which was a little less than that of the end of 2003. As at 31 December 2004, the assets/liabilities ratio was 61.8% and the current ratio was 1.35. The latter was obviously improved comparing to the rate of 1.0 at the end of 2003.

The sources of funding of the Group mainly comes from its internal financial resources and banking facilities. The Group's cash on hand as at 31 December 2004 was HK\$392,662,000, most of which was in HK dollars and the rest in RMB and US dollars.

The Company had entered into an agreement with a fellow subsidiary in January 2005 to dispose of its entire 100% equity interest in and the entire shareholder's loan due from Astrotech Group Limited, which, in turn, holds 44.17% equity interest in CASIL Telecommunications Holdings Limited. The consideration was approximately HK\$143 million. The independent shareholders of the Company had approved the transaction at the Extraordinary General Meeting held on 15 March 2005. The transaction is expected to complete in mid 2005. By then, the Company will no longer hold any direct or indirect interest in CASIL Telecommunications Holdings Limited.

Certain Group's real estates and investments have been mortgaged to banks for financing with interest calculated at prime rate, and the remaining terms by instalment varying from 3 to 10 years.

Under the leadership of the management team of the Group, the structure of the Group had been rearranged. Besides, both the financial and human resources management had been strengthened in order to further improve the overall management of the Group. The Group now has more than 5,000 staff in both the Mainland and Hong Kong.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Rui Xiaowu, aged 46, a Research Fellow, is the Chairman of the Company. He is a graduate of master's degree in computer application at the Science & Technology University for National Defense of China. He joined the 710 Research Institute of the former Ministry of Aerospace Industry of China in 1982, serving successively as Engineer, Division Director of the Business Marketing Division, and General Manager of Beijing Aerospace Hi-Tech Development Center. In the former China Aerospace Corporation, he held the posts of Vice President, then President of the 710 Research Institute, Council Member of China Aerospace Society, Vice Chairman of SinoSat Telecommunication Company, as well as Chairman of China Aerospace Satellite Holding Company Corporation. During the time, he was dispatched to Japan for advanced professional studies in the CRC Institute for two years. In his career in China Aerospace Science & Technology Corporation, he was appointed as Business Assistant to President and Director General of the Business Planning & Marketing Department in April 2000, Business Assistant to President and Director General of the Marketing Department in July 2000, Assistant to President in January 2002 and Vice President in February 2005. Throughout the years, he has attained extensive professional experience in researching, marketing, capital operation and corporate management. He was appointed as Non-Executive Director of the Company in April 2000, as Executive Director, Chairman of the Company and President of the Group in September 2002 and resigned from the office of President in September 2004.

Mr. Zhao Liqiang, aged 42, a Research Fellow, is an Executive Director of the Company and President of the Group. He graduated from Beijing Aviation College in 1984, and from China Academy of Launch Vehicle Technology ("CALT") in 1987 with a master degree in Meter & Testing of Aerospace Vehicles. He joined the 704 Research Institute of CALT and held such posts as Deputy Team Head of the Second Office, Deputy Officer of Research Centre of Tracking & Navigating Equipment, Vice President, President, President and Assistant to Chairman, and Vice Chairman, as well as General Manager of Beijing Satellite Technology & Navigation Limited, Deputy General Manager of China Aerospace Shidai Electronics Company, Director and President of Long March Launch Vehicle Technology Company Limited since 1999. He was appointed as an Executive Director of the Company and President of the Group in September 2004.

Mr. Zhou Qingquan, aged 53, is an Executive Director of the Company and Vice President of the Group. He graduated from Northwest Industrial University. From 1976, he held such posts as Deputy Director, Director, Senior Engineer, President, Deputy General Factory Manager and General Factory Manager in the 801 Research Institute of Shanghai Aerospace Administration and the Research Office of Shanghai Xinxin Machinery Factory respectively. From 1995, he held such posts as Vice President, then President of Shanghai Aerospace Corporation, as well as Deputy Director General of Shanghai Aerospace Administration. He has been awarded the title of Outstanding Entrepreneur in Shanghai. He has attained extensive experience in hi-tech industry management. He was appointed as an Executive Director of the Company and Vice President of the Group in September 1999.

Mr. Zhao Yuanchang, aged 56, a Senior Engineer, is an Executive Director of the Company and Vice President of the Group. He graduated from Nanjing Aerospace College of Managers in 1986. Through his career in Shanghai Aerospace Administration, he held such posts as Deputy General Manager of its subsidiary, Xiyue Meter Factory, Deputy Director of the 8th Institute of Design, and then its Deputy Director-General in June 1993, and concurrently President of Shanghai Aerospace Corporation and Chairman of Shanghai Aerospace Automotive Mechanical & Electronic Holdings Limited since February 1998. He has attained extensive experience in marketing, business operations, corporate restructuring and management. He was appointed as an Executive Director of the Company and Vice President of the Group in September 2002.

Mr. Wu Hongju, aged 43, a Senior Engineer, is an Executive Director of the Company and Vice President of the Group. After graduation with the major in radio technology from Beijing Polytechnic University in 1984, he started his career in R&D in the 502 Research Institute of the then Ministry of Aerospace Industry of China. From 1991, he held such posts as Office Assistant of the Aerospace Foreign Trade Coordination Team of the former Ministry of Aviation & Aerospace of China, Assistant of General Planning & Development Bureau of the former China Aerospace Corporation, Vice President of China APMT Company, Vice President of Singapore APMT Company, Division Director of Investment Management Division of Business Investment Bureau of China Aerospace Science & Technology Corporation, and Vice President of Beijing Aerospace Satellite Application Company. He has attained extensive experience in trading, capital operation and radio technology through his career. He was appointed as an Executive Director of the Company and Vice President of the Group in September 2002.

Mr. Guo Xianpeng, aged 38, a Senior Engineer, is an Executive director and Vice president of the Company. He graduated from the Department of Automotive Engineering of Tsinghua University with a bachelor's degree in engineering in 1988 and a master's degree in engineering in 1991. Since 1991, he served as Deputy Director and Engineer in China Aerospace Surface Equipment Corporation and was responsible for the planning and project management of the automotive business of aerospace industry. Since 1993, he served as Deputy Director of the Business Development Bureau, Division Director of Project Division and Senior Engineer, and was responsible for the overall management, project management, development and planning of civil products of China Aerospace Corporation. Since 1999, he served as Director of the Project Management Division of the Planning and Business Department, Director of the Project Management Division of the Business Department and Director of the Civil Products Management Division of the Business Investment Department, and was engaged in the development strategy, plan management and project management of civil products of China Aerospace Science & Technology Corporation. Since November 2002, he served as Deputy Director General of the Business Investment Department of China Aerospace Science & Technology Corporation, and was responsible for the development and planning of the civil products of the group, market development, project management and cooperation with municipal governments and so on. He is familiar with the state's industrial policies and investment policies and has experience in development planning, planning and project management of civil product in aerospace industries. He was appointed as an Executive Director and Vice President of the Company in January 2004.

Mr. Lee Hung Sang, aged 67, is an Independent Non-Executive Director of the Company and is currently a business consultant. He worked for Bank of China Group, Hong Kong for over 40 years, of which 22 years was related to banking and the rest was devoted to administrative management and held posts as director in various sectors invested by the Group, such companies as Bank of China Group Investment Limited, BOC China Fund Limited and other listed companies such as Conic Investment Company Limited, Green Island Cement (Holdings) Limited and Tian An China Investments Company Ltd and so on. He has attained extensive experience in banking and investment management.

Mr. Chow Chan Lum, Charles, aged 54, is an Independent Non-Executive Director of the Company and a Partner of Wong Brothers & Company, Certified Public Accountants. He is a member of Foreign Experts Consultative Committee on China Independent Auditing Standards, Finance Ministry, PRC and serves on a number of committees of the Hong Kong Institute of Certified Public Accountants, including Auditing & Assurance Standards Committee, PRC Accounting and Auditing Sub-Committee, Practice Review Committee, Investigation Panel, Examination Panel, Complaints Panel, Taxation Committee and Professional Standards Monitoring Committee. He also carries duties in a variety of functional and social organizations, and is currently a member of the People's Political Consultative Committee, Guangdong Province, PRC. He was appointed as an Independent Non-Executive Director of the Company in April 2000.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Luo Zhenbang, aged 38, is an Independent Non-Executive Director of the Company and a Partner of Beijing Tin Wha Certified Public Accountants. Mr. Luo graduated from the School of Business of Lanzhou in 1991 majoring in Enterprise Management. He was an expert supervisor of Xinda Asset Management Corporation and has been managing the audit for several listed companies since 1994. He is an expert supervisor of China Great Wall Asset Management Corporation, an independent director of Long March Vehicle Technology Company Limited, Ningxia Orient Tantalum Industry Company Limited and Wuzhong Instrument Company Limited, the shares of those companies are listed in the People's Republic of China, as well as an internal audit expert of Northeast Securities Company Limited. Mr. Luo possesses several professional qualifications, such as Chinese certified public accountant, certified accountant in securities and futures industry, Chinese certified assets valuer and Chinese certified tax accountant and has in-depth experience in accounting, auditing and financial management. He is familiar with the audit of listed companies from various sectors and extensively participates in the preliminary work in corporate restructuring and strategic planning for initial public offer, assets and debts restructuring, and other business consultation services. He was appointed as an Independent Non-Executive Director of the Company in December 2004.

Mr. Li Jinsheng, aged 50, a Senior Engineer, is a Non-Executive Director of the Company. After graduating from Harbin University of Industries in 1978, he joined the former Ministry of Aerospace Industry of China, working in the fields of general affairs and human resources in the 706 Research Institute. In 1986, he was transferred to Ministry of Aerospace of China serving as Office Assistant in the Appointments and Removals Division of the Human Resources Bureau, then Managing Officer and Deputy Division Director of the Senior Staff Division of Ministry of Aviation & Aerospace of China. In the former China Aerospace Corporation, he held such posts as Division Director of Professional Technician Division and Deputy Director General of the Human Resources and Training Bureau respectively. In China Aerospace Science & Technology Corporation, he held such posts as Deputy Director General and Director General of Human Resources and Training Department, then Director General of the Human Resources Department in March 2002. He is also a Council Member of China Aerospace Society, and an Executive Council Member of China Space Law Society and China Employment Service Association respectively. Throughout the years, he has attained extensive experience in human resources management and machinery manufacturing. He was appointed as a Non-Executive Director of the Company in April 2000.

Mr. Xu Shilong, aged 40, a Senior Accountant, is a Non-Executive Director of the Company. A graduate in Accounting at Zhongnan University of Finance and Accounting, he joined the former Ministry of Aerospace Industry of China in 1986, serving as Office Assistant in the Finance Department. In the former China Aerospace Corporation, he successively held the posts of Deputy Division Director, then Division Director of the Enterprise Financial Division of the Financial Bureau. He was also a Council Member of China Aerospace Society and the Vice President of China Aerospace Industrial Accounting Society. In July 1999, he was appointed as Deputy Director General of the Finance Department of China Aerospace Science & Technology Corporation. Throughout the years, he has attained extensive experience in industrial financial management. He was appointed as Non-Executive Director of the Company in April 2000.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Chen Dingyi, aged 61, is a Non-Executive Director of the Company. He graduated from Nanjing Military Technicians College in 1962. From 1975 to 1991, he held such posts as Workshop Chief, Research Director, and Assistant to Factory General Manager when working in Shanghai Broadcasting Equipment Factory, responsible for R&D, production and management. From July 1991, he held such posts as General Manager, and Director of Chee Yuen Plastic Products (Huizhou) Limited, and from June 1996, Deputy General Manager, General Manager, Director of Chee Yuen Industrial Company Limited. He has attained extensive experience in manufacturing technology and corporate administration. He was appointed as Non-Executive Director of the Company in September 2002.

Ms. Chan Ching Har, Eliza, aged 48, is a Non-Executive Director of the Company. Ms. Chan is a member of the First Selection Committee for HKSAR, member of the Hong Kong Public Service Commission, board member of the Hong Kong Hospital Authority, the Chairman of the Kowloon Hospital and the Hong Kong Eye Hospital, and Chairman of the Public Complaints Committee under the Hospital Authority. She is also a China-Appointed Attesting Officer appointed by the Ministry of Justice of the PRC, a Standing Committee Member of the Tianjin Committee of the Chinese People's Political Consultative Conference (CPPCC), the Foreign Economic Affairs Legal Counsel for the Tianjin Municipal People's Government, an arbitrator of the China International Economic and Trade Arbitration Commission (CIETAC), a Disciplinary Panel Member of the Hong Kong Institute of Certified Public Accountants and the Legal Advisor to The Hong Kong Chinese Enterprises Association. She is an independent non-executive director of China National Aviation Company Limited, the shares of which are listed on The Stock Exchange of Hong Kong Limited. She was appointed as Independent Non-Executive Director of the Company in January 1997 and was re-designated as Non-Executive Director of the Company in December 2004.

The directors present their annual report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the activities of its principal subsidiaries, associates and jointly controlled entities are set out in notes 39, 40 and 41 to the financial statements.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2004 are set out in the consolidated income statement on page 17.

The Board resolved not to declare any final dividend in respect of the financial year ended 31 December 2004 (2003: nil).

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

INVESTMENT PROPERTIES

Details of movements in investment properties of the Group during the year are set out in note 14 to the financial statements.

SHARE OPTION SCHEME

Details of the Group's share option scheme are set out in note 29 to the financial statements.

No option under the scheme was granted or exercised during the year nor outstanding at 31 December 2004.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

MAJOR CUSTOMERS AND SUPPLIERS

For the year, the aggregate turnover attributable to the five largest customers of the Group contributed less than 30% of the Group's consolidated turnover, and the aggregate purchases attributable to the five largest suppliers contributed less than 30% of the Group's total purchases.

DIRECTORS

The directors during the year and up to the date of this report were:

Executive

Rui Xiaowu (*Chairman*)

Zhao Liqiang (appointed on 16 September 2004)

Zhou Qingquan

Zhao Yuanchang

Wu Hongju

Guo Xianpeng (appointed on 15 January 2004)

Zhang Tao (resigned on 15 January 2004)

Non-executive

Lee Hung Sang (*Independent Director*)

Chow Chan Lum, Charles (*Independent Director*)

Luo Zhenbang (*Independent Director*) (appointed on 29 December 2004)

Li Jinsheng

Xu Shilong

Chen Dingyi

Chan Ching Har, Eliza (previously as independent non-executive director,
re-designated as non-executive director on 29 December 2004)

Non-executive directors are appointed for a period up to their retirement by rotation at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Mr. Zhao Yuanchang, Mr. Wu Hongju, Mr. Chen Dingyi and Mr. Lee Hung Sang retire by rotation in accordance with Article 103(A) of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Mr. Zhao Liqiang and Mr. Luo Zhenbang retire in accordance with Article 94 of the Company's Articles of Association and, being eligible, offers himself for re-election.

No director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2004, none of the Directors, Chief Executives or their associates have any beneficial, non-beneficial interests or short position in the share capital, warrants and options of the Company, its subsidiaries or any of its associated corporations which is required to be recorded in the Register of Directors' Interests pursuant to Part XV of the Securities & Futures Ordinance and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has any service contract with the Company or any of its subsidiaries not determinable by the employing company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, either directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the directors or their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions:

Nature of transaction	Amount <i>HK\$'000</i>
Rental and office expenses received from an associate of the Company (<i>note</i>):	
CASIL Telecommunications Holdings Limited and its subsidiaries ("CASTEL Group")	10

Note: The Group let certain properties and office equipment to CASTEL Group. The rental income was comparable to rental charge on similar properties occupying by other tenants.

On 22 March 2004, the Group borrowed a loan of a principal of RMB50,000,000 from a subsidiary of China Aerospace Science & Technology Corporation ("CASC"). The loan is unsecured, bears interest at 5.09% per annum and repayable on 25 September 2004. The interest incurred during the year amounted to HK\$1,889,000. The Group is now negotiating with that company to extend the repayment terms of the loan.

Independent non-executive directors of the Company have reviewed the connected transactions and confirmed that the above connected transactions have been entered into by the Group in its ordinary and usual course of business and in accordance with its pricing policy.

The auditors of the Company have confirmed that the transactions had been approved by the board of directors and did not exceed the cap stated in the relevant announcement, if any.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2004, the register of substantial shareholders maintained by the Company pursuant to Part XV of the Securities & Futures Ordinance discloses the following companies as having 5% or more of the issued capital of the Company:

Name	Capacity	Number of ordinary shares held for long positions	Percentage of issued capital
China Aerospace Science & Technology Corporation	Held by a controlled corporation	896,818,664 (<i>Note 1</i>)	41.86%
Jetcote Investments Limited	Beneficial owner	5,490,456	0.26%
	Held by a controlled corporation (<i>Note 2</i>)	891,328,208	41.60%
		896,818,664	41.86%
Burhill Company Limited	Beneficial owner (<i>Note 2</i>)	393,681,580	18.38%
Sin King Enterprises Company Limited	Beneficial owner (<i>Note 2</i>)	393,272,908	18.36%
Jet Square Developments International Limited	Beneficial owner (<i>Note 2</i>)	61,706,700	2.88%
Star River Assets Limited	Beneficial owner (<i>Note 2</i>)	32,165,100	1.50%
Full Power International Limited	Beneficial owner (<i>Note 2</i>)	10,501,920	0.49%

Notes:

1. These 896,818,664 shares are duplicated in the interests held by Jetcote Investments Limited, a wholly owned subsidiary of CASC.
2. All the five companies are wholly-owned subsidiaries of Jetcote Investments Limited. The Shares held by them form part of the total number of Shares held by Jetcote Investments Limited.

CORPORATE GOVERNANCE

The Company had complied throughout the year with those paragraphs of the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with which it is required to report compliance, except that none of the non-executive directors of the Company has been appointed for a specific term but are subject to retirement by rotation.

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

CORPORATE GOVERNANCE *(Continued)*

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

The Company had received the letters from all of the Independent Non-executive Directors confirming their independency to the Company is complied with the requirements of Rule 3.13 of the Listing Rules. The Company confirmed the Independent Non-executive Directors are independent.

The Audit Committee of the Company currently has a membership comprising two independent non-executive directors, Mr. Chow Chan Lum, Charles and Mr. Luo Zhenbang and a non-executive director, Mr. Xu Shilong. The Audit Committee had reviewed, discussed and approved the audited financial statements of the Company for the year ended 31 December 2004.

Pursuant to Rule 13.20 of the Listing Rules, a wholly-owned subsidiary of the Company had made an advance to a third party company in the past. The outstanding balance of the advance was HK\$70,269,000 as at 31 December 2004, representing approximately 7% of the Group's audited consolidated net worth as at 31 December 2004. The loan was secured by a piece of land and guaranteed personally by the substantial shareholder and chairman of the third party company. A court hearing in respect of the loan was conducted in June 2004, and the judgement in respect of the action was received at the end of July 2004. The judgement was merely a fact finding and confined to issues of liability only. For the issues of damages, both parties are arranging for directions for the further conduct of this action.

EMOLUMENT POLICY

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 29 to the financial statements.

POST BALANCE SHEET EVENTS

Details of the significant post balance sheet events are set out in notes 13(c) and 38 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

By order of the Board

Rui Xiaowu
Chairman

Hong Kong, 22 April 2005

Deloitte.

德勤

TO THE MEMBERS OF CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED

航天科技國際集團有限公司

(incorporated in Hong Kong with limited liability)

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

Respective responsibilities of directors and auditors

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

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

Basis of opinion

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

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

Qualified opinion arising from disagreement about accounting treatment

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

AUDITORS' REPORT

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 22 April 2005

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2004

	NOTES	2004 HK\$'000	2003 HK\$'000
Turnover	3(a)	1,410,240	1,239,633
Cost of sales and services	3(b)	(1,130,235)	(957,199)
		280,005	282,434
Other operating income		27,605	46,128
Distribution costs		(49,534)	(45,115)
Administrative expenses		(165,608)	(195,994)
Waiver of debts	5	193,520	–
Reversal of impairment loss (impairment loss) recognised in respect of property, plant and equipment		93,104	(12,639)
Surplus on revaluation of investment properties		60,898	5,910
Allowance for loans receivable	21	(369,239)	–
Waiver of interest expense on other loans		–	36,273
(Allowance) reversal of allowance for doubtful debts		(5,355)	4,262
Profit from operations	6	65,396	121,259
Finance costs	8	(50,135)	(64,645)
Share of results of associates		(102)	3,701
Share of results of jointly controlled entities		(9,996)	–
Gain (loss) on deemed disposal of subsidiaries	31	65,806	(28,331)
Allowance for amounts due from jointly controlled entities	9	(26,949)	–
Gain on deemed disposal of an associate	10	11,590	–
Gain on partial disposal of subsidiaries		–	238
Loss on disposal of an associate		–	(78)
Profit before taxation		55,610	32,144
Taxation	11	397	(5,432)
Profit before minority interests		56,007	26,712
Minority interests		(227)	3,484
Net profit for the year		55,780	30,196
Earnings per share	12		
Basic		HK2.6¢	HK1.4¢

BALANCE SHEETS

At 31 December 2004

	NOTES	THE GROUP		THE COMPANY	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Non-current assets					
Property, plant and equipment	13	804,091	719,664	181,204	92,729
Investment properties	14	267,750	199,545	–	–
Interests in subsidiaries	15	–	–	521,060	536,609
Interests in associates	16	94,967	121,814	12,788	22,221
Interests in jointly controlled entities	17	78,535	–	15,000	–
Investments in securities	18	227,029	227,029	–	–
		<u>1,472,372</u>	<u>1,268,052</u>	<u>730,052</u>	<u>651,559</u>
Current assets					
Inventories	19	175,762	116,414	–	–
Trade and other receivables	20	235,308	333,525	27,032	34,579
Loans receivable	21	261,371	635,588	–	–
Amounts due from subsidiaries		–	–	1,082,453	1,031,284
Amounts due from associates	37	2,971	8,597	28,052	4,032
Taxation recoverable		1,232	177	–	–
Pledged bank deposits	22	66,612	67,407	–	–
Bank balances and cash		326,050	301,440	89,403	107,366
		<u>1,069,306</u>	<u>1,463,148</u>	<u>1,226,940</u>	<u>1,177,261</u>
Current liabilities					
Trade and other payables	23	459,563	640,325	58,571	117,960
Amounts due to subsidiaries		–	–	244,533	168,846
Amounts due to associates	37	33,787	38,014	20,569	20,569
Taxation payable		13,305	12,965	80	80
Obligations under finance leases					
– amount due within one year	24	7,596	5,114	–	–
Bank loans and overdrafts	25	221,976	604,660	175,604	302,122
Other loans	26	53,931	116,449	47,170	–
		<u>790,158</u>	<u>1,417,527</u>	<u>546,527</u>	<u>609,577</u>
Net current assets		<u>279,148</u>	<u>45,621</u>	<u>680,413</u>	<u>567,684</u>
Total assets less current liabilities		<u>1,751,520</u>	<u>1,313,673</u>	<u>1,410,465</u>	<u>1,219,243</u>

BALANCE SHEETS

At 31 December 2004

	NOTES	THE GROUP		THE COMPANY	
		2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Non-current liabilities					
Amount due to a major shareholder	37	176,644	176,647	259,258	259,261
Obligations under finance leases					
– amount due after one year	24	7,084	3,196	–	–
Secured bank loans	27	579,527	212,320	250,104	194,471
Deferred taxation	28	17,531	18,019	–	–
		<u>780,786</u>	<u>410,182</u>	<u>509,362</u>	<u>453,732</u>
Minority interests		<u>19,434</u>	<u>19,157</u>	<u>–</u>	<u>–</u>
		<u>951,300</u>	<u>884,334</u>	<u>901,103</u>	<u>765,511</u>
Capital and reserves					
Share capital	29	2,142,420	2,142,420	2,142,420	2,142,420
Reserves	30	(1,191,120)	(1,258,086)	(1,241,317)	(1,376,909)
		<u>951,300</u>	<u>884,334</u>	<u>901,103</u>	<u>765,511</u>

The financial statements on pages 17 to 69 were approved and authorised for issue by the Board of Directors on 22 April 2005 and are signed on its behalf by:

Zhao Liqiang
Director

Zhou Qingquan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Share capital	Share premium	Investment property revaluation reserve	Special capital reserve	General reserve	Negative goodwill reserve	Goodwill reserve	Translation reserve	Capital redemption reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2003	2,142,420	939,048	-	14,044	23,916	347	(17,878)	(36,908)	1,080	(2,237,181)	828,888
Goodwill realised upon partial disposal of subsidiaries	-	-	-	-	-	-	3,657	-	-	-	3,657
Reserves realised upon deemed disposal of subsidiaries	-	-	-	-	-	-	14,221	7,372	-	-	21,593
Net profit for the year	-	-	-	-	-	-	-	-	-	30,196	30,196
At 31 December 2003	2,142,420	939,048	-	14,044	23,916	347	-	(29,536)	1,080	(2,206,985)	884,334
Surplus on revaluation of investment properties and gains not recognised in the income statement	-	-	12,910	-	-	-	-	-	-	-	12,910
Reserves realised upon deemed disposal of subsidiaries	-	-	-	-	-	-	-	(1,724)	-	-	(1,724)
Net profit for the year	-	-	-	-	-	-	-	-	-	55,780	55,780
At 31 December 2004	2,142,420	939,048	12,910	14,044	23,916	347	-	(31,260)	1,080	(2,151,205)	951,300

Details of the movement of the reserves of the Company are set out in note 30 to the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before taxation	55,610	32,144
Adjustments for:		
Depreciation	47,824	51,507
Allowance for loans receivable	369,239	–
Amortisation of development costs	–	1,396
Amortisation of goodwill	–	138
Amortisation of technology licence right	–	377
Interest income	(2,239)	(2,230)
Interest expenses	49,657	64,363
Finance lease charges	478	282
Waiver of interest expense on other loans	–	(36,273)
Waiver of debts	(193,520)	–
Gain on disposal of property, plant and equipment	(2,885)	(16,694)
Surplus on revaluation of investment properties	(60,898)	(5,910)
Allowance for amounts due from jointly controlled entities	26,949	–
Allowance (reversal of allowance) for doubtful debts	5,355	(4,262)
(Reversal of impairment loss) impairment loss recognised in respect of property, plant and equipment	(93,104)	12,639
Gain on deemed disposal of an associate	(11,590)	–
Reversal of allowance for obsolete inventories	(19,371)	(23,104)
Gain on partial disposal of subsidiaries	–	(238)
(Gain) loss on deemed disposal of subsidiaries	(65,806)	28,331
Loss on disposal of an associate	–	78
Share of results of associates	102	(3,701)
Share of results of jointly controlled entities	9,996	–
	115,797	98,843
Operating cash flows before movements in working capital	115,797	98,843
(Increase) decrease in inventories	(41,802)	45,502
Decrease (increase) in trade and other receivables	39,021	(139,905)
Decrease (increase) in amounts due from associates	5,626	(10,028)
Increase in amounts due from jointly controlled entities	(26,949)	–
Decrease in trade and other payables	(107,797)	(26,498)
(Decrease) increase in amounts due to associates	(1,397)	15,291
	(17,501)	(16,795)
Cash used in operations	(17,501)	(16,795)
Income taxes paid	(807)	(4,425)
	(18,308)	(21,220)
NET CASH USED IN OPERATING ACTIVITIES	(18,308)	(21,220)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	NOTE	2004 HK\$'000	2003 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds on disposal of investment properties		21,541	14,770
Proceeds on disposal of property, plant and equipment		13,910	57,449
Purchase of property, plant and equipment		(54,487)	(58,024)
Net cash flows in respect of deemed disposal of subsidiaries	31	(1,677)	(25,722)
Repayment of loans receivable		4,978	18,149
Decrease in pledged bank deposits		795	11,166
Development costs incurred		–	(2,603)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(14,940)	15,185
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(52,686)	(55,189)
Interest received		2,239	2,230
Finance lease charges		(478)	(282)
New loans raised		488,941	214,376
Contribution from minority shareholders		50	981
Repayment of loans		(326,208)	(118,123)
Repayment of obligations under finance leases		(6,789)	(4,812)
Repayment to a major shareholder		(3)	–
NET CASH FROM FINANCING ACTIVITIES		105,066	39,181
NET INCREASE IN CASH AND CASH EQUIVALENTS		71,818	33,146
CASH AND CASH EQUIVALENTS AT 1 JANUARY		254,232	221,086
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		326,050	254,232
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		326,050	301,440
Bank overdrafts		–	(47,208)
		326,050	254,232

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited.

The principal activity of the Company is investment holding. The principal activities of its major subsidiaries, associates and jointly controlled entities are set out in notes 39, 40 and 41, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or up to their effective date of acquisition or disposal, respectively.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition.

Goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be charged to the income statement at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired.

Goodwill arising on acquisitions after 1 January 2001 is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Negative goodwill

Negative goodwill represents the excess of the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or an associate at the date of acquisition over the cost of acquisition.

Negative goodwill arising on acquisitions prior to 1 January 2001 continues to be held in reserves, and will be credited to income at the time of disposal of the relevant subsidiary or associate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Negative goodwill *(Continued)*

Negative goodwill arising on the acquisition of an associate after 1 January 2001 is deducted from the carrying value of that associate. Negative goodwill arising on the acquisition of subsidiaries after 1 January 2001 is presented separately in the balance sheet as a deduction from assets.

Negative goodwill is released to income based on an analysis of the circumstances from which the balance resulted. To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised as income immediately.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates plus the goodwill in so far it has not been written off or amortised, less any identified impairment loss.

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any identified impairment loss.

Jointly controlled entities

Joint venture arrangements which involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group's interests in jointly controlled entities are included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entities plus the goodwill in so far as it has not already been written off or amortised less any identified impairment loss. The Group's share of the post-acquisition results of its jointly controlled entities is included in the consolidated income statement.

In the Company's balance sheet, investments in jointly controlled entities are stated at cost, as reduced by any identified impairment loss.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any identified impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Sales of properties are recognised on the execution of legally binding, unconditional and irrevocable contracts.

Service income is recognised when services are rendered.

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Rental income, including rentals invoiced in advance from properties under operating leases, is recognised on a straight line basis over the term of the relevant lease.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceed and the carrying amount of the asset and is recognised in the income statement.

Properties in the course of development for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any identified impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation is provided to write off the cost of assets, other than properties under development, over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired lease term
Buildings	4% or over the term of lease, whichever is shorter
Plant and equipment	5% – 15%
Others	6% – 25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant lease.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property disposed of is credited to the income statement.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease terms.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenses

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs are calculated using the weighted average cost method.

The cost of properties for sale includes the land cost, development expenditure, interests and other direct costs attributable to such properties. Net realisable value is the estimated selling price less all estimated costs to completion and the estimated costs necessary to make the sale.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income immediately.

Retirement benefits scheme

Contributions to retirement benefits schemes are charged to the income statement as an expense.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

The charge for taxation represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

3. TURNOVER AND COST OF SALES AND SERVICES

- (a) Turnover represents the gross invoiced sales of goods less discounts and returns, proceeds on sales of properties, rental income, interest income and investment income as follows:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of goods	1,349,535	1,091,250
Proceeds on sales of properties	33,938	120,377
Rental income	24,528	25,776
Interest income	2,239	2,230
	<u>1,410,240</u>	<u>1,239,633</u>

- (b) Cost of sales and services includes an amount of HK\$19,371,000, net of allowance of HK\$1,537,000 (2003: HK\$23,104,000), being reversal of allowance for obsolete inventories.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's turnover and contribution to trading results, analysed by principal activity, were as follows:

(a) Business segments

Segment information in respect of turnover for the year ended 31 December 2004 is presented below:

INCOME STATEMENT

	External sales <i>HK\$'000</i>	Inter-segment sales <i>HK\$'000</i>	Total turnover <i>HK\$'000</i>
TURNOVER			
Manufacturing			
Plastic products	450,114	28,208	478,322
Liquid crystal display	82,176	–	82,176
Audio-video products	322,244	–	322,244
Printed circuit boards	125,785	–	125,785
Intelligent chargers and security system	321,478	415	321,893
Other products	571	–	571
Property	58,466	10,123	68,589
Trading	47,167	–	47,167
Finance	2,239	7,546	9,785
	<u>1,410,240</u>	<u>46,292</u>	<u>1,456,532</u>
Elimination	–	(46,292)	(46,292)
Consolidated total	<u>1,410,240</u>	<u>–</u>	<u>1,410,240</u>

Inter-segment sales are charged at prevailing market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(a) Business segments *(Continued)*

Segment information in respect of the results for the year ended 31 December 2004 is presented below:

RESULTS

	Amount <i>HK\$'000</i>
Manufacturing	
Plastic products	45,788
Liquid crystal display	2,539
Audio-video products	4,284
Printed circuit boards	19,606
Intelligent chargers and security system	34,094
Other products	(7,101)
Property	77,518
Trading	2,276
Finance	(247,006)
	(68,002)
Elimination	(20,807)
	(88,809)
Total segment results	(88,809)
Unallocated corporate income	203,349
Unallocated corporate expenses	(49,144)
	65,396
Profit from operations	65,396
Finance costs	(50,135)
Share of results of associates <i>(note)</i>	(102)
Share of results of jointly controlled entities	(9,996)
Gain on deemed disposal of subsidiaries	65,806
Allowance for amounts due from jointly controlled entities	(26,949)
Gain on deemed disposal of an associate	11,590
	55,610
Profit before taxation	55,610
Taxation	397
	56,007
	56,007
<i>Note:</i>	
Share of results of associates:	
Manufacturing	
Telecommunication products	1,973
Other products	(627)
Trading	13
Others	(1,461)
	(102)
	(102)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Segment information in respect of balance sheet at 31 December 2004 is presented below:

BALANCE SHEET

	Segment assets <i>HK\$'000</i>	Interests in associates <i>HK\$'000</i>	Interests in jointly controlled entities <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS				
Manufacturing				
Plastic products	309,334	–	–	309,334
Liquid crystal display	92,967	–	–	92,967
Audio-video products	150,289	–	–	150,289
Printed circuit boards	127,516	–	–	127,516
Telecommunication products	–	79,747	–	79,747
Intelligent chargers and security system	162,498	–	–	162,498
Other products	72,595	–	78,535	151,130
Property	623,712	–	–	623,712
Trading	84,115	7,876	–	91,991
Finance	458,621	–	–	458,621
Others	–	7,344	–	7,344
	<u>2,081,647</u>	<u>94,967</u>	<u>78,535</u>	2,255,149
Unallocated corporate assets				<u>286,529</u>
Consolidated total				<u>2,541,678</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

BALANCE SHEET (Continued)

	Segment liabilities HK\$'000
LIABILITIES	
Manufacturing	
Plastic products	97,203
Liquid crystal display	22,915
Audio-video products	101,985
Printed circuit boards	45,617
Intelligent chargers and security system	115,495
Other products	73,709
Property	88,232
Trading	69,963
Finance	314,741
Others	–
	<u>929,860</u>
Unallocated corporate liabilities	641,084
Consolidated total	<u>1,570,944</u>

	Capital additions HK\$'000	Depreciation HK\$'000	Reversal of impairment losses HK\$'000	Surplus on revaluation of investment properties HK\$'000	Reversal of allowance for obsolete inventories HK\$'000	Allowance for loans receivable HK\$'000	Allowance of doubtful debts HK\$'000	Gain (loss) on disposal of property, plant and equipment HK\$'000
OTHER INFORMATION								
Manufacturing	65,985	33,560	–	100	19,371	–	3,622	3,006
Property	1,297	8,346	–	60,798	–	–	983	(121)
Trading	19	664	–	–	–	–	–	–
Finance	–	–	–	–	–	369,239	–	–
Others	345	5,254	93,104	–	–	–	750	–
Consolidated total	<u>67,646</u>	<u>47,824</u>	<u>93,104</u>	<u>60,898</u>	<u>19,371</u>	<u>369,239</u>	<u>5,355</u>	<u>2,885</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Segment information in respect of turnover for the year ended 31 December 2003 is presented below:

INCOME STATEMENT

	External sales <i>HK\$'000</i>	Inter-segment sales <i>HK\$'000</i>	Total turnover <i>HK\$'000</i>
TURNOVER			
Manufacturing			
Plastic products	329,112	19,076	348,188
Liquid crystal display	63,226	–	63,226
Audio-video products	239,138	–	239,138
Printed circuit boards	83,363	–	83,363
Telecommunication products	79,340	–	79,340
Intelligent chargers and security system	258,406	654	259,060
Other products	9,748	–	9,748
Property	146,155	9,260	155,415
Trading	28,914	–	28,914
Finance	2,231	2,322	4,553
	<u>1,239,633</u>	<u>31,312</u>	<u>1,270,945</u>
Elimination	–	(31,312)	(31,312)
Consolidated total	<u>1,239,633</u>	<u>–</u>	<u>1,239,633</u>

Inter-segment sales are charged at prevailing market prices.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Segment information in respect of the results for the year ended 31 December 2003 is presented below:

RESULTS

	Amount HK\$'000
Manufacturing	
Plastic products	33,825
Liquid crystal display	3,541
Audio-video products	(7,189)
Printed circuit boards	10,328
Telecommunication products	4,103
Intelligent chargers and security system	27,130
Other products	(10,955)
Property	47,668
Trading	(4,321)
Finance	14,457
	<hr/>
	118,587
Elimination	(14,636)
	<hr/>
Total segment results	103,951
Unallocated corporate income	52,816
Unallocated corporate expenses	(35,508)
	<hr/>
Profit from operations	121,259
Finance costs	(64,645)
Share of results of associates (note)	3,701
Loss on deemed disposal of subsidiaries	(28,331)
Gain on partial disposal of subsidiaries	238
Loss on disposal of an associate	(78)
	<hr/>
Profit before taxation	32,144
Taxation	(5,432)
	<hr/>
Profit before minority interests	<u>26,712</u>
<i>Note:</i>	
Share of results of associates:	
Manufacturing	
Telecommunication products	6,712
Other products	(1,966)
Trading	180
Others	(1,225)
	<hr/>
	<u>3,701</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

Segment information in respect of balance sheet at 31 December 2003 is presented below:

BALANCE SHEET

	Segment assets <i>HK\$'000</i>	Interests in associates <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS			
Manufacturing			
Plastic products	260,392	–	260,392
Liquid crystal display	74,399	–	74,399
Audio-video products	144,361	–	144,361
Printed circuit boards	120,856	–	120,856
Telecommunication products	–	66,184	66,184
Intelligent chargers and security system	126,580	–	126,580
Other products	82,728	31,791	114,519
Property	601,380	–	601,380
Trading	75,233	7,863	83,096
Finance	849,090	–	849,090
Others	35,753	15,976	51,729
	<u>2,370,772</u>	<u>121,814</u>	2,492,586
Unallocated corporate assets			<u>238,614</u>
Consolidated total			<u>2,731,200</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(a) Business segments (Continued)

BALANCE SHEET (Continued)

	Segment liabilities HK\$'000
LIABILITIES	
Manufacturing	
Plastic products	85,549
Liquid crystal display	12,472
Audio-video products	86,325
Printed circuit boards	35,347
Intelligent chargers and security system	60,677
Other products	78,458
Property	68,468
Trading	6,204
Finance	480,308
Others	912
	<u>914,720</u>
Unallocated corporate liabilities	912,989
Consolidated total	<u>1,827,709</u>

	Capital additions HK\$'000	Depreciation HK\$'000	Amortisation of development costs, goodwill and licence right HK\$'000	Impairment losses HK\$'000	Surplus on revaluation of investment properties HK\$'000	Reversal of allowance for obsolete inventories HK\$'000	Reversal of allowance for doubtful debts HK\$'000	Gain (loss) on disposal of property, plant and equipment HK\$'000
OTHER INFORMATION								
Manufacturing	68,722	36,764	1,911	7,106	70	13,203	5,866	23,152
Property	188	8,702	–	–	5,840	–	(4,304)	(204)
Trading	15	699	–	5,533	–	9,901	2,700	(125)
Finance	–	–	–	–	–	–	–	–
Others	24	5,342	–	–	–	–	–	(6,129)
Consolidated total	<u>68,949</u>	<u>51,507</u>	<u>1,911</u>	<u>12,639</u>	<u>5,910</u>	<u>23,104</u>	<u>4,262</u>	<u>16,694</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

(b) Geographical segments

(i) The following table provides an analysis of the Group's sales by geographical market:

	Sales revenue by geographical market		Profit from operations	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	940,252	942,311	(125,400)	95,950
The People's Republic of China, other than Hong Kong (the "PRC")	469,988	297,322	36,591	8,001
	<u>1,410,240</u>	<u>1,239,633</u>	<u>(88,809)</u>	<u>103,951</u>
Unallocated corporate income			203,349	52,816
Unallocated corporate expenses			<u>(49,144)</u>	<u>(35,508)</u>
Profit from operations			<u>65,396</u>	<u>121,259</u>

(ii) The following table provides an analysis of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Hong Kong	1,513,597	1,735,938	17,051	12,335
The PRC	1,028,081	995,262	50,595	56,614
	<u>2,541,678</u>	<u>2,731,200</u>	<u>67,646</u>	<u>68,949</u>

5. WAIVER OF DEBTS

Pursuant to the announcement dated 8 December 2004, a debt restructuring deed was entered into between a banker, CASIL Clearing Limited and CASIL Properties Limited, wholly-owned subsidiaries of the Company, as the borrowers (“Borrowers”) and the Company as the guarantor (“Debt Restructuring Deed”) to restructure the debts due to the banker.

Pursuant to the terms of the Debt Restructuring Deed (“Terms”), the banker will waive the debts of HK\$193,520,000 provided the Group fully complies with the repayment terms of the Debt Restructuring Deed. In the opinion of the directors of the Company, the Group has sufficient financial resources to comply with the repayment terms as specified in the Debt Restructuring Deed and the waiver of debts of HK\$193,520,000 is recognised as income in the consolidated income statement for the year ended 31 December 2004.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

6. PROFIT FROM OPERATIONS

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Amortisation of development costs (<i>note a</i>)	–	1,396
Amortisation of goodwill (<i>note b</i>)	–	138
Amortisation of technology licence right (<i>note a</i>)	–	377
Auditors' remuneration	2,617	3,064
Cost of inventories consumed	1,052,125	773,998
Depreciation on		
– owned assets	45,957	50,158
– assets held under finance leases	1,867	1,349
Minimum lease payments paid under operating leases on land and buildings	10,675	6,296
Research expenses	1,488	4,800
Total staff costs, including directors' remuneration	140,838	145,520
and after crediting:		
Gross rental income from		
– land and buildings	6,217	6,335
– investment properties	18,311	19,441
	<u>24,528</u>	<u>25,776</u>
Less: Outgoings	<u>(5,009)</u>	<u>(5,317)</u>
	<u>19,519</u>	<u>20,459</u>
Gain on disposal of property, plant and equipment	2,885	16,694
Interest income	2,239	2,230
Reversal of allowance for obsolete inventories, net of allowance HK\$1,537,000 (2003: Nil) (<i>note a</i>)	19,371	23,104
Waiver of interest expense on other loans	–	36,273

Notes:

- (a) The amounts are included in cost of sales and services.
- (b) The amount is included in administrative expenses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

7. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

2004	Rui	Zhao	Zhou	Zhao	Wu	Guo	Zhang	Lee	Chow	Luo	Li	Xu	Chen	Chan	Total
	Xiaowu	Liqiang	Qingquan	Yuanchang	Hongju	Xianpeng	Tao	Hung Sang	Chan Lum, Charles	Zhenbang	Jinsheng	Shilong	Dingyi	Ching Har, Eliza	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors' fees															
Executives	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-executives (excluding independent non-executives)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Independent non-executives	-	-	-	-	-	-	-	100	150	1	-	-	-	150	401
	-	-	-	-	-	-	-	100	150	1	-	-	-	150	401
Other emoluments															
Salaries and other benefits	717	258	842	842	842	775	238	-	-	-	-	-	716	-	5,230
Bonuses	-	60	171	171	171	164	-	-	-	-	-	-	1,154	-	1,891
Contributions to retirement benefit schemes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	717	318	1,013	1,013	1,013	939	238	-	-	-	-	-	1,870	-	7,121
Total emoluments	717	318	1,013	1,013	1,013	939	238	100	150	1	-	-	1,870	150	7,522

2003	Rui	Zhou	Zhao	Wu	Zhang	Lee	Chow	Luo	Li	Xu	Chen	Chan	Total
	Xiaowu	Qingquan	Yuanchang	Hongju	Tao	Hung Sang	Chan Lum, Charles	Jinsheng	Shilong	Dingyi	Ching Har, Eliza		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors' fees													
Executives	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-executives (excluding independent non-executives)	-	-	-	-	-	-	-	-	-	-	-	-	-
Independent non-executives	-	-	-	-	-	-	80	130	-	-	-	130	340
	-	-	-	-	-	-	80	130	-	-	-	130	340
Other emoluments													
Salaries and other benefits	-	1,032	843	843	843	843	-	-	-	-	591	-	4,995
Bonuses	-	-	152	152	152	152	-	-	-	-	1,098	-	1,706
Contributions to retirement benefit schemes	-	-	-	-	-	-	-	-	-	-	12	-	12
	-	1,032	995	995	995	995	-	-	-	-	1,701	-	6,713
Total emoluments	-	1,032	995	995	995	995	80	130	-	-	1,701	130	7,053

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

7. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS (Continued)

(b) Highest paid individuals' emoluments

During the year, the six (2003: five) highest paid individuals included four directors (2003: three directors), details of whose emoluments are set out above. The emoluments of the remaining two (2003: two) highest paid individuals were as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Salaries and other benefits	2,491	2,434
Contributions to retirement benefits scheme	24	20
	<u>2,515</u>	<u>2,454</u>

The emoluments of these individuals were within the following bands:

Emoluments band	Number of individuals	
	2004	2003
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>2</u>

During the year, no emoluments were paid by the Group to the six (2003: five) highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the year, no director waived any emoluments.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

8. FINANCE COSTS

	2004	2003
	HK\$'000	HK\$'000
Interest expenses on:		
– bank loans and overdrafts wholly repayable within five years	41,067	52,242
– bank loans not wholly repayable within five years	8,590	9,167
– finance lease charges	478	282
– other loans wholly repayable within five years	–	2,954
	<u>50,135</u>	<u>64,645</u>

9. ALLOWANCE FOR AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES

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

10. GAIN ON DEEMED DISPOSAL OF AN ASSOCIATE

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

11. TAXATION

	2004 HK\$'000	2003 HK\$'000
Current tax:		
Hong Kong Profits Tax	1,974	2,793
Overseas income tax	1,560	4,073
	<u>3,534</u>	<u>6,866</u>
Overprovision in previous years:		
Hong Kong Profits Tax	<u>(3,443)</u>	<u>(2,288)</u>
Deferred tax (<i>note 28</i>):		
Current year	(488)	(740)
Attributable to a change in tax rate	<u>-</u>	<u>1,594</u>
	<u>(488)</u>	<u>854</u>
Taxation attributable to the Company and its subsidiaries	<u>(397)</u>	<u>5,432</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

11. TAXATION (Continued)

The taxation for the year can be reconciled to the profit before taxation per consolidated income statement as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit before taxation	<u>55,610</u>	<u>32,144</u>
Tax at Hong Kong Profits Tax of 17.5% (2003: 17.5%)	9,732	5,625
Tax effect of expenses not deductible for tax purposes	12,543	14,655
Tax effect of income not taxable for tax purpose	(78,956)	(7,860)
Tax effect of deferred tax assets not recognised	66,104	7,567
Utilisation of tax losses previously not recognised	(8,019)	(12,033)
Effect of different tax rates of subsidiaries operating in other jurisdictions	1,101	(814)
Tax effect of share of results of associates	1,124	(648)
Increase in opening deferred tax liability resulting from an increase in tax rate	–	1,594
Overprovision in prior years	(3,443)	(2,288)
Others	<u>(583)</u>	<u>(366)</u>
Taxation for the year	<u>(397)</u>	<u>5,432</u>

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profits for the year.

Overseas income tax represents the income tax of the PRC. Pursuant to relevant laws and regulations in the PRC, certain subsidiaries of the Company and associates of the Group are entitled to exemption from income tax under certain tax holidays and concessions.

12. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the net profit for the year of HK\$55,780,000 (2003: net profit for the year of HK\$30,196,000) and on 2,142,420,000 shares (2003: 2,142,420,000 shares) outstanding during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

13. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold land and buildings in Hong Kong HK\$'000	Long term leasehold land and buildings in the PRC HK\$'000	Medium term leasehold land and buildings in the PRC HK\$'000	Properties under development HK\$'000	Plant and equipment HK\$'000	Motor vehicles, furniture and other equipment HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1 January 2004	350,758	10,963	429,946	45,530	376,537	190,020	1,403,754
Additions	–	2,990	304	1,150	42,035	21,167	67,646
Reclassifications	(28,935)	(10)	16,362	(16,362)	1,300	(1,290)	(28,935)
Deemed disposal of subsidiaries	–	–	–	–	–	(2,399)	(2,399)
Disposals	(8,822)	–	–	–	(14,674)	(41,126)	(64,622)
At 31 December 2004	313,001	13,943	446,612	30,318	405,198	166,372	1,375,444
DEPRECIATION AND IMPAIRMENT							
At 1 January 2004	236,371	4,811	71,516	–	227,415	143,977	684,090
Charged for the year	3,248	417	10,042	–	23,405	10,712	47,824
Reclassifications	(12,997)	–	–	–	–	–	(12,997)
Impairment loss (write back) recognised (<i>note c</i>)	(98,294)	–	(1,412)	–	1,717	4,885	(93,104)
Eliminated on deemed disposal of subsidiaries	–	–	–	–	–	(863)	(863)
Eliminated on disposals	(5,985)	–	–	–	(11,452)	(36,160)	(53,597)
At 31 December 2004	122,343	5,228	80,146	–	241,085	122,551	571,353
NET BOOK VALUES							
At 31 December 2004	190,658	8,715	366,466	30,318	164,113	43,821	804,091
At 31 December 2003	114,387	6,152	358,430	45,530	149,122	46,043	719,664

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Medium term leasehold land and buildings in Hong Kong HK\$'000	Motor vehicles, furniture and other equipment HK\$'000	Total HK\$'000
THE COMPANY			
COST			
At 1 January 2004	303,254	35,478	338,732
Additions	–	344	344
Disposals	–	(833)	(833)
At 31 December 2004	303,254	34,989	338,243
DEPRECIATION AND IMPAIRMENT			
At 1 January 2004	218,778	27,225	246,003
Charged for the year	2,770	2,486	5,256
Eliminated on disposals	–	(811)	(811)
Impairment loss (write back) recognised (note c)	(98,294)	4,885	(93,409)
At 31 December 2004	123,254	33,785	157,039
NET BOOK VALUES			
At 31 December 2004	180,000	1,204	181,204
At 31 December 2003	84,476	8,253	92,729

Notes:

- (a) The aggregate net book values of the Group's assets held under finance leases at 31 December 2004 amounted to HK\$16,937,000 (2003: HK\$15,835,000).
- (b) The properties under development are held under a medium term lease in the PRC.
- (c) On 10 November 2004, the Group entered into an agreement for the disposal of certain properties at a consideration of HK\$180,000,000 with a third party ("Disposal of Property"). The Disposal of Property is completed on 31 March 2005. A reversal of impairment loss of those properties of approximately HK\$98,294,000 is recognised with reference to the consideration of the Disposal of Property.

In addition, during the year, the Group reviewed the carrying amounts of property, plant and equipment taking into account the Disposal of Property, and identified that certain of the assets have no economic value to the Group. Accordingly, the carrying amounts of those assets are reduced to their respective recoverable amounts, which represent their net selling prices. The net selling prices were determined by reference to the market prices.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

14. INVESTMENT PROPERTIES

	Long term leasehold investment properties in Hong Kong <i>HK\$'000</i>	Medium term leasehold investment properties in Hong Kong <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP			
VALUATION			
At 1 January 2004	17,080	182,465	199,545
Reclassifications from leasehold land and buildings in Hong Kong	–	15,938	15,938
Disposals	(9,430)	(12,111)	(21,541)
Surplus on revaluation	1,810	71,998	73,808
At 31 December 2004	9,460	258,290	267,750

The Group's investment properties have been revalued at 31 December 2004 by Dudley Surveyors Limited, a firm of independent professional valuers, on an open market basis.

The valuation as at 31 December 2004 gave rise to revaluation surplus of HK\$73,808,000 of which HK\$60,898,000 and HK\$12,910,000 have been credited to the income statement and the investment property revaluation reserve respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004	2003
	HK\$'000	HK\$'000
Unlisted shares, at cost	511,498	528,626
Amounts due from subsidiaries	1,289,218	1,296,085
	<u>1,800,716</u>	<u>1,824,711</u>
Impairment loss recognised	(1,279,656)	(1,288,102)
	<u>521,060</u>	<u>536,609</u>

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms. In the opinion of the directors, the Company will not demand for repayment of the amounts within the twelve months from the balance sheet date. Accordingly, the amounts are classified as non-current assets in the balance sheet.

Particulars of the principal subsidiaries of the Company at 31 December 2004 are set out in note 39.

None of the subsidiaries had any debt securities outstanding at 31 December 2004 or at any time during the year.

16. INTERESTS IN ASSOCIATES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost	–	–	19,336	28,769
Share of net assets	94,967	121,814	–	–
	<u>94,967</u>	<u>121,814</u>	<u>19,336</u>	<u>28,769</u>
Impairment loss recognised	–	–	(6,548)	(6,548)
	<u>94,967</u>	<u>121,814</u>	<u>12,788</u>	<u>22,221</u>
Market value of listed shares	186,436	148,251	–	–

The amounts due from associate were unsecured, non-interest bearing and had no fixed repayment terms.

Particulars of the principal associates of the Group at 31 December 2004 are set out in note 40.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

16. INTERESTS IN ASSOCIATES (Continued)

The following details have been extracted from the audited financial statements of CASTEL and its subsidiaries ("CASTEL Group") (being significant associates of the Group):

	2004	2003
	HK\$'000	HK\$'000
CASTEL Group		
Results for the year		
Turnover	<u>148,126</u>	<u>143,872</u>
Net profit for the year	<u>5,368</u>	<u>2,217</u>
Net profit for the year attributable to the Group	<u>1,973</u>	<u>6,712</u>
Financial position		
Non-current assets	89,137	135,587
Current assets	268,196	181,445
Current liabilities	(113,485)	(114,226)
Non-current liabilities	(62,506)	(59,712)
Minority interests	(796)	(7,969)
Net assets	<u>180,546</u>	<u>135,125</u>
Net assets attributable to the Group	<u>79,747</u>	<u>66,184</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

17. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	THE GROUP		THE COMPANY	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted shares, at cost	–	–	15,000	–
Share of net assets	78,535	–	–	–
	<u>78,535</u>	<u>–</u>	<u>15,000</u>	<u>–</u>

Particulars of the principal jointly controlled entities of the Group at 31 December 2004 are set out in note 41.

The following details have been extracted from the unaudited financial statements of CANW and its subsidiaries (“CANW Group”) (being significant jointly controlled entities of the Group):

	2004 <i>HK\$'000</i>
CANW Group	
Results for the year	
Turnover	<u>1,251</u>
Net loss for the year	<u>15,761</u>
Net loss for the year attributable to the Group	<u>9,996</u>
Financial Position	
Non-current assets	24,527
Current assets	138,575
Current liabilities	<u>(6,032)</u>
Net assets	<u>157,070</u>
Net assets attributable to the Group	<u>78,535</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

18. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Investment securities:				
– listed in Hong Kong	241,300	241,300	–	–
– unlisted	568,944	568,944	–	–
	<u>810,244</u>	<u>810,244</u>	<u>–</u>	<u>–</u>
Impairment loss recognised for investment securities				
– listed in Hong Kong	161,890	161,890	–	–
– unlisted	421,325	421,325	–	–
	<u>583,215</u>	<u>583,215</u>	<u>–</u>	<u>–</u>
	<u>227,029</u>	<u>227,029</u>	<u>–</u>	<u>–</u>
Market value of listed investments	<u>46,800</u>	<u>74,100</u>	<u>–</u>	<u>–</u>

19. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	103,860	48,442
Work-in-progress	31,541	29,423
Finished goods	40,361	31,345
Properties for sale	–	7,204
	<u>175,762</u>	<u>116,414</u>

Included above are raw materials of HK\$971,000 (2003: HK\$8,335,000), work-in-progress of HK\$55,000 (2003: HK\$12,020,000), finished goods of HK\$905,000 (2003: HK\$1,920,000) and properties for sale of HK\$nil (2003: HK\$7,204,000) carried at net realisable values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

20. TRADE AND OTHER RECEIVABLES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade receivables	191,807	176,487	–	–
Other receivables, deposits and prepayments	43,501	157,038	27,032	34,579
	<u>235,308</u>	<u>333,525</u>	<u>27,032</u>	<u>34,579</u>

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables at 31 December:

	THE GROUP	
	2004	2003
	HK\$'000	HK\$'000
Within 90 days	189,882	157,694
Between 91 – 180 days	1,925	10,470
Between 181 – 365 days	–	5,182
Between 1 to 2 years	–	3,141
	<u>191,807</u>	<u>176,487</u>

21. LOANS RECEIVABLE

The Directors of the Company review the recoverability of the loans receivable and an allowance of HK\$369,239,000 is provided.

22. PLEDGED BANK DEPOSITS

The amount of the Group represents bank deposits pledged for the Group's bank loans.

23. TRADE AND OTHER PAYABLES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables	254,128	182,978	–	–
Other payables and accruals	205,435	457,347	58,571	117,960
	<u>459,563</u>	<u>640,325</u>	<u>58,571</u>	<u>117,960</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

23. TRADE AND OTHER PAYABLES (Continued)

The following is an aged analysis of trade payables at 31 December:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within 90 days	220,331	146,715
Between 91 – 180 days	6,537	5,601
Between 181 – 365 days	1,819	1,845
Between 1 to 2 years	197	6,847
Over 2 years	25,244	21,970
	<u>254,128</u>	<u>182,978</u>

24. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
THE GROUP				
Amounts payable under finance leases:				
Within one year	8,045	5,416	7,596	5,114
In the second to the fifth year inclusive	7,280	3,280	7,084	3,196
	<u>15,325</u>	<u>8,696</u>	<u>14,680</u>	<u>8,310</u>
Less: Future finance charges	(645)	(386)	N/A	N/A
Present value of lease obligations	<u>14,680</u>	<u>8,310</u>	<u>14,680</u>	<u>8,310</u>
Less: Amount due within one year			<u>(7,596)</u>	<u>(5,114)</u>
Amount due after one year			<u>7,084</u>	<u>3,196</u>

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The average lease term is 3 years. For the year ended 31 December 2004, the average effective borrowing rate was 3.97%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

25. BANK LOANS AND OVERDRAFTS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Bank overdrafts and short term bank loans				
– secured	33,491	38,208	–	–
– unsecured	–	103,908	–	–
	<u>33,491</u>	<u>142,116</u>	<u>–</u>	<u>–</u>
Current portion of long term bank loans (note 27)	188,485	462,544	175,604	302,122
	<u>221,976</u>	<u>604,660</u>	<u>175,604</u>	<u>302,122</u>

26. OTHER LOANS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Other loans are repayable:				
– within one year	<u>53,931</u>	<u>116,449</u>	<u>47,170</u>	<u>–</u>
Other loans comprise:				
Loan from a subsidiary of a substantial shareholder (note a)	47,170	–	47,170	–
Loans from third parties (note b)	6,761	7,321	–	–
Guaranteed exchangeable fixed/ floating rate notes (note c)	–	62,400	–	–
Guaranteed floating rate notes (note d)	–	46,728	–	–
	<u>53,931</u>	<u>116,449</u>	<u>47,170</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

26. OTHER LOANS

Notes:

- (a) On 22 March 2004, the Group borrowed a loan with a principal of RMB50,000,000 from a subsidiary of a major shareholder, China Aerospace Science & Technology Corporation ("CASC"). The loan is unsecured, bears interest at 5.09% per annum and repayable on 25 September 2004. The interest incurred during the period amounted to HK\$1,889,000. The Group is now negotiating with that company to extend the repayment terms of the loan.
- (b) Loans from third parties represent advances from independent third parties. The amounts are unsecured, non-interest bearing and are repayable on demand.
- (c) In 2001, a subsidiary of the Company issued US\$8,000,000 guaranteed exchangeable fixed/floating rate notes due 2004 which were in bearer form in the denomination of US\$1,000,000 each and was redeemed in March 2004. The notes were interest bearing at 6.5% per annum for the period up to September 2002 and at 1.5% above London interbank offered rate (for six-month US dollar deposits) thereafter. At 31 December 2003, unlisted investment securities with a carrying value of HK\$76,662,000 were pledged for the notes.
- (d) In 2001, a subsidiary of the Company issued US\$6,000,000 guaranteed secured floating rate notes due 2004 which were in bearer form in the denomination of US\$250,000 each and was redeemed in September 2004. The notes were interest bearing at 1.5% above London interbank offered rate. At 31 December 2003, listed investment securities with a carrying value of HK\$50,742,000 were pledged for the notes.

27. SECURED BANK LOANS

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank loans are repayable:				
– within one year or on demand	188,485	462,544	175,604	302,122
– in the second year	74,145	105,076	19,569	96,954
– in the third to fifth year inclusive	133,491	71,554	72,109	61,828
– after five years	371,891	35,690	158,426	35,689
	<u>768,012</u>	<u>674,864</u>	<u>425,708</u>	<u>496,593</u>
Less: Amount due within one year shown under current liabilities (note 25)	<u>(188,485)</u>	<u>(462,544)</u>	<u>(175,604)</u>	<u>(302,122)</u>
Amount due after one year	<u>579,527</u>	<u>212,320</u>	<u>250,104</u>	<u>194,471</u>

The Group's investment properties, property, plant and equipment, bank deposits and listed investment securities with aggregate net book value of HK\$256,600,000 (2003: HK\$199,545,000), HK\$227,664,000 (2003: HK\$84,476,000), HK\$66,612,000 (2003: HK\$67,407,000) and HK\$28,589,000 (2003: HK\$28,589,000), respectively, were pledged to banks. In addition, the Group's interest in a listed associate with a market value of HK\$186,436,000 (2003: HK\$148,251,000) and equity interest in a non-wholly owned subsidiary, China Aerospace (Huizhou) Industrial Garden Limited, were also pledged to banks.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

28. DEFERRED TAXATION

The followings are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior periods:

	Accelerated tax depreciation <i>HK\$'000</i>	Development costs <i>HK\$'000</i>	Technology licence right <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Others <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP						
At 1 January 2003	20,795	257	5,428	(6,234)	(2,622)	17,624
Change in tax rate (<i>note 11</i>)	1,815	–	–	–	(221)	1,594
Credited to income for the year	(740)	–	–	–	–	(740)
Deemed disposal of subsidiaries	(1,008)	(257)	(5,428)	6,234	–	(459)
At 31 December 2003	20,862	–	–	–	(2,843)	18,019
Credited to income for the year	(657)	–	–	–	169	(488)
At 31 December 2004	20,205	–	–	–	(2,674)	17,531

	Accelerated depreciation allowance <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY			
At 1 January 2003	6,896	(6,896)	–
Change in tax rate	646	(646)	–
Charge for the year	718	(718)	–
At 31 December 2003	8,260	(8,260)	–
Credit for the year	(217)	217	–
At 31 December 2004	8,043	(8,043)	–

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with Statement of Standard Accounting Practice 12 (Revised) requirements.

At 31 December 2004, the Group has unused tax losses of approximately HK\$1,556 million (2003: HK\$1,212 million) available for offset against future profits. No deferred tax asset has been recognised in respect of such tax losses due to unpredictability of future profit streams, and such tax losses may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

29. SHARE CAPITAL

(a) Share capital

	2004 & 2003	
	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$1 each:		
Authorised:		
At 1 January and 31 December	<u>10,000,000</u>	<u>10,000,000</u>
Issued and fully paid:		
At 1 January and 31 December	<u>2,142,420</u>	<u>2,142,420</u>

(b) Share option scheme

Under the terms of the share option scheme of the Company (the "Scheme") which became effective on 8 July 1997 and shall be valid until 8 July 2007, the Board of Directors of the Company may offer to any full time employees of the Company, and/or any of its subsidiaries including executive directors of the Company, 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 Board of Directors of the Company, which shall not exceed ten years from the adoption of the Scheme. Unless otherwise terminated or altered, the Scheme will remain in force for a period of ten years from the date of adoption.

The purpose of the Scheme 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 the 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

30. RESERVES

	Share premium <i>HK\$'000</i>	Special capital reserve <i>(note a)</i> <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At 1 January 2003	939,048	84,656	1,080	(2,337,724)	(1,312,940)
Net loss for the year	–	–	–	(63,969)	(63,969)
At 31 December 2003	939,048	84,656	1,080	(2,401,693)	(1,376,909)
Net profit for the year	–	–	–	135,592	135,592
At 31 December 2004	939,048	84,656	1,080	(2,266,101)	(1,241,317)

Notes:

- (a) Under the terms of the court order in the reduction of the share premium on 11 July 1994 (the “effective date”), the Company had given an undertaking to the court that a sum equal to the amount of the distributable profits of the Company as at 11 July 1994 and any write back of the total provisions which have been made against at the effective date on the investments will be transferred to a special capital reserve account. The Company is unable to distribute the special capital reserve until the actual and contingent liabilities outstanding at the effective date are paid off.
- (b) General reserve of the Group is part of the shareholders’ funds and comprises reserve fund and enterprise expansion fund of the subsidiaries and associates in the PRC.
- (c) The Company had no reserve available for distribution as at 31 December 2004 (2003: nil).
- (d) The accumulated losses of the Group include the Group’s share of the reserves of its associates and jointly controlled entities amounting to HK\$51,552,000 (2003: HK\$61,650,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

31. DEEMED DISPOSAL OF SUBSIDIARIES

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

	2004 HK\$'000	2003 HK\$'000
Net assets disposed of:		
Property, plant and equipment	1,536	53,022
Goodwill	–	4,009
Development costs	–	8,758
Technology licence right	–	33,553
Interests in associates	38,335	32,800
Amounts due to associates	(2,830)	–
Amounts due from associates	–	26,229
Inventories	1,825	23,752
Trade and other receivables	53,841	52,100
Bank balances and cash	1,677	25,722
Trade and other payables	(69,936)	(47,111)
Obligations under finance leases	–	(21)
Bank loans	–	(52,077)
Other loans	–	(50,135)
Taxation recoverable (payable)	1	(1,012)
Deferred taxation	–	(459)
Minority interests	–	(42,920)
	<u>24,449</u>	<u>66,210</u>
Realisation of reserves	(1,724)	21,593
Gain (loss) on deemed disposal	<u>65,806</u>	<u>(28,331)</u>
	<u>88,531</u>	<u>59,472</u>
Represented/satisfied by:		
Interests in jointly controlled entities	88,531	–
Interests in associates	–	59,472
	<u>88,531</u>	<u>59,472</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

31. DEEMED DISPOSAL OF SUBSIDIARIES *(Continued)*

Analysis of the net outflow of cash and cash equivalents in respect of the deemed disposal of subsidiaries:

	2004	2003
	HK\$'000	HK\$'000
Cash consideration	–	–
Bank balances and cash disposed of	(1,677)	(25,722)
	(1,677)	(25,722)

The subsidiaries disposed of during the year did not contribute significantly to the Group's cash flows or operating results.

32. MAJOR NON-CASH TRANSACTIONS

Except as disclosed in note 31, the Group has the following major non-cash transactions:

- (a) During the year, the Group entered into finance lease arrangements in respect of assets with total value at the inception of the leases of HK\$13,159,000 (2003: HK\$8,322,000).
- (b) In 2003, properties for sale of HK\$46,460,000 were disposed of at a consideration of HK\$48,920,000 to a lender of other loans. The consideration was applied to set off against other loan and interest payables of HK\$39,746,000 and HK\$9,174,000, respectively, due to the lender.

33. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given for banking and finance facilities granted to:				
– subsidiaries	–	–	497,248	707,160
– third parties	2,055	4,450	2,055	4,450
Guarantees given for fixed/floating rate notes issued by subsidiaries	–	–	–	109,032
	2,055	4,450	499,303	820,642

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

33. CONTINGENT LIABILITIES (Continued)

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

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

34. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of:				
– capital contribution to investee companies	2,829	2,829	–	–
– purchase of property, plant and equipment	9,071	6,908	–	–
– properties under development	165	–	–	–
	<u>12,065</u>	<u>9,737</u>	<u>–</u>	<u>–</u>
Capital expenditure authorised but not contracted for in respect of:				
– capital contribution to an investee company	873	–	–	–
	<u>873</u>	<u>–</u>	<u>–</u>	<u>–</u>

35. OPERATING LEASE COMMITMENTS**The Group as lessee**

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	70	3,744
In the second to fifth year inclusive	3,077	660
Over five years	<u>27,900</u>	<u>–</u>
	<u>31,047</u>	<u>4,404</u>

Operating lease payments represent rentals payable by the Group for certain of its manufacturing plants, office properties and quarters. Leases are generally negotiated and rentals are fixed for an average term of thirty years.

At 31 December 2004, the Company had no commitments under non-cancellable operating leases (2003: nil).

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Within one year	10,580	13,259
In the second to fifth year inclusive	<u>5,260</u>	<u>8,359</u>
	<u>15,840</u>	<u>21,618</u>

The properties held have committed tenants for the next one to two years. The properties are expected to generate rental yields of 10% on an ongoing basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

36. RETIREMENT BENEFIT SCHEMES

The Group operates a MPF scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustee. The Group basically contributes 5% of relevant payroll costs to the scheme.

The employees in the Company's PRC subsidiaries are members of the state-managed pension scheme operated by the PRC government. The Company's subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the pension scheme is to make the required contributions under the scheme.

The total cost charged to the income statement HK\$1,370,000 (2003: HK\$1,848,000) represents contribution to the schemes by the Group at the rates specified in the rules of the schemes.

37. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

	2004 HK\$'000	2003 HK\$'000
Associates of the Group:		
– Sales thereto (<i>note a</i>)	–	14,720
– Purchase therefrom (<i>note a</i>)	–	82,043
– Sales of property, plant and equipment (<i>note b</i>)	–	4,500
	<u>–</u>	<u>101,263</u>

Notes:

- (a) The transaction amounts were determined on a cost plus basis.
- (b) The transactions were carried in accordance with the relevant agreement.
- (c) Amounts due from or to associates are unsecured, non-interest bearing and with no fixed repayment terms.
- (d) Amount due from/to a major shareholder is unsecured and non-interest bearing. The amount is repayable in December 2006.

38. POST BALANCE SHEET EVENTS

On 22 January 2005, the Company and China Academy of Launch Vehicle Technology ("CALT") which is wholly-owned by CASC, has entered into an agreement for the disposal of the entire equity interest in and the shareholder's loan due from Astrotech Group Limited ("Astrotech") at an aggregate cash consideration of HK\$143,758,000. Astrotech holds 449,244,000 ordinary shares (representing approximately 44% equity interest) in CASIL Telecommunications Holdings Limited. The disposal is expected to be completed in June 2005 and the gain on disposal amounted to approximately HK\$65,290,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Nominal value of issued ordinary share capital/registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
<i>Incorporated and operating in Hong Kong:</i>					
CASIL Clearing Limited	HK\$10,000,000	100	–	100	Provision of treasury services
CASIL Development Limited	HK\$1,000,000	–	100	100	Property development and investment
CASIL Electronic Products Limited	HK\$15,000,000	100	–	100	Distribution of electronic products
CASIL (Nominees) Limited	HK\$2	100	–	100	Provision of secretarial services
CASIL Optoelectronic Product Development Limited	HK\$3,000,000	–	100	100	Distribution of optoelectronic products
CASIL Properties Limited	HK\$10,000	100	–	100	Property investment
CASIL Realty Limited	HK\$200	100	–	100	Property investment and management
CASIL Satellite Holdings Limited	HK\$88,106,563 (2 ordinary shares of HK\$1 each and 11,295,713 ordinary shares of US\$1 each)	–	100	100	Investment holding
CASIL Semiconductor Limited	HK\$15,000,000	100	–	100	Distribution of liquid crystal displays
Chee Yuen Industrial Company Limited	HK\$20,000,000	100	–	100	Distribution of plastic products and moulds

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
<i>Incorporated and operating in Hong Kong: (Continued)</i>					
Hong Yuen Electronics Limited	HK\$3,000,000	100	–	100	Manufacturing and selling of printed circuit boards
Jeckson Electric Company Limited	HK\$3,000,000	100	–	100	Manufacturing and distribution of electronic components
Sure Full Investments Limited	HK\$2	100	–	100	Property investment
Well Horn Company Limited	HK\$2	–	100	100	Property investment
<i>Incorporated in the British Virgin Islands and operating in Hong Kong:</i>					
Astrotech Group Limited	US\$1	100	–	100	Investment holding
Sinolike Investments Limited	US\$1	100	–	100	Investment holding
<i>Registered and operating in the PRC:</i>					
Chee Yuen Plastic Products (Huizhou) Company Limited [†]	RMB26,761,000*	–	100	100	Manufacturing of plastic products and moulds
China Aerospace (Huizhou) Industrial Garden Limited ^{†‡}	US\$12,000,000*	90	–	90	Property development

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

39. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital*	Percentage of equity			Principal activities
		held by the Company %	held by subsidiaries %	attributable to the Group %	
<i>Registered and operating in the PRC: (Continued)</i>					
Conhui (Huizhou) Electronics Company Limited [†]	RMB131,831,747*	–	100	100	Manufacturing and distribution of electronic products
Conhui (Huizhou) Semiconductor Company Limited [†]	RMB31,229,651*	–	100	100	Manufacturing of liquid crystal displays
Conhui (Huizhou) Worldwide Polyfoam Limited [†]	RMB3,728,813*	–	100	100	Manufacturing of polyfoam products
Huizhou Jackson Electric Company Limited ^{††}	US\$1,000,000*	–	90	90	Subcontractor for the manufacture of electronic products
Huizhou Zhi Fat Metal & Plastic Electroplating Company Limited ^{††}	US\$400,000*	–	90	90	Manufacturing of electronics and plastic products
CASIL New Century Technology Development (Shenzhen) Limited [†]	US\$2,000,000	100	–	100	The research and development of system technology in satellite application and digital broadcasting, transfer and service provision of technology
Shenzhen Chee Yuen Plastics Company Limited ^{††}	RMB22,000,000*	–	80	80	Manufacturing of plastic products
惠州市海燕賓館有限公司 ^{††}	RMB7,700,000*	–	51	46	Hotel operation

[†] Wholly foreign-owned enterprises registered in the PRC

^{††} Sino-foreign joint equity enterprises registered in the PRC

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

40. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group %	Principal activities
<i>Incorporated in the Cayman Islands and operating in Hong Kong:</i>			
CASIL Telecommunications Holdings Limited**	HK\$101,713,976	44	Investment holding

** Listed on The Stock Exchange of Hong Kong Limited

The above table lists the associate of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

41. PARTICULARS OF PRINCIPAL JOINTLY CONTROLLED ENTITIES

Name of jointly controlled entities	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group %	Principal activities
<i>Incorporated and operating in Hong Kong:</i>			
China Aerospace New World Technology Limited (formerly known as "CASIL Network System Engineering Limited")	HK\$30,000,000	50	Investment holding

The above table lists the jointly controlled entity of the Group which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

42. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards (“HKASs”) and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

APPENDIX I FINANCIAL SUMMARY

RESULTS

	Year ended 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Turnover	<u>1,410,240</u>	<u>1,239,633</u>	<u>1,299,825</u>	<u>1,008,293</u>	<u>1,066,019</u>
Profit (loss) before taxation	<u>55,610</u>	<u>32,144</u>	<u>(291,272)</u>	<u>(865,480)</u>	<u>(1,062,984)</u>
Taxation	<u>397</u>	<u>(5,432)</u>	<u>(12,571)</u>	<u>(1,782)</u>	<u>(10,499)</u>
Profit (loss) before minority interests	<u>56,007</u>	<u>26,712</u>	<u>(303,843)</u>	<u>(867,262)</u>	<u>(1,073,483)</u>
Minority interests	<u>(227)</u>	<u>3,484</u>	<u>2,024</u>	<u>129,835</u>	<u>54,421</u>
Net profit (loss) for the year	<u>55,780</u>	<u>30,196</u>	<u>(301,819)</u>	<u>(737,427)</u>	<u>(1,019,062)</u>

ASSETS AND LIABILITIES

	At 31 December				
	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000
Non-current assets	<u>1,472,372</u>	<u>1,268,052</u>	<u>1,379,675</u>	<u>1,629,714</u>	<u>2,282,996</u>
Current assets	<u>1,069,306</u>	<u>1,463,148</u>	<u>1,501,075</u>	<u>1,892,890</u>	<u>2,175,215</u>
Current liabilities	<u>(790,158)</u>	<u>(1,417,527)</u>	<u>(1,337,080)</u>	<u>(1,694,277)</u>	<u>(1,833,440)</u>
Non-current liabilities	<u>(780,786)</u>	<u>(410,182)</u>	<u>(650,454)</u>	<u>(615,747)</u>	<u>(505,791)</u>
Minority interests	<u>(19,434)</u>	<u>(19,157)</u>	<u>(64,328)</u>	<u>(68,910)</u>	<u>(174,423)</u>
Shareholders' funds	<u>951,300</u>	<u>884,334</u>	<u>828,888</u>	<u>1,143,670</u>	<u>1,944,557</u>

LONG TERM LEASES

Location	Lot number	Existing use	Approximate gross floor area <i>sq. m</i>	Group's interest %
Units 6 on 5th and 12th Floor and Unit 3 on 16th Floor, Block 38 Heng Fa Chuen 100 Shing Tai Road Chai Wan Hong Kong	Chai Wan Inland Lot No. 121	Residential	325	100
Unit 6 on 6th Floor, Block 38 Heng Fa Chuen 100 Shing Tai Road Chai Wan Hong Kong	Chai Wan Inland Lot No. 121	Residential	46	100

MEDIUM TERM LEASES

Location	Lot number	Existing use	Approximate gross floor area <i>sq. m</i>	Group's interest %
Conic Investment Building 13 Hok Yuen Street Hung Hom Kowloon	Kowloon Marine Lot No. 40	Industrial	27,247	100
Shops A and B, 1st Floor Concordia Plaza 1 Science Museum Road Kowloon	Kowloon Inland Lot No. 10999	Commercial	397	100
The Whole of 4th and 17th to 19th Floors and Car Park Nos. P1, L3-L5, LD1, LD2 and LD5 on Ground Floor, Car Park Nos. P16-P24 on 1st Floor and Car Park Nos. P34-P37 on 2nd Floor China Aerospace Centre 143 Hoi Bun Road Kwun Tong Kowloon	Kwun Tong Inland Lot. No. 528	Industrial	5,347	100

APPENDIX III MAJOR PROPERTIES UNDER DEVELOPMENT

Location	Intended use	Stage of completion	Expected date of completion	Site area <i>sq. m</i>	Gross floor area <i>sq. m</i>	Group's interest %
Properties under development						
中國惠州市惠環鎮斜下工業區3, 4, 5號小區	Commercial and manufacturing	Foundation and superstructure in progress	2005	240,000	390,000	90