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Mr Luo Zhenbang *(Independent)*
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QUALIFIED ACCOUNTANT

Mr Luk Chi Keung

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 BANKS

Bank of China (Hong Kong)
CITIC Ka Wah Bank
Wing Hang Bank

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On behalf of the Board of Directors of China Aerospace International Holdings Limited (the "Company"), I am pleased to announce the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2006.

BUSINESS REVIEW

The audited turnover of the Group for the year ended 31 December 2006 was HK$1,528,101,000 and the profit attributable to shareholders was approximately HK$110,966,000. The earnings per share was HK$0.052.

In 2006, through acquiring new quality customers, continuing technological enhancement and strengthening internal control, the Group's hi-tech manufacturing business, which comprises liquid crystal displays, printed circuit boards, plastic injection and intelligent battery chargers as the core products, achieved a steady growth. The turnover from which recorded HK$1,506,388,000, representing an increase of about 24% as compared to that of last year; and the profit was HK$174,447,000, representing an increase of about 25% as compared to that of last year. In particular, the performance of the businesses of liquid crystal displays and printed circuit boards was relatively strong. During the year, the turnover of both businesses increased 76% and 25% respectively.

In 2006, the Group has focused in asset restructure and enhancement, with such efforts gaining a substantial breakthrough. With the full support from the substantial shareholder, China Aerospace Science & Technology Corporation ("CASC"), the Group entered into a sale and purchase agreement with CASC in March 2006. Pursuant to the agreement, CASC was assigned loans receivable of approximately HK$188,000,000; the Group, in return, received a 79.25% shareholdings in Vanbao Development (Canada) Limited, the related shareholder's loan and the entire shareholdings of Dongguan Huadun Enterprises Limited as the consideration for the disposal of loans receivable. The transaction was made in accordance with an equal-value swap principle. In order to settle the balance, CASC agreed to set off a sum of HK$80,000,000 shareholder's loan due from the Group and paid to the Group a sum of approximately HK$14,924,000 in cash. The details of the transaction are referred to the shareholders' circular dated 10 April 2006. The independent shareholders of the Company approved the transaction at the extraordinary general meeting held on 26 April 2006. The transaction was completed on 30 September 2006.

The assets swap transaction strengthened the financial position and improved the asset quality of the Group. As of 31 December 2006, the appraised values of the two pieces of land assigned from the assets swap transaction contributed a surplus of HK$18,533,000 to the Group upon revaluation, as a result of the booming property markets.

In 2006, the Group captured opportunities to strengthen the development of new businesses and migrated an important step forward. Hi-tech manufacturing business, science and technology park complex development, and hi-tech industries development are the three major focuses of the Group's business development. With the support from CASC, the Group successfully reached a joint venture agreement with the Shanghai Minhang Investment Construction Company Limited, a wholly-owned subsidiary of the government of Minhang District in Shanghai, to establish the Shanghai Aerospace Technology Investment Company Limited (the "Joint Venture"). The details of the agreement are referred to the shareholders' circular dated 16 November 2006. The principal activities of the Joint Venture are the development, management and operation of the Aerospace Technology Park ("Park"). Locating in the Minhang District, Shanghai, the Park is planned to attract enterprises from aerospace and advanced-technology industries. At present, the Joint Venture has been established and engaged in normal operation. The Park has commenced an initial site work in order to prepare for the construction. It is anticipated that the Joint Venture will attract high potential enterprises from CASC to the Park.

The mission of the Park is to become the economic focal point for CASC's industries. Being a 80% controlling shareholder of the Joint Venture, the Group will utilize this investment project to establish a platform with an aim to explore and realize orderly mergence and interactive development of aerospace and advanced-technology industries in the PRC. As the developer, manager and operator of the Park, the Joint Venture will ensure that those enterprises' projects entering into the Park will comply with the relevant requirements of the Shanghai Municipal People's Government. The Joint Venture will also assist those enterprises from CASC to introduce capital investments.

BUSINESS PROSPECT

Following the completion of the third phase extension work of Huizhou Industrial Park, the Group's overall production capacity will be enhanced. It is anticipated that the hi-tech manufacturing business will maintain a steady growth and contribute a stable foundation to generate profits for the Group.

In relation to the complex development of the Park, the Group's Joint Venture in Shanghai will endeavor to build up a professional team and work closely with the municipal government and experienced business partners so as to construct and develop the Park jointly. In the meantime, the Group will continue to strengthen the communications with CASC and fully utilize the leading resources of CASC to further explore other potential projects and investment opportunities.

Looking forward, the Board is full of confidence of the Group's future development. The Group will adhere to the above business focuses and endeavor to active development in hope of creating values for our shareholders and the community.

APPRECIATION

Mr Rui Xiaowu, the former Chairman, resigned from the Board in July 2006 and had made substantial contributions to the Group's development during his tenure of service. On behalf of the Board, I would like to express our sincere gratitude for his valuable contribution.

I would also like to take this opportunity to thank my fellow directors for their proper leadership, as well as all the staff of the Group for their hard workings and dedication and express my sincere gratitude to all shareholders, banks and business partners for their supports to the development of the Group.

By order of the Board

Ma Xingrui
Chairman

Hong Kong, 30 March 2007

The audited turnover of the Group for the year ended 31 December 2006 was HK$1,528,101,000, representing a decrease of 5% as compared with that of the continuing operations in 2005. The administrative expenses and the finance costs were HK$199,060,000 and HK$15,956,000 respectively, representing an increase of 6.69% and a decrease of 59% as compared with last year. The profits attributable to shareholders were HK$110,966,000, representing a decrease of 61% as compared with that of HK$286,403,000 in last year. The Directors resolved not to declare any final dividend in respect of the financial year ended 31 December 2006.

The reduction of turnover in 2006, as compared with that of 2005, was mainly due to the disposal of Conic Investment Building in 2005 which generated a revenue of HK$330,000,000. The reduction of overall profits in 2006, as compared with that of 2005, was due to the profits of 2005 being included exceptional gains arising from the waiver of debts resulting from the restructuring of the loans with the Bank of China, of HK$176,024,000, and the profits on the disposal of the shareholdings in CASIL Telecommunications Holdings Limited and several associate companies, of HK$69,164,000. Save for the exceptional gains, the profits in 2006 increased 53% as compared with that of 2005 of HK$72,467,000. The increase was arising from the growth in profits of hi-tech manufacturing business. The substantial reduction of finance costs in 2006 was the results of a series of loan restructurings and the betterment of assets. The increase in administrative expenses was caused by the increase in staff cost of the Group, the relocation of head office, and the increase in research and development expenses and the additional provisions made by the subsidiaries.

During the first half of 2006, the Group completed its business restructuring in accordance with the development strategy, and continued to devote to market development. Through the adoption of the measures of strict cost control, cutting finance expenses and accelerating assets consolidation, the Group improved its overall assets allocation. The core competitive advantages and leading position of the major businesses were further strengthened, maintaining a relatively good development strength and creating better conditions for the Group's future development.

In 2006, the operations of the Group's hi-tech manufacturing business was well performed. The turnovers for businesses of liquid crystal displays, printed circuit boards, plastic products and intelligent battery chargers were HK$234,305,000, HK$206,816,000, HK$558,956,000 and HK$502,383,000, representing an increase of 76%, 25%, 16% and 17% respectively. The overall average gross profit margin of hi-tech manufacturing business was 22%. Through continuous measures such as enhancement of production efficiency, strict cost control and provision of good quality of customer services, the hi-tech manufacturing business maintains strong competitive advantages.

The construction work of the third phase extension of Huizhou Industrial Park was completed at the end of 2006. It is anticipated that production will commence in the new factory buildings, of around 45,000 m2, during the first half of 2007. The production capacity of hi-tech manufacturing business will then be enhanced, creating a new momentum for the hi-tech manufacturing business to attain future growth.

As at 31 December 2006, the total assets of the Group were HK$2,286,478,000, of which the non-current portion and the current portion were HK$1,132,296,000 and HK$1,154,182,000 respectively. The total liabilities were HK$1,013,479,000, of which the current and the non-current liabilities were HK$824,418,000 and HK$189,061,000 respectively. Save for the minority interest, the equity attributable to equity holders of the Company was HK$1,220,412,000 and the net assets per share was HK$0.57. Save as the litigation disclosed in the 2006 annual report, the Group did not have any material contingent liabilities. As at 31 December 2006, the assets/liabilities ratio was 44.32% representing an improvement as compared with that of 48.52% of last year and the current ratio was 1.40, which was more or less the same to that of last year.

The source 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 2006 was HK$769,316,000, most of which was in HK Dollars and the rest in RMB and US Dollars. The Group reviews its cash flow and financial position periodically and does not engage into any financial instruments or derivatives to hedge the exchange and the interest rate risks.

The completion of the assets swap transaction with CASC resulted in substantial reduction in the outstanding amount of loans receivable of the Group, increase in cash on hand, and decrease in the amount due to substantial shareholder; the quality of the Group's asset was then improved as a result. The Group will endeavor to collect the remaining loans receivable and handle the related litigation properly.

In December 2006, the Group reached an agreement with an independent third party to dispose part of the property assets of Dongguan Huadun Enterprises Limited. The disposal is expected to complete during the first half of 2007 and the revenues arising from such transaction will be reflected in 2007.

A couple of the 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 are repayable in about 5 years.

The Group's emolument policy is based on employee's qualification, experience and performance and is referred to market data. The Group will continue to strengthen the human resources management and strictly apply the performance based evaluation standard so as to enhance the performance of individual staff and their contributions to the Group. As at 31 December 2006, the Group had more than 5,700 staff in both the mainland China and Hong Kong.

Looking forward to year 2007, under the leadership of the Board, the Group will reinforce its capabilities to enhance sales and profitability, perfect the internal control system, and strengthen internal management, with an aim to maintain the steady growth of the hi-tech manufacturing business. Regarding science and technology park complex development and hi-tech industries investment, the Group will actively explore opportunities, so as to achieve breakthrough in new business development and deliver outstanding performance for shareholders.

By order of the Board

Zhao Liqiang
Executive Director & President

Hong Kong, 30 March 2007

The Company had complied throughout the reporting period with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

BOARD OF DIRECTORS

In 2006, the Board of Directors (the "Board") of the Company comprises five Executive Directors, namely, Mr Zhao Liqiang, Mr Zhou Qingquan, Mr Zhao Yuanchang, Mr Wu Hongju and Mr Guo Xianpeng; seven Non-Executive Directors, namely, Mr Ma Xingrui (Chairman) (appointed in July 2006), Mr Rui Xiaowu (Chairman) (resigned in July 2006), Mr Gong Bo, Mr Chen Dingyi, Ms Chan Ching Har, Eliza, Mr Wang Yujun and Mr Xu Jianhua (appointed in July 2006); and three Independent Non-Executive Directors, namely, Mr Lee Hung Sang, Mr Chow Chan Lum, Charles and Mr Luo Zhenbang.

Mr Ma Xingrui (appointed in July 2006) and Mr Rui Xiaowu (resigned in July 2006) have been appointed as Chairman of the Company consecutively, and Mr Zhao Liqiang has been appointed as President of the Company. Each of Mr Ma Xingrui and Mr Rui Xiaowu are not related to Mr Zhao Liqiang in financial, business or family aspects. The roles of Chairman and President have been divided according to respective written Terms of Reference. The Board is responsible for determining the Group's objectives, strategies, policies and principal business plans, delegating to the management the responsibilities of running the Company's business, making day-to-day decisions concerning business operations and the implementation of the approved strategies in achieving the overall development strategies of the Company.

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. The Company had enquired with all the Directors as to whether they had complied with Appendix 10 of the Listing Rules while trading the securities of the Company during 2006. So far as was known to the Company, all Directors had complied with Appendix 10 during the period. The Company had also established written guidelines for relevant employees in respect of their dealings in the securities of the Company.

The specific term for each Non-Executive Director (including Independent Non-Executive Directors) of the Company is two years, provided that each Non-Executive Director is subject to retirement by rotation and re-election, if eligible, under the Articles of Association of the Company.

The Company had complied with the requirements of the Listing Rules to appoint three Independent Non-Executive Directors during 2006, namely, Mr Lee Hung Sang, Mr Chow Chan Lum, Charles and Mr Luo Zhenbang. Out of the three Independent Non-executive Directors, Mr Chow Chan Lum, Charles has appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The Company had received a letter from each of the Independent Non-Executive Directors confirming his independence in compliance with Rule 3.13 of the Listing Rules. As such, the Company confirmed that all Independent Non-Executive Directors are independent. The Directors of the Company are unrelated to each other in every aspect, including financial, business or family.

Mr Ma Xingrui and Mr Xu Jianhua have received a comprehensive, formal and tailored induction on the first occasion of their respective appointment, to ensure that they have a proper understanding of the operations and business of the Company and that he is fully aware of his responsibilities under statute and common law, the Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the Company.

BOARD MEETINGS

The Company has in place an established Board process. Regular Board meetings are held at least four times a year, and, if necessary, additional meetings would be arranged. The Company Secretary assists the Directors in establishing the meeting agenda. Notice of meeting and information package have been sent to Directors within reasonable and practical time prior to a regular Board meeting in order to facilitate the Directors informed discussion and decision-making. Each Director may request inclusion of matters in the agenda for Board meetings.

The Company Secretary is responsible for taking minutes of meetings. Draft minutes have been sent to all Directors for their comments within a reasonable time after each meeting and are approved by the Board at the immediate following meeting. Final versions of the Board minutes have been sent to all Directors for inspection. The minute books are kept by the Company Secretary and are open for inspection by the Directors upon request. All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board and advising the Board that the procedures are followed and that Listing Rules are complied with. The Company has established a procedure to enable Directors, upon reasonable request and at the Company's expense, to seek independent professional advice in appropriate circumstances and to assist the relevant director or directors to discharge his/their duties to the Company.

DIRECTORS

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure of agreeing to the appointment of its members and assessing the independence of Independent Non-Executive Directors, and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors. In the nomination process, the Board of Directors makes reference to criteria including, inter alia, accomplishment and experience in the industry, professional and educational background and commitment in respect of available time and relevant interest.

Those Directors appointed by the Board during the year shall hold office only until the next annual general meeting and shall then be eligible for re-election. The process for re-election of a Director is in accordance with the Company's Articles of Association, which requires that, other than those Directors appointed during the year, one-third of the Directors for the time being (or the nearest number) are required to retire by rotation at each annual general meeting and are eligible to stand for re-election.

The annual report and the circular for annual general meeting contain detailed information on re-election of Directors including detailed biography of all Directors standing for election or re-election to ensure shareholders to make an informed decision on their election.

The attendance records of individual Directors during 2006 are set out below:

	Annual General Meeting		Extraordinary General Meeting		Directors' Meeting	
Number of meetings held	**1**		**1**		**6**	
Directors	**Number of meetings eligible to attend**	**Number of meetings attended**	**Number of meetings eligible to attend**	**Number of meetings attended**	**Number of meetings eligible to attend**	**Number of meetings attended**
Zhao Liqiang	1	1	1	1	6	6
Zhou Qingquan	1	1	1	0	6	6
Zhao Yuanchang	1	1	1	0	6	6
Wu Hongju	1	0	1	0	6	6
Guo Xianpeng	1	1	1	1	6	6
Ma Xingrui	N/A	N/A	N/A	N/A	3	3
Rui Xiaowu	1	0	1	0	4	3
Gong Bo	1	0	1	0	6	5
Chen Dingyi	1	0	1	0	6	5
Chan Ching Har, Eliza	1	0	1	1	6	4
Wang Yujun	1	1	1	0	6	6
Xu Jianhua	N/A	N/A	N/A	N/A	3	3
Lee Hung Sang	1	0	1	0	6	5
Chow Chan Lum, Charles	1	1	1	0	6	6
Luo Zhenbang	1	0	1	0	6	5

In 2006, Mr Rui Xiaowu (Chairman), Mr Chow Chan Lum, Charles (Chairman of Audit Committee) and Ms Chan Ching Har, Eliza (Chairman of Remuneration Committee) were unable to attend the annual general meeting and/or extraordinary general meeting due to business reasons.

BOARD COMMITTEE

The Board has established an Audit Committee and a Remuneration Committee. The Committees are governed by their respective Terms of Reference. The Committees are accountable to the Board, unless there are legal or regulatory restrictions on their ability to do so.

AUDIT COMMITTEE

The Audit Committee of the Company comprises Mr Chow Chan Lum, Charles (Chairman) and Mr Luo Zhenbang, both being Independent Non-Executive Directors, and Mr Wang Yujun, a Non-executive Director.

The major functions of the Audit Committee include serving as a focal point for communication between the Directors and external auditors reviewing the Company's financial information as well as overseeing the Company's financial reporting system and internal control procedures.

In 2006, the Audit Committee met three times, and both the external auditors and the Company Secretary also attended the meetings for the purpose of assessing and reviewing the internal control system, the financial statements and corporate governance practices and so on. The Audit Committee had also reviewed, discussed and approved the financial statements for the year ended 31 December 2006.

The attendance records of individual Audit Committee members during 2006 are set out below:

Number of meetings held **3**

	Number of meetings eligible to attend	Number of meetings attended
Chow Chan Lum, Charles	3	2
Luo Zhenbang	3	3
Wang Yujun	3	3

REMUNERATION COMMITTEE

The Remuneration Committee comprises Ms Chan Ching Har, Eliza (Chairman) and Mr Gong Bo, both being Non-executive Directors, and Mr Lee Hung Sang, Mr Chow Chan Lum, Charles and Mr Luo Zhenbang, all being Independent Non-executive Directors. The functions of the Remuneration Committee are to formulate remuneration policy and to determine the remuneration of the Directors.

The Remuneration Committee met three times during 2006 to review the Directors' remuneration. Performance and results-based evaluation mechanism was adopted by the Remuneration Committee as the Company's emolument policy in determining the Directors' remuneration. During the year, no Director was involved in deciding his/her remuneration.

The attendance records of individual Remuneration Committee members during 2006 are set out below:

Number of meetings held **3**

	Number of meetings eligible to attend	Number of meetings attended
Chan Ching Har, Eliza	3	3
Gong Bo	3	2
Lee Hung Sang	3	3
Chow Chan Lum, Charles	3	3
Luo Zhenbang	3	2

The Directors' fees and any other reimbursement or emolument payable to a Director during the year are fully disclosed in the Company's financial statements.

INTERNAL CONTROL

The Company has gradually established, maintained and operated an effective system of internal control, which has clearly defined the authorities and key responsibilities of each business and operational unit to ensure adequate checks and balances.

The Company has conducted an annual review of the effectiveness of the Group's internal control systems over all material controls, including that financial, operational and compliance controls and risk management functions. The Company considers that the present internal control procedures adopted are sufficient to comply with the requirements under the Listing Rules, but the Company will continue to review, revise and strengthen its internal control from time to time, so as to meet with further requirements of internal management in Listing Rules.

ACCOUNTABILITY AND AUDIT

The Directors are responsible for preparing the accounts of each financial period, which give a true and fair view of the state of affairs, the results and the cash flows of the Group for that period. In preparing the accounts for the year ended 31 December 2006, the Directors have selected suitable accounting policies and adopted Hong Kong Financial Reporting Standards and applied them consistently. Based on judgments and estimates that are prudent, the Directors prepared the accounts on the going concern basis. Auditors' reporting responsibilities are set out on the financial statements by the auditors.

During the year, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt on the Company's ability to continue as a going concern.

The Company aims at presenting a balanced, clear and comprehensive assessment of the Company's performance, position and prospects in all published documents such as announcements, circulars, interim reports and annual reports. The Company has announced its annual and interim results in a timely manner within the limits of 4 months and 3 months respectively after the end of the relevant period, as laid down in the Listing Rules.

SHAREHOLDERS' RIGHTS

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors. The Company provides sufficient explanation of the procedures for demanding and conducting a poll prior to commencement of the meetings, sufficient time is also given for shareholders attending the general meetings of the Company to raise questions. The shareholders may demand a poll in respect of the resolutions to be put to at any general meeting in accordance with the following Article 74 of the Articles of Association of the Company:

(i) by the Chairman of the meeting; or

(ii) by at least three members present in person or by proxy for the time being entitled to vote at the meeting; or

(iii) by any member or members present in person or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(iv) by a member or members present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

The procedures for and the rights of shareholders to demand a poll as required under rule 13.39(4) of the Listing Rules are disclosed in the Company's circulars to shareholders. All proxy votes in the meetings are counted.

INVESTORS' RELATIONSHIP

The Company did not amend its Memorandum and Articles of Association during 2006.

As of 31 December 2006, the authorised share capital of the Company was 100,000,000,000 shares at HK$0.10 each, the issued share capital was 2,142,419,902 shares and the market capitalisation was about HK$1,435,000,000.

SUFFICIENCY OF PUBLIC FLOAT

According to the public information obtained by the Company and to the best knowledge of the Directors, the Company complied with the sufficiency of public float required by the Listing Rules as of the date of this Annual Report.

Mr Ma Xingrui, aged 47, a PhD holder, professor and doctorate students' supervisor, is a Non-Executive Director and Chairman of the Company. Mr Ma graduated from Liaoning Engineering Technology University with a bachelor's degree in Mechanical Engineering in July 1982. From July 1982 to April 1985, he was a postgraduate student majoring in Mechanics at Tianjin University. From April 1985 to March 1988, he was a doctorate student majoring in Mechanics at Harbin Institute of Technology, and became a lecturer in the School of Astronautics of Harbin Institute of Technology after graduation. In May 1989, he was appointed as the Deputy Head of Spatial Science and Technology Department of the School of Astronautics of Harbin Institute of Technology. He was appraised as Professor in November 1991 and was appointed as the Deputy Head in April 1992 and subsequently the Head of the Astronautic Engineering and Mechanics Department of Harbin Institute of Technology in December 1992. In October 1993, he was qualified as doctorate students' supervisor in Mechanics of Harbin Institute of Technology. In January 1995, he was appointed as the Associate Dean and Department Head of the School of Astronautics of Harbin Institute of Technology. From July 1995, he was appointed as the Associate Dean of the School of Astronautics of Harbin Institute of Technology. In March 1996, he became the Vice President of Harbin Institute of Technology. In May 1996, he was appointed as the Deputy Director of the Fifth Research Centre of China Aerospace Science & Technology Corporation and was the chief architect and chief commander of a series of satellites. Since September 1999, he has been the Deputy General Manager of China Aerospace Science & Technology Corporation, in charge of group strategy, technological development, astronautics engineering, investment construction, corporate planning and civil industry development. In 1994, he was awarded the "Special Subsidy" by the State Council. He was nominated as the candidate for the first- and second-level of "National Hundred, Thousand, and Ten Thousand Talent Project" in 1995 and was appraised as state-level middle-aged youth specialist with outstanding contribution in 1996. Mr Ma has extensive knowledge on scientific technology, and broad experiences in systems engineering management and corporate management. He was appointed as Non-Executive Director and Chairman of the Company in July 2006.

Mr Zhao Liqiang, aged 45, 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 & President of Long March Launch Vehicle Technology Company Limited. He was appointed as an Executive Director of the Company and President of the Group in September 2004.

Mr Zhou Qingquan, aged 55, 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, Deputy General Factory Manager, and General Factory Manager and President 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 technical 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 58, 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 Eighth 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 45, 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 40, a Senior Engineer, is an Executive director and Vice President of the Company. He studied at the Department of Automotive Engineering of Tsinghua University from 1983 to 1991 and obtained a bachelor's degree in engineering and a master's degree in engineering. Since 1991, he served as Deputy Director and Engineer in China Aerospace Surface Equipment Corporation. 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 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 has experience in development planning, planning and project management of civil products in aerospace industries. He was appointed as an Executive Director and Vice President of the Company in January 2004.

Mr Lee Hung Sang, aged 69, 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. He, due to limited time available to the directorship of the Company, resigned as Independent Non-Executive Director and member of Remuneration Committee of the Company on 30 March 2007.

Mr Chow Chan Lum, Charles, aged 56, 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 the Deputy Chairman of Auditing & Assurance Standards Committee, the member of 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.

Mr Luo Zhenbang, aged 40, is an Independent Non-Executive Director of the Company and a Senior Partner of Baker Tilly China 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 Wang Junyan, aged 36, is an Independent Non-Executive Director of the Company and the Chairman and Chief Investment Officer of First Shanghai Investment Management Limited. Mr Wang holds a master's degree in finance from the Faculty of Business and Economics of the University of Hong Kong and a bachelor's degree with a major in International Trade from the School of Economics of the Zhongshan University. Since 1997, he served as the Managing Director of First Shanghai Capital Limited, the Managing Director of First Shanghai Financial Holding Limited, an immediate subsidiary of the financial service division of the First Shanghai Group and an executive director of China Assets (Holdings) Limited (stock code: 170), the shares of which are listed on The Stock Exchange of Hong Kong Limited. Mr Wang has more than 12 years' experience in investment banking and securities industry. He was appointed as an Independent Non-Executive Director of the Company on 30 March 2007.

Mr Gong Bo, aged 41, a Research Fellow, is a Non-Executive Director of the Company. He graduated from the Beijing Polytechnic University and joined the China Academy of Launch Vehicle Technology in 1987, serving as Deputy Division Director, Deputy Director General of Quality & Technology Department, Deputy Director General and Director General of Quality Control & Supervision Department, Director General of Aerospace System Engineering Department of China Aerospace Science & Technology Corporation. Since 2004, Mr Gong has been serving the Director General of Business Investment Department of China Aerospace Science & Technology Corporation. Mr Gong is a graduate of Executive MBA of the business school of the University of Texas at Arlington. He was appointed as Non-Executive Director of the Company in June 2005.

Mr Chen Dingyi, aged 63, 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, then Director of Chee Yuen Plastic Products (Huizhou) Limited, and from June 1996, Deputy General Manager, General Manager, then 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. He, due to retirement, resigned as Non-Executive Director of the Company on 30 March 2007.

Ms Chan Ching Har, Eliza, aged 50, is a Non-Executive Director of the Company. She is a member of the First Selection Committee for HKSAR, member of the Hong Kong Public Service Commission, the Chairman of the Kowloon Hospital and the Hong Kong Eye Hospital. 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 member of the Administrative Appeals Board, 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 the Governor of The Canadian Chamber of Commerce in Hong Kong and vice-chairman of the Hong Kong CPPCC (Provincial) Members Association Limited. Ms Chan has been conferred Justice of the Peace (J.P.) and Bronze Bauhinia Star (B.B.S.) awarded by the Chief Executive of the Hong Kong SAR. 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.

Mr Wang Yujun, aged 44, a Senior Accountant, is a Non-Executive Director of the Company. Mr Wang is a master graduate in Accounting at Northeastern University of Finance and Accounting. He joined the Ministry of Aerospace Industry of China and Aviation & Aerospace Department in 1985, serving as Section Supervisor in the Finance Bureau, then Deputy Division Director of Foreign Economic & Finance Division of the Financial Bureau of China Aerospace Corporation, Division Director of State-owned Assets Management Division of Finance Department of China Aerospace Science & Technology Corporation. In July 2001, he joined the Company serving as General Manager of the Finance Department of the Company and was appointed as Financial Controller of the Company in June 2005. Throughout the years, he has attained extensive experience in corporate financial management. He was appointed as Non-Executive Director of the Company in June 2005.

Mr Xu Jianhua, aged 39, a Senior Economist, is a Non-Executive Director of the Company and Vice President of the Group. Mr Xu obtained a Bachelor's degree in Laws from the China University of Political Science and Law, a master degree in Business Administration from Beijing University of Aeronautics & Astronautics and a Master of Laws degree from the City University of Hong Kong and was qualified as a lawyer in the PRC in 1994. He joined the 707 Research Institute of the former Ministry of Aeronautics & Aerospace Industry of China, serving successively as Deputy Director of Payroll & Benefits Division and the Head of the Administration Division of Human Resources Department of China Aerospace Corporation, the Division Director and Deputy Director General of Human Resources Department of China Aerospace Science & Technology Corporation, and Director of China Spacesat Technology Company Limited (stock code: 600118), a company listed in the Shanghai Stock Exchange. He was appointed as Director and Deputy General Manager of CASIL Telecommunications Holdings Limited (stock code: 1185), a company listed in the Stock Exchange of Hong Kong and was appointed as Non-Executive Director of the Company and Vice President of the Group in July 2006.

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2006.

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 41, 42 and 43 to the consolidated financial statements, respectively.

RESULTS AND APPROPRIATION

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 23.

The Board resolved not to declare any dividend in respect of the financial year ended 31 December 2006 (2005: nil).

The Company had no reserve available for distribution as at 31 December 2006 (2005: nil).

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired plant and equipment and motor vehicles, furniture and other equipment of HK$54,070,000 and HK$16,908,000 respectively to cope with the expansion of the Group. Details of movements in property, plant and equipment of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 34 to the consolidated financial statements.

No option under the scheme was granted or exercised during the year nor outstanding at 31 December 2006.

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

In the year under review, the aggregate turnover attributable to the Group's five largest customers were less than 30% of the Group's consolidated turnover, and the aggregate purchases attributable to the Group's five largest suppliers were 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

Zhao Liqiang *(President)*
Zhou Qingquan
Zhao Yuanchang
Wu Hongju
Guo Xianpeng

Non-Executive

Ma Xingrui *(Chairman)*	(appointed on 25 July 2006)
Gong Bo	
Chan Ching Har, Eliza	
Wang Yujun	
Xu Jianhua	(appointed on 25 July 2006)
Chow Chan Lum, Charles *(Independent)*	
Luo Zhenbang *(Independent)*	
Wang Junyan	(appointed on 30 March 2007)
Rui Xiaowu	(resigned on 25 July 2006)
Lee Hung Sang *(Independent)*	(resigned on 30 March 2007)
Chen Dingyi	(resigned on 30 March 2007)

Non-Executive Directors are appointed for a period of 2 years and, being eligible, offer themselves for re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Messrs. Zhao Liqiang, Zhao Yuanchang, Wu Hongju and Luo Zhenbang retire by rotation in accordance with Article 103(A) of the Company's Articles of Association and, being eligible, offer themselves for re-election.

Messrs. Ma Xingrui, Xu Jianhua and Wang Junyan retire in accordance with Article 94 of the Company's Articles of Association and, being eligible, offer themselves for re-election.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES

As at 31 December 2006, none of the Directors, Chief Executives or their associates have any beneficial, non-beneficial interests or short positions 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 OF SIGNIFICANCE

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Other than the share option scheme disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor the Chief Executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

CONNECTED TRANSACTIONS

CASIL Clearing Limited ("CASIL Clearing"), a wholly-owned subsidiary of the Company, entered into an agreement with China Aerospace Science & Technology Corporation ("CASC"), a major shareholder of the Company, pursuant to which CASIL Clearing has agreed to purchase and CASC has agreed to sell approximately 79.25% of the issued share capital of Vanbao Development (Canada) Limited, the related shareholder's loan and 100% of the registered capital of Dongguan Huadun Enterprises Limited at an aggregate consideration of HK$92,884,000, payable by assigning of certain of the loans receivable of CASIL Clearing. As the aggregate book value of the loans receivable amounted to HK$188 million assigned by CASIL Clearing to CASC or its nominee exceeded the aggregate consideration, the difference was set-off against the shareholder's loan due from the Group to CASC as at the date of completion of HK$80,000,000 and the balance of HK$14,924,000 was paid by CASC to CASIL Clearing in cash.

Independent Non-Executive Directors of the Company have reviewed the above connected transactions and confirmed that the connected transactions have been entered into by the Group in its ordinary and usual course of business.

SUBSTANTIAL SHAREHOLDERS

As of 31 December 2006, 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 shares interested	Percentage of issued share capital
China Aerospace Science & Technology Corporation	Interests in controlled corporation	911,108,864 (Note 1)	42.53%
Jetcote Investments Limited ("Jetcote")	Beneficial owner	109,864,176	5.13%
	Interests in controlled corporation (Note 2)	801,244,688	37.40%
		911,108,864	42.53%
Burhill Company Limited ("Burhill")	Beneficial owner (Note 2)	407,971,780	19.04%
Sin King Enterprises Company Limited ("Sin King")	Beneficial owner (Note 2)	393,272,908	18.36%

Notes:

1. These 911,108,864 shares are duplicated in the interests held by Jetcote and its subsidiaries. Jetcote is a wholly-owned subsidiary of China Aerospace Science & Technology Corporation.

2. Both Burhill and Sin King are wholly-owned subsidiaries of Jetcote. The shares held by them form part of the total number of shares held by Jetcote.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 31 December 2006.

DISCLOSURE PURSUANT TO RULE 13.20 OF THE LISTING RULES

CASIL Clearing Limited ("CASIL Clearing"), a wholly-owned subsidiary of the Company, had made an advance to Chinluck Properties Limited ("Chinluck"), an independent third party, in the past. The loan was secured by a piece of land and guaranteed personally by the substantial shareholder and chairman of Chinluck. CASIL Clearing was alleged a breach of the loan agreement in failing to advance the full amount of HK$330,000,000 to Chinluck in 1997. CASIL Clearing resisted the claim and counterclaimed against Chinluck and sued against its guarantor upon default on, including but not limited to, interest and payment of the loan amount advance under the loan agreement and the mortgage. A Court hearing in respect of the loan was conducted in June 2004, and the judgement in respect of the action was received at the end of July 2005. The judgement was merely a fact finding and confined to issues of liability only. For the issues of damages, it was held by the Court in December 2006 that, inter alia, CASIL Clearing is required to pay a nominal damages of HK$100 to Chinluck for its breach of agreement to advance the remaining portion of the loan and Chinluck is required to pay the outstanding principal and the accrued interest under the loan agreement and the mortgage for its breach of the repayment obligations. The nominal damage of HK$100 payable by CASIL Clearing to Chinluck is to be set off against the amount of the judgment to be calculated and agreed between the parties. As the calculation of the judgement sum has not been agreed by both parties, further application to the Court for adjudication has been scheduled. As of 31 December 2006, the outstanding balance of the advance was HK$70,269,000.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the management on the basis of their merit, qualification and competence.

The emoluments of the Directors are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme are set out in note 34 to the consolidated 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.

On behalf of the Board

Zhao Liqiang
Executive Director & President

Hong Kong, 30 March 2007

Deloitte.
德勤

TO THE SHAREHOLDERS OF
CHINA AEROSPACE INTERNATIONAL HOLDINGS LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Aerospace International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 23 to 77, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 30 March 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Continuing operations			
Turnover	6(a)	**1,528,101**	1,610,175
Cost of sales	6(b)	**(1,170,772)**	(1,171,905)
Gross profit		**357,329**	438,270
Other income		**32,909**	54,007
Distribution costs		**(50,073)**	(43,697)
Administrative expenses		**(199,060)**	(186,583)
Waiver of debts	8	**–**	176,024
Impairment loss recognised in respect of property, plant and equipment		**(937)**	(4,689)
Fair value changes of investment properties		**23,414**	1,679
Reversal of allowance for amounts due from related companies		**–**	5,450
Finance costs	10	**(15,956)**	(39,289)
Share of results of associates		**–**	274
Share of results of jointly controlled entities		**(5,579)**	(9,125)
Impairment loss on available-for-sale investments		**–**	(146,705)
Gain on disposal of subsidiaries		**–**	876
Reversal of allowance for amounts due from jointly controlled entities		**–**	2,977
(Loss) gain on disposal of associates	11	**(201)**	69,164
Profit before taxation	12	**141,846**	318,633
Taxation	13	**(26,784)**	(1,506)
Profit for the year from continuing operations		**115,062**	317,127
Discontinued operation			
Loss for the year from discontinued operation	14	**–**	(31,252)
Profit for the year		**115,062**	285,875
Attributable to:			
Equity holders of the Company		**110,966**	286,403
Minority interests		**4,096**	(528)
		115,062	285,875
Earnings per share – basic	15		
From continuing and discontinued operations		**HK5.2 cents**	HK13.4 cents
From continuing operations		**HK5.2 cents**	HK14.8 cents

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current assets			
Property, plant and equipment	17	**634,124**	590,351
Prepaid lease payments	18	**61,888**	60,795
Investment properties	19	**160,562**	27,110
Interests in associates	20	**–**	8,027
Interests in jointly controlled entities	21	**63,831**	69,410
Available-for-sale investments	22	**101,331**	90,827
Pledged bank deposits	23	**110,560**	110,560
		1,132,296	957,080
Current assets			
Inventories	24	**134,106**	125,383
Trade and other receivables	25	**267,198**	274,742
Prepaid lease payments	18	**2,153**	2,070
Loans receivable	26	**70,269**	258,077
Amounts due from associates		**–**	3,627
Taxation recoverable		**1,400**	2,659
Bank balances and cash		**658,756**	474,767
		1,133,882	1,141,325
Assets classified as held for sale	19	**20,300**	-
		1,154,182	1,141,325
Current liabilities			
Trade and other payables	27	**591,307**	576,271
Amounts due to associates	28	**1,050**	1,050
Amount due to a major shareholder	29	**116,161**	184,593
Taxation payable		**40,927**	20,938
Obligations under finance leases – amount due within one year	30	**2,634**	7,692
Secured bank loans	31	**65,172**	16,925
Other loan	32	**7,167**	6,891
		824,418	814,360
Net current assets		**329,764**	326,965
Total assets less current liabilities		**1,462,060**	1,284,045

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
Non-current liabilities			
Obligations under finance leases – amount due after one year	30	**44**	3,987
Secured bank loans	31	**166,401**	191,780
Deferred taxation	33	**22,616**	7,954
		189,061	203,721
		1,272,999	1,080,324
Capital and reserves			
Share capital	34	**214,242**	214,242
Reserves		**1,006,170**	846,945
Equity attributable to equity holders of the Company		**1,220,412**	1,061,187
Minority interests		**52,587**	19,137
		1,272,999	1,080,324

The consolidated financial statements on pages 23 to 77 were approved and authorised for issue by the Board of Directors on 30 March 2007 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 2006

	Attributable to equity holders of the Company												
	Share capital	Share premium	Special capital reserve	General reserve	Translation reserve	Investment revaluation reserve	Property revaluation reserve	Capital reserve	Capital redemption reserve	(Accumulated losses) retained profits	Total	Minority interests	Total
	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
			(Note 34(c))	(Note)									
At 1 January 2005	2,142,420	939,048	14,044	23,916	(31,260)	–	–	–	1,080	(2,331,468)	757,780	19,434	777,214
Increase in fair value changes of available-for-sale investments	–	–	–	–	–	10,503	–	–	–	–	10,503	–	10,503
Exchange differences arising on translation of foreign operations	–	–	–	–	6,655	–	–	–	–	–	6,655	231	6,886
Net income recognised directly in equity	–	–	–	–	6,655	10,503	–	–	–	–	17,158	231	17,389
Reserves realised upon disposal of subsidiaries	–	–	–	–	(339)	–	–	–	–	–	(339)	–	(339)
Reserves realised upon disposal of associates	–	–	–	–	185	–	–	–	–	–	185	–	185
Profit for the year	–	–	–	–	–	–	–	–	–	286,403	286,403	(528)	285,875
Total recognised income (expense) for the year	–	–	–	–	6,501	10,503	–	–	–	286,403	303,407	(297)	303,110
Capital reduction	(1,928,178)	–	–	–	–	–	–	–	–	1,928,178	–	–	–
Cancellation of share premium account	–	(939,048)	–	–	–	–	–	–	–	939,048	–	–	–
At 31 December 2005 and 1 January 2006	214,242	–	14,044	23,916	(24,759)	10,503	–	–	1,080	822,161	1,061,187	19,137	1,080,324
Increase in fair value changes of available-for-sale investments	–	–	–	–	–	10,504	–	–	–	–	10,504	–	10,504
Increase in fair value of land and buildings transferred to investment properties	–	–	–	–	–	–	4,188	–	–	–	4,188	–	4,188
Capital contribution from a major shareholder arising from acquisition of subsidiaries (note 35)	–	–	–	–	–	–	–	21,570	–	–	21,570	–	21,570
Deferred tax liability arising on revaluation of properties	–	–	–	–	–	–	(289)	–	–	–	(289)	–	(289)
Exchange differences arising on translation of foreign operations	–	–	–	–	12,248	–	–	–	–	–	12,248	597	12,845
Net income recognised directly in equity	–	–	–	–	12,248	10,504	3,899	21,570	–	–	48,221	597	48,818
Reserves realised upon disposal of associates	–	–	–	–	38	–	–	–	–	–	38	–	38
Profit for the year	–	–	–	–	–	–	–	–	–	110,966	110,966	4,096	115,062
Total recognised income for the year	–	–	–	–	12,286	10,504	3,899	21,570	–	110,966	159,225	4,693	163,918
Capital contribution from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	20,000	20,000
Acquired on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	8,757	8,757
At 31 December 2006	214,242	–	14,044	23,916	(12,473)	21,007	3,899	21,570	1,080	933,127	1,220,412	52,587	1,272,999

Note: Included in general reserve are reserve fund and enterprise expansion fund of the subsidiaries and associates in the People's Republic of China other than Hong Kong (the "PRC").

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES		
Profit for the year	**115,062**	285,875
Adjustments for:		
Depreciation	**45,657**	54,752
Amortisation of prepaid lease payments	**2,116**	2,070
Interest income	**(11,143)**	(7,317)
Interest expense	**15,499**	38,684
Finance lease charges	**457**	605
Taxation	**26,784**	1,506
Waiver of debts	**–**	(176,024)
Loss on disposal of property, plant and equipment	**7,165**	16,372
Fair value changes of investment properties	**(23,414)**	(1,679)
Allowance for doubtful debts	**4,235**	4,358
Impairment loss recognised in respect of property, plant and equipment	**937**	4,689
Impairment loss on available-for-sale investments	**–**	146,705
Loss (gain) on disposal of associates	**201**	(69,164)
Share of results of jointly controlled entities	**5,579**	9,125
Reversal of allowance for obsolete inventories	**(1,408)**	(12,033)
Gain on disposal of subsidiaries	**–**	(876)
Reversal of allowance for amounts due from jointly controlled entities	**–**	(2,977)
Reversal of allowance for amounts due from related companies	**–**	(5,450)
Share of results of associates	**–**	(274)
Operating cash flows before movements in working capital	**187,727**	288,947
(Increase) decrease in inventories	**(3,686)**	60,074
Decrease (increase) in trade and other receivables	**26,698**	(35,781)
Increase in trade and other payables	**134**	83,775
Cash generated from operations	**210,873**	397,015
Hong Kong Profits Tax refunded (paid)	**231**	(2,061)
PRC Enterprise Income Tax paid	**(4,323)**	(2,816)
NET CASH FROM OPERATING ACTIVITIES	**206,781**	392,138

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	Notes	2006 HK$'000	2005 HK$'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(94,506)**	(68,838)
Purchase of investment properties		**(3,950)**	–
Net cash inflows in respect of acquisition of subsidiaries	35	**16,940**	–
Interest received		**11,143**	7,317
Proceeds from disposal of associates		**7,864**	143,758
Proceeds from disposal of property, plant and equipment		**2,368**	191,673
Increase in pledged bank deposits		**–**	(43,948)
Advance to associates		**–**	(977)
Net cash outflows in respect of disposal of subsidiaries	36	**–**	(38)
Proceeds from disposal of investment properties		**–**	209,560
Repayment of loans receivable		**–**	3,294
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(60,141)**	441,801
FINANCING ACTIVITIES			
New loans raised		**50,700**	–
Capital contribution from a minority shareholder of a subsidiary		**20,000**	–
Advance from a major shareholder		**106**	–
Repayment of loans		**(27,832)**	(592,798)
Repayment of obligations under finance leases		**(9,001)**	(9,884)
Interest paid		**(4,037)**	(17,168)
Finance lease charges		**(457)**	(605)
Repayment of other loans		**–**	(47,170)
Repayment of amounts due to associates		**–**	(19,459)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		**29,479**	(687,084)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**176,119**	146,855
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**474,767**	326,050
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**7,870**	1,862
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH		**658,756**	474,767

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 ("Stock Exchange"). The address of the registered office and principal place of business of the Company is disclosed in the corporate information to the annual report.

The consolidated financial statements are presented in Hong Kong Dollars, which is the same as the functional currency of the Company.

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 41, 42 and 43, respectively.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC) – INT 10	Interim financial reporting and impairment[6]
HK(IFRIC) – INT 11	HKFRS 2 – Group and treasury share transactions[7]
HK(IFRIC) – INT 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 March 2006.
4 Effective for annual periods beginning on or after 1 May 2006.
5 Effective for annual periods beginning on or after 1 June 2006.
6 Effective for annual periods beginning on or after 1 November 2006.
7 Effective for annual periods beginning on or after 1 March 2007.
8 Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and financial instruments, which are measured at fair value, as explained in accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interests in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of loans and receivables and available-for-sale financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivable (including trade and other receivables, loans receivable, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

Financial liabilities including trade and other payables, amounts due to associates, amount due to a major shareholder, secured bank loans and other loans are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets and disposal groups classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

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.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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 (other than properties under development) are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is provided to write off the cost of items of property, plant and equipment other than properties under development over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

The land and buildings elements of a lease of land and buildings are considered separately for the purpose of lease classification, leasehold land which title is not expected to pass to the lessee by the end of the lease term is classified as an operating lease unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

If any owner-occupied property becomes an investment property, it is reclassified as investment property and the difference between the carrying amount of property and its fair value at that date of reclassification is (i) recognised in profit or loss for any resulting decrease in the carrying amount of the property; or (ii) credited directly to equity in property revaluation reserve for surplus. On subsequent disposal of the investment property, the revaluation surplus included in equity is transferred to retained earnings.

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production, rental or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight line basis over the term of the relevant lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purpose of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Hong Kong Dollars at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on the acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the exchange rate prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

3. 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, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Inventories

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible 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

Payments to retirement benefit schemes are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable and deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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 the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary difference arising on investments in subsidiaries, associates and interests in jointly controlled entities, except where the Group is able to control the reversal of the temporary difference 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 profits 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 profit or loss, 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

All borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3, management has made the following estimation that have significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Allowances for inventories

The management of the Group reviews an aged analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates that the net realisable value for such finished goods and consumables based primarily on the latest invoice prices and current market conditions.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial assets and liabilities include bank balances and cash, equity investments, borrowings, trade and other receivables, loans receivable, trade and other payables, amount due to a major shareholder and pledged bank deposits. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations at 31 December 2006 in relation to each class of recognised financial assets is the carrying amounts of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its trade receivables and loan receivables. In order to minimise credit risk, the management has delegated a team to be responsible for the determination of credit limits, credit approvals and other monitoring procedures. In addition, management reviews the recoverable amount of each individual trade debt and loan receivables regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk in trade receivable, with exposure spread over a number of counterparties and customers. In respect of loans receivable, the management closely monitors the settlement of it and reviews its recoverability to ensure that adequate impairment losses are recognised for irrecoverable debts.

Market risk

Currency risk

Several subsidiaries of the Company have foreign currency sales and certain trade receivables of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Price risk

The Group is exposed to equity price risk. The management has designated appropriate personnel to monitor the price risk and will consider hedging the risk exposure should the need arises.

Fair value interest rate risk

The Group's fair value interest rate risk relates to its fixed-rate other loans and certain bank borrowings. However, the management considered the risk is insignificant to the Group.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk (continued)

Cash flow interest rate risk

The Group's cash flow interest rate risk relates primarily to variable-rate bank borrowings and bank balances. The Group currently does not have any policy on cash flow hedges of interest rate risk. However, the management monitors interest rate exposure and will consider hedging significant interest rate risk should the need arises.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

6. TURNOVER AND COST OF SALES

(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:

	2006	2005
	HK$'000	HK$'000
Continuing operations		
Sales of goods	**1,511,618**	1,221,778
Proceeds on sales of properties	**–**	359,810
Rental income	**16,483**	21,270
Interest income	**–**	7,317
	1,528,101	1,610,175
Discontinued operation (note 14)		
Sales of goods	**–**	170,763
	1,528,101	1,780,938

(b) Cost of sales of continuing operations includes an amount of HK$1,408,000 (2005: HK$3,046,000) in respect of reversal of allowance for obsolete inventories which were recovered through subsequent sales.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

The Group's turnover and contribution to trading results, analysed by business segments, which is the primary segment, are as follows:

(a) Business segments:

Segment information in respect of turnover for the year ended 31 December 2006 is presented below:

CONSOLIDATED INCOME STATEMENT

	External sales HK$'000	Inter-segment sales HK$'000	Total turnover HK$'000
TURNOVER			
Manufacturing			
Plastic products	558,956	74,608	633,564
Liquid crystal display	234,305	1,468	235,773
Printed circuit boards	206,816	–	206,816
Intelligent chargers and security system	502,383	–	502,383
Other products	3,928	–	3,928
Property	16,483	10,341	26,824
Trading	5,230	–	5,230
Finance	–	2,078	2,078
	1,528,101	88,495	1,616,596
Elimination	–	(88,495)	(88,495)
Consolidated total from continuing operations	1,528,101	–	1,528,101

Inter-segment sales are charged at prevailing market prices.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of the results for the year ended 31 December 2006 is presented below:

RESULTS FROM CONTINUING OPERATIONS

	Amount HK$'000
Manufacturing	
Plastic products	63,698
Liquid crystal display	20,482
Printed circuit boards	46,639
Intelligent chargers and security system	56,572
Other products	(12,944)
Property	40,854
Trading	(3,625)
Finance	6,116
	217,792
Elimination	(23,062)
Total segment results	194,730
Unallocated corporate income	7,847
Unallocated corporate expenses	(38,995)
	163,582
Finance costs	(15,956)
Share of results of jointly controlled entities	(5,579)
Loss on disposal of associates	(201)
Profit before taxation	141,846
Taxation	(26,784)
Profit for the year	115,062

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of balance sheet at 31 December 2006 is presented below:

CONSOLIDATED BALANCE SHEET

	Amount HK$'000
ASSETS	
Manufacturing	
Plastic products	472,751
Liquid crystal display	229,500
Printed circuit boards	135,224
Intelligent chargers and security system	152,487
Other products	22,473
Property	257,695
Trading	37,361
Finance	181,142
Segment assets	1,488,633
Unallocated corporate assets	734,014
Interest in jointly controlled entities	63,831
Consolidated total assets	2,286,478

	Amount HK$'000
LIABILITIES	
Manufacturing	
Plastic products	114,408
Liquid crystal display	51,112
Printed circuit boards	32,344
Intelligent chargers and security system	98,106
Other products	37,967
Property	60,870
Trading	110,121
Finance	213,684
Segment liabilities	718,612
Unallocated corporate liabilities	294,867
Consolidated total liabilities	1,013,479

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

OTHER INFORMATION

	Capital additions HK$'000	Depreciation HK$'000	Impairment losses of property, plant and equipment HK$'000	Fair value changes of investment properties HK$'000	Reversal of allowance for obsolete inventories HK$'000	Allowance for doubtful debts HK$'000	Loss on disposal of property, plant and equipment HK$'000
Manufacturing	67,718	35,010	937	–	1,408	–	4,911
Property	137,682	8,638	–	23,414	–	–	–
Trading	25	696	–	–	–	–	–
Finance	–	–	–	–	–	–	–
Others	3,493	1,313	–	–	–	4,235	2,254
Consolidated total	208,918	45,657	937	23,414	1,408	4,235	7,165

Segment information in respect of turnover for the year ended 31 December 2005 is presented below:

CONSOLIDATED INCOME STATEMENT

	External sales HK$'000	Inter-segment sales HK$'000	Total turnover HK$'000
TURNOVER			
Manufacturing			
Plastic products	483,656	66,519	550,175
Liquid crystal display	133,398	–	133,398
Printed circuit boards	165,426	–	165,426
Intelligent chargers and security system	429,359	61	429,420
Property	381,080	11,243	392,323
Trading	9,939	–	9,939
Finance	7,317	45,490	52,807
	1,610,175	123,313	1,733,488
Elimination	–	(123,313)	(123,313)
Consolidated total from continuing operations	1,610,175	–	1,610,175

Inter-segment sales are charged at prevailing market prices.

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of the results for the year ended 31 December 2005 is presented below:

RESULTS FROM CONTINUING OPERATIONS

	Amount HK$'000
Manufacturing	
Plastic products	41,289
Liquid crystal display	10,882
Printed circuit boards	30,694
Intelligent chargers and security system	58,661
Other products	(1,683)
Property	168,534
Trading	(781)
Finance	13,252
	320,848
Elimination	(64,920)
Total segment results	255,928
Unallocated corporate income	76,647
Unallocated corporate expenses	(44,269)
	288,306
Finance costs	(39,289)
Share of results of associates	274
Share of results of jointly controlled entities	(9,125)
Gain on disposal of subsidiaries	876
Reversal of allowance for amounts due from related companies	5,450
Reversal of allowance for amounts due from jointly controlled entities	2,977
Gain on disposal of associates	69,164
Profit before taxation	318,633
Taxation	(1,506)
Profit for the year	317,127

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

Segment information in respect of balance sheet at 31 December 2005 is presented below:

CONSOLIDATED BALANCE SHEET

	Segment assets HK$'000	Interests in associates HK$'000	Total HK$'000
ASSETS			
Manufacturing			
Plastic products	517,508	–	517,508
Liquid crystal display	187,495	–	187,495
Audio-video products	26,254	–	26,254
Printed circuit boards	120,882	–	120,882
Intelligent chargers and security system	153,231	–	153,231
Other products	49,215	–	49,215
Property	52,882	–	52,882
Trading	42,422	8,027	50,449
Finance	371,725	–	371,725
	1,521,614	8,027	1,529,641
Unallocated corporate assets			499,354
Interests in jointly controlled entities			69,410
Consolidated total assets			2,098,405

	Amount HK$'000
LIABILITIES	
Manufacturing	
Plastic products	133,476
Liquid crystal display	37,262
Audio-video products	47,134
Printed circuit boards	38,429
Intelligent chargers and security system	85,133
Other products	10,304
Property	17,791
Trading	164,469
Finance	213,705
Segment liabilities	747,703
Unallocated corporate liabilities	270,378
Consolidated total liabilities	1,018,081

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments: (continued)

OTHER INFORMATION

	Capital additions HK$'000	Depreciation HK$'000	Impairment losses of property, plant and equipment HK$'000	Fair value changes of investment properties HK$'000	Reversal of allowance for obsolete inventories HK$'000	Allowance for doubtful debts HK$'000	(Loss) gain on disposal of property, plant and equipment HK$'000
Manufacturing	69,227	41,832	4,689	–	12,033	4,333	(17,767)
Property	1,261	9,378	–	1,679	–	25	(175)
Trading	227	682	–	–	–	–	(5)
Finance	–	–	–	–	–	–	–
Others	5,006	2,860	–	–	–	–	1,575
Consolidated total	75,721	54,752	4,689	1,679	12,033	4,358	(16,372)

(b) Geographical segments:

(i) The following table provides an analysis of the Group's turnover from continuing operations by geographical market:

	Turnover by geographical market 2006 HK$'000	2005 HK$'000
Hong Kong	**1,248,059**	1,360,012
The PRC	**279,533**	250,163
Overseas	**509**	–
	1,528,101	1,610,175

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

	Carrying amount of segment assets		Additions to property, plant, equipment and investment properties	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Hong Kong	**831,819**	1,034,624	**29,067**	23,430
The PRC	**565,948**	495,017	**109,352**	52,291
Overseas	**90,866**	–	**70,499**	–
	1,488,633	1,529,641	**208,918**	75,721

8. WAIVER OF DEBTS

On 7 December 2004, the Company together with certain subsidiaries ("Borrowers") entered into a debt restructuring deed ("Deed") with Bank of China (Hong Kong) Limited ("BOC") for the purpose of restructuring the Group's debts due to BOC. Conditional upon compliance with the terms of the Deed, BOC agreed to waive debts of HK$193,520,000.

On 21 December 2005, the Borrowers entered into a supplemental agreement with BOC to revise the terms of the Deed ("Supplemental Agreement"). Pursuant to the terms of the Supplemental Agreement, BOC agreed to irrevocably waive the debt of HK$176,024,000 being the difference between the original debt totalling HK$642,280,000 and HK$466,256,000 (being the original restructured loan of HK$435,193,000 ("Original Restructured Loan")) plus interest of HK$31,063,000 calculated up to 15 January 2004 ("Accrued Interests") of the Supplemental Agreement. Accordingly, a waiver of debts of HK$176,024,000 is recognised as income in the consolidated income statement for the year ended 31 December 2005.

Pursuant to the terms of the Supplemental Agreement, the Original Restructured Loan will be repayable in 11 instalments, the last of which is due on 7 December 2010. Upon the prompt payments of these instalments being made, the Accrued Interests will not be repayable. Such financial impact has not been recognised in the consolidated income statement for the year ended 31 December 2005 and 2006 as the relevant conditions specified in the Supplemental Agreement have not been satisfied.

9. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the 15 (2005: 12) directors were as follows:

	Ma Xingrui HK'000	Zhao Liqiang HK$'000	Zhou Qingquan HK$'000	Zhao Yuanchang HK$'000	Wu Hongju HK$'000	Guo Xianpeng HK$'000	Lee Hung Sang HK$'000	Chow Chan Lum, Charles HK$'000	Luo Zhenbang HK$'000	Gong Bo HK$'000	Chen Dingyi HK$'000	Chan Ching Har, Eliza HK$'000	Wang Yujun HK$'000	Xu Jianhua HK$'000	Rui Xiaowu HK$'000	2006 Total HK$'000
Directors' fees																
Executives	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	–	–	–	–	–	–	–	–	–	130	–	–	–	130
Independent non-executives	–	–	–	–	–	–	130	180	180	–	–	–	–	–	–	490
	–	–	–	–	–	–	130	180	180	–	–	130	–	–	–	620
Other emoluments																
Salaries and other benefits	30	1,673	1,127	1,062	1,062	1,062	30	30	30	30	716	30	1,062	512	40	8,496
Bonuses (Note)	–	253	144	158	158	165	–	–	–	–	1,443	–	210	61	–	2,592
	30	1,926	1,271	1,220	1,220	1,227	30	30	30	30	2,159	30	1,272	573	40	11,088
Total emoluments	30	1,926	1,271	1,220	1,220	1,227	160	210	210	30	2,159	160	1,272	573	40	11,708

	Rui Xiaowu HK'000	Zhao Liqiang HK$'000	Zhou Qingquan HK$'000	Zhao Yuanchang HK$'000	Wu Hongju HK$'000	Guo Xianpeng HK$'000	Lee Hung Sang HK$'000	Chow Chan Lum, Charles HK$'000	Luo Zhenbang HK$'000	Gong Bo HK$'000	Chen Dingyi HK$'000	Chan Ching Har, Eliza HK$'000	Wang Yujun HK$'000	Li Jinsheng HK$'000	Xu Shilong HK$'000	2005 Total HK$'000
Directors' fees																
Executives	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Non-executives (excluding independent non-executives)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Independent non-executives	–	–	–	–	–	–	115	165	100	15	–	–	–	–	–	395
	–	–	–	–	–	–	115	165	100	15	–	–	–	–	–	395
Other emoluments																
Salaries and other benefits	–	1,072	872	872	872	872	–	–	–	–	716	115	745	–	–	6,136
Bonuses (Note)	–	515	387	307	387	387	–	–	–	–	1,289	–	295	–	–	3,567
	–	1,587	1,259	1,179	1,259	1,259	–	–	–	–	2,005	115	1,040	–	–	9,703
Total emoluments	–	1,587	1,259	1,179	1,259	1,259	115	165	100	15	2,005	115	1,040	–	–	10,098

Note: The bonuses are determined with reference to the operating results, individual performance and comparable market statistics during the year.

9. DIRECTORS' AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS (continued)

(b) Highest paid individuals' emoluments

During the year, the five (2005: seven) highest paid individuals included two directors (2005: five directors), details of whose emoluments are set out above. The emoluments of the remaining three (2005: two) highest paid individuals were as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other benefits	**4,565**	3,026
Contributions to retirement benefits scheme	**24**	24
	4,589	3,050

The emoluments of these individuals were within the following bands:

	Number of individuals	
Emoluments band	**2006**	2005
HK$1,000,001 to HK$1,500,000	**2**	1
HK$1,500,001 to HK$2,000,000	**1**	1
	3	2

During the year, no emoluments were paid by the Group to the five (2005: seven) 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.

10. FINANCE COSTS

	Continuing operations	
	2006 HK$'000	2005 HK$'000
Interest expenses on:		
– bank loans wholly repayable within five years	**4,037**	29,935
– bank loans not wholly repayable within five years	**–**	651
– finance lease charges	**457**	605
– other loans wholly repayable within five years	**11,462**	8,098
	15,956	39,289

11. (LOSS) GAIN ON DISPOSAL OF ASSOCIATES

During the year ended 31 December 2006, the Company resolved to dispose of its entire interest in an associate, Zhong Lian Investment Management Limited, at a consideration of approximately HK$7,900,000 to an independent third party. The disposal has been duly completed in November 2006 with a loss of approximately HK$201,000.

The gain on disposal of associates in 2005 mainly represented disposal of the entire interest in and the shareholder's loan due from Astrotech Group Limited ("Astrotech") at an aggregate cash consideration of approximately HK$143,000,000 to China Academy of Launch Vehicle Technology ("CALT") which was wholly-owned by China Aerospace Science & Technology Corporation ("CASC"), a substantial shareholder of the Company. Astrotech held 449,244,000 ordinary shares, representing approximately 44.17% equity interest, in CASIL Telecommunications Holdings Limited during the year ended 31 December 2005. A gain of approximately HK$62,000,000 was resulted from this transaction.

12. PROFIT BEFORE TAXATION

	Continuing operations		Discontinued operation		Total	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Profit before taxation has been arrived at after charging:						
Auditors' remuneration	**3,289**	2,452	**–**	295	**3,289**	2,747
Depreciation on						
– owned assets	**43,484**	49,645	**–**	2,181	**43,484**	51,826
– assets held under finance leases	**2,173**	2,926	**–**	–	**2,173**	2,926
Amortisation on prepaid lease payments	**2,116**	2,070	**–**	–	**2,116**	2,070
Loss on disposal of property, plant and equipment	**7,165**	11,533	**–**	4,839	**7,165**	16,372
Allowance for doubtful debts	**634**	4,358	**–**	–	**634**	4,358
Allowance for amount due from an associate	**3,601**	–	**–**	–	**3,601**	–
Minimum lease payments under operating leases in respect of land and buildings	**4,751**	3,511	**–**	–	**4,751**	3,511
Research expenses	**11,603**	9,210	**–**	111	**11,603**	9,321
Total staff costs, including directors' remuneration	**182,725**	168,283	**–**	8,643	**182,725**	176,926
and after crediting:						
Gross rental income	**16,483**	21,270	**–**	–	**16,483**	21,270
Less: Direct operating expenses from investment properties that generated rental income during the year	**(1,346)**	(2,898)	**–**	–	**(1,346)**	(2,898)
	15,137	18,372	**–**	–	**15,137**	18,372
Net gain on disposal of investments held for trading	**7,190**	–	**–**	–	**7,190**	–
Reversal of allowance (allowance) for obsolete inventories (note)	**1,408**	(3,046)	**–**	15,079	**1,408**	12,033
Interest income	**11,143**	7,317	**–**	–	**11,143**	7,317

Note: The amounts are included in cost of sales.

13. TAXATION

The tax charge for the year comprises:

	Continuing operations	
	2006	2005
	HK$'000	HK$'000
Current tax:		
Hong Kong Profits Tax	**5,998**	457
PRC Enterprise Income Tax	**16,240**	10,717
	22,238	11,174
Under (over) provision in prior years:		
Hong Kong Profits Tax	**185**	(91)
Deferred tax (note 33)	**4,361**	(9,577)
Taxation attributable to the Company and its subsidiaries	**26,784**	1,506

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

	2006	2005
	HK$'000	HK$'000
Profit before taxation	**141,846**	318,633
Tax at Hong Kong Profits Tax of 17.5% (2005: 17.5%)	**24,823**	55,761
Tax effect of share of results of associates	**–**	(48)
Tax effect of share of results of jointly controlled entities	**976**	1,597
Tax effect of expenses not deductible for tax purposes	**12,105**	22,286
Tax effect of income not taxable for tax purpose	**(5,057)**	(84,450)
Tax effect of deferred tax assets not recognised	**434**	15,228
Utilisation of tax losses previously not recognised	**(12,164)**	(9,192)
Effect of tax exemption granted to a PRC subsidiary	**(1,033)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**2,276**	910
Under (over) provision in prior years	**185**	(91)
Others	**4,239**	(495)
Tax charge for the year	**26,784**	1,506

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for both years. Taxation arising in other jurisdictions is calculated at rates prevailing in the relevant jurisdictions.

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

14. DISCONTINUED OPERATION

On 13 September 2005, a subsidiary of the Company entered into a sale agreement to dispose of the entire television manufacturing business. The disposal was effected in order to improve the operating profits and performance of the Group. The disposal was completed in February 2006.

The loss for the year from the discontinued operation is analysed as follows:

	2006	2005
	HK$'000	HK$'000
Loss of television manufacturing operation for the year	**–**	(31,252)

The results of the television manufacturing operation for the year ended 31 December 2005 are as follows:

	2005
	HK$'000
Turnover	170,763
Cost of sales (note)	(174,749)
Other revenue	3,157
Distribution costs	(3,552)
Administrative expenses	(20,770)
Impairment loss on property, plant and equipment	(6,101)
Loss for the year	(31,252)

For the year ended 31 December 2005, the segment results on the television manufacturing operation incurred a loss of HK$31,252,000. The television manufacturing operation contributed HK$24,644,000 to the Group's operating cash flows, received HK$3,360,000 in respect of investing activities and paid HK$33,290,000 in respect of financing activities for the year ended 31 December 2005.

Note: In 2005, cost of sales included an amount of HK$15,079,000 in respect of reversal of allowance for obsolete inventories which were recovered through subsequent sales.

15. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of basic earnings per share attributable to the ordinary equity holders of the Company for the year is based on the profit for the year of HK$110,966,000 (2005: HK$286,403,000) and on 2,142,420,000 shares (2005: 2,142,420,000 shares) in issue during the year.

From continuing operations

The calculation of the basic earnings per share from continuing operations attributable to the ordinary equity holders of the Company is based on the profit for the year from continuing operations of HK$110,966,000 (2005: HK$317,655,000) and on 2,142,420,000 shares (2005: 2,142,420,000 shares) in issue during the year.

From discontinued operation

The calculation of the basic loss per share of HK1.46 cents from discontinued operation for the year ended 31 December 2005 was based on the loss for that year from discontinued operation of HK$31,252,000 and on 2,142,420,000 shares in issue during that year.

16. DIVIDENDS

No dividend was paid or proposed during 2006, nor has any dividend been proposed since the balance sheet date (2005: nil).

17. PROPERTY, PLANT AND EQUIPMENT

	Medium term leasehold land and buildings in Hong Kong	Long term leasehold land and buildings in the PRC	Medium term leasehold land and buildings in the PRC	Properties under development	Plant and equipment	Motor vehicles, furniture and other equipment	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST							
At 1 January 2005	313,001	13,943	396,237	15,282	405,198	166,372	1,310,033
Exchange adjustments	–	270	6,548	49	5,162	1,430	13,459
Additions	–	12,084	749	1,077	43,380	18,431	75,721
Reclassification from investment properties	32,759	–	–	–	–	–	32,759
Reclassifications	–	(3,891)	1,030	(3,514)	10,791	(6,900)	(2,484)
Disposal of subsidiaries	–	–	–	–	(504)	(1,189)	(1,693)
Disposals	(278,006)	(10,012)	(1,176)	–	(88,145)	(73,896)	(451,235)
At 31 December 2005	67,754	12,394	403,388	12,894	375,882	104,248	976,560
Exchange adjustments	–	478	13,903	6	9,158	1,883	25,428
Additions	–	–	554	22,974	54,070	16,908	94,506
Acquisition of subsidiaries	–	–	–	–	–	460	460
Revaluation of land and buildings upon transfer to investment properties (note a)	4,188	–	–	–	–	–	4,188
Transfer to investment properties	(17,157)	–	–	–	–	–	(17,157)
Reclassifications	–	–	–	–	2,979	(2,979)	–
Disposals	–	(864)	–	–	(72,506)	(34,589)	(107,959)
At 31 December 2006	54,785	12,008	417,845	35,874	369,583	85,931	976,026
DEPRECIATION AND IMPAIRMENT							
At 1 January 2005	122,343	5,228	75,622	–	241,085	122,550	566,828
Exchange adjustments	–	101	1,053	–	2,671	732	4,557
Charged for the year	2,244	576	11,257	–	30,194	10,481	54,752
Eliminated on disposal of subsidiaries	–	–	–	–	(383)	(1,044)	(1,427)
Impairment loss recognised (note e)	–	–	–	–	5,645	(956)	4,689
Eliminated on disposals	(99,603)	(5,610)	(794)	–	(73,230)	(63,953)	(243,190)
At 31 December 2005	24,984	295	87,138	–	205,982	67,810	386,209
Exchange adjustments	–	13	2,807	–	4,348	964	8,132
Charged for the year	768	187	10,094	–	26,056	8,552	45,657
Eliminated on revaluation of land and buildings upon transfer to investment properties	(607)	–	–	–	–	–	(607)
Impairment loss recognised (note e)	–	–	–	–	–	937	937
Eliminated on disposals	–	(117)	–	–	(68,921)	(29,388)	(98,426)
At 31 December 2006	25,145	378	100,039	–	167,465	48,875	341,902
CARRYING VALUES							
At 31 December 2006	29,640	11,630	317,806	35,874	202,118	37,056	634,124
At 31 December 2005	42,770	12,099	316,250	12,894	169,900	36,438	590,351

17. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(a) Depreciation is provided to write off the cost of items of property, plant and equipment 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 and buildings	Over the shorter of the term of lease, or 50 years
Plant and equipment	5% – 15%
Others	6% – 25%

(b) During the year, the Group rented out certain of its land and building to outsiders for rental income. Up to the date when owner-occupied property becomes an investment property carried at fair value, the difference between the carrying amount of the property and its fair value at that date of reclassification of HK$4,188,000 is credited directly to equity in property revaluation reserve for surplus, which was based on the valuation performed by Dudley Surveyors Limited, independent qualified professional valuers not connected with the Group, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

(c) The aggregate carrying values of the Group's assets held under finance leases as at 31 December 2006 amounted to HK$20,581,000 (2005: HK$26,248,000).

(d) The properties under development are held under medium term leases in the PRC.

(e) The Group reviewed the carrying amounts of property, plant and equipment and identified that certain of the assets have no economic value to the Group. Accordingly, the carrying amounts of these 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.

18. PREPAID LEASE PAYMENTS

	2006	2005
	HK$'000	HK$'000
The Group's prepaid lease payments comprise leasehold land outside Hong Kong held under medium term leases and are analysed for reporting purposes as:		
Current portion	**2,153**	2,070
Non-current portion	**61,888**	60,795
	64,041	62,865

19. INVESTMENT PROPERTIES/ASSET CLASSIFIED AS HELD FOR SALE

	Long term leasehold investment properties in Hong Kong HK$'000	Medium term leasehold investment properties in Hong Kong HK$'000	Medium term leasehold investment properties in the PRC HK$'000	Freehold investment properties overseas HK$'000	Total HK$'000
FAIR VALUE					
At 1 January 2005	9,460	258,290	–	–	267,750
Reclassifications to leasehold land and buildings in Hong Kong	–	(32,759)	–	–	(32,759)
Disposals	(9,460)	(200,100)	–	–	(209,560)
Increase in fair value during the year	–	1,679	–	–	1,679
At 31 December 2005 and 1 January 2006	–	27,110	–	–	27,110
Transfer from leasehold land and buildings in Hong Kong	–	16,550	–	–	16,550
Acquisition of subsidiaries	–	–	40,002	70,000	110,002
Exchange adjustment	–	–	1,071	(1,235)	(164)
Additions	–	–	3,950	–	3,950
Increase (decrease) in fair value during the year	–	4,880	(2,923)	21,457	23,414
Reclassifications to assets held for sale	–	–	(20,300)	–	(20,300)
At 31 December 2006	–	48,540	21,800	90,222	160,562

In December 2006, the Group entered into sale and purchase agreements to dispose of certain investment properties. The disposal will be completed in April 2007, in which the beneficial ownership will be passed to the acquirers.

The fair values of the Group's investment properties at 31 December 2006 have been arrived at on the basis of valuations carried out on that date by Dudley Surveyors Limited ("Dudley") for properties situated in Hong Kong, Knight Frank Hong Kong Limited ("Knight Frank") for properties situated in the PRC and Atkinson Appraisal Consultants Limited ("Atkinson") for properties situated overseas. Dudley, Knight Frank and Atkinson are independent qualified professional valuers not connected with the Group and members of the Institute of Valuers, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to International Valuation Standards, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

20. INTERESTS IN ASSOCIATES

	2006 HK$'000	2005 HK$'000
Cost of unlisted investments in associates	**202,889**	208,484
Share of post-acquisition profits, net of dividends received	**42,784**	45,216
Less: Impairment loss recognised	**(245,673)**	(245,673)
	–	8,027

Particulars of the principal associates of the Group at 31 December 2006 are set out in note 42.

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2006 HK$'000	2005 HK$'000
Cost of unlisted investments in jointly controlled entities	**88,531**	88,531
Share of post-acquisition losses	**(24,700)**	(19,121)
	63,831	69,410

Particulars of the principal jointly controlled entities of the Group at 31 December 2006 are set out in note 43.

The following details have been extracted from the unaudited consolidated financial statements of China Aerospace New World Technology Limited ("CANW") and its subsidiaries ("CANW Group") (being significant jointly controlled entities of the Group):

CANW Group

	2006 HK$'000	2005 HK$'000
Results for the year		
Turnover	**383**	3,953
Expenses	**15,010**	18,020
Loss for the year	**11,158**	18,249
Loss for the year attributable to the Group	**5,579**	9,125
Financial position		
Non-current assets	**22,591**	25,079
Current assets	**110,029**	119,381
Current liabilities	**(4,957)**	(5,640)
Net assets	**127,663**	138,820
Net assets attributable to the Group	**63,831**	69,410

22. AVAILABLE-FOR-SALE INVESTMENTS

	2006	2005
	HK$'000	HK$'000
Available-for-sale investments:		
– equity securities listed in Hong Kong	**51,168**	45,864
– unlisted equity securities	**50,163**	44,963
	101,331	90,827

The available-for-sale investments are stated at fair value by reference to quoted bid price. With respect to the unlisted equity securities and the underlying assets of which are investment in equity securities listed in Hong Kong, the fair value is measured by reference to those quoted bid price of the underlying listed equity securities held by the unlisted private entities.

During the year ended 31 December 2005, the directors reviewed the carrying value of the available-for-sale investments and considered that these amounts were unlikely to recover and an aggregate impairment loss of HK$146,705,000 (2006: nil) was recognised in the consolidated financial statements for that year with reference to the net assets and quoted bid price of the available-for-sale investments, where appropriate.

23. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure bank loans.

The deposits carry fixed interest rate between 4.27% and 4.35% per annum and will be released upon repayment of certain secured bank loans. The fair value of bank deposits at 31 December 2006 approximates to the corresponding carrying amount.

24. INVENTORIES

	2006	2005
	HK$'000	HK$'000
Raw materials	**54,527**	58,250
Work-in-progress	**28,843**	25,686
Finished goods	**50,736**	41,447
	134,106	125,383

25. TRADE AND OTHER RECEIVABLES

	2006	2005
	HK$'000	HK$'000
Trade receivables	**229,827**	195,315
Other receivables, deposits and prepayments	**37,371**	79,427
	267,198	274,742

The Group allows an average credit period of 90 days to its trade customers. The following is an aged analysis of trade receivables at the balance sheet date:

	2006	2005
	HK$'000	HK$'000
Within 90 days	**221,637**	195,315
Between 91 – 180 days	**8,190**	–
	229,827	195,315

The fair value of the Group's trade and other receivables at 31 December 2006 approximates to the corresponding carrying amount.

26. LOANS RECEIVABLE

	2006	2005
	HK$'000	HK$'000
Fixed-rate loans receivable	**70,269**	258,077

Included in the carrying amount of loans receivable as at 31 December 2006 is an accumulated impairment loss of HK$369,239,000 (2005: HK$369,239,000).

Loans receivable comprise:

			Effective	**Carrying amount**	
	Maturity date	**Collateral**	**interest rate**	**2006**	2005
				HK$'000	HK$'000
HKD251,517,000 fixed-rate loan receivable	23 July 1999	Certain properties	15%	**70,269**	70,269
HKD247,000,000 fixed-rate loan receivable	23 July 1999	Certain properties	12.5%	**–**	187,808
				70,269	258,077

At 31 December 2006, the fair value of the Group's loans receivable approximates to the carrying amount.

27. TRADE AND OTHER PAYABLES

	2006 HK$'000	2005 HK$'000
Trade payables	**268,350**	316,776
Other payables and accrued charges	**322,957**	259,495
	591,307	576,271

The following is an aged analysis of trade payables at balance sheet date:

	2006 HK$'000	2005 HK$'000
Within 90 days	**236,508**	280,739
Between 91 – 180 days	**5,872**	4,402
Between 181 – 365 days	**348**	1,440
Between 1 to 2 years	**5,256**	8,977
Over 2 years	**20,366**	21,218
	268,350	316,776

The fair value of trade and other payables at 31 December 2006 approximates to the corresponding carrying amount.

28. AMOUNTS DUE TO ASSOCIATES

The amounts due to associates are unsecured, non-interest bearing and repayable on demand. The directors consider the carrying amounts approximate to their fair values.

29. AMOUNT DUE TO A MAJOR SHAREHOLDER

The amount represents amount due to CASC which bears interest at a range from 7.75% to 8.25% (2005: 4.5%) per annum and is repayable on 31 December 2007.

30. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under finance leases:				
Within one year	**2,718**	8,219	**2,634**	7,692
In the second to the fifth year inclusive	**45**	4,096	**44**	3,987
	2,763	12,315	**2,678**	11,679
Less: Future finance charges	**(85)**	(636)	**N/A**	N/A
Present value of lease obligations	**2,678**	11,679	**2,678**	11,679
Less: Amount due within one year shown under current liabilities			**(2,634)**	(7,692)
Amount due after one year			**44**	3,987

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 2006, the average effective borrowing rate was 5% (2005: 5%). 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.

The fair value of the Group's finance lease obligations as at the balance sheet date, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date, approximates to their carrying amount.

31. SECURED BANK LOANS

	2006 HK$'000	2005 HK$'000
Secured bank loans	**231,573**	208,705
Carrying amount repayable:		
On demand or within one year	**65,172**	16,925
More than one year, but not exceeding two years	**17,500**	91,536
More than two years, but not more than five years	**148,901**	98,476
More than five years	**–**	1,768
	231,573	208,705
Less: Amount due within one year shown under current liabilities	**(65,172)**	(16,925)
Amount due more than one year	**166,401**	191,780

The secured bank loans carry interest at a range from 1.25% to 8% per annum.

The Group's certain investment properties, property, plant and equipment, bank deposits and available-for-sale investments with aggregate carrying value of HK$42,180,000 (2005: HK$25,420,000), HK$18,502,000 (2005: HK$34,795,000), HK$110,560,000 (2005: HK$110,560,000) and HK$51,168,000 (2005: nil), respectively, were pledged to banks.

The fair value of the Group's secured bank loans approximates to the corresponding carrying amount calculated by discounting their future cash flows at the prevailing market borrowing rate at the balance sheet date for similar borrowings.

At the balance sheet date, the Group has undrawn borrowing facilities at floating rate expiring beyond one year of HK$11,000,000 (2005: HK$11,000,000).

32. OTHER LOAN

The amount represents advances from a minority shareholder of a non-wholly owned subsidiary. The amount is unsecured, non-interest bearing and is repayable on demand.

33. DEFERRED TAXATION

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

	Accelerated tax depreciation HK$'000	Others HK$'000 (Note)	Revaluation of investment properties HK$'000	Total HK$'000
At 1 January 2005	20,205	(2,674)	–	17,531
(Credit) charge to income for the year	(9,585)	8	–	(9,577)
At 31 December 2005	10,620	(2,666)	–	7,954
Acquisition of subsidiaries	–	–	9,990	9,990
Charge to income for the year	1,963	(140)	2,538	4,361
Charge to property revaluation reserve	–	–	289	289
Exchange differences	–	–	22	22
At 31 December 2006	12,583	(2,806)	12,839	22,616

Note: The amount mainly represents temporary differences arising on allowance for doubtful debts.

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose.

	2006 HK$'000	2005 HK$'000
Deferred tax liabilities	**22,616**	7,954

Note: The amount mainly represents temporary differences arising on allowance for doubtful debts.

At 31 December 2006, the Group has unused tax losses of approximately HK$1,554 million (2005: HK$1,621 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.

34. SHARE CAPITAL

(a) Authorised, issued and fully paid share capital

	Number of shares '000	Nominal value HK$'000
Authorised:		
At 1 January 2005		
Ordinary shares of HK$1 each	10,000,000	10,000,000
Capital reduction confirmed by the Order of the High Court on 1 November 2005 by reducing the nominal value of shares from HK$1 each to HK$0.1 each	–	(9,000,000)
Increase in authorised share capital		
Ordinary shares of HK$0.1 each	90,000,000	9,000,000
At 31 December 2005 and 31 December 2006		
Ordinary shares of HK$0.1 each	100,000,000	10,000,000
Issued and fully paid:		
At 1 January 2005		
Ordinary shares of HK$1 each	2,142,420	2,142,420
Capital reduction confirmed by the Order of the High Court on 1 November 2005 by reducing the nominal value of shares from HK$1 each to HK$0.1 each	–	(1,928,178)
At 31 December 2005 and 31 December 2006		
Ordinary shares of HK$0.1 each	2,142,420	214,242

34. SHARE CAPITAL (continued)

(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 employee 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 option, an amount of HK$1 by way of consideration is payable by the employee. Options may be exercised at any time for a period to be determined by the directors of the Company, which shall not exceed ten years from the adoption of the 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 either the Scheme was granted to the directors or employees of the Company or its subsidiaries in both years ended 31 December 2005 and 31 December 2006.

(c) Share premium

Under the terms of the court order in the reduction of the share premium on 11 July 1994 and 1 November 2005 (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 1 November 2005 and any write back of the total provisions which have been made against at the effective date 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.

34. SHARE CAPITAL (continued)

(c) Share premium (continued)

On 1 November 2005, an order of petition (the "Order") was granted by the High Court of Hong Kong Special Administrative Region (the "High Court"). Pursuant to the Order, the reduction of the share capital and the cancellation of the share premium account of the Company as resolved and effected by a special resolution passed at an extraordinary general meeting of the Company held on 25 August 2005, be and the same was confirmed in accordance with the provisions of Section 59 of the Companies Ordinance.

The High Court approved the Order. Pursuant to the Order, the capital of the Company was by virtue of special resolutions of the Company with the sanction of the Order reduced from HK$10,000,000,000 divided into 10,000,000,000 ordinary shares of HK$1.00 each (of which 2,142,420,000 shares had been issued and were fully paid up or credited as fully paid) to HK$1,000,000,000 divided into 10,000,000,000 ordinary shares of HK$0.10 each. The Company further by ordinary resolution provided that forthwith upon such reduction of capital taking effect, the authorised share capital of the Company would be increased from HK$1,000,000,000 to HK$10,000,000,000 by creation of additional 90,000,000,000 share of HK$0.10 each. Accordingly, after the approval of the Order, the authorised share capital of the Company was HK$10,000,000,000 divided into 100,000,000,000 shares of HK$0.10 each, of which 2,142,420,000 shares had been issued and were fully paid up or credited as fully paid and the remaining shares are unissued. The sum of HK$939,048,000 standing to the credit of the share premium account of the Company was reduced and cancelled against the accumulated losses of the Company.

The Company provided an undertaking that in the event of the Company makes any future recoveries in respect of the assets, in respect of which provisions for diminution in value were made in the financial statements of the Company for the 7 years ended 31 December 2004 "Non-Permanent Loss Assets" beyond the written down value in the Company's audited financial statements as at 31 December 2004, all such recoveries beyond that written down value will be credited to a special capital reserve in the accounting records of the Company and that so long as there shall remain outstanding any debt of or claim against the Company which, if the date on which the proposed reduction of capital and cancellation of the share premium account becomes effective were the date of the commencement of the winding up of the Company would be admissible to proof in such winding up and the persons entitled to the benefit of such debts or claims shall not have agreed otherwise, such reserve shall not be treated as realised profits and shall, for so long as the Company shall remain a listed company, be treated as an un-distributable reserve of the Company for the purposes of section 79C of the Companies Ordinance or any statutory re-enactment or modification thereof provided that:

(1) the Company shall be at liberty to apply the said special capital reserve for the same purposes as a share premium account may be applied;

34. SHARE CAPITAL (continued)

(c) Share premium (continued)

(2) the amount standing to the credit of the special capital reserve shall not exceed the lesser of (a) the amount of provision provided for in respect of the Non-Permanent Loss Assets for the 7 years ended 31 December 2004; or (b) the amount due to the creditors of the Company as at the date when the proposed reduction of capital and cancellation of share premium shall become effective;

(3) the said overall aggregate limit in respect of the special capital reserve may be reduced by the amount of any increase, after the effective date, in the paid up share capital or the amount standing to the credit of the share premium account of the Company as the result of the payment up of shares by the receipt of new consideration or the capitalization of distributable profits;

(4) the said overall aggregate limit in respect of the special capital reserve may be reduced upon the realisation, after the date on which the proposed reduction of capital and cancellation of the share premium account becomes effective, of any of the Non-Permanent Loss Assets by the total provision made in relation to each such assets as at 31 December 2004 less such amount (if any) as is credited to the said special capital reserve as a result of such realisations; and

(5) in the event that the amount standing to the credit of the said special capital reserve exceeds the overall aggregate limit thereof after any reduction of such overall aggregate limit pursuant to provisos (3) and or (4) above, the Company shall be at liberty to transfer the amount of any such excess to the general reserves of the Company and the same shall become available for distribution.

The Company further undertook that for so long as the undertaking remains effective, to (1) cause or procure its statutory auditors to report by way of a note or otherwise a summary of the undertaking in its audited consolidated financial statements or in the management accounts of the Company published in any other form; and (2) publish or cause to be published in any prospectus issued by or on behalf of the Company a summary of the undertaking.

35. ACQUISITION OF SUBSIDIARIES

In July 2006, the Group acquired 79.25% of the issued share capital of Vanbao Development (Canada) Limited ("Vanbao"), the related shareholder's loan and 100% of the registered capital of Dongguan Huadun Enterprises Limited ("Dongguan Huadun") at an aggregate consideration of HK$92,884,000, payable by assigning certain of the loans receivable of CASIL Clearing Limited ("CASIL Clearing"), a wholly-owned subsidiary of the Company, pursuant to an agreement entered with CASC on 20 March 2006. As the aggregate book value of the loans receivable of approximately HK$188 million assigned by CASIL Clearing to CASC or its nominee exceeded the aggregate consideration, the difference was set-off against the shareholder's loan due from the Group to CASC as at the date of completion of HK$80,000,000 and the balance was paid by CASC to CASIL Clearing in cash. The Group also acquired the work force, management expertise and the related rental contracts of Vanbao and Dongguan Huadun that form part of the business combinations. This acquisition has been accounted for using the purchase method.

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	HK$'000	HK$'000	HK$'000
Net assets acquired:			
Property, plant and equipment	460	–	460
Investment properties	68,454	41,548	110,002
Trade and other receivables	27,798	–	27,798
Bank balances and cash	2,016	–	2,016
Trade and other payables	(4,136)	–	(4,136)
Taxation payable	(2,939)	–	(2,939)
Deferred taxation	–	(9,990)	(9,990)
	91,653	31,558	123,211
Minority interests			(8,757)
Discount on acquisition (Note)			(21,570)
			92,884
Total consideration satisfied by:			
Loans receivable			187,808
Set-off of shareholder's loan due to CASC			(80,000)
Cash received from CASC			(14,924)
			92,884
Net cash inflow arising on acquisition:			
Cash received from CASC			14,924
Bank balances and cash acquired			2,016
			16,940

Note: The difference between the consideration and fair value of the net assets acquired was considered as capital contribution from a major shareholder of the Company which was recognised directly in equity.

35. ACQUISITION OF SUBSIDIARIES (continued)

Vanbao and Dongguan Huadun contributed HK$11 million to the Group's profit for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2006, total group revenue for the period would have been HK$1,530 million, and profit for the year would have been HK$141 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

36. DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2005, the Group disposed of its interests in certain subsidiaries which were engaged in distribution of electronic products.

The effect of the disposal of subsidiaries for the year ended 31 December 2005 is summarised as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	266
Trade and other receivables	416
Bank balances and cash	38
Trade and other payables	(1,257)
	(537)
Realisation of reserves	(339)
Gain on disposal	876
	–

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries for the year ended 31 December 2005:

	HK$'000
Bank balances and cash disposed of	(38)

The subsidiaries disposed of during the year ended 31 December 2005 did not contribute significantly to the Group's cash flows or operating results.

37. CAPITAL COMMITMENTS

	2006	2005
	HK$'000	HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of:		
– capital contribution to investee companies	**2,829**	2,829
– acquisition of property, plant and equipment	**1,954**	10,498
– properties under development	**–**	329
	4,783	13,656

38. 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:

	2006	2005
	HK$'000	HK$'000
Within one year	**1,703**	993
In the second to fifth year inclusive	**7,181**	5,590
Over five years	**30,248**	29,861
	39,132	36,444

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.

The Group as lessor

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

	2006	2005
	HK$'000	HK$'000
Within one year	**16,630**	997
In the second to third year inclusive	**12,142**	662
	28,772	1,659

The properties held have committed tenants for the next one to two years.

39. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund 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 consolidated income statement HK$1,504,000 (2005: HK$1,637,000) represents contribution to the schemes by the Group at the rates specified in the rules of the schemes.

40. RELATED PARTY TRANSACTIONS

(a) Save as disclosed in notes 11, 28, 29 and 35 in the consolidated financial statements, the Group had the following transactions with related parties during the year:

Name of related company	Relationship	Nature of transactions	2006 HK$'000	2005 HK$'000
CASC	Major shareholder	Interest expenses paid	**11,462**	7,949

The key management personnel are the directors of the Company. The details of the remuneration paid to them are set out in note 9.

(b) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under CASC which is controlled by the PRC government. Apart from the transactions with CASC disclosed in notes 11, 28, 29, 35 and section (a) above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In view of the nature of the Group's nature of business, the directors are of the opinion that, except as disclosed above, it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions are with other state-controlled-entities.

The Group has certain deposits placements, borrowings and other general banking facilities, with certain banks which are state-controlled entities in its ordinary course of business. In view of the nature of those transactions, the Directors are of the opinion that separate disclosure on these transactions and balances would not be meaningful.

None of the subsidiaries had any debt securities subsisting at 31 December 2006 or at any time during the year.

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	Percentage of equity held by subsidiaries %	Percentage of equity attributable to the Group %	Principal activities
Incorporated and operating in Hong Kong:					
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 LCD modules
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 and metal products and moulds
Hong Yuen Electronics Limited	HK$5,000,000	100	–	100	Manufacturing and selling of printed circuit boards
Jeckson Electric Company Limited	HK$5,000,000	100	–	100	Distribution of intelligent battery chargers and electronic components
Worldwide Polyfoam & Engineering Limited	HK$3,000,000	100	–	100	Distribution of packaging materials

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	Percentage of equity held by subsidiaries %	Percentage of equity attributable to the Group %	Principal activities
Incorporated and operating in Canada:					
Vanbao Development (Canada) Limited	CAD1,080,000	–	79	79	Property development
Incorporated in the British Virgin Islands and operating in Hong Kong:					
Sinolike Investments Limited	US$1	100	–	100	Investment holding
Registered and operating in the PRC:					
Aerospace Technology (China) Company Limited#	US$5,000,000	100	–	100	Manufacturing of telecommunication products
Chee Yuen Plastic Products (Huizhou) Company Limited#	RMB26,761,000	–	100	100	Manufacturing of plastic and metal products and moulds
China Aerospace (Huizhou) Industrial Garden Limited##	US$12,000,000	90	–	90	Property development and leasing
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 and distribution of liquid crystal displays and LCD modules
Conhui (Huizhou) Worldwide Polyfoam Limited#	RMB3,728,813	–	100	100	Manufacturing and distribution of packaging materials
Dongguan Huadun Enterprises Limited#	RMB3,000,000	–	100	100	Property development

41. PARTICULARS OF PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiary	Nominal value of issued ordinary share capital/ registered capital	Percentage of equity held by the Company %	Percentage of equity held by subsidiaries %	Percentage of equity attributable to the Group %	Principal activities
Huizhou Jeckson Electric Company Limited##	US$1,000,000	–	90	90	Manufacturing of intelligent battery chargers and electronic products
Huizhou Zhi Fat Metal & Plastic Electroplating Company Limited##	US$400,000	–	90	90	Electroplating of metals
Shanghai Aerospace Technology Investment Company Limited##	RMB200,000,000	–	80	80	Property development
Shenzhen Chee Yuen Plastics Company Limited##	RMB22,000,000	–	80	80	Manufacturing and distribution of plastic products
航科新世紀科技發展(深圳)有限公司#	US$2,000,000	100	–	100	Research and development of system technology in satellite applications and digital broadcasting, transfer and service provision of technology

\# 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.

None of the subsidiaries had issued any debt securities at the end of the year.

42. PARTICULARS OF PRINCIPAL ASSOCIATES

Name of associate	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Group %	Principal activities
Incorporated and operating in Hong Kong:			
Postel Development Company Limited	HK$10,000	30	Trading
Sonconpak Limited	HK$12,000,000	30	Manufacturing of carton box

43. 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
Incorporated and operating in Hong Kong:			
China Aerospace New World Technology Limited	HK$30,000,000	50	Investment holding
Incorporated and operating in PRC:			
Aerospace New World (China) Technology Company Limited	RMB120,000,000	50	Digital TV broadcasting and application development

RESULTS

	Year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**1,528,101**	1,780,938	1,410,240	1,239,633	1,299,825
Profit (loss) before taxation	**141,846**	287,381	(137,910)	32,144	(291,272)
Taxation	**(26,784)**	(1,506)	397	(5,432)	(12,571)
Profit (loss) for the year	**115,062**	285,875	(137,513)	26,712	(303,843)
Attributable to:					
Equity holders of the Company	**110,966**	286,403	(137,740)	30,196	(301,819)
Minority interests	**4,096**	(528)	227	(3,484)	(2,024)
	115,062	285,875	(137,513)	26,712	(303,843)

ASSETS AND LIABILITIES

	At 31 December				
	2006	2005	2004	2003	2002
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**1,132,296**	957,080	1,470,341	1,268,052	1,462,289
Current assets	**1,154,182**	1,141,325	1,071,337	1,463,148	1,501,075
Current liabilities	**(824,418)**	(814,360)	(983,678)	(1,417,527)	(1,337,080)
Non-current liabilities	**(189,061)**	(203,721)	(780,786)	(410,182)	(733,068)
Shareholders' funds	**1,272,999**	1,080,324	777,214	903,491	893,216
Attributable to:					
Equity holders of the Company	**1,220,412**	1,061,187	757,780	884,334	828,888
Minority interests	**52,587**	19,137	19,434	19,157	64,328
	1,272,999	1,080,324	777,214	903,491	893,216

Location	Lot number	Existing use	Approximate gross floor area (sq. m)	Group's interest (%)
MEDIUM TERM LEASES IN HONG KONG				
Units 402, 405 to 407 on 4th Floor, the whole of 17th and 19th Floors and Car Park Nos. P1, L3, LD1, LD2 and LD5 on Ground Floor, Car Park Nos. P17-22 and P24 on 1st Floor and Car Park Nos. P34, P36 and P37 on 2nd Floor China Aerospace Centre 143 Hoi Bun Road Kwun Tong Kowloon	Kwun Tong Inland Lot. No. 528	Industrial	4,250	100
Unit A on 2nd Floor of Tsun Win Factory Building, No. 60 Tsun Yip Street, Kwun Tong Kowloon	Kwun Tong Inland Lot No. 10	Industrial	230	100
MEDIUM TERM LEASES IN THE MAINLAND CHINA				
Huadun Industrial City Dong Feng South Road Qing Xi Town Dongguan Guangdong Province The PRC	–	Industrial	109,000	100
FREEHOLD LAND OVERSEAS				
1111-11 Street S.W. and 1202-12, 1208-12, 1212-12, 1216-12, 1218-12, 1220-12, 1222-12 & 1226-12 Avenue S.W. Calgary, Alberta Canada	–	Vacant	4,234	79.25

Location	Intended use	Stage of completion	Expected date of completion	Site area (sq. m)	Gross floor area (sq. m)	Group's interest %
Properties under development						
China Aerospace Industrial Park, No. 3, 4, 5 Zhonghai Hi-Industrial region, Huihuang district Huizhou PRC	Manufacturing	Superstructure and furnishment in progress	2007-10	16,000	44,000	90